

IMPORTANT NOTICE

National Securities Clearing Corporation



The Depository Trust &
Clearing Corporation

A#6479

P&S #6049

DATE: July 20, 2007

TO: ALL PARTICIPANTS

ATTENTION: MANAGING PARTNER/OFFICER, OPERATIONS
PARTNER/OFFICER, COMPLIANCE OFFICER

FROM: General Counsel's Office

SUBJECT: RULE CHANGE – SR-NSCC-2007-12 (Proposed Alternative
Investment Products Service)

On July 17, 2007, National Securities Clearing Corporation (“NSCC”) filed a rule change with the Securities and Exchange Commission (“SEC”), pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934. The purpose of the proposed rule change is to amend NSCC’s Rules to provide a new service (the “AIP Service”), which will be a processing platform for alternative investment products such as hedge funds, funds of hedge funds, commodities pools, managed futures and REITs.

Increasingly, investors and their advisers are including alternative investment products as part of a balanced portfolio. The market represents over \$1 trillion in assets and continues to grow. Despite the large asset base, processing remains extremely manual, using methods such as delivery of hard copy documents, transmission of information via fax, email, phone calls and emailed spreadsheets. The lack of automation and standardized, centralized processing is inefficient, prolongs transaction processing time, introduces high costs per transaction, and increases the likelihood of errors - factors that increase in importance as the transactions volume increases, as it has in recent years. The proposed AIP Service will provide for automated processing of information relating to transactions in alternative investment products and for settlement of related payments (“AIP Payments”), facilitating processing activities such as subscriptions and purchases, tenders and redemptions, dividends and distributions, commissions and fees, positions reporting, product information, account maintenance, automated transmission of imaged documents and such other services as NSCC may determine from time to time. Users of the service (“AIP Members”) may provide for the transmission of data in connection with transactions for which the payments are made outside of NSCC, or for settlement through NSCC, at their option.

Settlement of AIP Payments through NSCC (“AIP Settlement”) will be done on a pre-funded basis. NSCC will simply pass-through AIP Payments from AIP Members to their respective contra side AIP Members, without netting or guarantying payment in the event of counterparty default. NSCC will not be liable to make payment to an AIP Member in the event of a default in payment by its contra side AIP Member. AIP Settlement will be segregated from all other money settlements at NSCC. NSCC will have no exposure to credit risk as a result of operation of the AIP Settlement.

Participation in the AIP Service will be governed by the rules and procedures applicable to the AIP Service, including a new NSCC Rule 53.

Please see the rule filing for more complete details on the proposed changes, including relating to eligible products, AIP Members, and settlement.

The full text of this rule change (SR-NSCC-2007-12) may be obtained by visiting NSCC's website at www.nsc.com. Written comments on the proposed rule filing may be addressed to Lisa T. Siebold, Assistant Secretary, National Securities Clearing Corporation, 55 Water Street, New York, New York 10041, and your comments will be forwarded to the SEC. You may also address your written comments to the Secretary of the Commission, Securities and Exchange Commission, 100 F Street NE, Washington, D.C. 20549. We request that you provide NSCC with a copy of your comments.

Questions regarding the rule filing may be directed to Carol Jameson at (212) 855-3213.

Carol Jameson
Vice President and Deputy General Counsel