

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 30	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2015 - * 004	Amendment No. (req. for Amendments *)
Filing 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 checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input 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 type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *).  Require that trade data submitted through NSCCs Correspondent Clearing service be submitted in real-time and prohibit pre-netting and other practices that prevent real-time trade submission.				
<b>Contact Information</b> 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 action.  First Name * Jacqueline Last Name * Farinella Title * Vice President, Assistant General Counsel E-mail * jfarinella@dtcc.com Telephone * (212) 855-3216 Fax <input type="text"/>				
<b>Signature</b> 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.  (Title *) Date 09/30/2015 By Nikki Poulos (Name *) Managing Director  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.  Persona Not Validated - 1429718904366,				

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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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 \***

Add Remove View

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 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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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, security-based swap submission, or advance notice 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**

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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**

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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**

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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 is annexed hereto as Exhibit 5 and consists of modifications to the Rules & Procedures (“Rules”) of National Securities Clearing Corporation (“NSCC”) to require that trade data submitted to NSCC through its Correspondent Clearing service, other than position movements between NSCC Members that are Affiliates and Client Custody Movements, as described further below, be submitted in real-time, and to prohibit pre-netting and other practices that prevent real-time trade submission.<sup>1</sup>

(b) Not applicable.

(c) Not applicable.

## **2. Procedures of the Self-Regulatory Organization**

(a) The proposed rule change was approved by the Business, Technology and Operations Committee of the Board of Directors on June 16, 2015.

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

### **(a) Purpose**

Requiring trades to be submitted in real-time facilitates efficient risk management for both NSCC and its Members, enables same-day bookkeeping and reconciliation, and, therefore, significantly reduces risk to the industry. Receipt of trade data on a real-time basis permits NSCC’s risk management processes to monitor trades closer to trade execution on an intra-day basis, and to identify and risk manage any issues relating to exposures earlier in the day. Contract information is currently reported out to submitting firms by NSCC’s Universal Trade Capture (“UTC”) system upon trade comparison and validation, and receipt of trade data in real-time enables NSCC to report to Members trade data as it is received, thereby promoting intra-day reconciliation of transactions at the Member level. The majority of trades submitted to NSCC for clearing are currently being submitted in real-time on a trade-by-trade basis, and NSCC is operationally capable of managing trade volumes that are multiple times larger than the historical peak volumes.

NSCC is proposing to require that trade data submitted through its Correspondent Clearing service, as described below, be submitted in real-time and to prohibit pre-netting and other practices that prevent real-time trade submission (“pre-netting practices”). NSCC would exclude from this requirement position movements between NSCC Members that are Affiliates and Client Custody Movements, as described below. The term “real-time,” when used with respect to trade submission, is defined in Procedure XIII (Definitions) of the Rules as the

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<sup>1</sup> Terms not defined herein are defined in the Rules, available at [http://dtcc.com/~media/Files/Downloads/legal/rules/nscc\\_rules.pdf](http://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf).

submission of trade data on a trade-by-trade basis promptly after trade execution, in any format and by any communication method acceptable to NSCC.

NSCC's UTC system receives and validates transactions that are submitted to it, reports trade details back out to the submitting firm, and prepares those transactions for netting and settlement by routing transactions to netting and settlement systems, such as Continuous Net Settlement Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation, as applicable. Transactions are submitted to UTC either on a locked-in basis by self-regulatory organizations (including national and regional exchanges and marketplaces) ("SROs") and Qualified Special Representatives ("QSRs"),<sup>2</sup> or are submitted to UTC as a part of NSCC's Correspondent Clearing service, which allows for post-execution position movements between two clearing firms. Currently all transactions submitted to NSCC on a locked-in basis by SROs and QSRs, which constitute approximately 95% of all transactions processed at NSCC,<sup>3</sup> are required to be submitted in real-time and may not be pre-netted or batched prior to submission.<sup>4</sup>

NSCC's Correspondent Clearing service is designed to provide an automated method by which a Member, acting as a Special Representative, may move a position that has been submitted to NSCC for clearing to the account of another Member (the submitting Member's correspondent) on whose behalf the original trade was executed.<sup>5</sup> Members participating in the

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<sup>2</sup> QSRs are defined in Section 3 of Rule 7 as NSCC Members that have applied to NSCC to be a Special Representative, and either (i) operate an automated execution system where they are always the contra side of every trade, (ii) are the parent or affiliate of an entity operating such an automated system, where they are the contra side of every trade, or (iii) clear 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. Rules, supra note 1.

<sup>3</sup> Based on data from the second quarter of 2015, which show an approximate daily average of 41 million transactions processed at NSCC, with an approximate total daily value of an average of \$455 billion; and an approximate average of 1.1 million submissions through Correspondent Clearing, with an approximate total daily value of an average of \$57 billion. The average daily volume of submissions through Correspondent Clearing is less than 5% of NSCC's overall daily volume.

<sup>4</sup> Securities Exchange Act Release No. 69890 (June 28, 2013), 78 FR 40538 (July 5, 2013) (File No. SR-NSCC-2013-05). See also Rule 7 (Comparison and Trade Recording Operation), Procedure II (Trade Comparison and Recording Service), and Procedure IV (Special Representative Service), supra note 1.

<sup>5</sup> The term "original trade" is used within the Rules describing the Correspondent Clearing service 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 Section C of Procedure IV. Original trades may not be submitted through NSCC's Correspondent Clearing service. Rules, supra note 1.

Correspondent Clearing service for post-execution position movements and those utilizing the services of a QSR for submission of original, locked-in trades are required to apply for status as a Special Representative or as a QSR, and to establish relationships with other NSCC Members that will be designated as their correspondents. While NSCC encourages Special Representatives to submit Correspondent Clearing submissions to NSCC as soon as possible following execution, currently these position movements may be sent to NSCC either in real-time, intraday, or at the end of the day.

NSCC has continued to engage widely with its Members about the benefits of expanding the requirements to submit transactions in real-time and, as a result of these continuing discussions, is now proposing to modify its Rules to require that trade data submitted through its Correspondent Clearing service also be submitted in real-time. The proposed rule change would also prohibit pre-netting practices that prevent real-time trade submission through Correspondent Clearing.

NSCC's Rules currently prohibit pre-netting practices that preclude real-time submission with respect to submissions by QSRs and SROs. Pre-netting practices that are currently prohibited include "summarization" (a technique in which the clearing broker nets all trades in a single CUSIP by the same correspondent broker into fewer submitted trades), "compression" (a technique to combine submissions of data for multiple trades to the point where the identity of the party actually responsible for the trades is masked), netting, or any other practice that combines two or more trades prior to their submission to NSCC.

NSCC is proposing to extend the prohibition against pre-netting practices to submissions through Correspondent Clearing because pre-netting practices prevent the submission to NSCC of transactions on a trade-by-trade basis, and cause Special Representatives to delay submission of their trades, thereby undermining the risk mitigation benefits of real-time trade submission. Pre-netting practices disrupt NSCC's ability to accurately monitor market and credit risks as they evolve during the trading day.

NSCC would exclude from the requirements of this proposal any position movements between Members that are Affiliates, as identified within NSCC's membership management records. As defined in Rule 4A, "Affiliate" means a person that controls or is controlled by or is under common control with another person.<sup>6</sup> Position movements between Affiliates do not introduce the risk management concerns that are mitigated by real-time trade submission. As such, Members would not be required to submit these position movements in real-time, but would continue to be encouraged to do so. Positions movements between Affiliates represent fewer than 5% of trade data submitted through Correspondent Clearing to NSCC.<sup>7</sup>

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<sup>6</sup> Control of a person means the direct or indirect ownership or power to vote more than 50% of any class of the voting securities or other voting interests of any person. Rule 4A, supra note 1.

<sup>7</sup> Based on data from the second quarter of 2015, which show an approximate daily average of 1.1 million submissions through Correspondent Clearing at NSCC, with an approximate total daily value of an average of \$57 billion; and an approximate average of

In order to submit trade data through Correspondent Clearing outside of the real-time trade submission requirements, Special Representatives would need to identify a transaction as an Affiliate position movement. NSCC would validate the Affiliates' relationship between the counterparties by a check against the information within NSCC's membership management records as of the time of the trade submission. Members continue to be required to provide NSCC with current information regarding their corporate ownership structure. If an Affiliate relationship is not reflected on NSCC's records at the time of the trade submission, the transaction will be rejected.

NSCC would also exclude from the requirements of this proposal position movements that occur between two unaffiliated clearing brokers, typically at the end of the day, on behalf of a common customer for custody purposes ("Client Custody Movements"). These movements, which today represent approximately 1% of submissions through Correspondent Clearing, would be exempt from the requirement because they necessarily take place at the end of the day, after the common client has reviewed its end of day positions and has instructed the clearing brokers as to which positions it will move for custody purposes.

NSCC proposes to amend Rule 7 (Comparison and Trade Recording Operation), Procedure II (Trade Comparison and Recording Service), and Procedure IV (Special Representative Service) to require that trades submitted by Special Representatives for trade recording through NSCC's Correspondent Clearing service be submitted on a real-time basis and to make clear that trade data submitted to NSCC through Correspondent Clearing service must be submitted on a trade-by-trade basis, in the original form executed, and that pre-netting practices are prohibited. The proposed rule change would also make clear that these requirements would not apply to position movements between NSCC Members that are Affiliates or to Client Custody Movements.

#### *Implementation Timeframe*

Pending Commission approval of this proposed rule change, Members would be advised of the implementation date through issuance of an NSCC Important Notice. The proposed rule change would not be implemented earlier than ten business days from the date of Commission approval.

(b) NSCC believes that this proposal is consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended ("Act"), which requires that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.<sup>8</sup>

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52,000 position movements through Correspondent Clearing between Affiliates, with an approximate total daily value of an average of \$13 billion. The average daily volume of position movements through Correspondent Clearing between Affiliates is less than 1% of NSCC's overall daily volume.

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

The proposal would enable NSCC to monitor trades closer to trade execution on an intra-day basis and identify and risk manage any issues relating to exposures earlier in the day. Further, receipt of trade data in real-time would enable NSCC to report to Members trade data as it is received, promoting intra-day reconciliation of transactions at the Member level. Therefore, the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions by reducing operational, market, and credit risks faced by NSCC and its Members, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), as cited above.

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

NSCC does not believe that the proposed rule change would have any impact on competition because the proposed requirements would apply an existing requirement equally to all Members that submit transactions to NSCC through its Correspondent Clearing service.

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

NSCC has not received any written comments relating to this proposal. NSCC will notify the Commission of any written comments received by NSCC.

**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) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

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

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to NSCC's Rules.



**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-NSCC-2015-004)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Require Real-Time Trade Submission and to Prohibit Pre-Netting Practices through NSCC's Correspondent Clearing Service

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 ("Act") and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on September \_\_, 2015, National Securities Clearing Corporation ("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 primarily by NSCC. NSCC filed the proposed rule change pursuant to Section 19(b)(2)<sup>3</sup> of the Act. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of amendments to NSCC's Rules & Procedures ("Rules") in order to require that trade data submitted to NSCC through its Correspondent Clearing service, other than position movements between NSCC Members that are Affiliates and Client Custody Movements, as described further below, be

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(2).

submitted in real-time, and to prohibit pre-netting and other practices that prevent real-time trade submission.<sup>4</sup>

II. Clearing Agency'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) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

Requiring trades to be submitted in real-time facilitates efficient risk management for both NSCC and its Members, enables same-day bookkeeping and reconciliation, and, therefore, significantly reduces risk to the industry. Receipt of trade data on a real-time basis permits NSCC's risk management processes to monitor trades closer to trade execution on an intra-day basis, and to identify and risk manage any issues relating to exposures earlier in the day. Contract information is currently reported out to submitting firms by NSCC's Universal Trade Capture ("UTC") system upon trade comparison and validation, and receipt of trade data in real-time enables NSCC to report to Members trade data as it is received, thereby promoting intra-day reconciliation of transactions at the Member level. The majority of trades submitted to NSCC for clearing are currently being submitted in real-time on a trade-by-trade basis, and NSCC is operationally capable

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<sup>4</sup> Terms not defined herein are defined in the Rules, available at [http://dtcc.com/~//media/Files/Downloads/legal/rules/nsccl\\_rules.pdf](http://dtcc.com/~//media/Files/Downloads/legal/rules/nsccl_rules.pdf).

of managing trade volumes that are multiple times larger than the historical peak volumes.

NSCC is proposing to require that trade data submitted through its Correspondent Clearing service, as described below, be submitted in real-time and to prohibit pre-netting and other practices that prevent real-time trade submission (“pre-netting practices”).

NSCC would exclude from this requirement position movements between NSCC Members that are Affiliates and Client Custody Movements, as described below. The term “real-time,” when used with respect to trade submission, is defined in Procedure XIII (Definitions) of the Rules as the submission of trade data on a trade-by-trade basis promptly after trade execution, in any format and by any communication method acceptable to NSCC.

NSCC’s UTC system receives and validates transactions that are submitted to it, reports trade details back out to the submitting firm, and prepares those transactions for netting and settlement by routing transactions to netting and settlement systems, such as Continuous Net Settlement Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation, as applicable. Transactions are submitted to UTC either on a locked-in basis by self-regulatory organizations (including national and regional exchanges and marketplaces) (“SROs”) and Qualified Special Representatives (“QSRs”),<sup>5</sup> or are submitted to UTC as a part of NSCC’s Correspondent

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<sup>5</sup> QSRs are defined in Section 3 of Rule 7 as NSCC Members that have applied to NSCC to be a Special Representative, and either (i) operate an automated execution system where they are always the contra side of every trade, (ii) are the parent or affiliate of an entity operating such an automated system, where they are the contra side of every trade, or (iii) clear for a broker/dealer that operates such a

Clearing service, which allows for post-execution position movements between two clearing firms. Currently all transactions submitted to NSCC on a locked-in basis by SROs and QSRs, which constitute approximately 95% of all transactions processed at NSCC,<sup>6</sup> are required to be submitted in real-time and may not be pre-netted or batched prior to submission.<sup>7</sup>

NSCC's Correspondent Clearing service is designed to provide an automated method by which a Member, acting as a Special Representative, may move a position that has been submitted to NSCC for clearing to the account of another Member (the submitting Member's correspondent) on whose behalf the original trade was executed.<sup>8</sup> Members participating in the Correspondent Clearing service for post-execution position movements and those utilizing the services of a QSR for submission of original, locked-

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system and the subscribers to the system acknowledge the clearing Member's role in the clearance and settlement of these trades. Rules, supra note 4.

<sup>6</sup> Based on data from the second quarter of 2015, which show an approximate daily average of 41 million transactions processed at NSCC, with an approximate total daily value of an average of \$455 billion; and an approximate average of 1.1 million submissions through Correspondent Clearing, with an approximate total daily value of an average of \$57 billion. The average daily volume of submissions through Correspondent Clearing is less than 5% of NSCC's overall daily volume.

<sup>7</sup> Securities Exchange Act Release No. 69890 (June 28, 2013), 78 FR 40538 (July 5, 2013) (File No. SR-NSCC-2013-05). See also Rule 7 (Comparison and Trade Recording Operation), Procedure II (Trade Comparison and Recording Service), and Procedure IV (Special Representative Service), supra note 4.

<sup>8</sup> The term "original trade" is used within the Rules describing the Correspondent Clearing service 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 Section C of Procedure IV. Original trades may not be submitted through NSCC's Correspondent Clearing service. Rules, supra note 4.

in trades are required to apply for status as a Special Representative or as a QSR, and to establish relationships with other NSCC Members that will be designated as their correspondents. While NSCC encourages Special Representatives to submit Correspondent Clearing submissions to NSCC as soon as possible following execution, currently these position movements may be sent to NSCC either in real-time, intraday, or at the end of the day.

NSCC has continued to engage widely with its Members about the benefits of expanding the requirements to submit transactions in real-time and, as a result of these continuing discussions, is now proposing to modify its Rules to require that trade data submitted through its Correspondent Clearing service also be submitted in real-time. The proposed rule change would also prohibit pre-netting practices that prevent real-time trade submission through Correspondent Clearing.

NSCC's Rules currently prohibit pre-netting practices that preclude real-time submission with respect to submissions by QSRs and SROs. Pre-netting practices that are currently prohibited include "summarization" (a technique in which the clearing broker nets all trades in a single CUSIP by the same correspondent broker into fewer submitted trades), "compression" (a technique to combine submissions of data for multiple trades to the point where the identity of the party actually responsible for the trades is masked), netting, or any other practice that combines two or more trades prior to their submission to NSCC.

NSCC is proposing to extend the prohibition against pre-netting practices to submissions through Correspondent Clearing because pre-netting practices prevent the submission to NSCC of transactions on a trade-by-trade basis, and cause Special

Representatives to delay submission of their trades, thereby undermining the risk mitigation benefits of real-time trade submission. Pre-netting practices disrupt NSCC's ability to accurately monitor market and credit risks as they evolve during the trading day.

NSCC would exclude from the requirements of this proposal any position movements between Members that are Affiliates, as identified within NSCC's membership management records. As defined in Rule 4A, "Affiliate" means a person that controls or is controlled by or is under common control with another person.<sup>9</sup> Position movements between Affiliates do not introduce the risk management concerns that are mitigated by real-time trade submission. As such, Members would not be required to submit these position movements in real-time, but would continue to be encouraged to do so. Position movements between Affiliates represent fewer than 5% of trade data submitted through Correspondent Clearing to NSCC.<sup>10</sup>

In order to submit trade data through Correspondent Clearing outside of the real-time trade submission requirements, Special Representatives would need to identify a transaction as an Affiliate position movement. NSCC would validate the Affiliates'

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<sup>9</sup> Control of a person means the direct or indirect ownership or power to vote more than 50% of any class of the voting securities or other voting interests of any person. Rule 4A, supra note 4.

<sup>10</sup> Based on data from the second quarter of 2015, which show an approximate daily average of 1.1 million submissions through Correspondent Clearing at NSCC, with an approximate total daily value of an average of \$57 billion; and an approximate average of 52,000 position movements through Correspondent Clearing between Affiliates, with an approximate total daily value of an average of \$13 billion. The average daily volume of position movements through Correspondent Clearing between Affiliates is less than 1% of NSCC's overall daily volume.

relationship between the counterparties by a check against the information within NSCC's membership management records as of the time of the trade submission. Members continue to be required to provide NSCC with current information regarding their corporate ownership structure. If an Affiliate relationship is not reflected on NSCC's records at the time of the trade submission, the transaction will be rejected.

NSCC would also exclude from the requirements of this proposal position movements that occur between two unaffiliated clearing brokers, typically at the end of the day, on behalf of a common customer for custody purposes ("Client Custody Movements"). These movements, which today represent approximately 1% of submissions through Correspondent Clearing, would be exempt from the requirement because they necessarily take place at the end of the day, after the common client has reviewed its end of day positions and has instructed the clearing brokers as to which positions it will move for custody purposes.

NSCC proposes to amend Rule 7 (Comparison and Trade Recording Operation), Procedure II (Trade Comparison and Recording Service), and Procedure IV (Special Representative Service) to require that trades submitted by Special Representatives for trade recording through NSCC's Correspondent Clearing service be submitted on a real-time basis and to make clear that trade data submitted to NSCC through Correspondent Clearing service must be submitted on a trade-by-trade basis, in the original form executed, and that pre-netting practices are prohibited. The proposed rule change would also make clear that these requirements would not apply to position movements between NSCC Members that are Affiliates or to Client Custody Movements.

*Implementation Timeframe*

Pending Commission approval of this proposed rule change, Members would be advised of the implementation date through issuance of an NSCC Important Notice. The proposed rule change would not be implemented earlier than ten business days from the date of Commission approval.

2. Statutory Basis

NSCC believes that this proposal is consistent with Section 17A(b)(3)(F) of the Act, which requires that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.<sup>11</sup>

The proposal would enable NSCC to monitor trades closer to trade execution on an intra-day basis and identify and risk manage any issues relating to exposures earlier in the day. Further, receipt of trade data in real-time would enable NSCC to report to Members trade data as it is received, promoting intra-day reconciliation of transactions at the Member level. Therefore, the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions by reducing operational, market, and credit risks faced by NSCC and its Members, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), as cited above.

(B) Clearing Agency's Statement on Burden on Competition

NSCC does not believe that the proposed rule change would have any impact on competition because the proposed requirements would apply an existing requirement

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<sup>11</sup> 5 U.S.C. 78q-1(b)(3)(F).



equally to all Members that submit transactions to NSCC through its Correspondent Clearing service.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

NSCC has not received any written comments relating to this proposal. 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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2015-004 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2015-004. 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 website (<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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). 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 submissions should refer to File Number SR-NSCC-2015-004 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

Brent J. Fields  
Secretary

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



NATIONAL  
SECURITIES  
CLEARING  
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

**Underlined and boldface** text indicates new text

**~~Strikethrough and boldface~~** indicates deleted text

## RULE 7. COMPARISON AND TRADE RECORDING OPERATION

### (INCLUDING SPECIAL REPRESENTATIVE/INDEX RECEIPT AGENT)

SEC.1. A Member acting as a Special Representative or Qualified Special Representative, may submit to the Corporation for trade recording, trade data on any transaction calling for delivery of Cleared Securities between it and another person. A Member may also submit to the Corporation for comparison trade data on any transaction calling for delivery of Cleared Securities that are also debt securities between it and another person, or for other transactions as otherwise provided through the Obligation Warehouse service in accordance with Rule 51 and Procedure II A.

#### 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 for which it will act. The Corporation will not act upon any instruction received from a Special Representative which applies pursuant to this paragraph until each Member for which the Special Representative proposes to act has consented thereto in a writing delivered to the Corporation.

(b) A Special Representative may submit to the Corporation transaction data as to the rights and obligations of Members which calls for the delivery of Cleared Securities and is between Members. The obligations of the Member reflected in such transaction data shall be deemed to have been confirmed and acknowledged by each Member designated by the Special Representative as a party thereto and to have been adopted by such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules shall be valid and binding upon such Member to the same extent as any Compared Contract under this Rule. A Member which has been so designated by a Special Representative shall resolve any differences or claims regarding the rights and obligations reflected in the transaction data submitted by the Special Representative with the Special Representative, and the Corporation shall have no responsibility in respect thereof or to adjust its records or the accounts of the Member in any way, otherwise than pursuant to the instructions of the Special Representative.

#### 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

(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. ~~All such trades must be submitted on a trade-by-trade basis in the actual form executed with original trade terms unaltered.~~ The obligations of the Member reflected in such trade data as the Qualified Special Representative's contra-party shall be deemed to have been confirmed and acknowledged by each Member designated by the Qualified Special Representative as the contra party thereto and to have been adopted by such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules, shall be valid and binding upon such Member to the same extent as any transaction compared under this Rule. A Member which has been designated as the contra-party to a trade by a Qualified Special Representative shall resolve any differences or claims regarding the rights and obligations reflected in the trade data submitted by the Qualified Special Representative with the Qualified Special Representative, and the Corporation shall have no responsibility in respect thereof or to adjust its records or the accounts of the Member in any way, other than pursuant to the instructions of the Qualified Special Representative.

#### 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.

(b) An Index Receipt Agent may submit to the corporation transaction data, which may reflect the netted results of other transactions, as to the rights and obligations of Members which calls for the delivery of cleared securities and is between Members. The obligations of the Member reflected in such transaction data shall be deemed to have been confirmed and acknowledged by each Member or designated by the Index Receipt Agent as a party thereto and to have been adopted by such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules shall be valid and binding upon such Member to the same extent as any Compared Contract under this Rule.

SEC. 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.

SEC. 6. The Corporation may determine, in its discretion, to accept, from self-regulatory organizations, as defined in the Securities Exchange Act of 1934, and/or derivatives clearing organizations that are registered or deemed to be registered with the Commodity Futures Trading Commission pursuant to the Commodity Exchange Act (either directly or through subsidiary or affiliated organizations<sup>1</sup>) and/or service bureaus, initial, or supplemental trade data on behalf of Members for trade recording and input into the Corporation's Comparison Operation (with respect to debt securities) or compared trade data, ~~on a trade-by-trade basis~~ on behalf of Members for input into the Corporation's Accounting Operation provided that a Member is a party to the trade or transaction. Such data shall be in a form acceptable to the Corporation, in its discretion, and within such time frames as the Corporation may, in its discretion, require. The Corporation shall deem the report of any such data by any such organization to have been authorized by the Member on whose behalf the data shall have been reported. Data reported by any such organization(s) to the Corporation shall not be deemed to be reported by the Member to the Corporation until such data is accepted by the Corporation.

A determination by the Corporation to accept data from such organization(s) on behalf of a Member shall not be deemed to be an approval of such organization(s), or an assumption by the Corporation of any responsibility or liability for such organization's operation or failure to operate, which shall remain solely between the Member and such organization(s). The Corporation shall be entitled to rely upon any data so submitted without inquiry into the accuracy or validity of such data. It shall be the responsibility of the Member to take appropriate corrective action to resolve any differences resulting from the submission of incorrect data to the Corporation. Acceptance by the Corporation of data from such organization(s) shall not relieve the Member from, or alter, amend or modify, any obligations of the Member pursuant to the Corporation's Rules.

SEC. 7. All trade data submitted to the Corporation for trade recording pursuant to Sections **2(b)**, 3(b) or 6 of this Rule shall be submitted **in Real-time, as that term is defined in Procedure XIII of these Rules, and** on a trade-by-trade basis, in the form

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<sup>1</sup> This may include a trade reporting facility that: (i) is affiliated with, and is operated as a facility of, a self-regulatory organization (SRO), and (ii) the rules and operations of which are the subject of a rule change of the SRO that has been duly filed with the Securities and Exchange Commission and is effective.



executed without any form of “pre-netting” of such trades prior to their submission. The Corporation shall deem any form of trade summarization, compression, or other form of netting or practice that combines two or more trades prior to their submission to the Corporation, or any practice or action designed to contravene this prohibition, as a violation of this Rule<sup>2</sup>, and this prohibition shall apply to any Member (including any Special Representative or Qualified Special Representative) that, directly or indirectly, engages in such pre-netting.

**Trade data submitted to the Corporation for trade recording pursuant to Section 2(b) of this Rule is not subject to the requirements of this Section if (1) the counterparty to that trade is an Affiliate, as defined in Rule 4A, of the submitting firm on the Corporation’s records at the time the trade data is submitted; or (2) the trade data is submitted to facilitate a position movement between two unaffiliated clearing brokers on behalf of a common client for custody purposes (“Client Custody Movements”).**

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<sup>2</sup> ~~Trades executed in the normal course of business between a Member that clears for other broker/dealers, and its correspondent, or between correspondents of such Member, which correspondent(s) is not itself a Member and settles such obligations through such clearing Member (“internalized trades”) are not required to be submitted to the Corporation and shall not be considered to violate the pre-netting prohibition of this Rule.~~

## PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

### A. Introduction

Trade Comparison is the first step in the clearance and settlement of securities transactions. It consists of reporting, validating and matching the buy and sell sides of a securities transaction and results in a compared trade. Except with respect to certain transactions eligible and submitted for processing through the Obligation Warehouse service and provided under these Rules & Procedures, Trade Comparison for transactions in equity securities occurs outside of the Corporation through the facilities of relevant Self-Regulatory Organizations and/or Qualified Special Representatives. The Corporation may provide Comparison services with respect to transactions in debt securities. 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.

All **locked-in** trade data submitted **to the Corporation** by Self-Regulatory Organizations, **and** Qualified Special Representatives **and Special Representatives** for recording pursuant to this Procedure II must be submitted **in Real-time**, as that term is defined in Procedure XIII **and on a trade-by-trade basis, in the form executed without any form of pre-netting of such trades prior to their submission. Trades submitted by Special Representatives for which the counterparties are Affiliates, as defined in Rule 4A, and Client Custody Movements, as defined in Section 7 of Rule 7, are not subject to the requirements of this paragraph.**

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 Recording is provided for regular way and when-issued and when distributed transactions in equity securities (a) executed on securities exchanges, and (b) traded in the Over-the-Counter (OTC) market. Separate Trade Comparison and Recording is also provided for debt securities, including when issued and when-distributed transactions, for transactions in all marketplaces.<sup>1</sup>

### B. Equity and Listed Debt Securities -- Locked-In Trade Input

#### (i) Recording of Regular-Way Transactions

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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.

Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members (as applicable) may submit to the Corporation trade data relating to regular way transactions in securities executed on securities exchanges or OTC marketplaces. Regular-way trade data may be submitted throughout T ("trade date") until the time specified by the Corporation (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 Self-Regulatory Organizations and Qualified Special Representatives 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 a real-time~~ on such reports and in such formats as determined by the Corporation from time to time. Such reports are available to Members on a real-time and/or intra-day basis as determined by the Corporation from time to time.

(ii) Recording of Cash, Next Day and Seller's Option Transactions

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 date and record date, will be processed on a trade-for-trade basis.

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## PROCEDURE IV. SPECIAL REPRESENTATIVE SERVICE

### A. Introduction

A Special Representative 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 may enter the Accounting Operation.

**As provided in Rule 7 hereof, all trade data submitted to the Corporation pursuant to Sections C and D of this Procedure IV, other than trades excluded pursuant to Section 7 of Rule 7, must be submitted in Real-time, as that term is defined in Procedure XIII, and on a trade-by-trade basis, in the form executed without any form of pre-netting of such trades prior to their submission.**

### B. Institutional Clearing Service

The Institutional Clearing Service is a means by which a broker/dealer Member can clear its customer-side activity through the accounting systems offered by the Corporation when the customer is a Member or institutional participant of a Qualified Clearing Agency.<sup>1</sup>

The Institutional Clearing Service utilizes the institutional clearing and delivery services operated by various Qualified Clearing Agencies for input and affirmation purposes. Transactions which are affirmed through these systems and which are between a broker/dealer Member and customer Member or institutional participant of a Qualified Clearing Agency, as principal or agent, are then entered to the Accounting Operation for purposes of delivery and settlement. The Qualified Clearing Agency is the Special Representative in the Institutional Clearing Service.

The broker/dealer Member submits input to the institutional system in accordance with the rules and/or procedures of the Qualifying Clearing Agency. After the agent bank or institutional participant affirms the transaction, the transaction is removed from the institutional system and entered as a compared trade into the CNS Accounting Operation or Balance Order Accounting Operation as a transaction between (a) the broker/dealer and (b) the customer Member.

If the customer is not a Member or elects not to clear transactions through this Service, the broker/dealer-side of the transaction is removed from the institutional system and

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<sup>1</sup> For the purposes of this procedure, a Qualified Clearing Agency shall include an entity that performs institutional trade matching and confirmation services that has received an exemption under the Securities Exchange Act of 1934, as amended, to register as a clearing agency.

entered into the CNS Accounting Operation or the Balance Order Accounting Operation. The customer clears the transaction through the institutional system according to the rules and/or procedures of the Qualified Clearing Agency involved.

### C. Correspondent Clearing Service

The Correspondent Clearing Service permits Members to clear and settle transactions executed for them by other Members 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 any market on its behalf to enable the resulting position to be moved from the Special Representative to that Member.

Through the Correspondent Clearing Service, the Special Representative offsets trades that it has executed on behalf of the Member, which are in the process of clearance and settlement (“original trades”)<sup>2</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 Representative inputs a transaction where it is the seller, and the Member is the purchaser. The Member 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 Member 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 Member. 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, or next day fixed-income transactions, or cash equity transactions received after the Corporation’s designated cut-off time) which are accepted by the Corporation are then entered into the Balance Order Accounting Operation or CNS Accounting Operation (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.

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,

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<sup>2</sup> The term “original trade” is used solely to distinguish between trades executed in the marketplace, and trades booked for accounting purposes to accommodate the movement of positions between Members as permitted in this Procedure.

as all such input shall be submitted pursuant to Procedure II hereof. This prohibition shall apply to any Member, including any Special Representative or Qualified Special Representative that, directly or indirectly, engages in such activity.

D. Qualified Special Representatives

A Qualified Special Representative is a Special Representative who meets the requirements set forth in Rule 7. As such, and subject to the requirements of Rule 7 and as otherwise set forth in these Rules, a Qualified Special Representative may submit locked-in trades (pursuant to Procedure II above) for other Members and/or their correspondent.

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