

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

A NATIONAL SYSTEM FOR REPORTING, CLEARING, AND SETTLING
OVER-THE-COUNTER SECURITIES TRANSACTIONS

October 10, 1969

October 22, 1969

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OVER-THE-COUNTER SECURITIES TRANSACTIONS

Early this year, the National Association of Securities Dealers (NASD) committed to implement a nationwide "net-by-net" system to clear and settle over-the-counter securities transactions for its membership. A key objective of this system is to reduce "fails." This writing sets forth the functional specifications for such a system.

NET-BY-NET, OR CONTINUOUS NET SETTLEMENT

"Net-by-net" is a method of accounting for, clearing, and settling securities transactions. By this system a clearing member's open security positions as well as money balance are brought forward daily on a perpetual inventory basis. In essence, net-by-net continues where other systems which summarize (net off) transactions on a daily basis leave off--by merging daily balances and carrying them forward, leaving all fail items in the system until settlement activity occurs. It is thus a process of continuing (continuous) net settlement--beginning with the reporting of trades by clearing members and ending with the clearance of securities delivered with a corresponding money settlement by the Clearing house.

The clearing member carries but one net position for each security, and but one net money position for each daily settlement, with such positions updated by trades due to settle and by receipts and deliveries. The net settlement balance of the clearing member, whether due to or due from, is with the Clearing house, the contra-side to the members' settlements, and all settlements, receipts and deliveries are made directly to that point.

In the NASD system securities made available (delivered) from members owing them to Clearing are allocated by means of a computerized process on a formula basis to members due them. Clearing maintains a securities box

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which in effect is an extension of the box position of each clearing member.

The system also can serve as a securities depository for clearing members. Securities can be maintained on deposit in the system either in a safekeeping category, not available for use by the Clearing house unless by specific instructions from the member in whose account they are held, or a loan category, available for use by Clearing without specific instructions by the member..

Open purchases and sales are marked-to-market after settlement date. Through this procedure the clearing members on either side (with securities due to or from clearing) are protected to the extent of the current market value of each security. When the market price goes up, an under-deposit condition is created for the member owing securities to the system, and the resulting differential is figured into his daily money settlement due to the Clearing house. When the market price goes down, an over-deposit condition is created for the member owing securities to the system, thus lowering his net money settlement obligation due to the Clearing house. The money position (over-under deposit) of the member due securities is affected conversely in each of these situations, thereby maintaining the system's equilibrium.

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IMPLEMENTATION

To implement this system on a nationwide basis will require the performance of functions at a national as well as area and regional levels.

THE NATIONAL LEVEL

A national securities clearing company, now being organized by the N.A.S.D. as a subsidiary corporate entity, will have the primary responsibility for defining and implementing the clearing system. In so doing, it may itself operate facilities to clear and settle securities transactions, and it also may contract with others to do so on its behalf--subject to unified system controls, standards and specifications.

Initially the national securities clearing company will:

1. Establish the specifications for the nationwide trade reporting and clearance system.
2. Formulate clearing membership requirements and determine the securities that will be cleared through the national system at successive phases of system development.
3. Negotiate agreements with various exchanges or other outside agencies to operate area clearing centers--subject to national supervision and control.
4. Direct and oversee the development of an "education package" for use by all area centers, standard with respect to scope, but allowing for minimal necessary modification for each center. The package (actually a set of packages) will be designed for the use of both clearing member and area center personnel. For the clearing members it is intended that separate packages for clerical operations, administrative personnel, and officer level will be developed. Area center education will emphasize the

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administration and operation of the system.

5. Monitor the developmental efforts and the implementation of the clearing system by those selected to operate the area clearing centers.
6. Establish charges for services rendered by clearing centers.
7. Establish a continuing reporting system between it and those selected to operate the area centers.

Later, the national securities clearing company will:

1. Determine the requirements for the operation of a national clearing center and implement such a center accordingly.
2. Expand the trade reporting portion of the clearing service to provide nationwide coverage utilizing the capabilities of the NASDAQ system.

The clearing service will be made available to the securities industry on a planned basis. A long-range goal is to offer the service to all members of the National Association of Securities Dealers.

THE AREA LEVEL

The area clearing centers will carry the major responsibility for settling securities transactions and will represent the immediate thrust to the national clearing program. (Regional centers will be formed and deployed by area center operators, as required, for systems support to the area clearing centers in activities such as reporting trades, moving securities, etc. The national center will come into being as soon as inter-area requirements necessitate.)

It is recognized that area centers probably will not be identical; however, since each center's operations must be compatible with overall specifications, each will be organized and operated functionally in the standard manner to be described below. Further it is recognized that not all of the services comprising the total planned scope will necessarily

be implemented at the same time either concurrently within the area center or simultaneously between area centers.

Area centers will provide two basic categories of services for users-- a trade reporting and comparison service, and a continuous net settlement clearing service. Centers will accept trade and securities delivery information from clearing members, effect a two-sided comparison of trades, enter valid data into clearing, and handle money and securities settlement among participating clearing members. The area center also will develop and prepare control information concerning performance of both the clearing member and the clearing system, as well as certain accounting and control reports.

Design goals are as follows:

1. Develop the capability for capturing trades, with initial efforts directed to the saturation of trade reporting within the area and later efforts to inter-area trade reporting.
2. Employ a trade reporting discipline to match both sides of each trade to determine the unmatched and matched trades, and enter only valid compared input into the clearing system.
3. Install and operate a continuous net settlement system within the framework set forth in the following general systems specifications. (It is important to point out that the specifications described herein later will be expanded to cover certain matters in more detail.)
4. Maintain accounting and controls reports necessary to support all trade reporting, comparisons, and settlements and retain back-up records in auditable form.
5. Develop the system so that it can be capable of revision economically to meet substantial growth.

NATIONAL/AREA INTERFACE

It is important that all area centers operate in standard fashion functionally within tolerant variations. The national securities clearing company will monitor the services planned by the area center, including, but not limited to:

- o Area Center Design Plan: Continuing review of area center progress in system design. Such review would continue through implementation of the system.
- o Area Center Test Plan: Review of how the area clearing center proposes its system will be tested. Approved results of the specified test plan will insure conformity to prescribed requirements.
- o Records: Area centers must establish and maintain records covering operations. Programs must be documented and satisfactory member records and related control records must be maintained. Records pertaining to the national clearing system must be separate from those pertaining to other non-related area center activities. All pertinent records will be made available for review.

Additional matters involving national/area center coordination will be set forth in a separate writing.

SYSTEMS SPECIFICATIONS

The two primary services, trade reporting and comparison, and continuous net settlement, can be planned and implemented separately.

TRADE REPORTING AND COMPARISON SERVICES

All trades between clearing members made in securities admitted to clearance shall be reported to the area center for comparison and clearance. Only those trades for which both sides are compared shall be entered into the clearing records.

Clearing members will report their trades for the day (both buys and sells) to their respective area centers the evening of the trade date (T) in order for these trades to be considered for the current day's comparison list and transaction blotter. In any event all trades shall be reported by 10 A.M. local time on the day following trade date. In this case trades will be included on the next day's (T + 1) transaction blotter. Members may report trades in a single batch at the end of the day or in several batches throughout the day. Acceptable inputs include punched cards, magnetic tape, manually prepared trade input forms, or via data communications (should such capability exist). Trade input will be designed to accommodate CUSIP codes for security and broker identification, although the initial period of area center operation may require the use of the area center's reporting codes (and necessarily future computer interface between different area center reporting code structures). A specific trade input format will be defined in a later writing.

On the evening of trade date, comparison matching (of both sides of trade) will be performed for those trades received by the system. Additions (as-of) and deletions (withhold) of trades will be compared on the basis of the original trade date. Separate daily trade comparison lists will be

prepared for each side. The hierarchy for matching trades in security sequence is given as:

- o Match on price, total shares, both sides; construct matching totals where possible
 - o Match on price, equal shares, both sides
 - o The remainder will be uncomparared either on price, shares or both
- Compared trades, uncomparared trades (not submitted by other side) and advisories (submitted by other side but not reported by side for which comparison list is being prepared) are to be shown separately on a daily Trade Comparison List, which serves as an edit list. Only matched trades are listed on the daily Transaction Blotter, which is the official input document, and allowed to proceed further in the clearing process. Advisories and uncomparared trades are to be held in a pending file and matched, if possible, on re-entry of corrected information.

The time frame and cycle for trade input/Transaction Blotter processing is given as:

- o T - Trades reported evening of T
- o T + 1 - Trade Comparison Lists and Transaction Blotters available morning of T + 1 not later than 7 a.m. local time.
- o T + 2 - First re-entry (T + 1) of corrected trades from T, if matched, shown on Transaction Blotter of T + 2. Late trades of T, which could have been treated as uncomparareds or advisories on T + 1, entered on T + 1, if matched, shown on Transaction Blotter of T + 2.
- o T + 3 - Second re-entry (T + 2) of corrected trades from T plus first re-entry (T + 2) of corrected trades from T + 1, if matched, shown on Transaction Blotter of T + 3.

- o Remaining unmatched trades are dropped from file on T + 3 (trade must clear ex-Clearing).

The following are basic elements for both the Transaction Comparison List and the Transaction Blotter printouts prepared by the area center.

(Note sample format of Comparison List, Exhibit A.)

- o Buy/Sell Code
- o Buyer Identification
- o Seller Identification
- o Security Identification (CUSIP # if employed)
- o Security Description
- o Shares Bought/Sold
- o Price (contract per share)
- o Value (price x shares)
- o Transaction Date
- o Settlement Date
- o Special Transaction Codes or Control Numbers

Transactions are listed individually. Shares and money are summarized by security, with total money recapped for all daily activity.

CONTINUOUS NET SETTLEMENT

Each clearing member's compared trades and subsequent additions and corrections are accumulated until late in the day before settlement date. After that day's settlement activity has occurred, trades due to settle the next day are netted out for each security. This net position is then merged with the previous open net position of the firm in each security and a single balance position (either long or short) is carried forward for each security. (Previous balance plus or minus the net balance due to settle equals the net clearing balance.) The member's position in each security is then with the

clearing house, the common contra-side of every item open on settlement date.

Securities positions within the system are defined as either valued (which represent securities due to or from the clearing members, and which carry a valuation) or free (which represent paid-for securities and, therefore, are not valued).

It is important to bear in mind that, although the continuous net settlement system's primary function is to provide a method for clearing and settling securities transactions, it also serves as a depository for securities the clearing members want to be retained by the system. Securities need not be ordered out if the clearing member does not require them; a clearing member may even deposit paid-for securities with the system. Certain of these securities may be used by the Clearing house to satisfy settlement of items which otherwise would be failing. A complete definition of categories follows:

<u>Position Categories</u>	<u>Definition; discussion</u>
Loan - free	Securities delivered to the Clearing house intended for loan use; until borrowed, they are classified as "loan-free," and are not valued. These securities may be borrowed, automatically (without specific instruction from the member) to fill settlement requirements due members by the Clearing house if such positions cannot otherwise be filled through current day's deliveries into the system.
Loan - value	Following the above, when securities are used for loan purposes, the position shows them as "loan value," Note: Securities in loan status are delivered to or removed from the system only upon

instructions submitted by the member. A member's securities intended for loan use or loaned remain in the system in either of the two loan position categories, moving between them as discussed above. They are not moved into any other position categories unless by specific journal instruction from the member. Similar to "loan-free" in the respect that securities are not valued, safekeeping represents securities that have been paid for by the member, but which have not been ordered out. Securities are in the safekeeping category as a result of (1) allocation to long-value positions of securities delivered by members against short positions, (2) free deliveries by the member itself and (3) deliveries in excess of the members' short-value positions. No securities are delivered to the member from Clearing except those which he orders out by instruction. Thus, members order out safekept securities they want to be removed from the system. Conversely, securities in a safekeeping status are considered to be segregated, and are not available for use by the system unless the member so allows, by means of instructions calling specifically for their release.

Safekeeping

Long - value

Created on settlement date for net purchases. Open long-value positions are valued at current market price daily. When securities are allocated against a long-value position, the member is charged at current market price and the paid-for securities are either re-classified in safekeeping category or delivered out against specific delivery instructions.

Short-value

Created (a) on settlement date for net sales; (b) when securities are delivered out to a member in absence of a short position. Open short-value positions are valued at current market price daily. When securities are delivered by the selling member, the position is credited at current market price. However, securities delivered in excess of the short position are not paid for, and are classified safekeeping, since they represent paid-for or free securities.

Transfer

Represents securities in transfer, the member having submitted transfer instructions (order-outs) to Clearing for this purpose. Generally, transfer instructions are submitted against "long valued" positions, and when securities become available to fill these positions, the member is charged by means of the computer allocation process and the securities are used to fill the transfer orders.

Prepaid Transfer

Transfer instructions can be submitted against long-value positions and paid for at that time on a "prepaid" basis. If prepaid, the transfer instruction is given priority over long-value positions in the allocation process.

Affecting the settlement of securities are:

1. Compared (valid) trade input due to settle.
2. Securities received by the Clearing house against short positions (due from members).
3. Securities allocated by the Clearing house to fill long positions (due to members), either from securities delivered to the system against short positions (2, above), or from securities borrowed from members (from loan-free status).

From the standpoint of securities movements, the accounting for a member's current daily net settlement position for each security is:

Opening Position: number of shares (long if due from Clearing, short if due to Clearing),

plus (algebraically)

Current day's Due-to-Settle Items: number of shares settling (long or short) after giving effect to current day's netting,

plus (algebraically)

Current day's Activity: number of shares delivered by member against short positions due to Clearing, delivered to member against long positions (either from short position deliveries or by borrowing from members' securities held in free status) due from Clearing.

equals

Closing Position: this position becomes the following day's opening position.

Net Settlement Statements: There are two daily statements prepared for settlement purposes. The first, Position and Accounting Report, prepared after the allocation routine and available mid-afternoon on the day prior to settlement date, shows each security currently failing (to or from Clearing) and each security which had settling activity on the day the statement was prepared.

Entries are summarized by security, identifying:

- o Valued Positions, long or short
- o Loan-Free positions
- o Safekeeping positions
- o Prepaid transfer instructions
- o Securities in transfer

Valued positions include a market valuation based upon the most current market price available, whereas other positions do not. In addition to security identification and descriptions the statement includes the following elements:

- o Opening Net Position: Open securities positions due to or from clearing after the prior day's receipts and deliveries
- o Due To Settle Contracts: The net number of shares of all trades due to settle on settlement date.
- o Current Day's Activity. Deliveries of securities by the member against short positions and for loan or safekeeping purposes are credited to short-value, loan-free, and safekeeping categories, respectively. Entries showing the allocation of securities by the computer to long and/or loan-value positions are shown in the respective value categories. Securities allocated to long positions, but not ordered out by the brokers are credited to the safekeeping category.. Entries filling open transfer orders

(by allocation) are charged to the transfer category and credited to the free or valued position from which the securities were drawn. Entries covering prepaid transfers credit the long and loan-value positions and charge the prepaid transfer category. The re-entry of completed transfers (offsetting open transfer positions) is shown as a credit to these transfer categories. Journals covering securities ordered out from the system or into other categories within the system are reflected in the affected categories.

o Closing Net Position.

This is the algebraic sum of the above, and it becomes the Opening Net Position on the following day's statement. The Pay/Collect amount, determined at the conclusion of the day's allocation run, is shown at the bottom of the statement. This figure will include net dividend charges and credits and other miscellaneous items.

o Market Price: Closing market price on the prior day for each security carrying an open position.

The other daily settlement report is the Projected Settlement Journal, which shows the next day's projected net short settlement position for each security. Included separately on this journal also are any securities held by Clearing for the clearing member in the loan (free) category, so that the member has such information readily available in the event he wishes to use such securities to effect current settlement. A copy of this journal will accompany deliveries to Clearing from members.

Examples of suitable formats for the Position and Accounting Report and the Projected Settlement Journal are shown as Exhibit B.

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Other reports to be designed for use by the clearing members include, but are not limited to:

1. Weekly Unfilled Order-Out Requests
2. Weekly Securities-in-Transfer
3. Monthly Billing Report

The formats and content of these reports will be set forth in a separate writing.

Securities Allocation Procedure

The basic premise governing the allocation process is that all securities delivered to the system against short positions (due to Clearing) must be paid for upon delivery, and that the source of such payment must come from long or loan-valued positions. Funds are credited and charged accordingly. When securities are paid for by the buying (long-position) member, they are either immediately reclassified in safekeeping on a segregated basis, to be drawn out of the system only upon instruction by the member in whose account they are held, or they are delivered out immediately if order-out instructions can be filled. When securities in a loan-value position are repaid they are immediately reclassified in loan-free status.

Members order out securities in two forms--(1) street stock, or negotiable, and (2) transferred to customer, firm, or nominee name. Requests for such orders may be entered against securities already on deposit (paid-for) in the system, either to remove securities from loan or safekeeping entirely, or against long-value positions. Priority is given to paid-for securities first and unpaid (valued) positions second. Street stock requests retain a higher priority than transfer requests.

The computer allocation formula gives recognition to:

- o Relative priorities of various classifications of order-out requests.

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- o Dates of entry of order-out requests.
- o Dates of creation of long and loan value positions
- o Long value positions against which there are no order-out requests.
- o Need to draw down securities from the loan category to fill order-out requests when current day deliveries cannot fill them.
- o Size of the trade or short position.
- o Securities delivered into the system each day, and Clearing's ability to meet all order-out requests from them.
- o The disposition of securities delivered into the system daily in excess of order-out requests.

The securities distribution and delivery allocation is done on a priority basis. Prior to the actual allocation of securities to cover order-out requests, the computer will process journals instructing Clearing to move securities internally from loan free and/or safekeeping to cover short valued positions, and journals to move securities internally from (to) loan free to (from) safekeeping. (These journals to be defined in a later writing are prepared by the member.) Then the actual allocation to fill street stock order-outs or journals (which are accorded first priority) and transfer requests (which are accorded second priority) is made. The sequence of filling the above requests is as follows:

- o First. Requests ordering out securities against free positions (loans, safekeeping, and transfers or street stock order outs paid for when submitted) in which the positions are equal to, or greater than, the amount called for by the request. Requests against safekeeping and loans will be filled first, by date, then quantity within security. Prepaid order outs will be filled next, by date first, then by quantity within.

- 10 (1st) records
- 115 - 3*
- o Second. Requests against long-valued positions that will not create short positions. The sequence is by size of net position first, and by date within.
 - o Third. Requests against positions that will create short positions. The sequence is by size of net position first, and by date within.

If there are more requests for deliveries than securities delivered into the system against short positions, the excess is filled from securities in the "loan-free" category, in date sequence, oldest date first. If there are more securities delivered into the system against short positions than order-out requests, long-value positions are charged first, oldest date first, and then loan-value positions are charged, oldest date first.

Pay/Collect Routine

At the completion of the allocation run, the total extent of the Current Day's Activity is known for the first time (all deliveries to Clearing have been entered and all receipts of securities from Clearing to clearing members-- including street stock and transfer requests filled today and excess stock charged to clearing members with oldest long positions--have been determined). It is now possible to calculate the Pay-Collect amounts for individual clearing members and complete preparation of the Net Settlement Report.

This money settlement involves:

- o Crediting the short positions for securities delivered against them.
- o Crediting the member when his securities in loan-free category are used to fill order-out requests.
- o Charging the member whose loan or long-value position is being allocated securities.

The total amount credited then must equal the total amount charged. Opening and closing balances are marked-to-market and the day's activity

due to settle is taken into consideration. The determination of pay/collect amount is:

- o Closing Positions at current market price (long position has a debit money value, short position has a credit money value) minus algebraic sum of
- o Opening Positions at previous day's valuation (same algebraic values as above) plus (minus)
- o Current Day's Positions Due to Settle, valued at contract price (net purchases have a debit value, net sales a credit value) equals
- o Pay to Clearing if debit, Collect from Clearing if credit.

Cash control features must include the capability to adjust cash balances for any differences that might arise between the amount pre-calculated as due to Clearing and the actual amount paid by the member.

Dividends

In the course of securities clearance and settlement, the Clearing house accounts for dividends. Clearing must obtain dividend information required for this purpose and maintain it within the system through payable date. Members are afforded "dividend protection" on all open securities positions up to and including the last day for transfer and trade settlements after that date up to and including the "record date." Excluded, therefore, would be any deliveries made to clearing after the last day for transfer. Trades reported too late to settle in time for record, trades reported "as of" or "withhold", must be settled ex-Clearing.

When open valued positions (loan, long or short) exist on the last day for transfer prior to the record date, Clearing debits the short position and credits the long position for dividends. These entries are made to the member's Position and Accounting Report. The Clearing house should settle dividends on the "payable date." Position balances up to and including the

record date, disregarding the "ex-date", are used. Certificates that have been delivered to Clearing are transferred on behalf of the buying member, and dividends are received directly from the company. If securities being transferred miss record date, Clearing must charge the responsible member and credit the member due. Clerical procedures must consider the exclusion of deliveries of all street stock to the members ___ days before the last day for transfer. Loan free and safekeeping positions must be protected as to dividends due, controlled through the use of a Clearing nominee.

Exchanges, mergers, and conversions are to be treated by the Clearing centers in the same manner as dividends. For items that can not follow the kind of computer discipline that controls dividends, Clearing will journal shares and cash-in-lieu to the member's Position and Accounting Report. Members wishing protection on tenders and exchanges would be required to give written notice to Clearing ___ hours prior to expiration date, indicating the number of shares (not to exceed the position total). Clearing would not be expected to protect on a purchase which settles after expiration date. Detailed procedures and suggested reports covering dividends will be set forth in a separate writing.

Internal Clearing Control Reports

A suggested format for some of the major reports is set forth below:

o Daily Position Report (Box Control)

Prepared at the conclusion of the allocation run, showing each member's position of securities in the box (box consisting of loan-free and safekept securities). In addition to its use in proving and controlling securities held by clearing, this report gives meaning to the segregation feature of the system.

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- o Daily Picking List
Prepared after allocation routine, showing all order-outs (short stock in transfer) that have been filled. (Refer to later section on Clerical Procedures).
- o Daily Block Trade Control Report
Prepared on trade date for block trades. Block trade definitions and control procedures will be set forth in a separate writing.
- o Daily Cash Control Report
Gives financial accounting reliability to the system. This subject will be discussed in detail in a separate writing.
- o Listing of unfilled order-outs, securities in loan-free and safekeeping categories, and short positions (prepared on as-required basis).
- o Listing of unit and price data. Includes number of trades, order-outs (by type), receipts and deliveries by issue, dividend entries, shares traded; also value of trades and number of journal entries.

National Level Reports

The following reports (format and content to be established) will be among those provided to the national center either by communications interface or via bulk mail (schedule to be arranged). Other proposed national level reports will be discussed in a later writing.

- o Daily Pre-Settlement Market Variance Control Report
Shows market valuation of all trades between trade date and settlement date, compared to contract price.
- o Daily Block Trade Control Report
- o Member Position Balance Report
Shows all members carrying balances due Clearing on settlement date, identifying total debit, total credit and net money amounts.

(A similar report, still to be defined, would show balances due Clearing in excess of x dollars by security.)

AREA CENTER PROCEDURES

Area Centers will be responsible for formulating their own clerical procedures and manuals, subject to national-level review and concurrence. It is recognized that no two sets of procedures are likely to be identical but they should be functionally similar in scope and content.

Clerical Procedures

For handling the receipt of securities and order-out instructions Clearing may choose to operate in a "batch" or "on-line" mode. Should the latter technique be employed, the clearing system keeps track of the exact time that each delivery or request is entered into the system, accepting all deliveries when received, filling certain requests when received, and storing the remainder of the requests until the allocation run.

Area Centers may decide it to be operationally feasible to receive in transfer requests and order-out instructions as early as the afternoon of the day net settlement statements are prepared (S-1), following the Pay/Collect run. Clearing may receive in securities members can, and want to, deliver on S-1. In any case, however, instructions on securities (either the remainder or all) will be received by Clearing between the hours of 8:00 a.m. and (cut-off time left open depending on time zone of area center) of settlement morning. Securities or instructions coming in after the cutoff will be deferred--processed with the following day's business.

Denominational control is required by Clearing in order to fill order-outs to the proper amount and the member must indicate denominations on his delivery advice. The exact format of the advice is optional but should include at least:

- o Clearing member name
- o Clearing member code number
- o Security code
- o Total shares
- o Number certificates of each denomination for each security being delivered

Clearing personnel verify delivery advices and check certificates for good delivery. Order-outs are edited for completeness. Certificates are then microfilmed and filed in securities boxes.

For handling deliveries to members, the computer allocation routine includes a picking list, showing by security (denomination) and member the securities to be delivered against street stock order-outs. Clerks fill orders accordingly, verifying against corresponding entries made to the member's net settlement report by the computer.

Preparation of transfer advices is included in the computer allocation process. Advices are used as a picking order by the clerks to fill the order, and identifies the individual transfer instructions making up the advice. Clerks match advices, transfer orders, and certificates (using the fewest number of certificates to fill the order) and pull certificates from the box. The advice, instructions, and stock are then microfilmed and given to clerks who check the certificates and instructions for good delivery and good transfer, forward a copy of the instructions to the member requesting the transfer, file a copy of the transmittal advice and a copy of instructions covered by the advice, and send the transmittal advice, instructions, and certificates to the transfer agent. When securities are received back from transfer, they are checked against the retained advice which is then removed from the file and re-entered into the computer so that filled transfers may

be removed from their positions on the Position and Accounting Report.

CLEARING/MEMBER FIRM RELATIONSHIP

The firm's major consideration must be its responsibility to ascertain the correctness of all documents furnished by clearing. Also the firm must insure that all corrections pertaining to these documents are received by Clearing within the specified time frame. The procedures developed by the area centers must spell out member firm relationships in detail.

NARA-CP

RG 266 UD-UP Entry 1

Subj. Files 3481

Box 71, Folder "National Association of Securities Dealers V.16"