

OMB APPROVAL

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SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 Form 19b-4

File No. SR - 2005 - 01
 Amendment No. []

Proposed Rule Change by National Securities Clearing Corporation
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action <input type="checkbox"/>	Date Expires <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document Exhibit 3 Sent As Paper Document

Description
 Provide a brief description of the proposed rule change (limit 250 characters).
 Proposed changes to NSCC's Rules regarding Operational Capability.

Contact Information
 Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Last Name
 Title
 E-mail
 Telephone Fax

Signature
 Pursuant to the requirements of the Securities Exchange Act of 1934,
 has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date
 By Vice President and Senior Counsel
 (Name) (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change.

(a) The proposed rule change is annexed hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The Membership and Risk Management Committee of NSCC approved the proposed rule filing on December 15, 2004.

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

(a) NSCC is proposing to amend section I(A)(3) of Addendum B and Addendum I and section I(3) of Addendum Q and section I(2) of Addendum R of NSCC's Rules concerning the operational capability requirements of applicants for membership.

NSCC's current rules specify that an applicant must have adequate personnel capable of handling transactions with NSCC, and adequate physical facilities, books and records and procedures to fulfill operational requirements of NSCC. These provisions may be interpreted to impose upon NSCC an obligation to make determinations with respect to these particular aspects of operational capability, a determination which NSCC ordinarily leaves to the entity's designed examining authority. The operational capability that is ordinarily focused upon by NSCC during the application process is the ability of an applicant to be able to appropriately communicate with NSCC, that is, the ability to input to NSCC, and receive output from NSCC, on a timely and accurate basis.

Management has determined that it is appropriate to clarify these sections of the rules so that they reflect the practices of NSCC and to avoid any misunderstanding as to NSCC's intent. The text of the above-referenced sections of NSCC's Rules will be amended accordingly to delete references to the extraneous elements. NSCC will continue to retain the right to examine any aspect of an applicant's or Member's business pursuant to the provisions of Rule 15.

(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 will clarify NSCC's rules and procedures with regard to requirements imposed on applicants for membership, and thus, by eliminating misinterpretation of the rules it will thereby provide enhanced protections to NSCC and its members.

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.

5. 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.

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) or Section 19(b)(7)(D).

- (a) Not applicable.
- (b) Not applicable.
- (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. The proposed rule change is similar to the proposed rule change filed by Fixed Income Clearing Corporation, which amended similar rule provisions under the same rationale. FICC's rule change was approved by the Commission on November 1, 2004 (Release No. 34-50617).

9. Exhibits

Exhibit 1 - Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 - N/A

Exhibit 3 - N/A

Exhibit 4 - N/A

Exhibit 5 - Proposed Rule Text

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-NSCC-2005-01)

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by National Securities Clearing Corporation (“NSCC”) relating to changes amendments to NSCC’s Rules regarding the operational capability requirement for membership.

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 5.

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.

(a) NSCC is proposing to amend section I(A)(3) of Addendum B and Addendum I and section I(3) of Addendum Q and section I(2) of Addendum R of NSCC’s Rules concerning the operational capability requirements of applicants for membership.

NSCC’s current rules specify that an applicant must have adequate personnel capable of handling transactions with NSCC, and adequate physical facilities, books and

records and procedures to fulfill operational requirements of NSCC. These provisions may be interpreted to impose upon NSCC an obligation to make determinations with respect to these particular aspects of operational capability, a determination which NSCC ordinarily leaves to the entity's designed examining authority. The operational capability that is ordinarily focused upon by NSCC during the application process is the ability of an applicant to be able to appropriately communicate with NSCC, that is, the ability to input to NSCC, and receive output from NSCC, on a timely and accurate basis.

Management has determined that it is appropriate to clarify these sections of the rules so that they reflect the practices of NSCC and to avoid any misunderstanding as to NSCC's intent. The text of the above-referenced sections of NSCC's Rules will be amended accordingly to delete references to the extraneous elements. NSCC will continue to retain the right to examine any aspect of an applicant's or Member's business pursuant to the provisions of Rule 15.

(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 will clarify NSCC's rules and procedures with regard to requirements imposed on applicants for membership, and thus, by eliminating misinterpretation of the rules it will thereby provide enhanced protections to NSCC and its members.

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

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, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

- Electronic comments may be submitted by using the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or send an e-mail to rule-comment@sec.gov. Please include File No. SR-NSCC-2005-01 on the subject line.
- Paper comments should be sent in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington D.C. 20549-0609

All submissions should refer to File Number SR-NSCC-2005-01. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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, 450 Fifth Street, NW, Washington DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of NSCC. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submission should refer to the file number above and should be submitted within _____ days after the date of publication.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Jonathan G. Katz

TEXT OF THE PROPOSED RULE CHANGE

Underlined, boldface text indicates additions.

~~[Bracketed, strikeout]~~ text indicates deletions.

Shaded text indicates changes pending approval

ADDENDUM B

STANDARDS OF FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY

The Corporation shall apply the following standards in determining the financial responsibility and operational capability of Settling Members and applicants for membership and shall follow the Guidelines in making surveillance determinations.

I. MEMBERSHIP STANDARDS

- A. In addition to the requirements established pursuant to the provisions of Rule 2, an applicant for membership shall:
1. have sufficient financial ability to make anticipated contributions to the Clearing Fund and to meet obligations to the Corporation; and
 2. have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business; and
 3. **be able to satisfactorily communicate** ~~[have adequate personnel capable of handling transactions]~~ with the Corporation and ~~[adequate physical facilities, books and records and procedures]~~ to fulfill anticipated commitments to and to meet the operational requirements of the Corporation ~~[and other Settling Members]~~ with necessary promptness and accuracy and to conform to any condition and requirement which the Corporation reasonably deems necessary for its protection ~~[or that of its Settling Members]~~; and
 4. not be known to be subject to a Statutory Disqualification or an order of similar effect issued by a Federal banking agency or, with respect to an Insurance Company, be in good standing in those states in which it is licensed as an Insurance Company and in its state of organization; and

5. not be known to be subject to any other action or condition the existence of which would require the applicant to be placed on surveillance by the Corporation.

* * *

ADDENDUM I

STANDARDS OF FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY FOR FUND MEMBERS

The Corporation shall apply the following standards in determining the financial responsibility and operational capability of Fund Members and Fund Member applicants.

I. Fund Member Standards

- A. In addition to the requirements established pursuant to the provisions of Rule 51, a Fund Member applicant shall:
 - (1) have sufficient financial ability to meet obligations to the Corporation;
 - (2) have an established business history of a minimum of ~~three years~~ **six months** or personnel with sufficient operational background and experience to ensure the ability of the Fund Member to conduct such a business;
 - (3) **be able to satisfactorily communicate** ~~[have adequate personnel capable of handling transactions]~~ with the Corporation and ~~[adequate physical facilities, books and records and procedures]~~ to fulfill anticipated commitments to and to meet the operational requirements of the Corporation ~~[and other Settling Members]~~ with necessary promptness and accuracy and to conform to any condition and requirement which the Corporation reasonably deems necessary for its protection ~~[or that of its Settling Members]~~;
 - (4) not be known to be subject to any Statutory Disqualification or an order of similar effect issued by a Court or agency of competent jurisdiction or, with respect to an Insurance Company, be in good standing in those states in which it is licensed as an insurance company and in its state of organization; and

- (5) not be known to be subject to any other action or condition the existence of which would require the applicant to be placed on surveillance by the Corporation.

* * *

ADDENDUM Q

STANDARDS OF FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY FOR INSURANCE CARRIER MEMBERS

The Corporation shall apply the following standards in determining the financial responsibility and operational capability of Insurance Carrier Members.

I. Insurance Carrier Member Standards

In addition to the requirements established pursuant to the provisions of Rule 56, an applicant for membership as an Insurance Carrier Member shall:

- (1) have sufficient financial ability to meet obligations to the Corporation;
- (2) have an established business history of a minimum of three years or personnel with sufficient operational background and experience to ensure the ability of the Insurance Carrier Member to conduct such a business;
- (3) **be able to satisfactorily communicate** ~~[have adequate personnel capable of handling transactions]~~ with the Corporation and **adequate physical facilities, books and records and procedures** ~~[adequate physical facilities, books and records and procedures]~~ to fulfill anticipated commitments to and to meet the operational requirements of the Corporation ~~[and other Settling Members]~~ with necessary promptness and accuracy and to conform to any condition and requirement which the Corporation reasonably deems necessary for its protection ~~[or that of its Settling Members]~~;
- (4) be in good standing in those states in which it is licensed as an insurance carrier and in its state of organization; and

- (5) not be known to be subject to any other action or condition the existence of which would require the applicant to be placed on surveillance by the Corporation.

* * *

ADDENDUM R

STANDARDS OF FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY FOR TPA MEMBERS

The Corporation shall apply the following standards in determining the financial responsibility and operational capability of TPA Members and applicants for membership.

I. TPA Member Standards

In addition to the requirements established pursuant to the provisions of Rule 60, an applicant for Membership shall:

- (1) have an established business history of a minimum of three years or personnel with sufficient operational background and experience to ensure the ability of the TPA Member to conduct such a business;
- (2) **be able to satisfactorily communicate** ~~[have adequate personnel capable of handling transactions]~~ with the Corporation and ~~[adequate physical facilities, books and records and procedures]~~ to fulfill anticipated commitments to and to meet the operational requirements of the Corporation ~~[and other Settling Members]~~ with necessary promptness and accuracy and to conform to any condition and requirement which the Corporation reasonably deems necessary for its protection ~~[or that of its Settling Members]~~; and
- (3) not be known to be subject to any Statutory Disqualification or an order of similar effect issued by a Court or agency of competent jurisdiction.

* * *

APPENDIX 1

VERSION 2 OF PROCEDURE XV AND ADDENDUM B]

* *

ADDENDUM B

STANDARDS OF FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY

The Corporation shall apply the following standards in determining the financial responsibility and operational capability of Settling Members and applicants for membership and shall follow the Guidelines in making surveillance determinations.

I. MEMBERSHIP STANDARDS

A. In addition to the requirements established pursuant to the provisions of Rule 2, an applicant for membership shall:

1. have sufficient financial ability to make anticipated contributions to the Clearing Fund and to meet obligations to the Corporation; and
2. have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business; and
3. **be able to satisfactorily communicate** ~~[have adequate personnel capable of handling transactions]~~ with the Corporation and ~~[adequate physical facilities, books and records and procedures]~~ to fulfill anticipated commitments to and to meet the operational requirements of the Corporation ~~[and other Settling Members]~~ with necessary promptness and accuracy and to conform to any condition and requirement which the Corporation reasonably deems necessary for its protection ~~[or that of its Settling Members]~~; and
4. not be known to be subject to a Statutory Disqualification or an order of similar effect issued by a Federal banking agency or, with respect to an Insurance Company, be in good standing in those states in which it is licensed as an Insurance Company and in its state of organization; and
5. not be known to be subject to any other action or condition the existence of which would require the applicant to be placed on surveillance by the Corporation.