

File No. SR-NSCC-2004-02

**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 revisions to National Securities Clearing Corporation's ("NSCC" or the "Corporation") Procedures and is attached hereto as Exhibit A.
- (b) Not applicable.
- (c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

- (a) The Board of Directors of NSCC is not required to approve the proposed rule changes.
- (b) Contacts regarding questions and comments:

Merrie Witkin (212) 855-3208

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 change¹ is to modify the procedures of NSCC to provide for the acceptance by NSCC of non-standard settlement input (i.e., cash, next day and sellers-option transactions) from Members who are Special Representatives and Self-Regulatory Organizations submitting on behalf of Members,² for Over-the-Counter (OTC) equity, Regional Exchange (RIO) and Correspondent Clearing (CORR) transactions.³ These transactions will not,

¹ The proposed rule change will take effect on April 16, 2004.

² At this time NSCC will only be accepting locked-in trade input for trade recording purposes, but will not be accepting transaction input from Members for trade comparison purposes. Data submitted by Members who are Special Representatives is submitted as lock-in trade data, as provided in Rule 39. Participants should also note that, because these non-standard settlement transactions will be settled outside of NSCC, a non-standard settling trade and its related corresponding clearing transaction will not be netted; rather it will result in two separate transactions that must be settled separately by the related parties.

³ Cash, next day and sellers-option trades in foreign securities will not be accepted for reporting by NSCC.

however, settle through the facilities of the Corporation, but instead must be settled directly between the parties.

NSCC provides the same service for NYSE and Amex equity securities, and will be extending a similar service to cash and next day transactions in fixed income securities via NSCC's real-time trade matching system (RTTM).⁴

NSCC has determined to provide this additional service at the request of its participants. As with the service currently provided for NYSE and Amex equity securities, and with respect to cash and next day transactions in fixed income securities, participants will settle all non-standard equity OTC, RIO and CORR transactions outside of NSCC, thus ensuring that there is no increased risk to NSCC's participants. NSCC believes that by accepting such non-standard settlement input, the Corporation will provide increased efficiencies for participants by enabling them to automate their processes for such transactions.

(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because it promotes the prompt and accurate clearance and settlement of securities transactions. It does this by providing increased efficiencies to participants with regard to their automation of processes for non-standard OTC, RIO and CORR transactions.

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

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

⁴ On February 23, 2004, the Commission approved NSCC's rule filing 2003-15 regarding the RTTM platform. See SEC 1934 Act Rel. No. 34-49294. RTTM will commence receiving non-standard settlement input for comparison purposes in June, 2004.

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 has advised participants of the proposed changes via an Important Notice (Important Notice A#5678, P&S#5338) dated February 18, 2004. 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 for Commission action.

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

- (a) This filing is being made pursuant to paragraph (A) of Section 19(b)(3) of the Act and subparagraph (f) of Securities Exchange Act Rule 19b-4, and will take effect on April 16, 2004.
- (b) The proposed rule filing effects a change in NSCC's rules that (i) does not adversely affect the safeguarding of securities or funds in the custody or control of NSCC and (ii) 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 another self-regulatory organization or the Commission.

9. Exhibits

Exhibit A – Text of the Proposed Rules Changes.

Exhibit B - 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

EXHIBIT A

Underlined, boldface text indicates additional language

[Bracketed, boldface, ~~strikeout text~~] indicates deleted language

Shaded text indicates changes that are pending approval

Double underline text indicates deleted text, approved but not yet implemented

NATIONAL SECURITIES CLEARING CORPORATION PROCEDURES

II. TRADE COMPARISON AND RECORDING SERVICE

A. Introduction

Trade Comparison is the first step in the clearance and settlement of securities transactions. Trade Comparison consists of reporting, validating and matching the buy and sell sides of a securities transaction and results in a compared trade which, except as specified below, is either a CNS Contract, a Foreign Security Contract, or a Balance Order Contract within the meaning of Rule 5. Compared trades are routed to either the CNS Accounting Operation, the Balance Order Accounting Operation, the Foreign Security Accounting Operation.

Separate Trade Comparison is provided for regular way and when-issued and when distributed transactions in equity securities (a) executed on NYSE (round-lot transactions), (b) executed on Amex and (c) traded in OTC and on other national securities exchanges. Separate Trade Comparison is also provided for debt securities, including when issued and when-distributed transactions, on a consolidated basis for transactions in all marketplaces.¹

B. Regular Way NYSE/Amex Equity Securities

1. Trade Input

Self-Regulatory Organizations on behalf of Members may submit to the Corporation trade data relating to regular way transactions in equity securities executed on Amex and, if round-lots, NYSE. NYSE odd-lot trades shall be submitted pursuant to Section III.E. of these Procedures. Regular way trade data may be submitted throughout T until the time specified by the Corporation on the first day following trade date (T+1) (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of

¹At such time as each exchange and/or marketplace assumes responsibility for trade comparison for transactions executed on or subject to the rules of such exchange and/or marketplace, the Corporation will cease providing comparison services for such transactions.

the marketplace of execution, contra-broker, trade value and other identifying details as the Corporation may require or permit.

Regular way trade data as submitted by Self-Regulatory Organizations on behalf of Members (“Locked-in Trade Data”) is converted, if necessary, and validated. Results of this process are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time. Such reports are available to Members intra-day and on the morning of T+1. Separate reports are issued for transactions executed on the NYSE and Amex.

The reports identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system. Depending upon the format of the report, separate totals may be provided for each of these categories.

The Corporation provides SRO’s with the ability to submit listed trades for processing on a trade-for-trade basis. Such transactions are referred to as Special Trades and may be classified as such, whether or not the security is a CNS Security. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

Adjustment reports are produced at such intervals and in such formats as determined by the Corporation showing all compared trade data resulting from T+1 and older adjustments processed by the NYSE and Amex, as well as step out transactions processed that day. Designations for CNS Securities and Balance Order securities are shown in the same manner as on the reports issued as a result of T input. If trades are listed on reports which include totals, the new data is added to or subtracted from such totals, to arrive at new totals. The new totals represent the combined input for T through such cutoff time on T+3 as the Corporation may designate [T+2]. Trades received after such cutoff time as established on T+3~~[2]~~ are not included in the normal settlement cycle. Such trades will be assigned a new settlement date which will be ~~[either]~~ the next settlement [business] day ~~[or two business days]~~ following the date the trade is received by the Corporation ~~[based upon whether the trade is processed by the Corporation before or after such time as established by the Corporation]~~.

2. Recording [Comparison] of Cash, Next Day and Sellers-Options Transactions

Self-Regulatory Organizations on behalf of Members may submit to the Corporation, data relating to cash, next day, and sellers-options transactions. Results of this input are reported by the Corporation on a separate section of the Adjustment reports. Such items may only be settled directly between the parties.

C. Regular Way Over-the-Counter and Other Exchange Equity Securities

1. Trade Input and Comparison

Members and Self-Regulatory Organizations on behalf of Members may submit to the Corporation trade data relating to regular way transactions executed OTC and on other securities exchanges or marketplaces (other than NYSE and Amex). Regular way trade data may be submitted throughout T until the time specified by the Corporation on the first day following trade date (T+1) (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value and other identifying details as the Corporation may require or permit.

Regular way trade data as submitted by Members or as submitted by Self-Regulatory Organizations on behalf of Members ("Locked-in Trade Data") is converted, if necessary, validated and with respect to data submitted by Members, matched by the Corporation to insure that the details of each trade are in agreement between the purchaser and seller. Results of this process are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time. With regard to Locked-in Trade Data reported on T by Self-Regulatory Organizations, the Corporation may report back such data to Members on separate reports. If data received from a Self Regulatory Organization is the result of a trade executed on a system which provides trading anonymity (i.e. the contra side is not revealed at the time of the trade) the report may list, in lieu of the actual contra side for the trade, an acronym designated by such Self Regulatory Organization. In this case, the contra side shall, for all purposes, be deemed to be one of the entities which the Self Regulatory Organization includes as an eligible entity which may participate in the anonymous trading system.¹ Reports are available to Members intra-day and on the morning of T+1.

The Reports for trade data other than Locked-in Trade Data will categorize the trade data as compared, uncomparing and advisory, and may display such other data relevant to such trades as the Corporation shall determine from time to time.

(a) Compared - Items identified as compared are those for which both a purchaser and a seller submitted identical trade data and for which a comparison has been effected.

(b) Uncomparing - Items identified as uncomparing reflect trades submitted by the Member for which the opposite side either did not submit data or did not submit data which agreed in all respects.

(c) Advisory - Advisory data represents trades submitted by another party against the Member, but which did not match any trade the Member submitted. Advisory reports may be generated by the Corporation for items listed as advisory data. The use of Advisory reports explained below.

¹ In the event that the Corporation ceases to act for a Member which is the unidentified contra side of any such trade and the Corporation determines that such trade is to be exited from trade processing, the Self Regulatory Organization shall have the responsibility to identify to Members the trades included in reports produced by the Corporation which are with the affected Member.

As with listed equity reports, reports for OTC and other exchange trades will identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system and depending on the format of the report may provide separate totals for each of these categories.

The Corporation provides Members with the ability to clear and settle any compared trade on a trade-for-trade basis. Such transactions are referred to as Special Trades and may be classified as such, whether or not the security is a CNS Security. In order for a transaction to be classified as a Special Trade, each of the purchaser and seller must agree to settle on a trade-for-trade basis and must identify the transaction in its trade input as a Special Trade. If only one party identifies a transaction as a Special Trade, it will not be compared. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

Trade input, submitted by a Member, shall identify the major and minor side executing brokers and the major side Member. The minor side Member may also be submitted. If not submitted, the Corporation shall insert the proper information in accordance with the list maintained by the Corporation as provided for by Section 3 of Rule 3.

In order to maximize the number of compared trades, if the major and minor side executing broker information, when used as a criteria in the trade comparison process, results in an uncomparing trade, the Corporation will recycle the trade data without the major and/or minor side executing broker information originally submitted. The Regular Way T+1 Contract Lists will indicate when a resulting compared or uncomparing trade has been processed without the use of the major and/or minor side executing broker information.

2. Recording of Cash, Next Day and Sellers-Options Transactions

Members who are Special Representatives and Self-Regulatory Organizations on behalf of Members may submit to the Corporation data relating to cash, next day and sellers-options transactions on securities other than securities processed under Procedure VI. Results of this input are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time. Such items may only be settled directly between the parties.

2.3. Resolution of Uncomparing Transactions

The Corporation provides the following procedures for resolution of uncomparing regular way OTC and other securities exchange equity securities transactions:

(a) Advisory reports are generated by the Corporation for each item listed on output as advisory data. A Member may respond to an advisory listing by submitting acceptance input in such times as determined by the Corporation. If a trade is accepted, it will be reflected on the applicable output as a compared trade.

(b) Transactions may be added through the use of an As-Of submission on T+1 or thereafter. Both the purchaser and the seller must submit the As-Of. If data submitted by each Member matches in all respects, the trade is added for both Members.

(c) Compared odd-lot trades for Balance Order Securities, to the extent that they cannot be aggregated into round-lots with the same contra broker or the balance or shares remaining after the round-lots are aggregated, will be netted and allotted independently from the round-lots.

The Corporation provides a joint service with Self-Regulatory Organizations for the receipt of Locked-in Trades executed on other Exchanges or marketplaces. The results of this input are reported to Members on reports together with OTC transactions.

(d) Reports are produced at such intervals and in such formats as determined by the Corporation showing all compared trade data which occurs after T input. Designations for CNS Securities and Balance Order securities are shown in the same manner as on reports issued as a result of T input. If such trades are listed on reports which include totals, the new data is added to or subtracted from such totals to arrive at new totals. The new totals represent the combined input for T through **such cutoff time on T+3 as the Corporation may designate [T+2]** that is now compared. Trades compared after such **cutoff** time as established on T+**3[2]** are not included in the normal settlement cycle. Such trades will be assigned a new settlement date which will be **[either]** the next **settlement [business]** day **[or two business days]** following the date the trade is compared or received by the Corporation **[based upon whether the trade is processed by the Corporation before or after such time as established by the Corporation]**.

IV. SPECIAL REPRESENTATIVE SERVICE

C. Correspondent Clearing Service

The Correspondent Clearing Service permits customers of broker/dealers to clear and settle transactions executed for them by others. In order to participate in this service, the customer must be a Member or a Qualified Non-Participant.

The Member functioning as a Special Representative submits transaction data to the Corporation. The customer agrees to be bound by the details of all transactions submitted on its behalf by the Special Representative. Any errors or omissions must be resolved directly between the customer and the Special Representative. Corrective input may be submitted to the Corporation by the Special Representative on a subsequent day.

The Corporation produces reports for both the Special Representative and the customer. These reports identify the details of each transaction as submitted by the Special Representative and identifies any transactions which have not been accepted by the Corporation.

Transactions (**other than cash, next day and sellers-option transactions**) which are accepted by the Corporation are entered to the Balance Order Accounting Operation or CNS Accounting Operation (see Sections V and VII).

If the customer is a Qualified Non-Participant, the transactions are removed from the Accounting Operation by the interface clearing mechanism. The transaction is then routed to the appropriate Qualified Clearing Agency for delivery and settlement.

EXHIBIT B

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-NSCC-2004-02)

Proposed Rule Change by NATIONAL SECURITIES CLEARING CORPORATION (“NSCC”) relating to changes to NSCC’s rules pertaining to the acceptance of non-standard settlement input for reporting of OTC, RIO and CORR transactions. Comments requested within ____ days after the date of this publication.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 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 attached hereto as 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.

NSCC 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.

(i) The purpose of the proposed rule change¹ is to modify the procedures of NSCC to provide for the acceptance by NSCC of non-standard settlement input (i.e., cash, next day and sellers-option transactions) from Members who are Special Representatives and Self-Regulatory Organizations submitting on behalf of Members,² for Over-the-Counter (OTC) equity, Regional Exchange (RIO) and Correspondent Clearing (CORR) transactions.³ These transactions will not, however, settle through the facilities of the Corporation, but instead must be settled directly between the parties.

NSCC provides the same service for NYSE and Amex equity securities, and will be extending a similar service to cash and next day transactions in fixed income securities via NSCC's real-time trade matching system (RTTM).⁴

NSCC has determined to provide this additional service at the request of its participants. As with the service currently provided for NYSE and Amex equity securities, and with respect to cash and next day transactions in fixed income securities, participants will settle all non-standard

¹ The proposed rule change will take effect on April 16, 2004.

² At this time NSCC will only be accepting locked-in trade input for trade recording purposes, but will not be accepting transaction input from Members for trade comparison purposes. Data submitted by Members who are Special Representatives is submitted as lock-in trade data, as provided in Rule 39. Participants should also note that, because these non-standard settlement transactions will be settled outside of NSCC, a non-standard settling trade and its related corresponding clearing transaction will not be netted; rather it will result in two separate transactions that must be settled separately by the related parties.

³ Cash, next day and sellers-option trades in foreign securities will not be accepted for reporting by NSCC.

⁴ On February 23, 2004, the Commission approved NSCC's rule filing 2003-15 regarding the RTTM platform. See SEC 1934 Act Rel. No. 34-49294. RTTM will commence receiving non-standard settlement input for comparison purposes in June, 2004.

equity OTC, RIO and CORR transactions outside of NSCC, thus ensuring that there is no increased risk to NSCC's participants. NSCC believes that by accepting such non-standard settlement input, the Corporation will provide increased efficiencies for participants by enabling them to automate their processes for such transactions.

(ii) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, because it promotes the prompt and accurate clearance and settlement of securities transactions. It does this by providing increased efficiencies to participants with regard to their automation of processes for non-standard OTC, RIO and CORR transactions.

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

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

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

Written comments relating to the proposed rule change have not yet 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 will become effective on April 16, 2004 pursuant to paragraph (A) of Section 19(b)(3) of the Securities Exchange Act of 1934 and subparagraph (f) of Securities Exchange Act Rule 19b-4. At any time within 60 days of the filing of such proposed 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 Securities Exchange Act of 1934.

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.

Jonathan G. Katz

Dated: