vehicle to compress the trade comparison cycle thereby facilitating the prompt and accurate clearance and settlement of securities transactions and enabling NASD members to know their positions and market exposure before trading commences the next day. As a facility of The Nasdaq Stock Market operated by The Nasdaq Stock Market, Inc. ("NSMI") subsidiary of the NASD, access to the ACT system is limited to NASD members. Recently, the NASD received a request from West Canada for access to ACT for trade comparison purposes only.5 Presently, when an NASD member effects a transaction with a West Canada member, the transaction typically is compared, cleared, and settled in the following manner. The NASD member enters the trade into ACT with the West Canada member designated as the contra-party. Because the West Canada member presently is not an ACT participant, ACT will respond to the NASD member "contraside not ready." ACT then will report the trade for trade reporting purposes and will transmit the trade to the National Securities Clearing Corporation ("NSCC") as a one-sided trade for trade comparison. The West Canada member submits the trade information to West Canada that in turn sends the trade to the Midwest Clearing Corporation ("MCC"). MCC then transmits the trade report to NSCC by 2:00 a.m. on T+1 for comparison. NSCC then compares the trade reports, and assuming there is a match, NSCC submits the West Canada member's side of the transaction to MCC for clearance and settlement; the NASD member's side of the transaction is retained by NSCC for clearance and settlement. If there is a discrepancy concerning the terms of the transaction, the trade reconciliation process involves the two clearing corporations and the two parties to the transaction and can last until T+3. Although the NASD believes that the facilities of NSCC and MCC have been used to compare trades between NASD and West Canada members adequately, the NASD believes the trade comparison procedure for these trades would be streamlined and made more efficient through the use of

The proposal to provide West Canada access to ACT has been structured so that the primary parties to the arrangement are West Canada and NSMI, the NASD subsidiary that owns and operates ACT. Rather than

negotiating separate contracts with each individual organization, the NASD believes that it is more efficient for NSMI to negotiate with the exchange, market, or clearing entity to which the non-NASD member belongs, in this case West Canada. Accordingly, under the proposed rule change, West Canada will operate as a service bureau to input information into ACT on behalf of West Canada members. Individual West Canada members will not be able to obtain access to ACT unless there is first an overriding, umbrella-type agreement reached between NSMI and West Canada. Thus, whenever NASD members transact with West Canada members in ACT eligible securities, they will be able to use ACT just as they do now for comparing regular-way trades with other NASD members.

In order for West Canada to have access to ACT, proposed Section (b)(5)(B) of the ACT Rules provides that West Canada must execute a Nonmember Clearing Organization ACT Participant Application Agreement. This agreement will require West Canada to abide by the ACT rules and regulations and will ensure that trades processed through ACT by West Canada on behalf of West Canada members will be accepted for clearance and settlement. The agreement also will address NSMI concerns over nonpayment of service charges, the financial exposure and liabilities of the parties, and methods of redress should West Canada or a West Canada member fail to comply with the relevant NASD rules and regulations. In addition, proposed section (b)(5)(B)(6) of the ACT Rules provides that West Canada will not be able to input information into ACT on behalf of a West Canada member unless such member also enters into a Non-Member ACT Access Participant Application Agreement with NSMI. In the case of a clearing broker, this agreement provides that the member will accept and will settle each trade that ACT identifies as having been effected by such member or any of its correspondents on the regularly scheduled settlement date. In the case of an order entry firm, the firm must agree to accept and settle each trade that it has effected or, if settlement is to be made through a clearing member, guarantee the acceptance and settlement of each ACT-identified trade by the clearing member on the regularly scheduled settlement date.

The proposed rule change also provides that a nonmember clearing organization will not be given access to ACT unless it: (1) Is a clearing agency registered under the Act; (2) maintains membership in a registered clearing agency; or (3) maintains an effective clearing arrangement with a registered clearing agency. West Canada has an effective clearing arrangement with MCC and thus satisfies this requirement. This requirement will ensure that non-NASD members given access to NASD facilities will otherwise be subject to Commission regulation in general, and Commission regulation concerning the comparison, clearance, and settlement of securities, in particular.

The proposed rule change also provides that West Canada may permit its members that operate as clearing brokers or order entry firms to have direct access to ACT but only if the West Canada member has executed a Non-Member ACT Participant Application Agreement with NSMI. This agreement will help to ensure that West Canada members adhere to relevant NASD and Commission rules and regulations and commit to accept and settle or guarantee the acceptance and settlement of trades for which ACT has identified those members as being responsible.

Ås a result, the inefficiencies inherent in the current practice of submitting two-sided transaction reports to two separate clearing corporations for each transaction for comparison will be eliminated. The compressed comparison cycle in turn also should result in lower exposure to NASD members and their customers from price movements while

⁵ The present filing solely addresses the access of West Canada to ACT. Other proposals concerning nonmember access to ACT, if any, will be raised in separate rule filings submitted pursuant to Section 19 of the Act.

⁶ In January 1983, MCC, Midwest Securities Trust Company ("MSTC"), the Vancouver Stock Exchange, and the Vancouver Stock Exchange Service Corporation ("VSESC"), (now known as West Canada Clearing Corporation ["WCCC"]) ("VSESC/WCCC") created the American and Canadian Connection for Efficient Securities Settlements ("ACCESS"). Through ACCESS, overthe-counter securities transactions between the U.S. and Canadian broker-dealers in both U.S. and Canadian securities are compared, cleared, and settled. Trades between U.S. and Canadian brokerdealers involving securities listed on U.S. securities exchanges. Canadian securities exchanges, or the National Association of Securities Dealers Automated Quotation ("NASDAQ") System are eligible for clearance and settlement through ACCESS. To establish ACCESS, VSESC/WCCC became an MCC/MSTC participant, and opened separate sponsored MCC/MSTC accounts for Canadian broker-dealers that were participants of VSESC. As an MCC/MSTC member, VSESC/WCCC is liable as principal (i.e., guarantees) all trades that it submits including all trades in its sponsored accounts. Some safeguards on ACCESS activity include, contributions by VSESC/WCCC to MCC/ MSTC's participant fund based on VSESC/WCCC's total activity, and a cash reserve of over 250,000 Canadian dollars maintained by VSESC/WCCC to be used to satisfy the obligations of any VSESC/ WCCC participant that may become insolvent. In addition, VSE guarantees all VSESC/WCCC liabilities to MCC/MSTC. Letter from Jonathan Kallman, Assistant Director, Division of Market Regulation, Commission, to Michael Wise, Associate Counsel, MCC/MSTC (September 12,