

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-56468; File No. SR-NSCC-2007-11)

September 19, 2007

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change to Allow As-of Fixed Income Trades to be Processed in the Continuous Net Settlement System

I. Introduction

On July 12, 2007, the National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-NSCC-2007-11 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).<sup>1</sup> Notice of the proposal was published in the Federal Register on August 20, 2007.<sup>2</sup> The Commission received no comment letters. For the reasons discussed below, the Commission is approving the proposed rule change.

II. Description

NSCC is modifying its procedures to allow as-of fixed income trades to be processed in NSCC’s Continuous Net Settlement (“CNS”) system.

When NSCC revised and updated CNS in 2004 (referred to as the “CNS Rewrite”), it provided the capability on any settlement day to take in and process transactions due for settlement that day provided the trades are recorded or compared prior to an established cut-off time in the morning.<sup>3</sup> This capability is currently provided for as-of equity transactions but has

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

<sup>2</sup> Securities Exchange Act Release No. 56250 (August 14, 2007), 72 FR 46528.

<sup>3</sup> Securities Exchange Act Release No. 50026 (July 15, 2004), 69 FR 43650 [File No. SR-NSCC-2004-01].

not yet been expanded to as-of fixed income transactions.<sup>4</sup> Rather, settlement of as-of fixed income corporate debt, municipal, and unit investment trust (“UIT”) trades (corporate debt, municipal, and UIT trades are collectively referred to as “CMU” trades) compared on or after their designated settlement date currently occurs on the business day following the day they are compared. Given that settlement risks associated with CMU trades would be reduced if they settled on an accelerated basis in the same manner that as-of equity trades are settled, NSCC is enhancing its fixed income processing to permit same day settlement of as-of fixed income transactions.<sup>5</sup> To accomplish this, NSCC is amending Procedure II (Trade Comparison and Recording Service) so that CNS-eligible as-of CMU trades matched on or after their originally designated settlement date will be processed in CNS on the day they are submitted for comparison so long as they compare prior to the cut-off time established for same day settlement, which currently is 11:30 am.<sup>6</sup> As-of trades not eligible for CNS processing will settle on a trade-for-trade basis. Trades that match after the designated cut-off time will continue to be assigned a settlement date of the next business day.

In addition, because these trades are effectively guaranteed upon comparison, risk associated with the trades will be mitigated through the existing component of the Clearing Fund formula, as set forth in Procedure XV (Clearing Fund Formula and Other Matters), that is

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<sup>4</sup> NSCC’s systems did not have the capacity for same day settling trades for fixed income transactions in 2004.

<sup>5</sup> The settlement of cash and next day CMU trades which are compared by NSCC will continue to be the responsibility of the parties to the trades.

<sup>6</sup> In addition, references in Procedure VII (CNS Accounting Operation) that currently note that debt securities are not eligible for such accelerated settlement will be removed.

designed to mitigate the risk to NSCC associated with trades that are processed on a settlement cycle shorter than three days. Under this component, activity specified for a shortened settlement cycle is isolated, and a charge is calculated.<sup>7</sup>

### III. Discussion

Section 19(b) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>8</sup> The Commission believes that NSCC's rule change is consistent with this Section because it should facilitate the prompt and accurate clearance and settlement of securities by increasing automated trade processing and by expanding the types of trades eligible for CNS netting and NSCC settlement.

### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder. In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation.

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<sup>7</sup> The component calculates a charge based on the average of a member's charges for the specified activity on the three days with the highest charges calculated for the specified activity over the most recent twenty day period. Securities Exchange Act Release No. 54816 (November 27, 2006), 71 FR 69604 [File No. SR-NSCC-2006-09].

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-NSCC-2007-11) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>9</sup> 17 CFR 200.30-3(a)(12).

