

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-58300; File No. SR-NSCC-2008-06)

August 4, 2008

Self-Regulatory Organizations; The National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Enhance the Equity Options Service to Include Bond Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> notice is hereby given that on July 25, 2008, the National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by NSCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

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

NSCC proposes to amend its rules in order to enhance the NSCC Equity Options Service by extending similar processing to bond options transactions. The enhanced service will be called the “NSCC Equity Options and Bond Options Service.”<sup>2</sup>

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

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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> Changes are to the rule text that appears in the electronic manual of NSCC found at [www.nsccl.com/legal/](http://www.nsccl.com/legal/).

below. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>3</sup>

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

The proposed rule change amends Addendum M to NSCC's Rules and Procedures ("Addendum M"). Addendum M currently relates to a confirmation and matching service for over-the-counter ("OTC") U.S. equity options transactions and their associated cash flows called the NSCC Equity Options Service. The proposed rule change enhances the NSCC Equity Options Service by extending similar processing to bond options transactions. The enhanced service will be called the "NSCC Equity Options and Bond Options Service."

The Commission approved NSCC's filing on Form 19b-4, File No. SR-NSCC-2005-04, which proposed adding, on a permanent basis, Addendum M to NSCC's Rules and Procedures to establish the NSCC Equity Options Service.<sup>4</sup> This filing proposes a rule change to amend Addendum M to enhance the NSCC Equity Options Service by extending processing to bond option transactions. Because the bond options service to be provided by NSCC would be largely identical to the existing NSCC Equity Options Service, this filing substantially restates the information contained in the previous filings regarding equity options transactions.

In response to the need for automation of the trade confirmation process in the derivatives industry, the corporate parent of NSCC, The Depository Trust & Clearing Corporation

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<sup>3</sup> The Commission has modified the text of the summaries prepared by the NSCC.

<sup>4</sup> The Commission approved NSCC's original filing on Form 19b-4, File No. SR-NSCC-2004-04 (the "Original Filing") on a temporary basis through May 31, 2005, pending evaluation of the service. A subsequent filing, File No. SR-NSCC-2005-04 (the "Subsequent Filing"), provided information regarding findings related to the evaluation of the service, restated the Original Filing, as amended, and sought permanent approval of the service. The Subsequent Filing was approved May 26, 2005.

(“DTCC”), in 2003 created a subsidiary, DTCC Deriv/SERV LLC (“Deriv/SERV”). Deriv/SERV currently offers a confirmation and matching service for OTC credit default swaps transactions, interest rate swap transactions and equity derivative transactions and their associated cash flows. This service is widely used, including by all of the largest OTC credit default swaps dealers.

Deriv/SERV has developed a confirmation and matching service for OTC bond options transactions and their associated cash flows (the “Deriv/SERV Bond Options Service”). The Deriv/SERV Bond Options Service provides for confirmation and matching either between two OTC bond options dealers or between an OTC bond options dealer and its buy-side customer. Where either the buyer or the seller of an equity option or a bond option is a U.S. person and the equity option or bond option is issued by a U.S. issuer (a “U.S. Equity Option Transaction” or “U.S. Bond Option Transaction”), NSCC will provide the NSCC Equity Options and Bond Options Service to Deriv/SERV pursuant to the NSCC/DTCC Deriv/SERV Service Agreement (“Service Agreement”).<sup>5</sup> Deriv/SERV is a Data Services Only Member of NSCC.<sup>6</sup>

The Deriv/SERV Bond Options Service is operated pursuant to the operating procedures of Deriv/SERV (the “Deriv/SERV Operating Procedures”). U.S. Bond Option Transactions are also subject to NSCC’s Addendum M. Therefore, each user of the Deriv/SERV Bond Options Service enters into an agreement with Deriv/SERV obligating the user to abide by the terms of the Deriv/SERV Operating Procedures and obligating it to abide by Addendum M for any U.S. Bond Option Transactions. Pursuant to the Service Agreement, NSCC has the right to require

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<sup>5</sup> The host computer and other automated facilities associated with the NSCC Equity Options and Bond Options Service are provided by DTC pursuant to service agreements between NSCC and DTCC and between DTCC and DTC.

<sup>6</sup> NSCC Rules and Procedures, Rule 31.

Deriv/SERV to cause Deriv/SERV's users to abide by the terms of Addendum M. In addition, pursuant to the Service Agreement, NSCC and Deriv/SERV have agreed that should the Commission request that NSCC provide to the Commission any information relating to the NSCC Equity Options and Bond Options Service, Deriv/SERV will provide any such information in its possession to NSCC so that NSCC may provide such information to the Commission.

NSCC will neither be responsible for the content of the messages transmitted through the NSCC Equity Options and Bond Options Service nor be responsible for any errors, omissions, or delays that may occur relating to the NSCC Equity Options and Bond Options Service in the absence of gross negligence on NSCC's part. Both the Service Agreement and the Deriv/SERV Operating Procedures provide that NSCC has no liability in connection with the NSCC Equity Options and Bond Options Service in the absence of gross negligence on NSCC's part. Because the NSCC Equity Options and Bond Options Service does not involve money settlement, securities clearance, or netting through the facilities of NSCC, it is a nonguaranteed service of NSCC.<sup>7</sup>

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<sup>7</sup> NSCC offers certain "guaranteed" services through its CNS system, in which NSCC as a central counterparty provides settlement-related guarantees regarding certain trades cleared and netted at NSCC. NSCC also offers "nonguaranteed" services, such as NSCC's Mutual Fund and Insurance Processing Services, in which members do not receive the protections of the NSCC guarantee. Some of NSCC's nonguaranteed services entail settlement of funds through NSCC on a nonguaranteed basis (e.g., NSCC's FundSERV® service); other nonguaranteed services involve the communication of information only without settlement of transactions or funds through the facilities of NSCC (e.g., NSCC's Profile service in NSCC's Mutual Fund Services). The NSCC Equity Options and Bond Options Service is of this latter type; i.e., a nonguaranteed service limited to the communication of information only, which does not involve settlement of securities transactions or funds through the facilities of NSCC. In its Matching Release, the Commission concluded that matching constitutes a clearing agency function, specifically the "comparison of data respecting the terms of settlement

Deriv/SERV will charge its users fees in connection with the Deriv/Serv Bond Options Service and pursuant to the Service Agreement will make payments to NSCC for the services that NSCC is providing. NSCC will file proposed rule changes under Section 19(b) of the Act for fees that NSCC charges to Deriv/SERV for the NSCC Equity Options and Bond Options Service and for any changes made by NSCC to the NSCC Equity Options and Bond Options Service.

NSCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder because the implementation of the proposal will provide for the prompt and accurate clearance and settlement of U.S. OTC equity option transactions processed through the NSCC Equity Options and Bond Options Service by facilitating the transmission of standardized information on a centralized communications platform. This will reduce processing errors, delays, and risks that are typically associated with manual processes.

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

NSCC does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No written comments relating to the proposed rule change have been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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of securities transactions,” within the meaning of Section 3(a)(23)(A) of the Act. Securities Exchange Act Release No. 39829 (April 6, 1998), 63 FR 17943 (File No. S7-10-98).

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

The foregoing rule change has become effective upon filing pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>8</sup> and Rule 19b-4(f)(4)<sup>9</sup> thereunder in that it: (i) does not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible and (ii) does not significantly affect the respective rights or obligations of the clearing agency or persons using the service. At any time within sixty days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

### 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](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2008-06 on the subject line.

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>9</sup> 17 CFR 240.19b-4(f)(4).

Paper comments:

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

All submissions should refer to File Number SR-NSCC-2008-06. 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 Web site (<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 inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings also will be available for inspection and copying at the principal office of NSCC and on NSCC's Web site, [www.nscc.com/legal/](http://www.nscc.com/legal/). 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-2008-06 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.<sup>10</sup>

Florence E. Harmon  
Acting Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).

