

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 text of the proposed rule change, set forth on Exhibit A, consists of modifications to the Rules and Procedures of National Securities Clearing Corporation (“NSCC” or the “Corporation”).

(b) The proposed rule change adds a new Rule 31 to NSCC’s Rules and amends miscellaneous other provisions of NSCC’s Rules as they pertain to Data Services Only Members.

(c) The category of Data Services Only Member and modifications applicable to such category were approved by the Commission in the following releases: Securities Exchange Act Release Nos. 44960 (October 19, 2001), 66FR 56383 [File No. SR-NSCC-2001-14] (adding Data Services Only Members as a new category to NSCC Rules, permitted to use limited services, initially NSCC’s Networking Service); 45560 (March 14, 2002), 67 FR 13200 [File No. SR-NSCC-2001-18] (permitting Data Services Only Members to access Fund/SERV for non-settling transactions); 47197 (January 15, 2003) 68 FR 3917 [File No. SR-NSCC-2002-13] (permitting Data Services Only Members to access NSCC’s Insurance Processing Services for non-settling transactions) and 47644 (April 7, 2003) 68 FR 17850 [File No. SR-NSCC-2003-04] (permitting Data Services Only Members and Insurance Carrier Members to populate NSCC’s new Product Repository databases with information relating to insurance products).

2. Procedures of the Self-Regulatory Organization.

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

(b) Contact regarding questions and comments:

Carol A. Jameson (212) 855-3213

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

(a) The proposed rule change (i) expands the types of entities which may become Data Services Only Members under NSCC's Rules to include the same types of entities which are eligible to use NSCC's Mutual Fund Services; (ii) permits Data Services Only Members to access NSCC's Mutual Fund Profile service; and (iii) consolidates many of NSCC's Rules applicable to Data Services Only Members in a new Rule 31 of NSCC's Rules.

(i) The proposed rule change adds new types of entities that may become Data Services Only Members of NSCC. Data Services Only Members are only eligible to access certain limited data and information services of the Corporation specifically enumerated under NSCC's Rules. They are not permitted to enter transactions for settlement through NSCC facilities.

Currently, a Data Services Only Member must meet the requirements of any clause (i) through (vi) of Section 1 of Rule 2 of NSCC's Rules; that is, they must be either a registered broker-dealer, bank or trust company, registered clearing agency, insurance company or entity licensed to sell insurance products, an investment company registered under the Investment Company Act of 1940, as amended, or an entity that has demonstrated to the Corporation's Board of Directors that its business and capabilities are such that it could reasonably expect material benefit from access to such services in order to be accepted as a Data Services Only Member.

These types of entities are identical to the types permitted to be NSCC Members under Rule 2, subject in the case of Rule 2 membership to additional criteria relating to standards of financial responsibility and operational capability as set forth in NSCC's

Procedures. Since Data Services Only Members do not input transactions for settlement through NSCC's facilities and since NSCC is therefore not subject to settlement exposure by these members, Data Services Only Members are not subject to additional NSCC membership standards regarding financial responsibility.

The proposed rule change adds to the types of entities that may become Data Services Only Members the types that are currently eligible to use Mutual Fund Services under Rule 52¹; that is, they may also be either (i) an Investment Advisor as defined in Section 202(a)(ii) of the Investment Advisors Act of 1940, as amended; (ii) a Principal Underwriter as defined in Section 2(a)(29) of the Investment Company Act of 1940, as amended, or a co-distributor, sub-distributor, or otherwise authorized to process mutual fund transactions; or (iii) an organization or entity that acts as a third-party administrator on behalf of defined contribution plans as defined in Section 414(i) of the Internal Revenue Code of 1986, as amended.

(ii) The proposed rule change also adds NSCC's Mutual Fund Profile Service to the types of services available to Data Services Only Members. Mutual Fund Profile Service ("MFPS") contains information on mutual funds and Investment Funds as input by the fund, including data on commission discounts ("breakpoints") available to certain investors buying shares of certain funds under the criteria established by the fund.

Allowing Data Services Only Members to access Mutual Fund Profile Service, and expanding the entities eligible to become Data Services Only Members, will assist in making mutual fund information, including breakpoint information, more widely available.

¹ Entities eligible to use Mutual Fund Services include Fund Members admitted under Rule 51 and TPA Members admitted under Rule 60 of NSCC's Rules.

(iii) The proposed rule change also makes technical changes to NSCC's Rules by adding a new Rule 31 applicable to Data Services Only Members, consolidating for ease of reference many NSCC Rule provisions applicable to Data Services Only Members. Consolidation of many of the provisions applicable to Data Services Only Members in Rule 31 will benefit NSCC participants by clarifying the responsibilities and entitlements directly applicable to Data Services Only Members, and making it easier for entities not familiar with clearing agency rules to join NSCC.

(b) The technical changes proposed for consolidation of certain Rule provisions applicable to Data Services Only Members will facilitate access to NSCC services by qualified entities. The proposed changes which add additional entity types to the ones which may currently qualify to become a Data Services Only Member, and permitting Data Services Only Members to access NSCC's Mutual Fund Profile Service, will enable a wider group of mutual fund industry participants to have automated access to MFPS data about mutual funds. These proposed changes to NSCC's Rules facilitate the prompt and accurate clearance and settlement of securities transactions and are therefore consistent with the requirements of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.

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

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

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

NSCC has not solicited nor received written comments on the proposed rule change. NSCC has worked closely with the industry to enhance the availability of

Mutual Fund Services to a wider range of mutual fund industry participants. NSCC will notify the Commission of any written comments it receives.

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 paragraph (A) of Section 19(b)(3) of the Act and subparagraph (f) of Securities Exchange Act Rule 19b-4.

(b) Since the proposed rule change will (i) make technical corrections to NSCC's Rules to clarify provisions applicable to Data Services Only Members, and (ii) allow a wider group of mutual fund industry participants automated access to mutual fund information that does not involve the settlement of funds or transactions through NSCC, it therefore makes a change to NSCC's services without adversely affecting the safeguarding of securities or funds in the custody or control of NSCC or for which it is responsible, and does not significantly affect the respective rights or obligations of NSCC or its Members.

(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 rule change to NSCC's Rules.

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/ Donald F. Donahue
Donald F. Donahue
President

EXHIBIT A

TEXT OF PROPOSED CHANGES TO NSCC'S RULES AND PROCEDURES

Underlined, bold face text indicates additions to NSCC's Rules.

~~[Brackets and strikethrough]~~ indicates deletions to NSCC's Rules.

Rule 1, Definition of Data Services Only Member is amended as follows:

The term "Data Services Only Member" means **an entity which is not a Member, but which has entered into an agreement with the Corporation pursuant to the provisions of Rule 31** ~~[any partnership, corporation, limited liability corporation or other entity or person, who is not a Member, but who has entered into an agreement with the Corporation pursuant to the provisions of Section 2 of Rule 3]~~ for the purpose of receiving access to certain data and information services provided by the Corporation.

* * *

Rule 3, Section 2 of NSCC's Rules is amended as follows:

SEC. 2. The Corporation shall maintain a list of those persons who are entitled under the provisions of New York law to pay New York State stock transfer taxes through the facilities of the Corporation.

The Corporation shall maintain a list of those persons who are not Members and who meet the requirements ~~[of any clauses (i) through (vi) of Section 1 of Rule 2,]~~ **set forth in the last paragraph of this Section 2,** who shall apply to the Corporation to act for them and who shall apply to the Corporation to act for them and who shall have entered into an agreement in the form prescribed by the Corporation to comply with these Rules, so that the Corporation may act for them (i) with respect to the collection and payment of commissions, (ii) for the limited purpose of the transmission of certain data and information not involving money settlement through the facilities of the Corporation with respect to which the Corporation shall make rules, or (iii) such other transactions with respect to which the Corporation shall make rules.

The Corporation shall maintain a list of those municipal securities brokers and municipal securities dealers, registered under the Securities Exchange Act of 1934, as amended, who are not Members but who have applied to the Corporation to act for them and who shall have entered into an agreement in the form prescribed by the Corporation to comply with these Rules, so that the Corporation may act for them with respect to the comparison of municipal securities transactions.

Entities accepted by the Corporation for the collection and payment of commissions shall be termed "Non-Clearing Members". Entities accepted by the Corporation for the transmission of data and information only shall be termed "Data Services Only Members". Municipal securities brokers and municipal securities dealers accepted by the Corporation pursuant to this section for the comparison of municipal securities transactions shall be termed "Municipal Comparison Only Members".

Non-Clearing Members and Municipal Comparison Only Members shall meet the requirements of any clauses (i) through (vi) of Section 1 of Rule 2. Data Services Only Members shall meet the requirements of Rule 31.

* * *

A new Rule 31-1 is added to NSCC's Rules, as follows:

(RULE 31-1)

DATA SERVICES ONLY MEMBER

RULE 31. SEC. 1. The Corporation shall act for those organizations or entities which qualify as Data Services Only Members under these Rules and which apply to the Corporation to act for them, and whose applications are approved by the Corporation. A partnership, corporation or other organization or entity shall be qualified to become a Data Services Only Member if:

- (i) it is a broker or dealer registered under the Securities Exchange Act of 1934, as amended ("Registered Broker-Dealer");**
- (ii) it is a bank or trust company, including a trust company having limited power, which is a member of the Federal Reserve System or is supervised and examined by state or federal authorities having supervision over banks;**
- (iii) it is a Registered Clearing Agency;**
- (iv) it is an Insurance Company or an Insurance Entity;**
- (v) it is an investment company registered under Section 8 of the Investment Company Act of 1940, as amended;**
- (vi) it is a Principal Underwriter as defined in Section 2(a)(29) of the Investment Company Act of 1940, as amended, or a co-distributor, sub-**

distributor, or is otherwise authorized to process mutual fund transactions;

(vii) it is an Investment Adviser as defined in Section 202(a)(11) of the Investment Advisers Act of 1940, as amended;

(viii) it is an organization or entity that acts as a third-party administrator on behalf of defined contribution plans as defined in Section 414(i) of the Internal Revenue Code of 1986, as amended; or

(ix) it is an applicant that has demonstrated to the Board of Directors that its business and capabilities are such that it could reasonably expect material benefit from direct access to the Corporation's services available to Data Services Only Members.

A partnership or other organization or entity whose application to become a Data Services Only Member has been approved by the Corporation shall sign and deliver to the Corporation an instrument in writing whereby such applicant shall agree as provided in Section 2 of this Rule.

SEC. 2. Each applicant to become a Data Services Only Member shall sign and deliver to the Corporation an instrument in writing whereby the applicant shall agree:

(a) that the only services or systems offered by the Corporation that it will utilize as a Data Services Only Member are those features of services that the Corporation may, from time to time, designate as eligible for access by a Data Services Only Member.

(b) to abide by the Rules of the Corporation and to be bound by all the provisions thereof and that the Corporation shall have all the rights and remedies contemplated by the Rules of the Corporation;

(c) to pay to the Corporation such charges as may be established by the Corporation by Rule and to pay such fines as may be imposed in accordance with such Rules of the Corporation for the failure to comply therewith;

(d) not to use the services of the Corporation in contravention of any law, rule or regulation, nor to submit any request, instruction, transaction or other transmission through the services of the Corporation for which it is not directly or indirectly and whether acting on its own behalf or another, duly authorized;

(e) to be bound by any amendment to the Rules of the Corporation with respect to the use of the services of the Corporation subsequent to the time such amendment takes effect as fully as though such amendment were now a part of the Rules of the Corporation;

(f) that it shall be responsible for the acts of its agents with respect to the use of the services of the Corporation by such agents.

Each applicant to become a Data Services Only Member shall complete and deliver to the Corporation an Applicant Questionnaire in such form as prescribed by the Corporation from time to time and, upon the request of the Corporation, FOCUS or any other similar reports where applicable, and such other reports or forms as the Corporation may determine are appropriate.

SEC. 3. The Corporation shall approve an application to become a Data Services Only Member pursuant to this Rule upon a determination by the Corporation that the applicant meets the standards of operational capability as set forth in Rule 15.

Notwithstanding the foregoing, the Corporation may deny an application to become a Data Services Only Member upon a determination by the Corporation that the Corporation does not have adequate personnel, space, data processing capacity or other operational capability at that time to perform its services for the applicant without impairing the ability of the Corporation to provide services for its existing Settling Members, Municipal Comparison Only Members, Insurance Carrier Members, Fund Members or Data Services Only Members, to assure the prompt, accurate and orderly processing and settlement of securities transactions or to otherwise carry out its functions; provided, however, that any such applications which are denied pursuant to this paragraph shall be approved as promptly as the capabilities of the Corporation permit.

SEC. 4. A Data Services Only Member shall utilize only those features of services that the Corporation may, from time to time, expressly designate as eligible for access by a Data Services Only Member. A Data Services Only Member shall not be eligible to settle transactions through the facilities of the Corporation.

SEC. 5. A Data Services Only Member shall not be required to pay a contribution to the Clearing Fund to the Corporation pursuant to the provisions of Rule 4 of these Rules or otherwise.

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Rule 52, Section D., Mutual Fund Profile Service, of NSCC's Rules is amended as follows:

Rule 52. SEC.1. The Corporation may offer a service to provide Members, TPA Members, **Data Services Only Members** and Fund Members with mutual fund and Investment Fund information (the "MFPS Data") as the Corporation may determine from time to time. Such service shall be known as the Mutual Fund Profile Service ("MFPS") and will be accomplished in accordance with the provisions of this Rule.

SEC. 2. Each Member, TPA Member, **Data Services Only Member** or Fund Member that desires access to MFPS must complete and deliver to the Corporation such agreements as the Corporation may from time to time require.

SEC. 3. The MFPS Data must be submitted to the Corporation in such formats and by such times as established by the Corporation from time to time. The submission of such information to the Corporation shall not relinquish, extinguish or affect any regulatory or legal rights, remedies or obligations, if any, of Members, TPA Members, **Data Services Only Members** or Fund Members participating in the MFPS.

SEC. 4. The Corporation shall not be responsible for the completeness or accuracy of any MFPS Data nor for any errors, omissions or delays which may occur relating to the MFPS Data.