

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-63668; File No. SR-NSCC-2010-09)

January 6, 2011

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change Regarding the Creation of a Universal Trade Capture Application and Automated Special Representative Facility

I. Introduction

On August 30, 2010, the National Securities Clearing Corporation (“NSCC”) filed proposed rule change SR-NSCC-2010-09 with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² On September 9, 2010, NSCC filed an amendment to the proposed rule change. The proposed rule change modifies NSCC’s rules and procedures to create a new Universal Trade Capture (“UTC”) application and an automated Special Representative facility. The proposed rule change was published for comment in the Federal Register on September 20, 2010.³ No comment letters were received. This order approves the proposed rule change.

II. Description of the Proposal

A. Uniform Trade Capture

Pursuant to the proposed rule change, NSCC is replacing its trade capture applications, such as the Trade Comparison and Recording Operation, with the new UTC application that is designed to standardize, streamline, consolidate, and modernize NSCC’s system for capturing securities transaction information for clearance and settlement at NSCC.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 62822 (Sept. 20, 2010), 75 FR 57318.

The UTC application will accept and process a common input record from all securities marketplaces. It will receive and report data from members and self-regulatory organizations (“SROs”) in both real-time and intraday batch submissions to and from NSCC. NSCC will convert the existing input format to the new UTC input record format, which will enable the UTC to provide members and SROs with their trade output in the format of their choice (new or old). UTC will also replace all current locked-in over-the-counter (“OTC”) and listed trade capture applications with one central, real-time validation and reporting process and will have the capability to accept, reject, validate, process, and send contract output to members in real-time. Members will only have to support one standardized input and output format.

B. Correspondent Clearing Service

Prior to this rule change, NSCC’s rules provided that its Correspondent Clearing Service could only be used to: (a) accommodate a member with multiple affiliate accounts that wishes to move a position resulting from an “original trade” in the process of clearance from one affiliate account to another or (b) accommodate a member that relies on its Special Representative to execute a trade in a market that the member is precluded due to membership requirements (e.g., membership requirement for access to markets) or applicable regulation in order to enable the resulting position to be moved from the Special Representative to that member.

Under this rule change, NSCC will 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.

C. Creation of an Automated Special Representative Facility

To assist members control and monitor their Special Representative and Qualified Special Representative relationships, NSCC is creating 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 will have to submit matching instructions within the facility in order for the relationship to be established. Either party will be able to submit an entry to retire the relationship.

Members will be reminded, through 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 will continue to be bound by NSCC's rules, the Correspondent is bound by the details of all transactions submitted on their behalf by the Qualified Special Representative or Special Representative, 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 will 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.

D. Implementation Time Frame

NSCC will implement many of the changes described above by January 31, 2011.

With respect to UTC changes and to support the migration period, NSCC will provide 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 SROs 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 SROs with respect to trade input and output.

To provide maximum flexibility in allowing firms to migrate to the new input and output formats according 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.

Finally, 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, SROs, and regulatory agencies that have not yet converted from legacy reporting, thereby affording such firms sufficient lead time for migration.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC. In particular, the Commission finds that the proposal is consistent with Section 17A(b)(3)(F) of the Act,⁴ which requires that the rules of a registered clearing agency are designed to, among other things, remove impediments to the perfection of the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. NSCC's consolidation of its trade capture and reporting applications are designed to remediate certain operational inefficiencies associated with providing and maintaining redundant transaction submission and reporting systems that were created to service different transaction sources. As securities marketplaces have ceased providing clearance and settlement services for their members and as those members

⁴ 15 U.S.C. 78q-1(b)(3)(F).

have ultimately become direct NSCC members or have entered clearing arrangements with other NSCC members, there is little operational basis for NSCC to continue to service different data formats and systems. Accordingly, consolidating its systems to receive and report transaction details while providing new automated services to assist NSCC members maintain their correspondent and Special Representative relationships should help remove certain impediments to the perfection of the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

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 Act⁵ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁶ that the proposed rule change (File No. SR-NSCC-2010-09) be and hereby is approved.⁷

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.⁸

Elizabeth M. Murphy
Secretary

⁵ 15 U.S.C. 78q-1.

⁶ 15 U.S.C. 78s(b)(2).

⁷ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

⁸ 17 CFR 200.30-3(a)(12).