

IMPORTANT NOTICE

National Securities Clearing Corporation



A#: 6762
P&S# 6332
Date: December 16, 2008
To: ALL PARTICIPANTS
Attention: MANAGING PARTNER/OFFICER
OPERATIONS PARTNER/OFFICER
MANAGER P&S DEPARTMENT
MANAGER DATA PROCESSING DEPARTMENT
From: EQUITY CLEARANCE PRODUCT MANAGEMENT
Subject: OTC EXPLICIT FEE PROCESSING

Pursuant to NASD Rule 6130(h) (Inclusion of Transaction Fees in Clearing Reports Submitted to the FINRA/NASDAQ Trade Reporting Facility formerly known as "ACT"), the SIFMA DMD Business Procedures Committee and the SIFMA Explicit Field Working group have requested the development of additional fields in the OTC contract MRO and print image files to support the Explicit Fee field in ACT submissions. The benefit of this change will allow broker dealers to charge other broker dealers fees in lieu of price mark up's that were allowed pre Reg NMS. The rule change will also help negate the need for broker dealers to charge other brokers fees via the current due bill process.

In support of this industry need, NSCC will enhance its OTC input and output for processing of Explicit Fee transactions. NSCC will provide, **on a optional basis**, the ability for NASDAQ's TRF (ACT) system and Qualified Special Representatives (QSRs) to submit OTC Explicit Fee transactions and will report such information on its intra-day and end-of-day output.

New fields will be added to the DATATRAK and MQ input formats representing the **Total Explicit Fee Amount** and the **Total Contract Amount**. The same fields will be provided on NSCC's OTC Intra-Day data file and on the OTC and NASDAQ End-of-Day print image contract output.

The Total Contract Amount is already provided on the OTC contract output and is defined as the Principal Trade Amount. For Explicit Fee transactions, the Total Contract Amount will continue to serve as the Principal Trade Amount and will include the Total Explicit Fee for settlement purposes. The Total Explicit Fee Amount will be provided separately for informational purposes only.

Implementation is currently scheduled for late January 2009, pending SEC approval. NSCC will make OTC Explicit Fee testing available in January 2009.

Non-Confidential

DTCC is now offering enhanced access to all important notices via a new, Web-based subscription service. The new notification system leverages RSS Newsfeeds, providing significant benefits including real-time updates and customizable delivery. To learn more and to set up your own DTCC RSS alerts, visit http://www.dtcc.com/subscription_form.php.

A. OTC EXPLICIT FEE INPUT

OTC Contract Input from DATATRAK SYSID 18654 and OTC MQ Message Input Format

The OTC input file formats will be modified to add two new fields to provide for the submission of Explicit Fee transactions. These modifications are as follows:

FROM:

DESCRIPTION	MRO	LENGTH	START	END	TYPE	COMMENTS
Future Use	n/a	29	222	250	A/N	Spaces

TO:

DESCRIPTION	MRO	LENGTH	START	END	TYPE	COMMENTS
Total Explicit Fee Amount	339-346	8	222	229	A/N	Last two bytes = cents, implied decimal point
Total Contract Amount	n/a	16	230	245	A/N	Last two bytes = cents, implied decimal point
Future Use	n/a	5	246	250	A/N	Spaces

Any Explicit Fee transaction submitted to NSCC must contain the Total Contract Amount as well as the Total Explicit Fee Amount. If one field is submitted without the other, the OTC Explicit Fee transaction will be rejected.

All OTC transactions whether they contain an Explicit Fee or not must be submitted with data in the Share Quantity and Price per Share fields. Explicit Fee modifications will not be supported for the OTC Comparison input or the OTC Locked-in, Intra-Day format (DATATRAK SYSID #18651).

B. EXPLICIT FEE PROCESSING CHANGES

The following are the processing rules when calculating the Principal Trade Amount for Non-Explicit Fee and Explicit Fee transactions and how it will be displayed on the OTC contract output:

1. **Non Explicit Fee Transactions** - Currently NSCC multiplies the share quantity times the price per share to calculate the Principal Trade Amount on OTC contract output. This will remain unchanged for all transactions that do not contain an Explicit Fee.
 2. **Explicit Fee Transactions** - NSCC **will not** use the share quantity times the price per share calculation. Instead NSCC **will display the submitted** Total Contract Amount as the Principal Trade Amount on the OTC Contract output.
- When the OTC transaction is submitted with an Explicit Fee, NSCC will also provide the new field, Total Explicit Fee Amount on the OTC contract output for informational purposes only.
 - Share Quantity and Price-per-Share must always be provided on all OTC transactions (both Non-Explicit Fee and Explicit Fee Transactions) on the OTC Contract Output.

C. EXPLICIT FEE REVISIONS TO OUTPUT

1. OTC Intra-Day MRO Contract Output, AutoRoute #02023183 and OTC Intra-Day MRO Reject Output, AutoRoute #02020218

For OTC Explicit Fee transactions, NSCC will display the Explicit Fee in a field defined as Total Explicit Fee Amount in position 339-346.

Description	Length	Start	End	Type	Comments
Total Explicit Fee Amount	8	339	346	A/N	Last two bytes = cents, implied decimal point

If an OTC Explicit Fee transaction is rejected, NSCC will display the Explicit Fee in the OTC Accepted/Rejected fields with a value of 1 = NSCC Rejected Final in position 335 and the NSCC Reject Code will contain a value of 10 = Invalid Explicit Fee in position 336-337.

Description	Length	Start	End	Type	Comments
Accepted / Rejected	1	335	33	A/N	0 = Accepted 1 = NSCC Rejected Final
NSCC Reject Codes	2	336	337	A/N	10 = Invalid Explicit Fee

2. OTC End-of-Day, Print Image Report, AutoRoute #02020184 and NASDAQ End-of-Day, Print Image Report AutoRoute #02020097

On the T, T+1 and T+2 trade reporting sections that contain an explicit fee, the detail line fields entitled TRADE-DATE & SETTLE-DATE will be redefined for insertion of the value FEE followed by the actual submitted Total Explicit Fee Amount. (Please note: regular way trades do not report the trade and settlement dates in these fields.) Refer to Exhibit A for an example of Total Explicit Fee Amount in the T, T+1 and T+2 trade reporting sections.

On the T+3 and Non-Standard trade reporting sections that contain an Explicit Fee, a new line will be written containing the value FEE followed by the actual submitted Total Explicit Fee Amount. A new line under the fields entitled TRADE-DATE & SETTLE-DATE will be used for this purpose with all other fields on this line being filled with spaces. Refer to Exhibit B for an example of Total Explicit Fee Amount in the T+3 and Non-Standard trade reporting sections.

Again, for a valid Explicit Fee transaction to be submitted to NSCC requires that both the Total Explicit Fee Amount and the Total Contract Amount contain a value. If one field is submitted without the other, the OTC Explicit Fee transaction will be rejected with a reject code of 10 = "Invalid Explicit Fee" and appear in print report reject section with the literal of *EXPFEE*. Refer to Exhibit C for an example of a rejected Explicit Fee transaction.

D. OTC EXPLICIT FEE TESTING

NSCC will support two methods of testing OTC Explicit Fee transactions. The first method supports testing with NASDAQ's TRF and QSRs who prefer to submit Explicit Fee transaction to NSCC. The second will support distribution of an OTC test output data file containing examples of Explicit Fees to clearing members. OTC Explicit Fee testing details are contained in Attachment 1.

E. ADDITIONAL INFORMATION

This and other NSCC Important Notices are located on the www.DTCC.com web site in the Clearance and Settlement product pages. The same link contains the data file layouts for the OTC trade input and intra-day contract output. If you have questions, please contact your Relationship Manager or email the undersigned at ryodice@dtcc.com.

Robert M. Yodice
Product Management, Director

OTC EXPLICIT FEE TESTING DETAILS

The following are the OTC Explicit Fee testing details:

- NASDAQ's TRF or any QSR that prefers to submit Explicit Fee test data or receive the NSCC OTC data file contract output containing OTC Explicit Fee transactions must be setup in the NSCC's Test Region (the "U" region).
- For testing and setup in NSCC's test region, organizations must call the testing hotline at 1-888-382-2721 and select option #1 followed by option #4. This will connect you with the Enterprise Service Center representative for testing.
- **Explicit Fee Testing with NASDAQ or QSR Submitted Data** - NSCC will, upon request, accept the DATATRAK, Test SYSID #48654 data file or the OTC MQ trade message containing the OTC trade record with an Explicit Fee. NSCC will process the test transactions and produce the applicable OTC MRO Test contract output, AutoRoute #02983183.
- **Explicit Fee OTC Contract Output Testing** - In January 2009, NSCC will provide an OTC Intra-Day MRO Contract Test Output, AutoRoute #02983183 containing examples of OTC Explicit Fees. This test file of created data will utilize test broker #0122 and #0123. Participants can utilize this data file to successfully complete their Explicit Fee testing.
- NSCC will not produce any Print Image test file in connection with OTC Explicit Fee testing.

Exhibit B - An OTC Explicit Fee transaction in the non-standard valid trade section on NSCC's OTC End-of-Day, Print Image Report, AutoRoute #02020184 and NASDAQ End-of-Day, Print Image Report AutoRoute #02020097. The explicit fee example is bolded and highlighted in **red**.

NATIONAL SECURITIES CLEARING CORPORATION OTC PURCHASE CONTRACT - NON-STANDARD SETTLEMENT
 MEMBER NO 9999 MEMBER NAME ABC SECURITIES COMPANY TRADE DATE - VARIOUS

NON NP/	TRADE	SETTLE	QUANTITY	CONTRACT	BUY	MATCH	PRICE	SELLER	T R A D E	REF	BRANCH	EXEC	BA/ST	RV	CAP
CNS SP	DATE	DATE		MONEY	EXEC	IND		EXEC	SRCE	ORG	ID-SEQ	TIME	IND	IND	CDE
BGU - DIREXION LARGE CAP BULL 3X SHARES															
25459W	86 2														
	11/07/2008	11/12/2008	100,000	4,285,100.78	ABCS	M	42.836000	0998	ABCD	TRF	0000C8	12:00	K	A	
	FEE - 1,600.78														
ERIC - ERICSSON LM TEL CO ADR CL-B															
2984821	60 8														
	11/07/2008	11/10/2008	4,700	30,481.85	ABCS	M3	6.485500	0998	ABCD	TRF	058BEB	12:00	K	A	

Exhibit C - An Example of Rejected trades for Invalid Explicit Fee. The rejected will be displayed in the reject section with the literal of ***EXP FEE***. Rejected trades examples are bolded and highlighted in **red**.

OTC

R E J E C T E D T R A D E S

MEMBER NO 9999 MEMBER NAME ABC SECURITIES COMPANY

NON NP/	TRADE	ERROR	QUANTITY	PRICE	CONTRACT	MATCH	PRICE	CONTRA	T R A D E	REF	BRANCH	EXEC	BA/ST	RV	CAP
CNS SP	DATE			IND	MONEY	IND			SRCE	ORG	ID-SEQ	TIME	IND	IND	CDE
73179V 10 3															
0	20081110	*PARTIC*	000000300	D	0000000000248232	ITGI	M3	000008274400	0998	ABCD	B	XX99-A40K	12:45		p
	FEE - 123,456.78														
0	20081110	*PARTIC*	000000145	D	0000000000119979	ITGI	M3	000008274400	0998	ADCD	B	XX99-A4HA	10:32		p
78442P 10 6															
0	20081107	*EXP FEE*	000180000	D	0000000183126600	ITGI	M3	000010173700	0998	ABCD		XX99-A2HH	11:08		A
	FEE - XXXXXXXX														
0	20081107	*EXP FEE*	000180000	D	XXXXXXXXXXXXXXXXXX	ITGI	M3	000010173700	0998	ABCD		XX99-A2HH	13:24		A
	FEE - 1,456.78														