

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55157; File No. SR-NSCC-2006-12)

January 23, 2007

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Granting Approval to Proposed Rule Change Relating to Buy-Ins of Municipal Securities

I. Introduction

On October 16, 2006, the National Securities Clearing Corporation (“NSCC”) submitted to the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to modify NSCC’s rules concerning buy-ins of municipal securities. The proposed rule change was published for comment in the Federal Register on December 14, 2006.<sup>3</sup> No comment letters were received on the proposal. This order approves the proposal.

II. Description of the Proposal

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 is modifying 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 of 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

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 54900 (Dec. 8, 2006), 71 FR 75286.

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 voluntary corporate reorganizations), an NSCC member that has a long CNS 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 CNS 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.

While increased priority is provided to facilitate the allocation of the Buy-In Position in CNS, municipal securities are usually thinly traded and 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 MSRB rules, which entails issuing a new buy-in notice and then waiting an additional ten days before executing the buy-in. As a result, a member typically will request that NSCC exit the municipal security Buy-In Position from CNS, and NSCC will exit the municipal security from CNS, which results in receive and deliver obligations for the affected parties two days later.

To assist members in their timely processing of buy-ins of municipal securities, NSCC is modifying its rules and procedures to automatically exit from CNS unsatisfied municipal security Buy-In Positions. Under the new procedures, CNS will automatically exit such positions prior to the night cycle on N+1. This will create a broker-to-broker close-out receive and deliver obligation between the member with the long CNS position and the member(s) with the oldest

short CNS position(s). Thus, the Buy-In Position will be automatically exited from CNS one day earlier than is currently the case and the buy-in process under MSRB rules can likewise commence one day earlier.

### III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, the Commission believes the proposal is consistent with the requirements of Section 17A(b)(3)(F),<sup>4</sup> which among other things, requires the rules of a clearing agency to promote the prompt and accurate clearance and settlement of securities transactions. By automating and accelerating the exiting of unsatisfied municipal securities Buy-In Positions, the new rule should expedite and make more efficient the processing of municipal securities buy-ins. As a result, the new rule should promote the prompt and accurate clearance and settlement of such securities transactions.

### 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

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<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).

proposed rule change (File No. SR-NSCC-2006-12) be, and hereby is, approved.<sup>7</sup>

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>8</sup>

Florence E. Harmon  
Deputy Secretary

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<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).