

File No. SR-NSCC-2003-06

**Securities and Exchange Commission
Washington, D.C. 20549**

**Form 19b-4
Proposed Rule Change
By**

NATIONAL SECURITIES CLEARING CORPORATION

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of Proposed Rule Change.

(a) The proposed rule change consists of amendments to the Rules & Procedures of National Securities Clearing Corporation (“NSCC” or the “Corporation”) annexed hereto as Exhibit A.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed change does not require the approval of NSCC’s Board of Directors.

(b) Contact regarding questions and comments:

Lisa T. Siebold (212) 855-3206

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

(a) Rule 4 (Clearing Fund) of NSCC’s Rules & Procedures (the “Rules”) states in part that the Corporation, in its discretion, may permit part of a participant’s Clearing Fund deposit to be evidenced by an open account indebtedness secured by bearer bonds. The purpose of the proposed rule filing is to modify Section 1 of Rule 4 to eliminate reference to “bearer” bonds, as they have not been issued in bearer form for some time now, and consequently are not eligible for deposit with NSCC.

(b) This rule change makes a technical change to the Rules to properly reflect the type of bonds eligible for Clearing Fund purposes by the Corporation and constitutes a stated practice with respect to the administration and enforcement of an existing rule; therefore, it is consistent with the provisions of the Securities Exchange Act of 1934 (the “Act”), as amended, and the rules and regulations thereunder.

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

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

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

No written comments relating to the proposed rule change have been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

6. Extension of Time Period for Commission Action.

Not applicable.

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 Section 19(b)(3)(A).

(b) The proposed rule change effects a change in an existing rule of NSCC that (A) does not adversely affect the safeguarding of securities or funds in its custody or control and (B) does not significantly affect the respective rights or obligations of NSCC or its participants.

(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 either another self-regulatory organization or of the Commission.

9. Exhibits

- Exhibit A - Text of the proposed change to NSCC's Rules and Procedures.
- Exhibit B - Notice of the proposed rule change for publication in the Federal Register.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the self-regulatory organization has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL SECURITIES CLEARING CORPORATION

BY: /s/ Karen L. Saperstein
Karen L. Saperstein
Managing Director, General Counsel and Secretary

Exhibit A

TEXT OF PROPOSED CHANGES TO NSCC'S RULES AND PROCEDURES

~~[**Bold Strikethrough and Bracketed**]~~ text indicates deletions to NSCC's Rules and Procedures.

CLEARING FUND

Rule 4. SEC. 1. Each Member shall, and each Fund Member and each Insurance Carrier Member may be required to, make a deposit to the Clearing Fund; such deposits to the Clearing Fund shall be held by the Corporation to be applied as provided in this Rule¹. The amount of each Member's, Insurance Carrier Member's and Fund Member's required deposit shall be fixed by the Corporation in accordance with one or more formulas specified by the Board of Directors and included in the Procedures (the "Required Deposit"). The basis of each formula shall be use of the Corporation's facilities. The minimum Required Deposit for each Member (except a Mutual Fund/Insurance Services Member) shall be \$10,000 unless changed by the Board of Directors and shall be in cash unless changed by the Board of Directors. The minimum Required Deposit for a Mutual Fund/Insurance Services Member who uses the Mutual Fund Services shall be \$5,000 unless changed by the Board of Directors and shall be in cash unless changed by the Board of Directors. The Corporation may require a Member, Insurance Carrier Member or Fund Member to deposit additional amounts to the Clearing Fund pursuant to Rule 15 and such amounts shall be part of the Member's, Insurance Carrier Member's or Fund Member's Required Deposit.

The Corporation, in its discretion, may permit part of a Member's (except a Mutual Fund/Insurance Services Member's), Insurance Carrier Member's or Fund Member's deposit to be evidenced by an open account indebtedness (a) secured by unmatured ~~[bearer]~~ bonds which are either direct obligations of, or obligations guaranteed as to principal and interest by, the United States or its agencies (the "qualifying bonds") and/or (b) secured by one or more irrevocable Letters of Credit with a maturity of no more than one year issued on behalf of the Member, Insurance Carrier Member or Fund Member in favor of the Corporation under which a bank, trust company or United States branch or agency of a foreign bank (hereinafter, an "Issuer"), in each case approved by the Corporation for such purpose, is obligated to honor drafts up to a specified amount drawn on it by the Corporation, provided that the terms and conditions of any such Letter of Credit are deemed acceptable to the Corporation in its sole discretion, and provided further, that the percentage of a Member's, Insurance Carrier

¹ Clearing Fund deposits for Sponsored Accounts (as defined in Procedure IX.B.) relative to such Sponsored Accounts' DTC activity will be calculated and held by DTC in accordance with their procedures, and shall not be included in determining the Required Deposit or the minimum cash requirement.

Member's or Fund Member's Required Deposit that may be collateralized with Letters of Credit and the value of pledged qualifying bonds, shall be as set forth in Procedure XV. Unless the Board of Directors determines otherwise, an Issuer shall not be approved by the Corporation for the purpose of issuing Letters of Credit pursuant to this Section unless it:

(1) has and maintains at least either (a) \$300 million in total shareholders' equity and a rating for its unsecured, uninsured, unguaranteed short-term obligations (hereinafter, the "short-term obligations rating") of at least A-2 (by Standard & Poor's Corporation) or P-2 (by Moody's Investors Service, Inc.) (and does not have a short-term obligations rating of lower than A-2 or P-2), or (b) \$150 million in total shareholders' equity and a short-term obligations rating of at least A-1 or P-1 (and does not have a short-term obligations rating of lower than A-1 or P-1);

(2) has a sufficient credit standing such that its Letters of Credit readily are able to be pledged by the Corporation pursuant to a line of credit arrangement as collateral to obtain credit in an amount equal to at least 80 percent of stated value;

(3) has confirmed to the Corporation that it is maintaining continued compliance with the applicable capital standards established for it by each of its regulatory authorities; and

(4) if it is a foreign bank acting through a branch or agency in the United States, it has provided the Corporation with a guarantee of performance of such branch or agency deemed sufficient by the Corporation in its sole discretion.

The Board of Directors shall have the authority, in its discretion, to determine that a particular Issuer, because of circumstances specific to that entity, may not issue Letters of Credit on behalf of Members for Clearing Fund purposes.

The Corporation shall decline to accept Letters of Credit issued by one or more approved Issuers when, in the judgment of the Corporation such action, in light of the Corporation's statutory responsibility to safeguard securities and funds in its possession, is necessary or appropriate to prevent or deter an undue concentration, as defined by the Corporation, of Letters of Credit from one or more approved Issuers provided, however, that, in any event, unless otherwise directed by the Board of Directors, the Corporation shall not accept a Letter of Credit issued by an approved Issuer if, by accepting that Letter of Credit, more than 20% of the total Clearing Fund consists of Letters of Credit from that Issuer. The market value of the qualifying bonds and the face amount of the Letters of Credit shall not at any time be less in the aggregate than the amount of the Member's, Insurance Carrier Member's or Fund Member's open account indebtedness. Any amount drawn on any Letters of Credit shall be deposited into, and constitute an additional cash deposit to, the Clearing Fund and shall reduce the Member's, Insurance Carrier Member's or Fund Member's open account indebtedness by a corresponding amount. The qualifying bonds shall be pledged to the Corporation on such terms and conditions as the Corporation shall require, including, in the

Corporation's discretion, the pledge by Members, Insurance Carrier Members or Fund Members to the Corporation's account at a Qualified Securities Depository designated by the Member, Insurance Carrier Member or Fund Member. Qualifying bonds that are not pledged at a Qualified Securities Depository shall be held by the Corporation for its account by a bank or trust company (other than the Member, Insurance Carrier Member or Fund Member) designated by the Corporation. Within ten calendar days prior to the stated expiration date of any Letter of Credit securing a Member's, Insurance Carrier Member's or Fund Member's open account indebtedness or within such time as the Corporation shall direct upon receipt by the Corporation of written notice from an approved bank of an earlier expiration date of any Letter of Credit securing a Member's, Insurance Carrier Member's or Fund Member's open account indebtedness, such Member, Insurance Carrier Member or Fund Member shall make a substitution for the Letter of Credit, in accordance with the provisions of this Rule, in the amount required, effective upon or prior to the expiration of the Letter of Credit.

Each Member's Required Deposit shall be allocated by the Corporation among the Mutual Fund Services, the Insurance Processing Service and the services for which the Corporation assumes responsibility for completion of transactions and which are designated as such by the Corporation (collectively the "Systems" and individually a "System") and in which the Member participates. The allocation for each System, shall bear the same percentage relationship to the Member's Required Deposit as the Member's use of that System bears to his use of all services offered by the Corporation as measured by settlement dollars. The allocation for the Mutual Fund Services and the Insurance Processing Service shall be the dollar amount required to be deposited pursuant to the Clearing Fund formula. The portion of the Clearing Fund allocated for the Mutual Fund Services shall be known as the "Mutual Fund Allocation". The portion of the Clearing Fund allocated for the Insurance Processing Service shall be known as the "Insurance Allocation". The portion of the Clearing Fund allocated for each System shall be known as the "Fund" for that System. For example, the portion of the Required Deposit of each Member which shall be allocated for the CNS System shall be known as the Member's "CNS Fund Deposit" and the aggregate of the CNS Fund Deposits shall be known as the "CNS Fund."

The Corporation shall not be required to segregate any Fund for a System, the Mutual Fund Allocation, or the Insurance Allocation from the Clearing Fund. The Corporation's books and records shall, however, identify the percentage of each Member's Required Deposit which is at any time allocated to a Fund for a System, to the Mutual Fund Allocation, or the Insurance Allocation. That percentage of (a) the Member's actual cash deposit to the Clearing Fund, (b) each qualifying bond pledged to the Corporation by the Member and (c) the face amount of each Letter of Credit issued on behalf of the Member in favor of the Corporation shall be deemed allocated to the Fund for the System.

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Exhibit B

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NSCC-2003-06)

Proposed Rule Change by NATIONAL SECURITIES CLEARING CORPORATION ("NSCC") relating to the modification of Rule 4 (Clearing Fund) of NSCC's Rules and Procedures. Comments requested within days after the date of this publication.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 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 set forth in Exhibit A.

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. Set forth in sections (A), (B) and (C) below, are 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.

(a) Rule 4 (Clearing Fund) of NSCC's Rules & Procedures (the "Rules") states in part that the Corporation, in its discretion, may permit part of a participant's Clearing Fund deposit to be evidenced by an open account indebtedness secured by bearer bonds. The purpose of the proposed rule filing is to modify Section 1 of Rule 4 to eliminate reference to "bearer" bonds, as they have not been issued in bearer form for some time now, and consequently are not eligible for deposit with NSCC.

(b) This rule change makes a technical change to the Rules to properly reflect the type of bonds eligible for Clearing Fund purposes by the Corporation and constitutes a stated practice with respect to the administration and enforcement of an existing rule; therefore, it is consistent with the provisions of the Securities Exchange Act of 1934 (the "Act"), as amended, and the rules and regulations thereunder.

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

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

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

No written comments relating to the proposed rule change have 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) of the Act and subparagraph (f)(4) of the Securities Exchange Act Rule 19b-4. At any time within sixty days of the filing of such 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the rule filing that are filed with the Commission, and all written communications relating to the rule filing between the Commission and any person, other than those that may be withheld from the public in accordance with provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted within days after the date of this publication.

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

Jonathan G. Katz

Secretary

Dated: