

Proposed Rule Change by National Securities Clearing Corporation  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
			<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input checked="" type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the proposed rule change (limit 250 characters).

Proposed Rule Change to provide a clarification with respect to the Correspondent Clearing Service and to make certain technical changes and clarifications to the Rules and Procedures.

**Contact Information**  
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="John"/>	Last Name	<input type="text" value="Petrofsky"/>
Title	<input type="text" value="Associate Counsel"/>		
E-mail	<input type="text" value="jpetrofsky@dtcc.com"/>		
Telephone	<input type="text" value="(212) 855-7634"/>	Fax	<input type="text" value="(212) 855-3215"/>

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date	<input type="text" value="12/18/2007"/>
By	<input type="text" value="Larry Thompson"/>
	(Name)
	<input type="text" value="General Counsel"/>
	(Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information**

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change**

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change.

(a) The proposed rule change consists of modifications to the Rules & Procedures of National Securities Clearing Corporation (“NSCC” or the “Corporation”), and is annexed hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) NSCC’s Board of Directors, through its Operations and Planning Committee, approved the proposed rule change described in Section 3(a) (i) below on February 9, 2006. The remainder of the proposed changes described below does not require the approval of NSCC’s Board of Directors.

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

(a) This proposed rule change provides: (i) a clarification regarding the appropriate use of NSCC’s Correspondent Clearing Service, including corresponding clarifying changes to the text of the Procedures, as described below, and (ii) that as part of updating the Rules & Procedures relative to the Trade Recording and Special Representative Services, certain technical corrections, clarifications and organizational changes be made to the Rules & Procedures as described below.

**Clarification of Correspondent Clearing Service**

NSCC is modifying its Procedure IV (Special Representative Service) to clarify the appropriate use of the Correspondent Clearing Service as follows. The Correspondent Clearing Service is designed to provide an automated vehicle 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 here 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 permitted in Procedure IV.) For example, a Member that sold securities for another Member (its correspondent) on the NYSE would have the sell side of the transaction submitted by the NYSE in the normal Trade Recording Operation, thereby incurring a CNS obligation to deliver the shares sold. Acting as Special Representative for its correspondent, the Member would submit transaction data showing itself as the buyer of those securities and its correspondent as the seller. As a consequence, the Special Representative would net out in the CNS System (its sell side netting against its buy side) and the correspondent would

incur a CNS obligation to deliver. In other words, the service provides for the correspondent's obligation to be substituted for that of the Special Representative.

The Correspondent Clearing Service was not designed as a mechanism to permit a Special Representative, acting as a Qualified Special Representative (*i.e.*, a Member that either (i) operates an automated execution system where it is always the contra side of every trade, (ii) is the parent or affiliate of an entity operating such an automated system, where it is the contra side of every trade, or (iii) clears for a broker/dealer that operates such a system and the subscribers to the system acknowledge the clearing Member's role in the clearance and settlement of these trades) (a "QSR") or otherwise, to submit original locked-in trade data, and it should not be used as such. Accordingly, the proposed revisions provide that 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 (including direct market access (DMA) offsets).

### **Technical Clarifications**

At this time, as part of updating the Rules and Procedures relative to the Trade Recording and Special Representative Services, certain technical corrections, clarifications and organizational changes are also being made to:

- Rule 7, including moving the definitions of "Special Representative", Qualified Special Representative and "Index Receipt Agent" from Rule 39 (where they currently appear) to Rule 7 (where these terms are first used), and renaming the rules accordingly; and
- Procedure II to (i) clarify the procedures the Corporation uses to confirm locked-in trade data (as opposed to editing and comparing trades submitted for comparison directly by Members), and (ii) add back language relating to receipt of locked-in trade data from QSRS that was inadvertently deleted in error in NSCC SR-2003-12 (SEC Release No. 34-48141, dated July 8, 2003).

(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because by clarifying the appropriate use of an NSCC service, it promotes the prompt and accurate clearance and settlement of securities transactions.

4. Self-Regulatory Organization's Statement on Burden on Competition.

NSCC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. NSCC will notify the Commission of any written comments it receives.

6. Extension of Time Period for Commission Action.

NSCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2).

(a) The proposed rule change is to take effect pursuant to paragraph (A) of Section 19(b)(3) of the Act.

(b) The proposed rule change as it pertains to the appropriate use of NSCC's Correspondent Clearing Service, including corresponding clarifying changes to the text of the Procedures, constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule. The above-mentioned technical corrections to the Rules & Procedures are concerned solely with the administration of NSCC.

(c) Not applicable.

(d) Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission.

The proposed rule change is not based on the rules of another self-regulatory organization or the Commission.

9. Exhibits

Exhibit 1 - Notice of proposed rule change for publication in the Federal Register

Exhibit 2 – n/a

Exhibit 3 - n/a

Exhibit 4 – n/a

Exhibit 5 - Text of the proposed Rule changes

**EXHIBIT 1**

**SECURITIES AND EXCHANGE COMMISSION**

**(Release No. 34-\_\_\_\_\_ ; File No. SR-NSCC-2007-16)**

**SELF-REGULATORY ORGANIZATIONS**

Proposed Rule Change by NATIONAL SECURITIES CLEARING CORPORATION (“NSCC”) to provide: (i) a clarification regarding the NSCC’s Correspondent Clearing Service, including corresponding clarifying changes to the text of the Procedures, as described below, and (ii) that as part of updating the Rules & Procedures relative to the Trade Recording and Special Representative Services, certain technical corrections, clarifications and organizational changes be made to the Rules & Procedures as described below.

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 15 U.S.C. 78s(b)(1), notice is hereby given that on \_\_\_\_\_, NSCC filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NSCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The text of the proposed rule change is attached hereto as Exhibit 5.

**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 below. NSCC has prepared summaries, set forth in sections (A), (B) and (C) below, of the most significant aspects of such statements.

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

(i) This proposed rule change provides: (a) a clarification regarding the appropriate use of NSCC’s Correspondent Clearing Service, including corresponding clarifying changes to the text of the Procedures, as described below, and (b) that as part

of updating the Rules & Procedures relative to the Trade Recording and Special Representative Services, certain technical corrections, clarifications and organizational changes be made to the Rules & Procedures as described below.

### **Clarification of Correspondent Clearing Service**

NSCC is modifying its Procedure IV (Special Representative Service) to clarify the appropriate use of the Correspondent Clearing Service as follows. The Correspondent Clearing Service is designed to provide an automated vehicle 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 here 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 permitted in Procedure IV.) For example, a Member that sold securities for another Member (its correspondent) on the NYSE would have the sell side of the transaction submitted by the NYSE in the normal Trade Recording Operation, thereby incurring a CNS obligation to deliver the shares sold. Acting as Special Representative for its correspondent, the Member would submit transaction data showing itself as the buyer of those securities and its correspondent as the seller. As a consequence, the Special Representative would net out in the CNS System (its sell side netting against its buy side) and the correspondent would incur a CNS obligation to deliver. In other words, the service provides for the correspondent’s obligation to be substituted for that of the Special Representative.

The Correspondent Clearing Service was not designed as a mechanism to permit a Special Representative, acting as a Qualified Special Representative (*i.e.*, a Member that either (i) operates an automated execution system where it is always the contra side of every trade, (ii) is the parent or affiliate of an entity operating such an automated system, where it is the contra side of every trade, or (iii) clears for a broker/dealer that operates such a system and the subscribers to the system acknowledge the clearing Member’s role in the clearance and settlement of these trades) (a “QSR”) or otherwise, to submit original locked-in trade data, and it should not be used as such. Accordingly, the proposed revisions provide that 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 (including direct market access (DMA) offsets).

## **Technical Clarifications**

At this time, as part of updating the Rules and Procedures relative to the Trade Recording and Special Representative Services, certain technical corrections, clarifications and organizational changes are also being made to:

- Rule 7, including moving the definitions of “Special Representative”, Qualified Special Representative and “Index Receipt Agent” from Rule 39 (where they currently appear) to Rule 7 (where these terms are first used), and renaming the rules accordingly; and
- Procedure II to (i) clarify the procedures the Corporation uses to confirm locked-in trade data (as opposed to editing and comparing trades submitted for comparison directly by Members), and (ii) add back language relating to receipt of locked-in trade data from QSRs that was inadvertently deleted in error in NSCC SR-2003-12 (SEC Release No. 34-48141, dated July 8, 2003).

(ii) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because by clarifying the appropriate use of an NSCC service, it promotes the prompt and accurate clearance and settlement of securities transactions.

### **B. Self-Regulatory Organization's Statement on Burden on Competition.**

NSCC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and paragraph (f) of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed 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 may be submitted by using the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or send an e-mail to [rule-comment@sec.gov](mailto:rule-comment@sec.gov). Please include File No. SR-NSCC-2007-16 on the subject line.
- Paper comments should be sent in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2007-16. 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 Section 100 F Street, NE, Washington DC 20549-1090. Copies of such filing also will be available for inspection and copying at the principal office of NSCC. 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 submission should refer to the file number above and should be submitted within \_\_\_\_\_ days after the date of publication.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Nancy M. Morris

**Underlined, Boldfaced Text** indicates additional language pursuant to the original filing

**~~[Bracketed, Boldfaced Strikeout Text]~~** indicates deleted language pursuant to the original filing

## DEFINITIONS AND DESCRIPTIONS

Rule 1. Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules, have the meanings herein specified.

\* \* \* \*

### Index Receipt Agent

The term "Index Receipt Agent" has the meaning specified in Rule **7[39]**.

\* \* \* \*

### Special Representative

The term "Special Representative" has the meaning specified in Rule **7[39]**. **Unless the context otherwise requires, the term "Special Representative" also includes "Qualified Special Representative", as defined in Rule 7.**

\* \* \* \*

**COMPARISON AND TRADE RECORDING OPERATION  
(INCLUDING SPECIAL REPRESENTATIVE/INDEX RECEIPT AGENT)**

Rule 7. SEC.1. A Member may submit to the Corporation for comparison trade data on any transaction calling for delivery of Cleared Securities between it and another person. The Corporation will, in accordance with this Rule and the Procedures, handle the comparison of transactions reflected in trade data so submitted to it.<sup>1</sup> In addition, in accordance with this Rule and the Procedures, a Member shall submit to the Corporation for reconfirmation and repricing trade data with respect to transactions already compared through the facilities of the Corporation or other facilities.

**SEC. 2. Special Representatives**

**(a) For the purposes of these Rules, a “Special Representative” shall be either a Member or a Registered Clearing Agency which applies to the Corporation for such status and designates those Members and other parties which are not Members (“non-participants”) for which it will act, provided, however, that the Corporation will not act upon any instruction received from a Special Representative which applies pursuant to this paragraph until (i) 10 business days after written notice of its designation as such is delivered by the Corporation to Settling Members and the Members and non-participants for which the Special Representative proposes to act which notice shall be delivered by the Corporation promptly after its receipt of such application or (ii) each Member and non-participant for which the Special Representative proposes to act has consented thereto in a writing delivered to the Corporation.**

[Note: Existing subsections (a) and (b) of this Section 2 will be become subsections (b) and (c), respectively.

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**SEC. 3. Qualified Special Representatives**

**(a) For the purposes of these Rules, a Qualified Special Representative is a Special Representative who:**

**(1) operates an automated execution system where it is always the contra side to each transaction; or**

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<sup>1</sup> At such time as each exchange and/or marketplace assumes responsibility for trade comparison for transactions executed on or subject to the rules of such exchange and/or marketplace, the Corporation will cease providing comparison services for such transactions.

**(2) has a parent corporation or affiliated corporation that operates an automated execution system where the Special Representative is always the contra side to each transaction; or**

**(3) clears for a broker/dealer who operates an automated execution system where the broker/dealer is always the contra side to each transaction, and the subscribers to the automated execution system enter into an agreement with the broker/dealer and the Special Representative acknowledging the Special Representative's role in the clearance of trades executed on the automated execution system.**

**(b) A Qualified Special Representative may submit to the Corporation in automated form trade data from such automated execution system as locked-in trades which would appear on T-Contracts.**

#### **SEC. 4. Index Receipt Agent**

**(a) For the purposes of these Rules an Index Receipt Agent shall be a Member which has entered into an Index Receipt Authorization Agreement as required by the Corporation from time to time.**

[Note: Existing subsection (a) of this Section 4 will be become subsection (b).]

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SEC. ~~[3]~~ **5.** Trade data submitted to the Corporation by a Member pursuant to Section 1 of this Rule **or by a Qualified Special Representative pursuant to Section 3 of this Rule,** and transaction data submitted to the Corporation by a Special Representative or Index Receipt Agent pursuant to Section 2 **or 4** of this Rule, **as applicable,** shall be submitted in the form and manner, and in accordance with the time schedules, prescribed by, or pursuant to, the Procedures.

The name of a Member, Special Representative, **Qualified Special Representative** or Index Receipt Agent printed, stamped or written on any form, document or other item issued by him or used in a transmission received from him pursuant to this Rule or the Procedures shall be deemed to have been adopted by him as his signature and shall be valid and binding upon him in all respects as though he had manually affixed his signature to such form, document or other item or transmission.

Each Member, Special Representative, **Qualified Special Representative** and Index Receipt Agent shall promptly check all information in any format that is made available to him by the Corporation pursuant to this Rule or the Procedures.

Any trade data submitted to the Corporation by a Member pursuant to Section 1 of this Rule which is not compared by the Corporation, or any such item compared by the Corporation which is subsequently deleted as provided in the Procedures and not later compared, or any transaction data received by the Corporation which is subsequently deleted as provided in the Procedures shall be adjusted directly between the parties.

Balance Order Contracts produced in accordance with the Procedures on the basis of trade data submitted by Members **or Qualified Special Representatives** pursuant to Section 1 **or 3, as applicable,** of this Rule or transaction data submitted by Special Representatives and Index Receipt Agents pursuant to Section 2 **or 4, as applicable,** of this Rule will, as specified in the Procedures, either (i) be entered in the Balance Order Accounting Operation or (ii) be excluded from the Balance Order Accounting Operation in which case appropriate receive and deliver security orders will be issued by the Corporation in connection therewith and such security orders shall have the same status as security balance orders issued in connection with the Balance Order Accounting Operation and will be subject to all Rules pertaining to such security balance orders unless otherwise specified by the Corporation.

CNS Contracts produced in accordance with the Procedures on the basis of trade data submitted by Members **or Qualified Special Representatives** pursuant to Section 1 **or 3, as applicable,** of this Rule or transaction data submitted by Special Representatives and Index Receipt Agents pursuant to Section 2 **or 4, as applicable,** of this Rule will be entered in the CNS Accounting Operation for settlement as provided in the Procedures and shall be subject to Rule 11.

Foreign Security Contracts produced in accordance with the Procedures on the basis of trade data submitted pursuant to this Rule will be entered in the Foreign Security Accounting Operation as provided in the Procedures.

Notwithstanding the foregoing, Special Trades in Balance Order Securities and CNS Securities shall not enter the Accounting Operation, but will instead be subject to the provisions of Section 9 of Rule 11.

[Note: Existing Section 5 will become Section 6.]

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**[SPECIAL REPRESENTATIVE/INDEX RECEIPT AGENT]  
RELIANCE ON INSTRUCTIONS**

Rule 39. The Corporation may accept or rely upon any instruction given to the Corporation by a Member, Municipal Comparison Only Member, Fund Member, Insurance Carrier Member, TPA Member, Data Services Only Member or Special Representative or Index Receipt Agent, including wire transmission, physical delivery or delivery by other means of instructions recorded on magnetic tape or other media or of facsimile copies of instructions, in form acceptable to the Corporation and in accordance with the Procedures, which reasonably is understood by the Corporation to have been delivered to the Corporation by the Member, Municipal Comparison Only Member, Fund Member, Insurance Carrier Member, TPA Member, Data Services Only Member or Special Representative or Index Receipt Agent. In the case of instructions given by a Special Representative or Index Receipt Agent or TPA Member, the Corporation shall be entitled to act pursuant to any such instruction as though such instruction had been received from the Member for which the Special Representative or Index Receipt Agent or TPA Member is acting.

Any Member, Municipal Comparison Only Member, Insurance Carrier Member, Fund Member or Data Services Only Member delivering instructions as provided above, or on whose behalf a Special Representative or TPA Member shall deliver instructions as provided above, shall indemnify the Corporation, and any of its employees, officers, directors, shareholders, agents, Settling Members, Municipal Comparison Only Members, Insurance Carrier Members, Fund Members or Data Services Only Members, and Non-Clearing Members who may sustain any loss, liability or expense as a result of (a) any act done in reliance upon the authenticity of any instruction received by the Corporation, (b) the inaccuracy of the information contained therein or (c) effecting transactions in reliance upon such information or instruction against any such loss, liability or expense so long as such transactions are effected in accordance with such information and instructions even though they are inaccurate or not authentic and so long as the person asserting a right to indemnification shall not have knowledge of such inaccuracy or lack of authenticity at the time of the event or events giving rise to such loss, liability or expense.

Notwithstanding the foregoing, the Corporation will not act upon any instruction purporting to have been given by a Member, Municipal Comparison Only Member, Insurance Carrier Member, Fund Member, TPA Member or Data Services Only Member or a Special Representative which is received by wire transmission or in the form of facsimile copies or magnetic tape or media other than written instructions or from a Special Representative or TPA Member commencing one business day after the Corporation receives written notice from the Member, Municipal Comparison Only Member, Insurance Carrier Member, Fund Member or Data Services Only Member that the Corporation shall not accept such instructions until such time as the Member,

Municipal Comparison Only Member, Insurance Carrier Member, Fund Member or Data Services Only Member shall withdraw such notice.

~~[For the purposes of these Rules an Index Receipt Agent shall be a Member which has entered into an Index Receipt Authorization Agreement as required by the Corporation from time to time.~~

~~For the purposes of these Rules a Special Representative shall be either a Member or a Registered Clearing Agency which applies to the Corporation for such status and designates those Members and non-participants for which it will act, provided, however, that the Corporation will not act upon any instruction received from a Special Representative which applies pursuant to this paragraph until (i) 10 business days after written notice of its designation as such is delivered by the Corporation to Settling Members and the Members and non-participants for which the Special Representative proposes to act which notice shall be delivered by the Corporation promptly after its receipt of such application or (ii) each Member and non-participant for which the Special Representative proposes to act has consented thereto in a writing delivered to the Corporation.~~

~~A Special Representative:~~

~~(1) who operates an automated execution system where the Special Representative is always the contra side to each transaction; or~~

~~(2) whose parent corporation or affiliated corporation operates an automated execution system where the Special Representative is always the contra side to each transaction; or~~

~~(3) that clears for a broker/dealer who operates an automated execution system where the broker/dealer is always the contra side to each transaction, and the subscribers to the automated execution system enter into an agreement with the broker/dealer and the Special Representative acknowledging the Special Representative's role in the clearance of trades executed on the automated execution system; hereinafter referred to throughout the Rules as a "Qualified Special Representative", or such other Special Representatives as the Corporation may permit in its discretion, may elect to submit in automated form, trade data from such automated execution systems as a locked-in trade which would appear on T-Contracts.]~~

## II. TRADE COMPARISON AND RECORDING SERVICE

### A. Introduction

Trade Comparison is the first step in the clearance and settlement of securities transactions. ~~It [Trade Comparison] consists of reporting, validating and matching the buy and sell sides of a securities transaction and results in a compared trade. [which, except as specified below, is either a CNS Contract, a Foreign Security Contract, or a Balance Order Contract within the meaning of Rule 5.]~~ Trade data submitted by Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members as permitted in this Procedure II is submitted on a locked-in basis for Trade Recording, and is converted (if necessary), validated, recorded and reported to Members. Except as specified below, compared and recorded trades are then entered into the CNS Accounting Operation, the Foreign Security Accounting Operation, or the Balance Order Accounting Operation.

Compared and recorded trades are routed to either the CNS Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation. Separate Trade Comparison and Recording is provided for regular way and when-issued and when distributed transactions in equity securities (a) executed on NYSE (round-lot transactions), (b) executed on Amex and (c) traded in OTC and on other national securities exchanges. Separate Trade Comparison and Recording is also provided for debt securities, including when issued and when-distributed transactions, for transactions in all marketplaces.<sup>2</sup>

### B. Regular Way NYSE/Amex Equity Securities

#### 1. Trade Input

Self-Regulatory Organizations on behalf of Members may submit to the Corporation trade data relating to regular way transactions in equity securities executed on Amex and, if round-lots, NYSE. NYSE odd-lot trades shall be submitted pursuant to Section III.E. of these Procedures. Regular way trade data may be submitted throughout T until the time specified by the Corporation on the first day following trade date (T+1) (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value and other identifying details

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<sup>2</sup> At such time as each exchange and/or marketplace assumes responsibility for trade comparison for transactions executed on or subject to the rules of such exchange and/or marketplace, the Corporation will cease providing comparison services for such transactions.

as the Corporation may require or permit.

Regular way trade data as submitted by Self-Regulatory Organizations on behalf of Members ("Locked-in Trade Data") is converted, if necessary, and validated. Results of this process are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time. Such reports are available to Members intra-day and on the morning of T+1. Separate reports are issued for transactions executed on the NYSE and Amex.

The reports identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system. Depending upon the format of the report, separate totals may be provided for each of these categories.

The Corporation provides SRO's with the ability to submit listed trades for processing on a trade-for-trade basis. Such transactions are referred to as Special Trades and may be classified as such, whether or not the security is a CNS Security. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

Adjustment reports are produced at such intervals and in such formats as determined by the Corporation showing all compared trade data resulting from T+1 and older adjustments processed by the NYSE and Amex, as well as step out transactions processed that day. Designations for CNS Securities and Balance Order securities are shown in the same manner as on the reports issued as a result of T input. If trades are listed on reports which include totals, the new data is added to or subtracted from such totals, to arrive at new totals. The new totals represent the combined input for T through such cutoff time on T+3 as the Corporation may designate. Trades received after such cutoff time as established on T+ 3 are not included in the normal settlement cycle. Such trades will be assigned a new settlement date which will be the next settlement day following the date the trade is received by the Corporation.

## 2. Recording of Cash, Next Day and Sellers-Options Transactions

Self-Regulatory Organizations on behalf of Members may submit to the Corporation, data relating to cash, next day, and seller's option transactions. Such trade data may be submitted during the timeframes specified by the Corporation from time to time and shall include such trade details as the Corporation may specify (including, if the transaction is a seller's option, the settlement date, which may be no greater than 180 days beyond the trade date). Results of this input are reported by the Corporation on a separate section of the Adjustment reports, and if the securities covered by such trades are CNS-

eligible, the recorded trades will be entered into the CNS accounting operation (unless otherwise provided in these Procedures). Cash trades received after such cutoff time as the Corporation designates will be recorded and reported, but may only be settled directly between the parties. Next day as-of trades received on Settlement Date prior to the Corporation's designated cutoff time will settle on that date; otherwise the trade will be assigned a new settlement date which will be the next settlement day following the date the trade is recorded by the Corporation. Trades that are either (i) designated as Special Trades, (ii) in a security which is not CNS-eligible, or (iii) in a security undergoing a corporate action, or (iv) are scheduled to settle between a dividend X date and record date, will be processed on a trade-for-trade basis.

### C. Regular Way Over-the-Counter and Other Exchange Equity Securities

#### 1. Trade Input and Comparison

Members, and Self-Regulatory Organizations **and Qualified Special Representatives** on behalf of Members, may submit to the Corporation trade data relating to regular way transactions executed OTC and on other securities exchanges or marketplaces (other than NYSE and Amex). Regular way trade data may be submitted throughout T until the time specified by the Corporation on the first day following trade date (T+1) (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value and other identifying details as the Corporation may require or permit.

Regular way trade data as submitted by Members, **and regular way trade data [or as]** submitted by Self-Regulatory Organizations **or Qualified Special Representatives** on behalf of Members ("Locked-in Trade Data"), is converted, if necessary, validated and with respect to data submitted by Members, matched by the Corporation to insure that the details of each trade are in agreement between the purchaser and seller. Results of this process are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time. With regard to Locked-in Trade Data reported on T by Self-Regulatory Organizations **and Qualified Special Representatives**, the Corporation may report back such data to Members on separate reports. If data received from a Self Regulatory Organization is the result of a trade executed on a system which provides trading anonymity (i.e. the contra side is not revealed at the time of the trade) the report may list, in lieu of the actual contra side for the trade, an acronym designated by such Self Regulatory Organization. In this case, the contra side shall, for all purposes, be deemed to be one of the entities which the Self Regulatory Organization includes as an

eligible entity which may participate in the anonymous trading system.<sup>3</sup> Reports are available to Members intra-day and on the morning of T+1.

The Reports for trade data other than Locked-in Trade Data will categorize the trade data as compared, uncomparing and advisory, and may display such other data relevant to such trades as the Corporation shall determine from time to time.

(a) Compared - Items identified as compared are those for which both a purchaser and a seller submitted identical trade data and for which a comparison has been effected.

(b) Uncomparing - Items identified as uncomparing reflect trades submitted by the Member for which the opposite side either did not submit data or did not submit data which agreed in all respects.

(c) Advisory - Advisory data represents trades submitted by another party against the Member, but which did not match any trade the Member submitted. Advisory reports may be generated by the Corporation for items listed as advisory data. The use of Advisory reports explained below.

As with listed equity reports, reports for OTC and other exchange trades will identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system and depending on the format of the report may provide separate totals for each of these categories.

The Corporation provides Members with the ability to clear and settle any compared trade on a trade-for-trade basis. Such transactions are referred to as Special Trades and may be classified as such, whether or not the security is a CNS Security. In order for a transaction to be classified as a Special Trade, each of the purchaser and seller must agree to settle on a trade-for-trade basis and must identify the transaction in its trade input as a Special Trade. If only one party identifies a transaction as a Special Trade, it will not be compared. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

Trade input, submitted by a Member, shall identify the major and minor side executing brokers and the major side Member. The minor side Member may also be submitted. If not submitted, the Corporation shall insert the proper

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<sup>3</sup> In the event that the Corporation ceases to act for a Member which is the unidentified contra side of any such trade and the Corporation determines that such trade is to be exited from trade processing, the Self Regulatory Organization shall have the responsibility to identify to Members the trades included in reports produced by the Corporation which are with the affected Member.

information in accordance with the list maintained by the Corporation as provided for by Section 3 of Rule 3.

In order to maximize the number of compared trades, if the major and minor side executing broker information, when used as a criteria in the trade comparison process, results in an uncomparing trade, the Corporation will recycle the trade data without the major and/or minor side executing broker information originally submitted. The Regular Way T+1 Contract Lists will indicate when a resulting compared or uncomparing trade has been processed without the use of the major and/or minor side executing broker information.

2. Recording of Cash, Next Day and Sellers-Options Transactions

~~[Members who are]~~ **Qualified** Special Representatives and Self-Regulatory Organizations on behalf of Members may submit to the Corporation data relating to cash, next day and seller's option transactions on securities other than securities processed under Procedure VI. Such trade data may be submitted during the timeframes specified by the Corporation from time to time and shall include such trade details as the Corporation may specify (including, if the transaction is a seller's option, the settlement date, which may be no greater than 180 days beyond the trade date). Results of this input are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time, and if the securities covered by such trades are CNS-eligible, the recorded trades will be entered into the CNS accounting operation (unless otherwise provided in these Procedures). Cash trades received after such cutoff time as the Corporation designates will be recorded and reported, but may only be settled directly between the parties. Next day as-of trades received on Settlement Date prior to the Corporation's designated cutoff time will settle on that date; otherwise the trade will be assigned a new settlement date which will be the next settlement day following the date the trade is recorded by the Corporation. Trades that are either (i) designated as Special Trades, (ii) in a security which is not CNS-eligible, or (iii) in a security undergoing a corporate action, or (iv) are scheduled to settle between a dividend X and record date, will be processed on a trade-for-trade basis.

3. Resolution of Uncomparing Transactions

The Corporation provides the following procedures for resolution of uncomparing regular way OTC and other securities exchange equity securities transactions:

(a) Advisory reports are generated by the Corporation for each item listed on output as advisory data. A Member may respond to an advisory listing by

submitting acceptance input in such times as determined by the Corporation. If a trade is accepted, it will be reflected on the applicable output as a compared trade.

(b) Transactions may be added through the use of an As-Of submission on T+1 or thereafter. Both the purchaser and the seller must submit the As-Of. If data submitted by each Member matches in all respects, the trade is added for both Members.

(c) Compared odd-lot trades for Balance Order Securities, to the extent that they cannot be aggregated into round-lots with the same contra broker or the balance or shares remaining after the round-lots are aggregated, will be netted and allotted independently from the round-lots.

The Corporation provides a joint service with Self-Regulatory Organizations for the receipt of Locked-in Trades executed on other Exchanges or marketplaces. The results of this input are reported to Members on reports together with OTC transactions.

(d) Reports are produced at such intervals and in such formats as determined by the Corporation showing all compared trade data which occurs after T input. Designations for CNS Securities and Balance Order securities are shown in the same manner as on reports issued as a result of T input. If such trades are listed on reports which include totals, the new data is added to or subtracted from such totals to arrive at new totals. The new totals represent the combined input for T through such cutoff time on T+3 as the Corporation may designate that is now compared. Trades compared after such cutoff time as established on T+3 are not included in the normal settlement cycle. Such trades will be assigned a new settlement date which will be the next settlement day following the date the trade is compared or received by the Corporation.

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#### IV. SPECIAL REPRESENTATIVE SERVICE

##### A. Introduction

A Special Representative, which may be a Member or a Registered Clearing Agency which has been authorized by one or more other persons to act on their behalf, may submit transactions in securities to the Corporation.

The Special Representative submits a transaction which is treated by the Corporation in the same manner as if both parties had agreed to the details of the transactions. Transactions entered by Special Representatives are eligible for processing through interface clearing procedures (see Section III) or may enter the Accounting Operation.

##### B. Institutional Clearing Service

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##### C. Correspondent Clearing Service

The Correspondent Clearing Service permits ~~[customers of broker/dealers]~~ firm's to clear and settle transactions executed for them by others acting as their Special Representative 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 (including direct market access (DMA) offsets. In order to participate in this service, the ~~[customer]~~ firm must be a Member or a Qualified Non-Participant.

**Through the Correspondent Clearing Service, the Special Representative offsets trades that it has executed on behalf of the Member or Qualified Non-Participant, which are in the process of clearance and settlement ("original trades")<sup>4</sup> by inputting transaction data as described below.**

The Member functioning as a Special Representative submits transaction data to the Corporation. **For example, if the original trade is a purchase order, the Special**

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<sup>4</sup> **The term "original trade" is used solely to distinguish between trades executed in the marketplace, and transactions booked for accounting purposes to accommodate the movement of positions between members as permitted in this procedure.**

**Representative inputs a transaction where it is the seller, and the Member is the purchaser.** The **[customer] Member (or Qualified Non-Participant)** agrees to be bound by the details of all transactions submitted on its behalf by the Special Representative. Any errors or omissions must be resolved directly between the **[customer] Member (or Qualified Non-Participant)** and the Special Representative. Corrective input may be submitted to the Corporation by the Special Representative on a subsequent day.

The Corporation produces reports for both the Special Representative and the **[customer] Member (or Qualified Non-Participant)**. These reports identify the details of each transaction as submitted by the Special Representative and identifies any transactions which have not been accepted by the Corporation.

Transactions (other than cash, next day and sellers-option transactions) which are accepted by the Corporation are **then** entered **in** to the Balance Order Accounting Operation or CNS Accounting Operation (~~{see Sections}~~ **pursuant to Procedure V and VII)** which, **when processed through the Balance Order Accounting Operation or CNS Accounting Operation, effectively net the Special Representative out of the original trade.**

If the **[customer] firm** is a Qualified Non-Participant, the transactions are removed from the Accounting Operation by the interface clearing mechanism. The transaction is then routed to the appropriate Qualified Clearing Agency for delivery and settlement.

**The Correspondent Clearing Service is not intended, and therefore may not be utilized, by Special Representatives for the purpose of submitting original locked-in trade input (whether acting in their capacity as Qualified Special Representative, or otherwise). This prohibition shall apply to any Member, including any Special Representative or Qualified Special Representative that, directly or indirectly, engages in such activity.**

#### D. Other Special Representative Services

The Corporation may accept other transaction input from Special Representatives on behalf of Members and/or Qualified Non-Participants. Such transactions are treated in the same manner as specified in subsection C of this Section.