

# **IMPORTANT NOTICE**

**National Securities Clearing Corporation**



**A#:** 7053  
**P&S#** 6624  
**Date:** August 30, 2010  
**To:** All Participants  
**Attention:** GENERAL COUNSEL; CHIEF COMPLIANCE OFFICER; MANAGING PARTNER/OFFICER; OPERATIONS PARTNER/OFFICER; MANAGER, OPERATIONS; MANAGER P&S DEPARTMENT; MANAGER DATA PROCESSING DEPARTMENT; CASHIER; MANAGER, IT  
**From:** General Counsel's Office  
**Subject:** RULE CHANGE - SR-NSCC-2010-09 (1. Universal Trade Capture Application, and 2. Automated Special Representative Facility)

On August 30, 2010, National Securities Clearing Corporation ("NSCC") filed a proposed rule change with the Securities and Exchange Commission pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934. The proposed rule change will modify NSCC's Rules & Procedures (the "Rules") regarding the creation of (i) a Universal Trade Capture ("UTC") application which will standardize, streamline, consolidate and modernize NSCC's existing legacy trade applications (specifically, NSCC's Trade Comparison and Recording Operation) to create a more efficient centralized process, and (ii) an automated Special Representative facility.

## **I. Universal Trade Capture ("UTC")**

### **A. Background**

Since the 1970's, NSCC has provided a framework for the clearance and settlement of transactions executed on national stock exchanges and in the Over-the-Counter ("OTC") market, through its "Comparison and Trade Recording Operation".<sup>1</sup> A Regional Interface Operation (the "Interregional Interface Service" or "RIO") was established in 1974 through National Clearing Corporation (one of NSCC's predecessor organizations), which permitted participating registered clearing corporations to provide for settlement, through the interface, of transactions in listed securities in the OTC market.<sup>2</sup>

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<sup>1</sup> On separate platforms, NSCC also provides services supporting mutual funds, alternative investments and insurance products, in addition to providing various other services.

Over time, in efforts to promote straight-through processing, markets have assumed responsibility for trade comparison (i.e., matching the buy and sell side of a securities transaction) at the point of trade, submitting the transaction to NSCC for trade recording purposes (i.e., the transaction details have already been compared, and the transaction is then submitted to NSCC on a “locked-in” basis).

#### Trade Comparison and Recording Operation

Transaction data is submitted to NSCC on a locked-in basis by Self-Regulatory Organizations (“SRO’s”) and Qualified Special Representatives (“QSR’s”) on behalf of Members for the purpose of Trade Recording, with purchaser and seller trade details compared by the SRO or QSR prior to submission to NSCC. NSCC then validates and records the transaction, and reports the details back to the SRO, QSR and/or Member, as appropriate. NSCC also provides a Comparison Operation for its Members, through which both the purchaser and seller may submit transactions which NSCC then validates, compares, and reports back to the Members. Compared and recorded trades are subsequently routed to the Continuous Net Settlement (“CNS”) Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation as applicable. NSCC makes transaction details available to Members, SRO’s and QSR’s on a real-time, intra-day and/or end-of-day basis, as applicable.

As NSCC’s systems for receipt of input and generation of output have evolved over time, depending upon the transaction and the originating entity, different reporting formats (for both input and output) may be utilized – there is currently no one, standard common record that is utilized by all market places or Members.

#### Regional Interface Operation

Originally, each participating clearing corporation had the opportunity to provide its own system for comparison, with the only common requirement being that inter-clearing corporation trades be matched by one of the two organizations involved in each of the inter-agency transactions (with an inter-clearing corporation being one side to each RIO trade). Over time, as organizations discontinued providing clearance and settlement services for their respective members (and those members ultimately became direct Members of NSCC, or entered into clearing arrangements with other NSCC Members), the reporting and settlement of trades submitted to NSCC changed.

With the discontinuance of the RIO service, NSCC nevertheless continued to accept trade input from regional exchanges and other market places, using the RIO formats. The formats used by regional exchanges for the submission of transaction data to NSCC are generally the same as the formats that had been used for information processed through the interface operation, and continue to commonly be referred to as “RIO”. Consequently, references today to “RIO” are not in reference to services previously provided under the service, but rather to information received in connection with NSCC’s receipt of data for the purposes of trade reporting.

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<sup>2</sup> In 1983, the service was further expanded to facilitate the settlement of transactions which had been confirmed and affirmed through the facilities of a registered securities depository.

## B. Proposed Changes

The proposed rule change will amend, where applicable, the Rules of NSCC to accommodate the UTC application which will standardize, streamline, consolidate and modernize NSCC's existing legacy trade capture applications (specifically, with respect to trade recording, within NSCC's Trade Comparison and Recording Operation) to create a more efficient centralized process. The UTC application will accept and process a common input record from all marketplaces, and will provide for receipt and reporting of data in both real-time and intra-day/batch submissions to/from Members and SRO's.

UTC will replace all current locked-in Over-the-Counter ("OTC") and listed trade capture applications with one central real-time validation and reporting process. UTC will have the capability to accept or reject, validate, process, and send contract output to Members in real-time. Members will only have to support one standardized input and output format.

As further described below (see "Implementation Timeframe"), trade data will be received from markets in real-time and batch. NSCC will convert the existing input format to the new UTC input record format, which will enable the UTC to provide Members and SRO's with their trade output in the format of their choice (new or old).

As part of this effort, NSCC will also provide for enhancements to its Correspondent Clearing Service and QSR processing as further described below.

## **II. Automated Special Representative Facility for Special Representatives and Qualified Special Representatives**

### A. Background

NSCC's Correspondent Clearing Service is designed to provide an automated method by which a Member, acting as a Special Representative, may move an obligation (a position) that it has in the process of clearance at NSCC to the account of another Member (its correspondent) on whose behalf the original trade was executed. (The term "original trade" is used within Correspondent Clearing solely to distinguish between trades executed in the marketplace by the Special Representative, and transactions booked for accounting purposes to accommodate the movement of positions between Members as provided for in Procedure IV. Correspondent Clearing is not a mechanism for original trade submission.)

### B. Proposed Changes

#### 1. Expanding Permitted Use of Service

Currently, NSCC's rules provide the Correspondent Clearing Service may only be used in the following situations: first, to accommodate a Member with multiple affiliate accounts who wishes to move a position resulting from an "original trade" in the process of clearance from one affiliate account to another, and second, to accommodate a Member that relies on its Special Representative to execute a trade in a market that the Member is precluded from due either to membership requirements (e.g., membership requirement for access to markets) or applicable regulation, to enable the resulting position to be moved from the Special Representative to that Member.

As it is not uncommon that Members utilize the services of other broker-dealers to execute trades in markets where they are members in order to facilitate their trading strategies, NSCC proposes to modify its Rules to provide that the Correspondent Clearing Service may be utilized by Members to accommodate a Member that relies on its Special Representative to execute a trade in any market (regardless of whether that Member maintains direct access to that market), to enable the resulting position to be moved from the Special Representative to that Member.

## 2. Creation of an Automated Special Representative Facility

Historically, Members participating in the Correspondent Clearing Service (and those utilizing the services of a QSR for the submission of original, locked-in trade data), have been required to complete and remit to NSCC, specific agreements for each relationship established. For example, in Correspondent Clearing, one Member completes documentation (commonly referred to as Form 9a - Application for Status as a Special Representative) by which they apply to NSCC for status as a Special Representative to submit transactions on behalf of a specified Member. That Member (the Correspondent) must then also complete and submit to NSCC documentation (commonly referred to as a Form 9b – Special Representative Consent) by which they consent to the establishment of that relationship. For QSR relationships, Members submit Forms 9a and Form 9b, along with an additional form that is specific to the QSR system being utilized (commonly referred to as an “Attachment 1”). NSCC then establishes these relationships on its internal Masterfile, subsequently terminating those relationships at the direction of either party.

To assist Members in controlling and monitoring their Special Representative and Qualified Special Representative relationships, NSCC proposes to create an automated, online, secure facility by which Members themselves may establish, monitor and maintain these relationships. Both the Special Representative Member and the Correspondent Member must submit matching instructions within the facility in order for the relationship to be established. Either party may submit a single entry to retire the relationship.

Members will be reminded, via formatting within the facility, of their existing (and unchanged) obligations under NSCC’s Rules with respect to utilizing these services – namely, that by establishing the relationship within the facility both Members continue to be bound by the Rules of NSCC; the Correspondent is bound by the details of all transactions submitted on their behalf by the Qualified Special Representative (or Special Representative, as the case may be), and any errors or omissions or disputes relating to such relationships and related transactions must be resolved directly between the parties.

The establishment of relationships through the automated facility shall meet the written notice requirements for such services as otherwise set forth within NSCC’s Rules and Procedures. Members will no longer be required to submit signed Forms to NSCC for these processes.

## **III. Rule Modifications**

As the UTC functionality will provide for processing of a common input/output record from/to all marketplaces (validating the transaction and providing for real-time message output to Members and SRO’s), NSCC is proposing to modify its Rules to make conforming changes to reflect, where appropriate, a single procedure or process for the submission and reporting of transaction data to and

from SRO's and Members. In addition, NSCC will modify its Rules to provide for an automated online functionality for the establishment and retirement of Special Representative and Qualified Special Representative relationships, and references and provisions within the Rules that pertained to the now obsolete RIO Service will be eliminated.

Accordingly, NSCC proposes to amend the following<sup>3</sup> Rules & Procedures, as set forth in Exhibit 5: Rule 7 (Comparison and Trade Recording Operation); Rule 40 (Interregional Interface Service); Procedure II (Trade Comparison and Recording Service); Procedure III (Trade Recording Service – Interface Clearing Procedures); and, Procedure IV (Special Representative Service).

#### **IV. Implementation Timeframe**

Subject to regulatory approval, NSCC will implement the above changes by January 31, 2011.

With respect to UTC changes, to support the migration period, NSCC will provide a process (a conversion process) to support those markets that are not yet ready to submit transaction data in the new common input format (i.e., NSCC will accept data in the old format, and convert data into the new UTC format). The conversion process will enable NSCC to offer Members and SRO's the new output format regardless of whether the market has converted to the new standard. UTC will continue to support all existing interfaces with markets, Members and SRO's with respect to trade input and output.

To support maximum flexibility in allowing firms to migrate to their own schedules, NSCC will continue to support all existing interfaces with markets, Member's, SRO's and regulatory agencies for a period of time after UTC is implemented.

NSCC will establish a plan for the retirement of all legacy input and output formats, and by the end of the first quarter of 2012 will reassess the status of those firms utilizing legacy formats. At that time, NSCC will work with any Members, SRO's and regulatory agencies that have not yet converted from legacy reporting, affording such firms with sufficient lead time for migration.

**Please refer to Important Notices A#7030 (P&S#6601) dated July 21, 2010, and A#7037 (P&S#6608) dated July 29, 2010 for additional information regarding the above changes.**

Questions regarding this rule filing should be addressed to Elena Staloff, vice president, DTCC Product Management and Marketing at (212) 855-5699, or to your DTCC Relationship Manager.

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<sup>3</sup> In addition, the following Rules and Procedures will be generally modified to make conforming changes: Procedure VII (CNS Accounting Operation) – modified to conform an existing rule cross reference to a renamed Procedure; Procedure X (Execution of Buy-Ins) modified to eliminate references to regional accounts; Procedure XIII (Definitions), modified to remove a defined and now obsolete term “Qualified Non-Participant”; Procedure V (Balance Order Accounting Operation); Procedure VI (Foreign Security Accounting Operation); Addendum A (Fee Schedule) – modified to delete obsolete regional/inter-clearing corporation references;. Addendum J (Statement of Policy – Locked-In Data from Service Bureaus) – modified to correct a pre-existing erroneous reference to Section 5 of Rule 7 where it should have referenced Section 6 of that Rule; Addendum K (Interpretation of the Board of Directors – Application of Clearing Fund)- modified to reflect specific reference to T Contracts, and Addendum N (Interpretation of the Board of Directors – Locked-In Data from Qualified Special Representatives) - modified to conform an existing rule cross reference to renumbered procedure subsection.