

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54900; File No. SR-NSCC-2006-12)

December 8, 2006

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating to Buy-Ins of Municipal Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> notice is hereby given that on October 16, 2006, the National Securities Clearing Corporation (“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 primarily 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 proposed rule change consists of modifications to NSCC’s rules concerning buy-ins of municipal securities.

**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.<sup>2</sup>

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

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

<sup>2</sup> The Commission has modified the text of the summaries prepared by NSCC.

The purpose of this filing is to amend NSCC's rules to streamline the processing of continuous net settlement ("CNS") buy-ins of municipal securities. At the request of members and after consultation with the Buy-In Subcommittee of the Securities Industry Association, NSCC proposes to modify Rule 11 (CNS System), Procedure VII (CNS Accounting Operation) and Procedure X (Execution of CNS Buy-Ins) with respect to CNS buy-ins of municipal securities as set forth below.

Executions of buy-ins in municipal securities are governed by the rules of the Municipal Securities Rulemaking Board ("MSRB") and have a ten-day cycle from notification of intent to buy-in to buy-in execution. In contrast, buy-ins for equity and corporate bond securities have a two-day cycle.

Under NSCC's rules (except with respect to securities subject to a voluntary corporate reorganization), an NSCC member that has a long position at the end of any day ("originator") may submit to NSCC a Notice of Intention to Buy-In ("Buy-In Notice") specifying a quantity of securities not exceeding such long position that it intends to buy-in ("Buy-In Position"). The day the Buy-In Notice is submitted is referred to as N, and the succeeding days are referred to as N+1 and N+2. The Buy-In Position is given high priority for CNS allocations until expiration of the buy-in.

However, while increased priority is provided to facilitate the allocation of the Buy-In Position in CNS, municipal securities are thinly traded and, as such, the increased allocation priority has not been generally effective in accelerating the delivery process. Accordingly, when a municipal security Buy-In Position is not satisfied by a CNS allocation, the long member must have its Buy-In Position exited from CNS in order to be able to proceed under the MSRB rules, which entail issuing a new buy-in notice and then waiting an additional ten days before

executing the buy-in. As a result, members typically ask NSCC to exit the municipal security Buy-In Position from CNS after they issue a Buy-In Notice to CNS. NSCC then submits manual instructions that produce receive and deliver obligations to the affected parties two days after the notice is issued.<sup>3</sup>

To assist members in their timely processing of buy-ins in municipal securities, NSCC proposes to modify its rules and procedures to automatically exit from CNS the Buy-In Position of a long member that has submitted a Buy-In Notice in a municipal security. CNS will automatically exit such position prior to the night cycle on N+1, creating a broker-to-broker close-out receive and deliver obligation between the long member and the oldest short member(s). The net result will be that the Buy-In Position will be automatically exited from CNS one day earlier than is currently the case, which will allow the buy-in process to commence one day earlier.

NSCC plans to implement these changes as soon as practicable after the Commission's approval of this filing. NSCC will advise its members of the implementation through an Important Notice.

NSCC believes that the proposed rule change is consistent with Section 17A of the Act<sup>4</sup> and the rules and regulations thereunder because it should result in municipal securities buy-ins being executed more expeditiously thereby fostering cooperation and coordination with persons engaged in the clearance and settlement of securities transactions and removing impediments to and perfecting the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

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<sup>3</sup> Current NSCC Procedure X.A.2.

<sup>4</sup> 15 U.S.C. 78q-1.

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. NSCC will notify the Commission of any comments it receives.

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

NSCC has not solicited or received written comments relating to the proposed rule change. NSCC will notify the Commission of any written comments it receives.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within thirty-five 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 ninety 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:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-NSCC-2006-12 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-1090.

All submissions should refer to File No. SR-NSCC-2006-12. 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 Section, 100 F Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at NSCC's principal office and on NSCC's Web site at <<http://www.nsc.com/legal/index.html>>. 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 submissions should refer to File No. SR-NSCC-2006-12 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>5</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>5</sup> 17 CFR 200.30-3(a)(12).