

**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 is set forth on Exhibit A, and consists of modifications to Rule 16 (Settlement of Commissions) and Addendum P (Fine Schedule) of National Securities Clearing Corporation (“NSCC” or the “Corporation”).

(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 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 to provide that fines may be imposed upon Members and Non-Clearing Members utilizing the Commission Settlement service, when they fail to timely pay all or part of their monthly Commission Settlement obligations to NSCC.

NSCC provides a service where all payments of commissions due on business when a principal is given up between NSCC Members and Non-Clearing Members may be settled on a monthly basis (Rule 16 - Settlement of Commissions). The Rule provides, in part, that if the Member/Non-Clearing Member is indebted to the Corporation, it shall pay the amount due to the Corporation (with payment made via ACH wire transfer, Fed Funds wire transfer or via a check made payable to the Corporation) on or before the commission bill settlement date of each month, as

determined by the Corporation (generally, the 15th day of each month). NSCC relies upon the timely receipt of funds from such Members/Non-Clearing Members to credit others who are owed funds as a result of use of the service. Failure to timely meet Commission Settlement payment obligations to the Corporation results in NSCC's financing the open obligations until such time as payment is received.

Rule 48 allows the Corporation to impose fines upon participants for any error, delay or other conduct that is determined to be detrimental to the operations of the Corporation. Historically, NSCC has imposed fines upon participants for failure to timely settle end of day settlement balances, late settlement acknowledgement, and for late payment of Clearing Fund deposits. In 2002, NSCC commenced fining participants for failure to timely provide requested financial and operational information, and for failure to timely notify the Corporation on an ongoing basis, of certain internal conditions which may cause the Corporation to reevaluate the participant's continued participation (see for example Addendum B and T)¹. NSCC now intends to commence fining Members/Non-Clearing Members for failing to timely meet their payment obligations to the Corporation arising out of their use of the Commission Settlement service.

Accordingly, Exhibit A to this filing modifies NSCC's Addendum P (Fine Schedule) to reflect the addition of a Commission Bill Payment Fine Schedule, listing applicable fines under the service. In addition, Rule 16 (Settlement of Commissions) has been modified to clearly state that failure to timely pay all or part of a monthly Commission Settlement balance may result in the imposition of a fine and may subject the Member/Non-Clearing Member to action by the Corporation pursuant to Rule 46 (Restriction on Access to Services) or 48 (Disciplinary Proceedings). Participants will

¹ SR-NSCC-2002-06, amended August 19, 2002, approved by the Commission on November 25, 2002 (see release 34-46903).

continue to have the ability to contest fines, as currently provided for within NSCC's rules and procedures.

(b) The proposed rule change to impose fines upon late paying users of the Commission Settlement service will further ensure that NSCC may appropriately discipline its participants for violation of any provision of its Rules. 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) Not applicable.

- (c) Not applicable.
- (d) The imposition of fines upon participants for any error, delay or other conduct detrimental to the operations of the Corporation is currently provided for under NSCC's Rules; therefore, the imposition of additional fines constitutes an expansion to a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule.

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 and Secretary

Exhibit A

TEXT OF PROPOSED CHANGES TO NSCC'S RULES AND PROCEDURES

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

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

SETTLEMENT OF COMMISSIONS

Rule 16. All payments of commissions due on business when a principal is given up between Members and Non-Clearing Members shall be settled monthly as follows

- (1) Each Payee shall make up bills in the customary form for all commissions due on business when a principal is given up.
- (2) Each Payee shall deliver the customary commission bill to each Payer on or before the 5th day of each month if a business day; otherwise the next succeeding business day.
- (3) Each Payer shall promptly verify such bill and shall not later than 12 noon on the 10th day of each month, if a business day, otherwise on the next succeeding business day or on such other day or by such other time as the Corporation shall determine, deliver to the Corporation such information in such form as the Corporation may prescribe from time to time.
- (4) The Corporation shall upon completion of the clearance, debit and credit the respective Payers and Payees with resulting amounts plus or minus the charges for services rendered for which provision is made by the Corporation from time to time.

If, as a result of such clearance of commissions, a Non-Clearing Member shall be indebted to the Corporation, such Non-Clearing Member shall pay the amount due to the Corporation on or before the commission bill settlement date of each month determined by the Corporation. If such Non-Clearing Member shall be entitled to a credit, the Corporation shall pay the same by ACH wire transfer as soon as practicable, provided however, if a Non-Clearing Member indebted to the Corporation does not pay part or all of the amount due to the Corporation, the Corporation shall be entitled to set-off such amount against any commission bill credit to which such Non-Clearing Member is entitled. **A Member or Non-Clearing Member that fails to timely pay part or all of**

the amount due to the Corporation may be subject to action by the Corporation pursuant to Rule 46 or 48, which includes, but is not limited to, fines, censure or any other sanction as the Corporation deems appropriate pursuant to these Rules.

If, as a result of such clearance of commissions, a Member shall be indebted to the Corporation, or entitled to a credit, such debits and credits shall be included in the settlement of the accounts of such Member for such day as the Corporation may determine.

The Corporation shall have power to determine the amounts to be received by it in the settlement of commissions and the persons entitled thereto and any determination so made shall be final and conclusive upon all parties to the settlement.

ADDENDUM P

FINE SCHEDULE

1) SDFS FAILURE-TO-SETTLE AND LATE ACKNOWLEDGMENT FINES

NET DEBIT	FIRST OCCASION	SECOND OCCASION	THIRD OCCASION	FOURTH OCCASION
\$0 - 100,000	\$ 100	\$ 200	\$ 500	\$ 1,000
\$100,000 - 900,000	300	600	1,500	3,000
\$900,000 - 1,700,000	600	1,200	3,000	6,000
\$1,700,000 - 2,500,000	900	1,800	4,500	9,000
\$2,500,000 - UP	1,000	2,000	5,000	10,000

- NOTES:
- a) In addition to the fine, interest is charged to the Member, or the Settling Bank Only Member, that failed to settle for the cost of borrowing to complete settlement.
 - b) The number of occasions will be determined over a moving three-month period. A Member, or a Settling Bank Only Member, that exceeds four failure-to-settle occasions in a three-month period will be subject to further fees and/or other actions at the Corporation's discretion after consultation between the Member, or the Settling Bank Only Member, and the Corporation.

c) If the Corporation determines that it had significantly affected a Member's, or a Settling Bank Only Member's, ability to settle (because of a Corporation system delay, for example), the Corporation may determine to waive failure-to-settle fines for that occurrence.

- 2) Failure to notify and supply required data as provided for under these Rules & Procedures (other than as provided in items one, three, ~~and~~ four **and five** of this addendum): Each single offense, \$5,000.00 fine.
- 3) Late Satisfaction of Clearing Fund Deficiency Call¹

Amount	First Occasion	Second Occasion	Third Occasion	Fourth Occasion (or greater)
Up to \$100 M	*	\$ 100	\$ 200	\$ 500
\$100 M to \$900 M	*	300	600	1,500
\$900 M to \$1.7 MM	*	600	1,200	3,000
\$1.7 MM to \$2.5 MM	*	900	1,800	4,500
Greater than \$2.5 MM	*	1,000	2,000	5,000

* First occasions result in a warning letter issued to the Member.

¹The number of occasions is determined over a moving three-month period beginning with the first occasion.

4) Requests For Information²

Request For Information (Failure to timely Provide)	First Occasion	Second Occasion	Third Occasion	Fourth Occasion
<i>Financial Statements</i>				
Audited Financial Statements for Member or Parent	*	\$300	\$600	\$1,500
Monthly and/or Quarterly Regulatory Filings	*	\$300	\$600	\$1,500
Monthly and/or Quarterly Financial Statements	*	\$300	\$600	\$1,500
Proforma Financial Statements	*	\$300	\$600	\$1,500
Any Financial Computations, Consolidating Worksheets or Internal Statements, Upon Special Request	*	\$300	\$600	\$1,500
<i>Risk Questionnaires/Profiles</i>				
Questionnaires	*	\$150	\$300	\$750
Profiles	*	\$150	\$300	\$750
Risk Management Policies and Procedures	*	\$150	\$300	\$750
Disaster Recovery Procedures	*	\$150	\$300	\$750

* First occasions result in a warning letter issued to the Member. Warning Letters for first occasion violations will be discontinued one year after implementation of this schedule, at which time each violation will be subject to imposition of a fine.

5) SETTLEMENT OF COMMISSIONS (pursuant to Rule 16)²

<u>NET DEBIT</u>	<u>FIRST OCCASION</u>	<u>SECOND OCCASION</u>	<u>THIRD OCCASION</u>	<u>FOURTH OCCASION (or greater)</u>
<u>\$0 - 100,000</u>	<u>(1)</u>	<u>\$ 100</u>	<u>\$ 200</u>	<u>\$ 300</u>
<u>\$100,000 - 200,000</u>	<u>(1)</u>	<u>200</u>	<u>300</u>	<u>400</u>
<u>Greater than \$200,000</u>	<u>(1)</u>	<u>300</u>	<u>400</u>	<u>500</u>

NOTES: **1) First occasions result in a warning letter issued to the Member/Non-Clearing Member.**

2) In addition to the fine, unpaid amounts will incur interest charges until paid.

² Fines to be levied for offenses within a moving twelve-month period beginning with the first occasion.

Exhibit B

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NSCC-2003-17)

Proposed Rule Change by NATIONAL SECURITIES CLEARING CORPORATION
("NSCC").

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 on Exhibit A, and consists of modifications to Rule 16 (Settlement of Commissions) and Addendum P (Fine Schedule) of National Securities Clearing Corporation ("NSCC" or the "Corporation").

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) The purpose of the proposed rule change is to modify NSCC's rules to provide that fines may be imposed upon Members and Non-Clearing Members utilizing the Commission Settlement service, when they fail to timely pay all or part of their monthly Commission Settlement obligations to NSCC.

NSCC provides a service where all payments of commissions due on business when a principal is given up between NSCC Members and Non-Clearing Members may be settled on a monthly basis (Rule 16 - Settlement of Commissions). The Rule provides, in part, that if the Member/Non-Clearing Member is indebted to the Corporation, it shall pay the amount due to the Corporation (with payment made via ACH wire transfer, Fed Funds wire transfer or via a check made payable to the Corporation) on or before the commission bill settlement date of each month, as determined by the Corporation (generally, the 15th day of each month). NSCC relies upon the timely receipt of funds from such Members/Non-Clearing Members to credit others who are owed funds as a result of use of the service. Failure to timely meet Commission Settlement payment obligations to the Corporation results in NSCC's financing the open obligations until such time as payment is received.

Rule 48 allows the Corporation to impose fines upon participants for any error, delay or other conduct that is determined to be detrimental to the operations of the Corporation. Historically, NSCC has imposed fines upon participants for failure to timely settle end of day settlement balances, late settlement acknowledgement, and for late payment of Clearing Fund deposits. In 2002, NSCC commenced fining participants for failure to timely provide requested financial and operational information, and for failure

to timely notify the Corporation on an ongoing basis, of certain internal conditions which may cause the Corporation to reevaluate the participant's continued participation (see for example Addendum B and T)¹. NSCC now intends to commence fining Members/Non-Clearing Members for failing to timely meet their payment obligations to the Corporation arising out of their use of the Commission Settlement service.

Accordingly, Exhibit A to this filing modifies NSCC's Addendum P (Fine Schedule) to reflect the addition of a Commission Bill Payment Fine Schedule, listing applicable fines under the service. In addition, Rule 16 (Settlement of Commissions) has been modified to clearly state that failure to timely pay all or part of a monthly Commission Settlement balance may result in the imposition of a fine and may subject the Member/Non-Clearing Member to action by the Corporation pursuant to Rule 46 (Restriction on Access to Services) or 48 (Disciplinary Proceedings). Participants will continue to have the ability to contest fines, as currently provided for within NSCC's rules and procedures.

(b) The proposed rule change to impose fines upon late paying users of the Commission Settlement service will further ensure that NSCC may appropriately discipline its participants for violation of any provision of its Rules. 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.

¹ SR-NSCC-2002-06, amended August 19, 2002, approved by the Commission on November 25, 2002 (see release 34-46903).

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)(1) 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: