

**Boldfaced and underlined** indicates modified text.

~~[Strikethrough and Bracketed]~~ indicates deleted text.

1. Text of Proposed Rule Change.

(a) The text of the proposed rule change is set forth on Exhibit A, and consists of modifications to National Securities Clearing Corporation's ("NSCC" or the "Corporation") Rules and Procedures.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed change has been approved by NSCC's Board of Directors.

(b) Contact regarding questions and comments:

Lisa Siebold (212) 855-3206

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

(a) The purpose of the proposed rule change is to modify NSCC's Rules & Procedures (the "Rules") 1) with regard to methodology used by the Corporation when performing the surveillance/monitoring of its participants, and 2) to eliminate all participant/applicant questionnaires in their present form.

1. Surveillance

Under current NSCC Rules, a participant experiencing conditions which may materially impact its financial or operational condition or which may increase or may potentially increase the Corporation's exposure, may be placed on surveillance status.

Currently, there are three levels of surveillance and criteria for determining when to place a participant on surveillance status; Advisory, Class A and Class B.

The current criteria used for placing participants on surveillance captures a number of NSCC's participants that are deemed to pose minimal to no financial and/or operational risk to NSCC. Once on surveillance status, these minimal risk firms must also be scrutinized, which creates an administrative burden upon NSCC's staff that is not necessary for the protection of NSCC or its participants.

NSCC will be replacing this process and instead will place participants on surveillance pursuant to ratings assigned to the participant based primarily on its financial strength. Only those participants assigned a "weak" rating (i.e. those deemed to pose a relatively higher degree of risk to the Corporation) will be placed on a "Watch List" where they will be more closely monitored by the Corporation. Participants placed on the Watch List may be subject to higher clearing fund requirements and/or be requested to submit additional financial reports and/or data<sup>1</sup>.

## 2. Questionnaires

Currently, Addendum's B, I, Q and R (Standards of Financial Responsibility and Operational Capability for various types of participants) include questionnaires that participants and applicants are required to complete and return to the Corporation. Rule 15 Section 2 also provides that the Corporation has the authority to examine the financial responsibility and operational capability of participants and applicants, and in

---

<sup>1</sup> NSCC's approach to the analysis of members will be based on a thorough quantitative analysis. A member's rating on the credit risk matrix will be based on factors including (for broker /dealers): size (total excess net capital), capital, leverage, liquidity and profitability. Banks will be reviewed based on: size, capital, asset quality, earnings and liquidity. Members will also be evaluated based on their compliance with certain "parameter breaks" which will be determined based on applicable monthly and/or quarterly exception reports generated by Credit Risk. A member may be placed on the watch list for failure to fall within, for example, prescribed excess net capital, excess liquid capital, aggregate indebtedness, leverage ratio or financial membership requirement parameters.

conducting such examinations may require a participant or applicant to furnish such information as deemed sufficient by the Corporation to demonstrate their responsibility/capability.

The Corporation has determined to rely on its ability under Rule 15 to obtain pertinent information for applicants and participants, rather than require responses to specific questionnaires. NSCC will solicit such information in such form and within such timeframes as the Corporation may require from time to time.

(b) ~~[This filing]~~ **The proposed rule change** will ensure that NSCC is able to safeguard securities and funds in its ~~[possession]~~ **custody or control by allowing the Corporation to provide more effective, timely and accurate monitoring of its Participants**, ~~[T]~~ 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.

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).

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) [~~NSCC requests that the Commission accelerate effectiveness of the proposed rules changes pursuant to Section 19(b)(2). The Commission's granting of accelerated effectiveness would enable NSCC to improve its current surveillance process and conform its rules to these new surveillance procedures.~~] **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