

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 the Proposed Rule Change.

(a) The proposed rule change being filed by National Securities Clearing Corporation (“NSCC”) consists of a modification of NSCC’s Rule 4, Section 12. The text of these changes is attached as Exhibit 1.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) NSCC’s Board of Directors has approved the proposed rule change.

(b) The following persons are prepared to respond to questions and comments on the proposed rule change: Karen Saperstein, (212) 855-3203 and Merrie Faye Witkin, (212) 855-3208.

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

Each NSCC participant pays or receives the net debit or net credit balance in its NSCC money settlement account at the end of each day. A major risk to NSCC is the possible failure of one or more participants to settle their net debit obligations. In order to assure that NSCC is able to complete its settlement obligations each day, it maintains liquidity resources, including a committed line of credit in the maximum amount of \$1.9 billion with a consortium of banks that is part of a combined syndicated facility with The Depository Trust Company (the “End of Day Facility”).

The End of Day Facility matures annually. As part of the negotiations to extend the facility for the year beginning May 27, 2003, NSCC’s lenders have requested that NSCC’s Rule 4, Section 12, be clarified. This provision currently provides that, for the purpose of securing loans to NSCC, NSCC may

pledge and repledge and grant its lenders a security interest in (i) cash deposits in the Clearing Fund, (ii) all securities, repurchase agreements, or deposits in which such cash is invested, and (iii) qualified bonds pledged by the participant or letters of credit issued on the participant's behalf for NSCC's benefit, securing the participant's open account indebtedness to NSCC. This section provides that any such loan to NSCC may be on such terms as NSCC, in its discretion, may deem necessary or advisable, and may be in amounts greater, and extend for time periods longer, than the obligations of any participant to NSCC. Subject to the terms and conditions of such loan, NSCC remains obligated to its participants to return any items of pledged collateral, or permit substitutions and withdrawals thereof, as provided in the Rules.

It was always the intent and understanding of NSCC and its participants that by virtue of Rule 4, Section 12, participants had authorized NSCC to pledge to its lenders a participant's actual deposit. See, e.g., SR-NSCC-1990-22, and SEC Release No. 34-28784 (January 23, 1991). In order to accommodate NSCC's lenders, the language of the rule itself is being modified to make clear NSCC's right to pledge its participants' actual deposits to one or more lenders for the purposes enumerated in the Rule. In addition, a proposed modification is also added to make clear what is implicit in the current Rule, i.e., while there remain any outstanding obligations under any such loan, no participant may assert a claim against the lender for the return of collateral pledged by NSCC as security therefor. Subject to the foregoing and the terms of any such loan, the obligation of NSCC to return any items of pledged collateral to its participants, or to permit substitutions and withdrawals thereof, remains unaffected.

The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to NSCC since the proposed rule change will assist NSCC in maintaining a committed end-of-day line of credit to facilitate completion of daily money settlement.

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

NSCC perceives no impact on competition by reason of the proposed rule change.

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

Comments from NSCC participants or others have not been solicited or received on the proposed rule change.

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.

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

Because negotiations to extend the End of Day Facility for another year are nearing completion, NSCC requests accelerated effectiveness for the proposed rule change pursuant to Section 19(b)(2) of the Act so that the proposed rule change can take effect as soon as possible.

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

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission; however, in connection with the extension of the End of Day Facility, The Depository Trust Company will be seeking a similar rule change.

9. Exhibits.

1. Text of Proposed Rule Change.

2. Completed Notice of 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: _____
Richard B. Nesson
Managing Director

TEXT OF PROPOSED CHANGES TO NSCC'S RULES

Double Underlined and Bolded text indicates additions to NSCC's Rules and Procedures.

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

NSCC RULE 4 SECTION 12

CLEARING FUND

SEC. 12. In furtherance of the rights of the Corporation pursuant to these Rules, the Corporation shall have full power and authority to pledge, repledge, hypothecate, transfer, create a security interest in, or assign **(each, a "Pledge")** any or all **actual deposits of Members, Insurance Carrier Members and Fund Members to the Clearing Fund which shall consist of** (i) Clearing Fund Cash, (ii) securities, repurchase agreements, deposits or other instruments in which Clearing Fund Cash is invested and (iii) qualifying bonds pledged by a Member, Insurance Carrier Member or a Fund Member, or Letters of Credit issued on behalf of a Member, Insurance Carrier Member or Fund Member in favor of the Corporation, **in each case** to secure the Member's, Insurance Carrier Member's or Fund Member's ~~open account indebtedness~~ **obligations to the Corporation** under ~~Section 1 of this Rule~~ **these Rules**, together with the proceeds of any of the foregoing, for the purpose of securing loans made to the Corporation **(the party making any such loan to the Corporation hereinafter referred to as the "Lender")**; provided that the proceeds of such loans are used for a purpose permissible under Section 2 of this Rule. Such loans shall be on terms and conditions deemed necessary or advisable by the Corporation (including collateralization thereof) in its sole discretion, and may be in amounts greater, and extend for periods of time longer, than the obligations, if any, of any Member, Insurance Carrier Member or Fund Member to the Corporation for which such property or Letters of Credit were pledged to or deposited with the Corporation; provided, however, that if any such loan is made as a result of a loss or liability suffered by the Corporation, the Corporation will promptly, but in no event later than 30 days from the day the loan is made, repay the loan in full. **No Member, Insurance Carrier Member or Fund Member shall have any right, claim or action against any secured Lender (or any collateral agent of such secured Lender) for the return, or otherwise in respect, of any such collateral Pledged by the Corporation to such secured Lender (or its collateral agent), so long as any loans made by such Lender to the Corporation or other obligations, secured by such collateral, are unpaid and outstanding.** Subject to the **foregoing and to the** terms and conditions of such loan, the Corporation shall remain obligated to each Member, Insurance Carrier Member or Fund Member to return, and to allow substitution for or withdrawal of, cash, securities, and letters of credit pledged or deposited by such Member, Insurance Carrier Member or Fund Member as a Clearing Fund deposit or to secure an open account indebtedness to the Clearing Fund, or otherwise to collateralize such Member's, Insurance Carrier Member's or Fund Member's obligations to the Corporation, under the circumstances and within the time frames specified in these Rules. **In the event of any conflict or inconsistency between this Rule 4 and any agreement between the Corporation and any Member, Insurance Carrier Member or a Fund Member, this Rule 4 shall govern and prevail.**

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NSCC-2003-08)

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by National Securities Clearing Corporation relating to a modification of NSCC's Rule 4, Section 12. 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 _____, The Depository Trust Company filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The text of the proposed rule change is attached as Exhibit 1 to NSCC's filing on Form 19b-4, File No. SR-NSCC-2003-08.

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

In its filing with the Commission, the self-regulatory organization 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 placed specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

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

Each NSCC participant pays or receives the net debit or net credit balance in its NSCC money settlement account at the end of each day. A major risk to NSCC is the possible failure of one or more participants to settle their net debit obligations. In order to assure that NSCC is able to complete its settlement obligations each day, it maintains liquidity resources, including a committed line of credit in the maximum amount of \$1.9 billion with a consortium of banks that is part of a combined syndicated facility with The Depository Trust Company (the "End of Day Facility").

The End of Day Facility matures annually. As part of the negotiations to extend the facility for the year beginning May 27, 2003, NSCC's lenders have requested that NSCC's Rule 4, Section 12, be clarified. This provision currently provides that, for the purpose of securing loans to NSCC, NSCC may pledge and repledge and grant its lenders a security interest in (i) cash deposits in the Clearing Fund, (ii) all securities, repurchase agreements, or deposits in which such cash is invested, and (iii) qualified bonds pledged by the participant or letters of credit issued on the participant's behalf for NSCC's benefit, securing the participant's open account indebtedness to NSCC. This section provides that any such loan to NSCC may be on such terms as NSCC, in its discretion, may deem necessary or advisable, and may be in amounts greater, and extend for time periods longer, than the obligations of any participant to NSCC. Subject to the

terms and conditions of such loan, NSCC remains obligated to its participants to return any items of pledged collateral, or permit substitutions and withdrawals thereof, as provided in the Rules.

It was always the intent and understanding of NSCC and its participants that by virtue of Rule 4, Section 12, participants had authorized NSCC to pledge to its lenders a participant's actual deposit. See, e.g., SR-NSCC-1990-22, and SEC Release No. 34-28784 (January 23, 1991). In order to accommodate NSCC's lenders, the language of the rule itself is being modified to make clear NSCC's right to pledge its participants' actual deposits to one or more lenders for the purposes enumerated in the Rule. In addition, a proposed modification is also added to make clear what is implicit in the current Rule, i.e., while there remain any outstanding obligations under any such loan, no participant may assert a claim against the lender for the return of collateral pledged by NSCC as security therefor. Subject to the foregoing and the terms of any such loan, the obligation of NSCC to return any items of pledged collateral to its participants, or to permit substitutions and withdrawals thereof, remains unaffected.

The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to NSCC since the proposed rule change will assist NSCC in maintaining a committed end-of-day line of credit to facilitate completion of daily money settlement.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NSCC perceives no adverse impact on competition by reason of the proposed rule change.

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

Comments from NSCC Participants or others have not been solicited or received on the proposed rule change.

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

Within 35 days of the date of publication of this notice in the *Federal Register* or within such longer period (I) as the Commission may designate up to 90 days of such date 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 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. 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 proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room 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.

Secretary

Dated: