

File No. SR-EMCC-2004-12

Securities and Exchange Commission
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change

By

EMERGING MARKETS CLEARING CORPORATION

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of Proposed Rule Change.

(a) The text of the proposed rule change consists of revisions to Emerging Markets Clearing Corporation's ("EMCC" or the "Corporation") Rule 3 – Lists to be Maintained and is attached hereto as Exhibit A.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed rule change was approved by the Membership and Risk Management Committee pursuant to authority delegated by the Board of Directors.

(b) Contact regarding questions and comments:

Karen L. Saperstein (212) 855-3203.

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

(a) The purpose of the proposed rule change is to eliminate unacceptable risk from the continued processing of warrant transactions. On July 12, 2004, EMCC issued an Important Notice to Members (see Exhibit B) indicating that warrant transactions will no longer be eligible for processing pursuant to the Rules of EMCC. The reason for this action was a determination by the Corporation that continued clearance and settlement of these transactions presented unacceptable risk to the Corporation and its participants. At that time,

the Rules provided that transactions in instruments which became ineligible that were currently pending the system would continue to be processed. EMCC indicated in the Important Notice that the continued processing of warrant transactions presented unacceptable risks to the Corporation due to the Corporation's inability to receive accurate prices regarding such transactions. Accordingly, the Corporation is modifying Rule 3 Section 1 in order to provide that these transactions shall no longer continue to be processed by the Corporation.

The Corporation has determined that pending positions shall be exited and receive and deliver instructions shall be issued naming members as contra-parties to such instructions. The Corporation shall net all open fail warrant positions prior to exiting the positions. These net positions will be assigned to Members on a random basis in quantities that meet Euroclear delivery requirements.

(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, as eliminating the warrants positions will eliminate risks that EMCC can no longer effectively manage.

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

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

5. 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.

6. Extension of Time Period for Commission Action.

EMCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2).

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) EMCC requests accelerated effectiveness for the proposed rule change pursuant to Section 19(b)(2) of the Act so that the proposed rule change can take effect as soon as possible to eliminate unacceptable risk.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission.

The methodology for assigning positions is similar to the methodology used by NSCC when exiting positions.

9. EXHIBITS

Exhibit A Text of the proposed change to EMCC's Rules.

Exhibit B Notice of the proposed rule change for publication in the Federal Register.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the self-regulatory organization has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

EMERGING MARKETS CLEARING CORPORATION

BY: /s/ Karen L. Saperstein
Karen L. Saperstein
General Counsel

EXHIBIT A

Underlined, boldface text indicates additions.

~~[Strikethrough and Bracketed]~~ indicates deletions.

Lists to be Maintained

Rule 3. SEC. 1. The Corporation shall maintain a list of the instruments which may be the subject of contracts cleared through the Corporation ("EMCC Eligible Instruments"), and may from time to time add instruments to such list or remove instruments therefrom. EMCC Eligible Instruments may only be those instruments which are (i) eligible for settlement at a Qualified Securities Depository, (ii) either Brady Bonds, Eligible Sovereign Debt, or Eligible Corporate Debt, and (iii) U.S. dollar denominated. The Corporation shall accept an instrument as an EMCC Eligible Instrument only upon a determination by the Corporation that it has the existing operational capability to do so and to continue successfully to provide its services to Members.

An EMCC Eligible Instrument that the Corporation in its discretion determines no longer meets the requirements imposed pursuant to this Section 1 shall cease to be an EMCC Eligible Instrument. Debt issued by a sovereign issuer that fails to continue to meet one of the requirements set forth in the definition of eligible Sovereign Debt, for a period of one consecutive year, shall be reviewed by the Corporation and the Corporation shall consider if such instrument shall be excluded from eligibility. In addition, the Corporation may determine that an EMCC Eligible Instrument shall cease to be an EMCC Eligible Instrument in the event that: (1) the Corporation finds that the level of activity in the instrument during the period of three consecutive months preceding that determination is insufficient to produce benefits commensurate with the costs to the Members arising from its continued inclusion as an EMCC Eligible Instrument; or (2) the Corporation determines that there may exist a legal impediment to the validity or legality of the issuance or continued transfer or delivery of the instrument; or (3) the Corporation determines, after discussion with the appropriate regulators, where possible, that continued clearance and settlement by the Corporation presents unacceptable risks to the Corporation and/or its participants.

If the Corporation makes a determination that an instrument fails to qualify as an EMCC Eligible Instrument, transactions in such instrument that were accepted by the Corporation prior to such determination shall ~~[continue to be processed and shall be deemed to be transactions in EMCC Eligible Instruments.]~~ **be exited and the Corporation shall issue instructions to Members naming Members as the counterparties to such instructions. The legal obligations of the parties to such instructions**

shall continue to be subject to the Rules of EMCC, notwithstanding that such instructions shall no longer settle pursuant to the Rules of EMCC.

SEC. 2. The Corporation shall maintain a list of those banks, trust companies and U.S. branches or agencies of foreign banks that have been approved by the Corporation to issue letters of credit in favor of the Corporation.

IMPORTANT NOTICE

Emerging Markets Clearing Corporation



No. 423
Date: July 12, 2004
To: All Members
From: Loretta Stack
Subject: EMCC Eligible Value Recovery Rights (VRRs)

EMCC's rules provide that an eligible security may be made ineligible for EMCC processing in the event that the Corporation determines that its continued clearance and settlement presents unacceptable risks to the Corporation and/or its participants (EMCC Rule 3, Section 1). Pursuant to this rule provision, effective July 26, 2004, Value Recovery Rights ("VRRs", a.k.a. "warrants") will no longer be eligible for EMCC processing. Accordingly, as of July 26, 2004, any transactions in these instruments submitted to EMCC will be rejected. Members are advised to settle any new transactions in these issues directly.

Historically, VRRs generally had no intrinsic trading value. As the market has evolved, however, individual VRRs were detached from the bonds, allowing independent trading in these instruments. Although trading volume in the detached VRRs has been relatively low, these independent VRR instruments could, and have on occasion, traded with value.

As part of the margining process, EMCC marks to market all open positions. When VRRs traded at zero value, as part of the associated bond deal, this did not present an issue. However, as the VRRs have been detached and occasionally traded at value, the zero mark was no longer appropriate. Due to the lack of readily available prices for VRRs, this component of margining cannot be accurately measured, presenting risk to the Corporation and ultimately its members.

It should be noted that the number of securities being made ineligible for EMCC processing is minimal, and the number of new transactions in these issues over the past six months represents less than .12% (.0012) of all EMCC activity. The issues that will be made ineligible effective July 26 are listed in the table below. Please update your records to reflect these changes to the EMCC eligible securities listing.

ISIN	SECURITY DESCRIPTION
XS0029484945	VEN VRR APR 18 20
XS0029485322	VEN VRR APR 15 20
XS0030504913	URU VRR JAN 02 21
XS0035901601	NGE VRR NOV 21 20
XS0038602305	URU VRR JAN 02 21
XS0120364343	MEX VRR SER C JUN30 05
XS0147497720	MEX VRR SER D JUN30 06
XS0147500028	MEX VRR SER E JUN30 07

Members are advised that existing positions in these issues will not be impacted by this change to eligibility.

EMCC will continue to process and guarantee all other currently eligible instruments, and any new instruments meeting eligibility requirements.

Questions or comments concerning this notice may be directed to Loretta Stack, at +1(212) 855-1681, International Services in New York at +1(212) 855-1672, or DTCC's London office at +44 (0) 20 7444-0418.

Loretta Stack

EXHIBIT C

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-EMCC-2004-12)

Proposed rule change by EMERGING MARKETS CLEARING CORPORATION ("EMCC") to eliminate unacceptable risk.

Comments requested within _____ days after the date of this publication.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on _____, EMCC filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by EMCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change.

The text of the proposed rule change consists of revisions to Emerging Markets Clearing Corporation's ("EMCC" or the "Corporation") Rule 3 – Lists to be Maintained and is attached hereto as Exhibit A.

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

In its filing with the Commission, EMCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. EMCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

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

(a) The purpose of the proposed rule change is to eliminate unacceptable risk from the continued processing of warrant transactions. On July 12, 2004, EMCC issued an Important Notice to Members (see Attachment A) indicating that warrant transactions will no longer be eligible for processing pursuant to the Rules of EMCC. The reason for this action was a determination by the Corporation that continued clearance and settlement of these transactions presented unacceptable risk to the Corporation and its participants. At that time, the Rules provided that transactions in instruments which became ineligible that were currently pending the system would continue to be processed. EMCC indicated in the Important Notice that the continued processing of warrant transactions presented unacceptable risks to the Corporation due to the Corporation's inability to receive accurate prices regarding such transactions. Accordingly, the Corporation is modifying Rule 3 Section 1 in order to provide that these transactions shall no longer continue to be processed by the Corporation.

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(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, as eliminating the warrants positions will eliminate risks that EMCC can no longer effectively manage.

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

EMCC 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. EMCC will notify the Commission of any written comments received by EMCC.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action.

The foregoing rule change has become effective pursuant to Section 19(b)(2) of the Act and subparagraph (e) of the Securities Exchange Act rule 19b-4. At any time within sixty days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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 N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the rule filing that are filed with the Commission, and all written communications relating to the rule filing between the Commission and any person, other than those that may be withheld from the public in accordance with provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted within days after the date of this publication.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.

Jonathan G. Katz

Secretary

Dated: