

Other matters relating to enforcement proceedings.

At times, changes in Commission priorities require alterations in the scheduling of meeting items.

For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact:

The Office of the Secretary at (202) 551-5400.

Dated: September 9, 2010.

**Elizabeth M. Murphy,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-62849; File No. SR-NSCC-2010-07]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change To Amend Addendum C of its Rules and Procedures To Implement Risk Enhancements To its Stock Borrow Program

September 3, 2010.

#### I. Introduction

On July 1, 2010, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-NSCC-2010-07 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").<sup>1</sup> The proposed rule change was published for comment in the **Federal Register** on July 29, 2010.<sup>2</sup> No comment letters were received on the proposal. This order approves the proposal.

#### II. Description

NSCC is amending its Rules to implement risk enhancements whereby municipal and corporate bonds will be ineligible for lending through NSCC's Stock Borrow Program ("SBP") and Members will be prevented from lending through the SBP securities that were issued by that Member or any of its affiliates.

##### 1. SBP Background

In the course of daily operations, for various reasons, NSCC's Continuous Net Settlement ("CNS") system often requires a number of shares for a

particular security that exceeds the number of shares available to NSCC through Member deliveries. To improve the efficiency of the clearing system in such situations, NSCC's has implemented automated stock borrow procedures to meet these needs for shares of a particular CNS security.

Members wishing to participate in the SBP notify NSCC each day of the securities they have on deposit at The Depository Trust Company ("DTC") that are available to be borrowed by NSCC. After NSCC's nighttime processing of regular deliveries, NSCC borrows from its Members the securities that have been identified as available for the SBP and that are needed to fulfill deliveries. The daytime and nighttime SBP are separate processes. Members can choose to participate only in the nighttime SBP, only in the daytime SBP, or in both. Similarly, securities needed for unfulfilled delivery obligations during the daytime processing are borrowed from Members that have made securities available. NSCC places the borrowed securities in a special CNS subaccount, and the lending Member is advanced the full market value of the borrowed securities until they are returned. As securities become available, borrowed securities are returned through normal long allocations against the special subaccount.

##### 2. Proposed Amendment to Addendum C of the NSCC's Rules

After reviewing the SBP, NSCC determined that it faced increased risk when it borrows municipal or corporate bonds and when it borrows securities issued by the lending Member or any of its affiliates. First, if NSCC is unable to close out in a timely manner long positions in corporate or municipal bonds that were created by loans of such securities from a Member that becomes insolvent, then NSCC may possess high concentrations of corporate or municipal bonds that it cannot deliver to the insolvent Member. Consequently, NSCC bears an increased risk of loss because it would be forced to liquidate those corporate or municipal bond positions in thinly traded markets. Second, NSCC incurs credit exposure in instances where it borrows securities from a Member that is also the issuer of the securities or is an affiliate of the issuer. In the event that such a Member becomes insolvent, then NSCC incurs the additional risk that the securities loaned through the SBP issued by the Member or its affiliate and will likely decline in value.

In both situations, NSCC believes that the risks posed by these SBP practices outweigh the benefits to NSCC and its

Members. Accordingly, NSCC is amending its Rules so that municipal and corporate bonds will be ineligible for lending through the SBP and so that Members will be unable to lend securities through the SBP that are issued by the Member or any of its affiliates. Members will be advised of the implementation date for these changes through the issuance of NSCC Important Notices.

#### III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act<sup>3</sup> and the rules and regulations thereunder applicable to NSCC. In particular, the Commission believes that the changes NSCC is making to the SBP to establish appropriate safeguards and enhanced efficiency to mitigate risks to NSCC from the SBP are consistent with NSCC's obligations under Section 17A(b)(3)(F).<sup>4</sup> That section requires, among other things, that the rules of a clearing agency are designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

#### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>5</sup> and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>6</sup> that the proposed rule change (File No. SR-NSCC-2010-07) be, and hereby is, approved.<sup>7</sup>

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>8</sup>

**Florence E. Harmon,**  
Deputy Secretary.

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<sup>3</sup> 15 U.S.C. 78q-1.

<sup>4</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>5</sup> 15 U.S.C. 78q-1.

<sup>6</sup> 15 U.S.C. 78s(b)(2).

<sup>7</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>8</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> Securities Exchange Act Release No. 62567 (July 14, 2010), 75 FR 44828 (July 29, 2010) (SR-NSCC-2010-07).