

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64769; File No. SR-NSCC-2011-04)

June 29, 2011

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend Rules Relating to Discontinuing Dividend Settlement Service, Funds Only Settlement Service, Data Distribution Box Services, and Changes to the Envelope Settlement Service

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on June 15, 2011, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared primarily by NSCC.³ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of the Substance of the Proposed Rule Change

The purpose of this proposed rule change is to amend NSCC’s rules relating to NSCC’s incorporation of its Dividend Settlement Service (“DSS”) and Funds Only Settlement Service (“FOSS”) into the Envelope Settlement Service (“ESS”) and NSCC’s discontinuing of its Data Distribution Boxes Service (“DDBS”). The proposed rule change would also make certain changes to ESS processing.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The text of the proposed rule change is attached as Exhibit 5 to NSCC’s filing, which is available at www.dtcc.com/downloads/legal/rule_filings/2011/nscc/2011-04.pdf.

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.⁴

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

DSS, FOSS, and ESS operate similarly in that they are non-guaranteed services of NSCC through which NSCC members exchange physical envelopes through a centralized location at NSCC. Pursuant to Rule 43 of NSCC's Rules and Procedures, DSS centralizes claims processing for collection and payment of dividends and interest between NSCC members through the exchange of envelopes through the facilities of NSCC. Pursuant to Rule 41 of NSCC's Rules and Procedures, FOSS centralizes money-only settlements for NSCC members through the exchange of paperwork delivered to and received by NSCC members through NSCC's facilities. Pursuant to Rule 9 and Addendum D of NSCC's Rules and Procedures, ESS allows an NSCC member to physically deliver a sealed envelope containing securities and such other items as NSCC may from time to time permit to a specified NSCC member. The money settlement associated with ESS, DSS, and FOSS transactions occurs through NSCC's end-of-day settlement process.

⁴ The Commission has modified the text of the summaries prepared by NSCC.

Discontinuing FOSS and DSS and Merging Functionality into ESS

NSCC has offered DSS since its founding. FOSS was created in 1983 to remove money-only settlement activity, which prior to that time was included in ESS, from ESS in order to facilitate what was then NSCC's guaranty of settlement of securities transactions processed through ESS.⁵ The use of each of these services has steadily declined in recent years due to increased dematerialization of securities and automation of transactions. In light of this decline and the elimination of the guaranty of ESS transactions, NSCC is proposing to amend its rules to discontinue the separate DSS and FOSS services and to allow members to process dividends and funds-only settlement activities through ESS.⁶

Closing of DDBS

DDBS was traditionally used to distribute hard copy Important Notices, clearing reports, and other informational documents to NSCC members. Today members: (a) receive Important Notices through the website of NSCC's parent, The Depository Trust & Clearing Corporation, at www.dtcc.com, (b) receive clearing reports through electronic communications, and (c) exchange other information that previously might have been transferred through DDBS, via email, facsimile, courier services, the U.S. Postal Service, and other delivery mechanisms. The DDBS service has become obsolete as a result of the use of these other more efficient means of distribution. Accordingly, NSCC is proposing to amend its rules to discontinue DDBS.

ESS Processing Changes

⁵ The guaranty of ESS settlement was in effect from 1983 until 2010. Securities Exchange Act Notice 34-61618 (March 1, 2010) [File No. SR-NSCC-2010-01], 75 FR 10542 (March 8, 2010).

⁶ In order to distinguish securities transfers from other ESS activity, NSCC would add a required indicator for input by members to disclose whether or not a security is included in an envelope.

Increased Transparency

NSCC performs certain regulatory tracking and reporting functions (e.g., OFAC screening) for securities transactions processed through NSCC. With respect to some NSCC services, such as Continuous Net Settlement (“CNS”),⁷ NSCC electronically receives information as to security identification and transaction size that facilitates such tracking and reporting. However, similar electronic information is not available for securities transferred through ESS. In order to facilitate transparency in this regard, NSCC is proposing (1) to require its members to provide a security identifier (i.e., CUSIP or ISIN) and include quantity delivered for all securities delivered through ESS, (2) to restrict members to one security issue per envelope, and (3) to prohibit the comingling of securities with other items. The proposed rule change would also allow NSCC to require its members provide it with additional information that NSCC from time to time deems necessary to facilitate ESS processing.

Separately, the proposed rule change would also allow for automatic updates to NSCC’s Obligation Warehouse service with respect to securities transactions that settle through ESS where the delivering member includes an Obligation Warehouse control number with the respective envelope delivery to ESS. However, this feature will not be implemented concurrently with the other changes proposed by this filing, but rather it would be announced by Important Notice at a later date.⁸

NSCC Facilities Used for ESS Deliveries

⁷ CNS is an on-going automated accounting system operated by NSCC which nets today's settling trades with yesterday's closing positions in eligible securities to produce new short or long positions per security issue for each NSCC member. Since NSCC is always the contra-side for all transactions, NSCC is able to identify the securities for transactions submitted to CNS.

⁸ For information on the Obligation Warehouse service, see Exchange Act Release 63588 (December 21, 2010), 75 FR 82112 (December 29, 2010) [File No. SR-NSCC-2010-11].

Under the proposed rule change, NSCC's rules would be updated to change references to ESS deliveries and receives occurring through NSCC's New York City facility to use general language allowing NSCC to provide the service through any NSCC facility as announced by Important Notice.

Segregation of Activity within ESS

As mentioned above, the rule change proposes to require that members not comingle different issues of securities in the same envelope or with other activity conducted through ESS. Pursuant to the proposed rule changes, NSCC would also be allowed to prohibit comingling between funds-only and dividend settlement items.

Proposed Rule Changes

With respect to the above, NSCC proposes to make changes to its rules and procedures as follows:

Rule 6—Distribution Facilities

NSCC's Rule 6 presently provides for the establishment of DDBS. Under the proposed rule change, the text of this rule would be deleted to reflect the elimination of DDBS.

Rule 9— Delivery and Receipt of Securities

Under the proposed rule change, NSCC's Rule 9 (currently entitled "Delivery and Receipt of Securities"), pursuant to which NSCC offers ESS, would be renamed as "Envelope Settlement Service" and would be amended to: (1) reflect the incorporation of FOSS and DSS into ESS, (2) incorporate the ESS processing changes described above, (3) allow for automatic updates to NSCC's Obligation Warehouse service with respect to securities transactions that settle through ESS where the delivering member includes an Obligation Warehouse Control

Number with the respective envelope delivery to ESS, and (4) make other conforming changes to integrate rule provisions relating to FOSS and DSS into Rule 9.

Rule 41—Funds Only Settlement Service

NSCC's Rule 41 provides for the establishment of and procedures for FOSS. Under the proposed rule change, the text of this rule will be deleted to reflect the elimination of FOSS as a separate service.

Rule 43—Dividend Settlement Service

NSCC's Rule 43 provides for the establishment of and procedures for DSS. Under the proposed rule change, the text of this rule would be deleted to reflect the elimination of DSS as a separate service.

Addendum A—Fee Structure

NSCC's Fee Schedule would be revised to delete charges for the discontinued services mentioned above. Under the proposed rule change, all services offered under the newly combined ESS would be subject to the existing ESS charge for deliveries and receives.⁹

Addendum D—Statement of Policy – Envelope Settlement Service, Mutual Fund Services, Insurance and Retirement Processing and Other Services Offered by the Corporation

Addendum D, a statement of policy with regard to ESS and other NSCC services, provides, among other things, that money-only settlement charges should not be processed through ESS. NSCC proposed to amend Addendum D will to conform to the changes proposed

⁹ In addition, two separate line items relating to ESS fees will be consolidated into one and reflect that the combined fee applies to all ESS deliveries and receives (including intercity). Also, as a technical change, fees relating to the New York Window Service would be deleted from the Fee Schedule as that service is no longer an offering of NSCC and certain other fees relating to physical processing functions that have become obsolete (which appear in the Fee Schedule as items A through F under the heading "Other Service Fees") would also be deleted. For additional information on the discontinuation of the New York Window Service at NSCC, see Exchange Act Release No. 40179 (July 8, 1998), 63 FR 38221 (July 15, 1998) (File Nos. SR-DTC-98-09, SR-NSCC-98-05).

above. The proposed revised Addendum D would also include a technical change that clarifies that NSCC may reverse a member's debits or credits that are related to the Commission Bill Service.

Implementation Date

Upon Commission approval of this rule filing, the implementation date of the proposed changes described above will be announced by Important Notice; however, the elimination of DDBS will not take effect until approximately (but no less than) 30 days from the date of the Commission's approval.

The proposed rule change is consistent with the requirements of the Act, as amended, and the rules and regulations thereunder applicable to NSCC because it facilitates the prompt and accurate clearance and settlement of securities transactions by increasing processing efficiencies through the merger of several similar services for physical processing. In addition, the proposed rule change is consistent with Recommendation 12 of the CPSS/IOSCO Recommendations for Central Counterparties because it promotes efficiency in services offered to members by assimilating several modes of physical processing into a single service.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NSCC does not believe that the proposed rule change would impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the proposed rule change have not been solicited NSCC.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within forty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date if

it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2011-04 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submission should refer to File Number SR-NSCC-2011-04. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those

that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-1090, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of NSCC and on NSCC's website at http://www.dtcc.com/downloads/legal/rule_filings/2011/nscc/2011-04.pdf. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2011-04 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Cathy H. Ahn
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).