SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65032; File No. SR-NSCC-2011-04)

August 4, 2011

Self-Regulatory Organizations; The National Securities Clearing Corporation; Order Granting Approval of a 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

## I. Introduction

On June 15, 2011, The National Securities Clearing Corporation ("NSCC") filed proposed rule change SR-NSCC-2011-04 with the Securities and Exchange Commission ("Commission") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").[1] Notice of the proposed rule change was published in the Federal Register on July 6, 2011.[2] The Commission received no comment letters. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

## II. Description

As operated prior to this rule change, the Dividend Settlement Service ("DSS"), the Funds Only Settlement Service ("FOSS"), and the Envelop Settlement Service ("ESS") were non-guaranteed services of NSCC through which NSCC members were able to exchange physical envelopes through a centralized location at NSCC. Pursuant to Rule 43 of NSCC's Rules and Procedures, DSS centralized 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 centralized

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1 15 U.S.C. 78s(b)(1).

2 Securities Exchange Act Release No. 64769 (June 29, 2011), 76 FR 39463 (July 6, 2011).

money-only settlements for NSCC members through the exchange of paperwork delivered to and received by NSCC members through NSCC's facilities.[3] Pursuant to Rule 9 and Addendum D of NSCC's Rules and Procedures, ESS allowed an NSCC member to physically deliver a sealed envelope containing securities and such other items as NSCC from time to time permitted to a specified NSCC member. The money settlement associated with ESS, DSS, and FOSS transactions occurred through NSCC's end-of-day settlement process.

A. Consolidation and Elimination of Certain Services

The use of each of these services has steadily declined in recent years due to increased dematerialization of securities and automation of transaction processing. In light of this decline and the elimination of the guaranty of ESS transactions, NSCC is amending its rules to discontinue the separate DSS and FOSS services and to allow members to process dividends and funds-only settlement activities through ESS.[4]

In addition, NSCC will amend its rules to discontinue its Data Distribution Box Service ("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

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

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

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, by use of email, facsimile transmission, 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 and therefore will be eliminated.

B. ESS Processing Changes

NSCC performs certain regulatory tracking, monitoring, 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"),[5] NSCC electronically receives information about 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 NSCC's tracking, monitoring, and reporting, the rule change will allow NSCC (1) to require its members to provide a security identifier (i.e., CUSIP or ISIN) and to 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 rule change will also allow NSCC to require its members to provide it with additional information that NSCC from time to time deems necessary to facilitate ESS processing.

Additionally, the rule change will also allow for automatic updates to NSCC's Obligation

[5] CNS is an 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 settlement positions per security issue for each NSCC member.

Warehouse service with respect to securities transactions that settle though 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 described in this approval order but instead will be implemented through announcement by Important Notice at a later date.[6]

Pursuant to this rule change, NSCC's rules will 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 this service through any NSCC facility as announced by Important Notice. As mentioned above, the rule change will also require that members not comingle different issues of securities in the same envelope or with other activity conducted through ESS. Accordingly, NSCC will also be allowed to prohibit comingling between funds-only and dividend settlement items.

C. Fee Structure

NSCC's Fee Schedule will be revised to delete charges for the discontinued services mentioned above. Under the rule change, all services offered under the newly combined ESS will be subject to the existing ESS charge for deliveries and receives.[7]

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

7 In addition, two separate line items relating to ESS fees will be consolidated into one to 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 will be deleted from the Fee Schedule since that service is no longer being offered by 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") will also be deleted. For additional information on the discontinuation of the New York Window Service at NSCC, see

D. 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 will amend Addendum D to conform to the changes approved pursuant to this rule change. The revised Addendum D will 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.

E. Implementation Date

The implementation date for the approved rule changes 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 this approval order.

III. Discussion

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.[8] The Commission finds that NSCC's rule change should facilitate the prompt and accurate clearance and settlement of securities transactions by increasing processing efficiencies through the merger of several similar services for physical processing and by eliminating obsolete services.

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Exchange Act Release No. 40179 (July 8, 1998), 63 FR 38221 (July 15, 1998) (File Nos. SR-DTC-98-09, SR-NSCC-98-05).

[8] 15 U.S.C. 78q-1(b)(3)(F).

Accordingly, for the reasons stated above the Commission believes that the proposed rule change is consistent with NSCC's obligation under Section 17A of the Exchange Act, as amended, and the rules and regulations thereunder.[9]

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, particularly with the requirements of Section 17A of the Act, and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-NSCC-2011-04) be and hereby is approved.

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

Elizabeth M. Murphy
Secretary

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9 In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

10 17 CFR 200.30-3(a)(12).