

and C below of the most significant aspects of such statements.²

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

RTTM³ was implemented by the Government Securities Clearing Corporation ("GSCC"), an NSCC affiliate, in the fourth quarter of 2000 for the processing of government securities. It was designed with a vision to also use the platform for other fixed income securities. Once RTTM was deployed for government securities, GSCC and MBS Clearing Corporation ("MBSCC") worked together to adapt RTTM to support the requirements of mortgage-backed securities and was implemented by MBSCC on September 27, 2002. The next logical extension of RTTM is its further adaptation for fixed income securities that are eligible for processing by NSCC. NSCC currently plans to implement RTTM for corporate bonds, municipal bonds, and Unitary Investment Trusts ("UIT") in the fourth quarter of 2003. RTTM will eventually replace NSCC's current FITS.

One of NSCC's main objectives will be to ensure an orderly transition to RTTM. In order to prepare participants for the new RTTM functionality, NSCC proposes that certain modifications be made to FITS during March 2003. These modifications will enable participants to become familiar with RTTM-type processing. In addition, some lesser-utilized FITS functionality that will not be incorporated into RTTM will be eliminated from FITS. The proposed modifications have been endorsed by the RTTM Working Group, which consists of representatives of participants who maintain key positions in The Bond Market Association, the Securities Industry Association, and the Regional Municipal Operations Association.

The following is a summary of the proposed modifications to FITS:

- FITS will automatically compare a trade even if the counterparties submit data on the trade in different pieces, a process known as "trade summarization."⁴

² The Commission has modified the text of the summaries prepared by NSCC.

³ RTTM provides firms with the ability to compare trades shortly after execution. It will facilitate Straight Through Processing by utilizing a single pipeline with one communications link for all fixed income products. Standardized message formats are utilized for all inbound and outbound interactive transmissions.

⁴ For example, Firm A submits one trade for \$30 million and Firm B "breaks down" the trade into three \$10 million pieces. Alternatively, Firm A and Firm B may execute five separate trades each worth

- Except for trades where the settlement date is the same business day as or the business day after the trade date,⁵ FITS will be modified to accept (instead of reject) trade submissions with a contractual settlement date of the day of input or of prior dates and will automatically assign a settlement date of the next business day to the trades.

- Corporate bond trades in quantities of other than multiples of a thousand (round-lots) must be divided into separate data submissions of the round lot quantity and the odd-lot quantity (multiples of less than one thousand).

The following is a summary of functions that NSCC proposes to eliminate from FITS:

- Demand As Of processing.⁶
- One Sided Deletes for compared, secondary market municipal security trades. In order to delete these trades, both counterparties will be required to submit Withholds that match in all respects.⁷

- Trade Submit and Carry Forward Totals will not be reported on the Supplemental and Added Trade Contracts.

- Regular Way Extended Settlement Carry Forward Totals.⁸

Along with these proposed changes, NSCC proposes to change the current cutoff time for trade submission and will require the submission of certain additional trade data.⁹ Finally, NSCC wishes to make a technical correction to the use of the term "business day" in its rules. During the preparation of this filing, NSCC realized that the use of upper and lower case letters for the term is inconsistent in the rules. In order to carry out the intention of the drafters of the rules, NSCC proposes that each use of the term throughout its rules be "business day" (lower case) as specified

\$10 million. Firm A submits each trade separately while Firm B "bunches" the five trades into one \$50 million piece. In both of these examples, the trades will be compared.

⁵ NSCC will continue to reject trades where the settlement date is the same business day as or the business day after the trade date regardless of the date of submission.

⁶ The As Of capability will still be available to compare trades that do not initially compare in FITS. The As Of capability requires the submission by each counterparty of data that matches in all respects whereas the Demand As Of capability permitted a trade to be "force compared" on the submitter's terms even if the counterparty did not respond.

⁷ One Sided Deletes functionality will be retained for syndicate takedown transactions and for uncomparated municipal bond, corporate bond, and UIT trades.

⁸ Carry Forward Totals will be retained on New Issue Contracts.

⁹ The details for these technical changes can be found in Exhibit C to NSCC's proposed rule change, which is an important notice that was distributed to NSCC's participants on October 2, 2002.

in the definition of that term in NSCC rule 1-1.

NSCC believes that the proposed rule change is consistent with the provisions of the Act and the rules and regulations thereunder because it would prepare its participants for the new RTTM functionality that will enable NSCC to process trades in the efficient manner that is currently utilized by GSCC and MBSCC in connection with other fixed-income trades.

B. Self-Regulatory Organization's Statement on Burden on Competition

NSCC does not believe that the proposed rule change will have an impact on or impose a burden on competition.

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

No written comments relating to the proposed rule change have been solicited or received. 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 35 days of the date of publication of this notice in the **Federal Register** or such longer period (i) as the Commission may delegate up to ninety days of such date if it finds such longer period to be appropriate and published 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0069. Comments may also be submitted electronically at the following e-mail address: rule-comments@sec.gov. All comment letters should refer to File No. SR-NSCC-2002-10. This file number should be included on the subject line if e-mail is used. To help us process and review comments more efficiently, comments should be sent in hardcopy or by e-mail but not by both methods. Copies of the submission, all subsequent amendments, all written statements