

should be submitted on or before February 15, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Elizabeth M. Murphy,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-63722; File No. SR-NSCC-2010-16]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Granting Approval of a Proposed Rule Change To Amend Procedure II of the NSCC Rules & Procedures To Modify the Money Tolerance Comparison Provisions for Fixed Income Securities

January 14, 2011.

I. Introduction

On November 19, 2010, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-NSCC-2010-16 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the *Federal Register* on December 8, 2010.² The Commission received no comment letters. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

II. Description

NSCC provides a Real-Time Trade Matching ("RTTM") service for trade input and comparison of corporate bond, municipal bond, and unit investment trust (collectively "CMU") fixed income securities. Matching requires that the two trade counterparties submit certain required trade details to RTTM that either match exactly or fall within predefined parameters. If the trade details are matched within RTTM, a valid and binding contract between the submitting trade parties results. If the purchaser and seller submit trade data that matches in all required aspects except for trade value, NSCC uses the seller's money (referred to as "seller's value") as the trade value and deems the trade

compared as long as the difference between the seller's submitted trade value and the buyer's submitted trade value falls within prescribed dollar values (*i.e.*, money tolerance amounts) as more fully described below.

Prior to the rule change, Procedure II of NSCC's Rules & Procedures provided two scenarios in which trades would be compared using the seller's value. In the first scenario, NSCC uses the seller's value to match a trade submitted prior to the cut-off time for intraday comparison if the respective trade parties have submitted contract amounts that are within (1) a net \$2 difference for trades of \$1 million or less and (2) \$2 per million for trades greater than \$1 million. In the second scenario, NSCC also used the seller's value during the end-of-day enhanced comparison process to match a trade that remained unpaired after the intraday comparison process if the contract amounts were within (i) a net \$10.00 difference for trades of \$100,000 or less and (ii) \$.10 per \$1,000 for trades greater than \$100,000.

Since the establishment of these CMU money tolerance amounts in 1995, member firms have significantly improved the timing and accuracy of fixed income trade reporting. In 2005, the Municipal Securities Rulemaking Board ("MSRB") instituted a requirement that firms report trades in municipal securities to the RTTM engine within 15 minutes, which required member firms to improve their reporting accuracy and technology. As a result, RTTM is matching a greater percentage of CMU trades upon initial trade input from the buyer and seller.

NSCC believes that because of these improvements the current money tolerance is wider than needed and that best practices dictates that the money tolerance be modified to reflect current business conditions. Accordingly, NSCC is reviewing the CMU money tolerance for the above described second scenario in which trades are compared using the seller's value. As amended, NSCC's Rules and Procedures will provide that transactions that remain unpaired after the intraday comparison process shall be deemed compared during the end-of-day enhanced comparison process using the seller's value if the trade parties have submitted contact amounts that have a net \$10.00 difference for trades of \$250,000 or less and \$0.04 per \$1,000 for trades greater than \$250,000.³ NSCC members will be

advised of the implementation date through the issuance of an NSCC Important Notice.

III. Discussion

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.⁴ By narrowing the money tolerance, the rule change should allow NSCC to enhance the efficiency of its clearance and settlement processes by providing for more trades to be compared and settled. As a result, NSCC should be better enabled to facilitate the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and help perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with NSCC's requirements under the Act, in particular with the requirements of Section 17A of the Act, and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-NSCC-2010-16) be and hereby is approved.⁵

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.⁶

Elizabeth M. Murphy,
Secretary.

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¹⁵ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² Securities Exchange Act Release No. 63404 (December 1, 2010), 75 FR 76515 (December 8, 2010).

³ NSCC has informed Commission staff that NSCC money tolerance amounts were developed in part to align NSCC's money tolerance amounts with those used by FICC's Government Securities Division.

⁴ 15 U.S.C. 78q-1(b)(3)(F).

⁵ 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).

⁶ 17 CFR 200.30-3(a)(12).