time frame.⁵ Trades compared after such time as established on T+2 will not be included in the normal settlement cycle.6 All transactions entered into NSCC's balance order accounting operation or into the foreign security accounting on T+2 or thereafter will be processed on a trade-for-trade basis.7 The proposed rule change will amend NSCC Rules to provide dividend protection to an "as of" trade entered at least two business days prior to the payable date.8 Only trades in balance order securities executed on the New York Stock Exchange ("NYSE"), American Stock Exchange ("Amex"), and over-the-counter ("OTC") compared on T and T+1 will be netted, and the net balance orders will be issued on T+2.9 Continuous Net Settlement ("CNS") eligible items will be entered into the CNS accounting operation for transfers through NSCC's Automated Customer Account Transfer ("ACAT") Service on T+1.10 All time frames relating to voluntary corporate reorganizations processed through NSCC's CNS Reorganization Processing System will be shortened by two days.¹¹ NSCC's Procedures will require that the adjustment contract totals represent the combined input for T through T+2 that is compared.¹² Trades reported on the Consolidated Trade Summary will include trades compared through T+1.13 As-of-trades submitted two days prior to payable date will be included in the dividend activity report.14 A member will be informed of its potential liability from a short position on T+2.

The proposed rule change also makes a certain ancillary modifications to NSCC's Rules and Procedures in order to delete references to obsolete services, procedures, forms, and methods of communications. All references to the SCC Division of the NSCC are being eliminated.¹⁵ Cross-references to specific rules which contain timing provisions are being changed to refer to

¹⁰ Rule 50, Section 10.

- ¹² Procedure II.B.1(c).
- ¹³ Procedure VI.A.
- 14 Procedure VII.G.2.

¹⁵ The SCC was one of the predecessors of NSCC, and its rules were incorporated into NSCC's rules. To ease the transition at the time of NSCC's formation, NSCC retained the reference to the SCC by indicating that the rules were for the SCC Division. the rules generally. Furthermore, the clauses beginning with "up to and including" in the definitions of "Comparison Operation", Foreign Security Accounting Operation", and "Balance Order Accounting Operation" also are being eliminated.¹⁶

The definitions of "Basket Trade" and "Mini Basket" contained in Rule 1 are being deleted because NYSE no longer offers these types of products, and therefore, NSCC does not clear it. Accordingly, references to Basket Trades and Mini Baskets contained in NSCC's Procedures and fees for processing these trades are being deleted.¹⁷

References to nonmembers' ability to use NSCC's New York State Transfer Taxes service are being eliminated because no nonmember has requested the use of NSCC's facility to pay these taxes in over ten years.¹⁸ NSCC is limiting the number of banks which can hold securities pledged by members for the NSCC clearing fund by providing that these banks will be chosen by NSCC and not by the members.¹⁹

There are several places in NSCC's rules where changes are being made to reflect the continuing automation of systems and the elimination of paper intensive processes. These include the elimination of the use of certain forms, changing references to data received rather than tickets delivered, and the elimination of the requirement of acknowledging transactions through paper submission.²⁰

NSCC is amending rules to clarify that NSCC has the right to deny access to additional services to members that are not currently using the service if NSCC does not have adequate capability to perform that service.²¹ NSCC is amending its rules to reflect the current

 $^{17}\,\rm Procedures$ II.A and H and Addendum A, Section 1.E.

²⁰ Such changes can be found in the following sections.

Rule 7, Sections 3 (eliminates need of member to confirm to NSCC contract lists)

Rule 12, section 1

- Rule 18, Sections 2 and 3 (eliminates return of tickets when NSCC ceases to act for a member)
- Procedure VII.D.2(c)
- Procedure VII.I
- Procedures VIII.A and B (eliminates clearance/ settlement statement)

Procedure XIV

²¹ Rule 2, Section 3 and Procedure IV.D.

practice of NSCC preparing all checks sent to members.²²

The exchanges and the NASD have rules concerning good delivery of physical securities.²³ NSCC is amending its rules to require that deliveries must meet such good delivery requirements.²⁴ NSCC's rules on good delivery are being deleted.²⁵

Pursuant to Addendum F, members who have failed to pay timely amounts due have been required to settle amounts greater than \$100,000 in Federal Funds. NSCC's settlement rule is being amended to reflect this longstanding practice.²⁶

NSCC is eliminating the ability of members to charge an amount to their account at NSCC.²⁷ Members may use NSCC's Funds Only Settlement Service to achieve the same objective. NSCC is deleting references to the Signature Distribution Service because the service was never implemented and has been made obsolete with the introduction of current Medallion Program.²⁸ NSCC will require that close outs be completed promptly when NSCC ceases to act for a member.²⁹

NSCC is amending its rules to provide that only the board of directors, the chairman of the board, the president, executive vice president, and certain designated officers of NSCC may suspend the rules when necessary or expedient.³⁰ NSCC will inform the Commission of any change in the officers designated to suspend the rules.31 Similarly, NSCC rules now will provide that except where action of the board of directors is specifically required, only the chairman, the president, any executive vice president, the secretary, and certain designated officers may take action on behalf of NSCC.32

NSCC's Procedures now will include references to when-distributed transactions, which result from stock splits and are treated in the same manner as when-issued transactions.³³ NSCC's Procedures will state that the settlement date for corporate debt new

- ²³ See, e.g., NYSE Rules 175-226.
- ²⁴ Rule 9, Section 1.9 and Rule 44, Section 7.
- ²⁵ Rule 44, Sections 8–39.
- ²⁶Rule 12, Section 1.
- ²⁷ Rule 13.
- ²⁸ Rule 17.
- ²⁹ Rule 18, Section 2.
- ³⁰ Rule 22.
- ³¹ Letter from John P. Barry, Associate Counsel,
- NSCC, to Jonathan Kallman, Associate Director,
- Division of Market Regulation, Commission (March 27 1995).
 - 32 Rule 23.

⁵ Procedures III.D, VII.B., VII.C., XIII, and Addendum K. In addition, the time frame for NSCC's guarantee of trades contained in Addendums K and M will begin on T+2. References to a five day settlement time frame contained in Procedures II.I.2 and 3 and III.C will be deleted.

⁶ Procedures II.B.1(c), II.C.2(f), II.D.2(i), and III.E. ⁷ Procedures V.B and VI.B.

⁸ Rule 11, Section 8(d).

⁹Procedure V.C.

¹¹ Procedure VII.H.4(b).

¹⁶ Rule 1.

¹⁸ Rule 3, Section 2 and Rules 14 and 26.¹⁹ Rule 4, Section 1.

Rule 5, Section 1

Procedure X.B

Addendum A, Sections IV.S and V.B

Addendum C, Section 1

²² Rule 5, Section 2.

³³ Procedures II.A and E.