

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55267; File No. SR-NSCC-2006-16)

February 9, 2007

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Allow Retirement and Other Benefit Plans and Programs Offered By Registered Broker/Dealers to be Processed Through Its Insurance Processing Service

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> notice is hereby given that on December 13, 2006, the National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by NSCC. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>2</sup> and Rule 19b-4(f)(4) thereunder<sup>3</sup> so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The purpose of the proposed rule change is to amend NSCC’s Rules related to the Insurance Processing Services (“IPS”) and Insurance Carrier Members in order to allow retirement and other benefit plans and programs offered by registered broker/dealers to be processed on the IPS platform.

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

<sup>2</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>3</sup> 17 CFR 240.19b-4(f)(4).

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 these statements.<sup>4</sup>

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of this filing is to amend NSCC's Rules related to IPS and Insurance Carrier Members in order to allow retirement and other benefit plans and programs offered by registered broker/dealers to be processed on the IPS platform.

Background

NSCC's IPS is a non-guaranteed service, meaning that NSCC does not function as a central counterparty or guarantor with respect to payment obligations arising in connection with IPS transactions. IPS was established in 1997 as the Annuities Processing Service, a centralized communication link that connected participating insurance carriers with broker/dealers and other entities that distributed annuities issued by the participating insurance carrier.<sup>5</sup> The service was later expanded to accommodate processing of life insurance products in addition to annuities, and its name was changed to IPS. Similarly, the name of the participating insurance carriers

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<sup>4</sup> The Commission has modified the text of the summaries prepared by NSCC.

<sup>5</sup> Securities Exchange Act Release No. 39096 (September 19, 1997), 62 FR 50416 (September 25, 1997) [File No. SR-NSCC-96-21].

using IPS was changed from “Annuities Carrier Members” to “Insurance Carrier Members.”<sup>6</sup>

Currently, IPS provides for the communication of data relating to insurance products (both annuities and life insurance products) and for the settlement of certain payments relating to insurance products, as set forth in NSCC Rule 57, “Insurance Processing Service.” Participating insurance carriers that use IPS to communicate with their distributors information regarding their insurance products are called “Insurance Carrier Members.” Their distributors are called “Members” or “Mutual Fund/Insurance Services Members” and use IPS under authority of NSCC Rule 2, “Members.” The qualifications of Insurance Carrier Members are set forth in Rule 56 and Addendum Q of NSCC’s Rules.

Certain retirement and other benefit plans and programs offered by a broker/dealer are functionally similar to annuities in that the broker/dealer (functioning as an administrator and/or custodian of the program) offers multiple investment options (typically mutual funds or annuities) within the “wrap” of the program for sale to plan sponsors through distributing broker/dealer intermediaries. Current IPS functionality that is used for annuities and other insurance products is useful in the context of these programs. Examples of such functionalities included the communication of customer positions and activity among the investment options within the program, information regarding the values of the various investment options included within the program, data concerning program commissions and other compensation due to the distributing broker/dealers, and the payment of such commissions and compensation through NSCC’s daily money settlement.

#### Proposed Amendments to NSCC’s Rules

Under the proposed amendments, the IPS is renamed the “Insurance and Retirement

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<sup>6</sup> Securities Exchange Act Release Nos. 40634 (November 4, 1998), 63 FR 63096 (November 10, 1998) [File No. SR-NSCC-98-13] and 41477 (June 4, 1999), 64 FR 31666 (June 11, 1999) [File No. SR-NSCC-99-04].

Processing Services” (and is still referred to as “IPS”) and the products processed through IPS are renamed “IPS Eligible Products.” IPS Eligible Products now include, in addition to insurance products, retirement and other benefit plans and programs.

“Insurance Carrier Member” is renamed “Insurance Carrier/Retirement Services Member.” Formerly, only insurance companies could qualify under this membership category. Pursuant to the proposed rule change, registered broker/dealers will also be eligible to qualify as Insurance Carrier/Retirement Services Members. The membership qualifications applicable to insurance companies in their capacity as Insurance Carrier/Retirement Services Members are unchanged. The membership qualifications applicable to a broker/dealer in its capacity as an Insurance Carrier/Retirement Services Member will be the same as the qualifications currently applicable to a broker/dealer which acts as a Mutual Fund/Insurance Services Member processing transactions on IPS today as a distributor of insurance products issued by an Insurance Carrier Member. These qualifications, such as the requirement that the broker/dealer maintain \$50,000 in excess net capital over that required by the Commission or the broker/dealer’s designated examining authority (“Excess Net Capital”), are also the same qualifications required of a broker/dealer that participates in NSCC’s Mutual Fund Services, whether acting as a Fund Member (analogous to an Insurance Carrier/Retirement Services Member on IPS) or as a Mutual Fund/Insurance Services Member distributing mutual funds and similar fund products on NSCC’s mutual fund processing platform, Fund/Serv.

Rule 1, “Definitions and Descriptions” The definition of “Eligible Insurance Plan” is deleted and has been replaced by the term “IPS Eligible Product” in order to include retirement and other benefit plans and programs as products that may be processed through IPS. The defined term “Insurance Carrier Member” is changed to “Insurance Carrier/Retirement Services

Member, as discussed above. Conforming changes are also made throughout NSCC's Rules.<sup>7</sup>

An unrelated technical change is made to defined terms "TPA" and "TPA Member" to clarify that a TPA Member must be a third party administrator. Although implied, this had not been expressly stated.

Rule 3, "Lists to be Maintained" Section 9 of Rule 3 is revised to refer to "IPS Eligible Products," rather than insurance plans, as the subject of transactions processed on IPS.

Rule 50, "Automated Customer Account Transfer Service" ("ACATs") Section 8 of Rule 50 is revised to delete references to an "Insurance Company" as the entity which would confirm or reject an ACATs transfer of IPS Eligible Products. "Insurance Carrier/Retirement Services Member" is substituted in its place. Similar changes are also made to the description of ACATs for Eligible IPS Products in Section 6 of Rule 57.

Rule 56, "Insurance Carrier Member" Rule 56 is revised to include broker/dealers as entities which can become Insurance Carrier/Retirement Services Members.

Rule 57, "Insurance Processing Service" Rule 57 is revised to refer to the "Insurance and Retirement Processing Services" in place of the "Insurance Processing Service." In addition, an error in Section 2(a) is corrected to state that the service is offered by NSCC.

Addendum Q, "Standards of Financial and Operational Capability for Insurance Carrier Members" Addendum Q is revised to reflect that broker/dealers that are Insurance Carrier/Retirement Services Members or are applicants must meet the general qualifications currently applicable to Insurance Carrier Members (other than with respect to financial qualifications that are applicable solely to insurance companies). In addition, Addendum Q is

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<sup>7</sup> References to "Insurance Carrier Members" and the "Insurance Processing Service" are replaced with the new terms throughout NSCC's Rules; however, due to the extent of their use throughout the Rules, these changes have not been reflected in Exhibit 5 to the proposed rule change.

revised to reflect that such broker/dealers must also maintain \$50,000 in Excess Net Capital.

The proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder because the addition of retirement and other benefit plans and programs offered by registered broker/dealers will permit the processing of additional financial products through NSCC and is designed to promote the prompt and accurate clearance and settlement of transactions and to assure the safeguarding of securities and funds in the custody and control of NSCC.

(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 has become effective upon filing pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>8</sup> and Rule 19b-4(f)(4) thereunder<sup>9</sup> because the proposed rule effects a change in an existing service of NSCC 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 those members using the service. At any time within sixty days of the filing of such rule change, the Commission may summarily abrogate such rule

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>9</sup> 17 CFR 240.19b-4(f)(4).

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 Act.

#### 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 Number SR-NSCC-2006-16 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 Number SR-NSCC-2006-16. 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. The text of the proposed rule change is available at NSCC, the Commission's Public Reference Room, and <http://www.nsc.com/legal/2006/2006-16.pdf>.

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 Number SR-NSCC-2006-16 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>10</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).