

IMPORTANT NOTICE

National Securities Clearing Corporation



The Depository Trust &
Clearing Corporation

A# 6535
P&S # 6105
DATE: November 30, 2007
TO: ALL NATIONAL SECURITIES CLEARING CORPORATION
PARTICIPANTS
ATTENTION: MANAGING PARTNER/OFFICER
OPERATIONS PARTNER/OFFICER
CLEARING FUND MANAGEMENT PBS USERS
FROM: Enterprise Risk Management and Participant & Clearing Fund
SUBJECT: Enhancement to the Clearing Fund Management System and
Implementation of NSCC Rule Filing 2006-11

The National Securities Clearing Corporation (NSCC) is pleased to announce an enhancement to the NSCC Clearing Fund Management system (CFM): the new Clearing Fund Management Substitution Screen (the "Screen"). **This enhancement will be available on December 17, 2007.**

The Screen will give users the ability to calculate the value of collateral on deposit based on different combinations of eligible securities. The Screen will replace the CFM's current Excess Withdrawal screen.

Additional benefits of the enhancement include:

- Real-time access to Required Fund Deposit and Funds on Deposit information
- The ability to initiate and submit on-line requests for cash withdrawals, which will eliminate the need to fax withdrawal requests to NSCC.

If you do not have access to CFM through PBS, but want to use this product, please have your firm's Access Coordinator send an email to entitlements@dtcc.com requesting that the function(s) CFMI (Clearing Fund Management Inquiry) and/or CFMW (Clearing Fund Management Write) be added to your ID. If your firm is not yet activated on PBS, please contact your DTCC Relationship Manager.

The rollout of this enhancement will coincide with the implementation of Rule Filing (SR-NSCC-2006-11), previously described in Important Notice A#6312 P&S#5882, dated October 3, 2006, and which has been approved by the Securities and Exchange Commission. The approved rule changes expand the types of instruments which NSCC may accept as eligible Clearing Fund collateral, establish concentration requirements with regard to the use of these instruments and create a correlating range of haircuts to be applied to these expanded types of eligible instruments. **The**

approved rule changes will become effective on December 17, 2007. Please see the attached documents for collateral eligibility criteria and applicable haircuts.

Questions regarding this Important Notice should be directed to your Relationship Manager or the undersigned at 212-855-5760.

Jisun Burton
Director, Risk Management

Depository Trust & Clearing Corporation

ELIGIBLE CLEARING FUND INSTRUMENTS

- ◆ **U.S. Cash**
- ◆ **U.S. Treasury: Bills, Notes, Bonds, TIPS, and Treasury Strips**
- ◆ **U.S. Government Sponsored Enterprises (“Agencies”)¹:**
Notes, Bonds, and Zeros
 - Eligible for clearance and settlement at GSD
 - Fixed rate (if coupon-bearing), senior debentures
 - AAA rated
 - US dollar denominated
- ◆ **Fixed Rate pass-through securities (“MBS”)**
 - Eligible for clearance and netting at MBSD
 - Issued by Ginnie Mae, Fannie Mae, Freddie Mac
 - AAA rated
 - Single family residential, first mortgage
 - Level payment, fully amortizing mortgages

¹Fannie Mae; Farmer Mac; Federal Farm Credit Banks; Freddie Mac; Federal Home Loan Banks; Financing Corporation; Tennessee Valley Authority; Resolution Trust Funding Corporation

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CLEARING FUND COLLATERAL COMPONENTS

CURRENT RULES

	GSD	MBSD	NSCC
Cash	10% of TOTAL (MIN \$100,000, MAX \$500,000)	NO REQUIREMENT	MIN 40%
Cash + Security	MIN 75%	NO REQUIREMENT	NO REQUIREMENT
Agency	NO LIMIT	NOT ACCEPTED	NO CONCENTRATION LIMIT
MBS	NOT ACCEPTED	NO LIMIT	NOT ACCEPTED

NEW GUIDELINES

	GSD	MBSD	NSCC
Cash	LESSER OF 10% OR \$5 MILLION	LESSER OF 10% OR \$5 MILLION	MIN 40%
Cash + Treasury	MIN 40%	MIN 40%	N/A
Agency	ADDITIONAL HAIRCUT IS CHARGED IF GREATER THAN 25% NO MORE THAN 20% FROM SINGLE ISSUER NO PARTICIPANT SELF-ISSUED SECURITIES ALLOWED		
MBS	ADDITIONAL HAIRCUT IS CHARGED IF GREATER THAN 25%		

CLASSIFICATION AND HAIRCUT SCHEDULE

U.S. Treasury Bills, Notes, Bonds and TIPS

U.S. Treasury Strips

DEFINITION	NEW HAIRCUT	CURRENT HAIRCUT		
		GSD	MBSD	NSCC
O/N to 1 year	2.0%	0.0%	0.0%	2.0%
1 year to 2 years	2.0%	3.0%	5.0%	2.0%
2 years to 5 years	3.0%	3.0%	5.0%	2.0%
5 years to 10 years	4.0%	3.0%	5.0%	2.0%
10 years to 15 years	5.0%	5.0%	5.0%	5.0%
15 years and greater	6.0%	5.0%	5.0%	5.0%

DEFINITION	NEW HAIRCUT	CURRENT HAIRCUT		
		GSD	MBSD	NSCC
O/N to 1 year	2.0%	0.0%	0.0%	2.0%
1 year to 2 years	2.0%	5.0%	5.0%	2.0%
2 years to 5 years	4.0%	5.0%	5.0%	2.0%
5 years to 10 years	6.0%	5.0%	5.0%	2.0%
10 years to 15 years	7.0%	10.0%	5.0%	5.0%
15 years and greater	9.0%	10.0%	5.0%	5.0%

U.S. Agency Notes and Bonds

U.S. Agency zeros

DEFINITION	NEW HAIRCUT	CURRENT HAIRCUT		
		GSD	MBSD	NSCC
O/N to 1 year	2.0%	0.0%	N/A	2.0%
1 year to 2 years	3.0%	3.0%	N/A	2.0%
2 years to 5 years	4.0%	3.0%	N/A	2.0%
5 years to 10 years	5.0%	3.0%	N/A	2.0%
10 years to 15 years	6.0%	5.0%	N/A	5.0%
15 years and greater	7.0%	5.0%	N/A	5.0%

DEFINITION	NEW HAIRCUT	CURRENT HAIRCUT		
		GSD	MBSD	NSCC
O/N to 1 year	2.0%	0.0%	N/A	2.0%
1 year to 2 years	3.0%	5.0%	N/A	2.0%
2 years to 5 years	5.0%	5.0%	N/A	2.0%
5 years to 10 years	7.0%	5.0%	N/A	5.0%
10 years to 15 years	8.0%	10.0%	N/A	5.0%
15 years and greater	10.0%	10.0%	N/A	5.0%

MBS Pass-Through Securities

DEFINITION	NEW HAIRCUT	CURRENT HAIRCUT		
		GSD	MBSD	NSCC
GNMA	6.0%	N/A	5.0%	N/A
FNMA/FHLMC	7.0%	N/A	5.0%	N/A

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CLASSIFICATION AND HAIRCUT SCHEDULE

U.S. Treasury Bills, Notes, Bonds and TIPS

DEFINITION	HAIRCUT
O/N to 1 year	2.0%
1 year to 2 years	2.0%
2 years to 5 years	3.0%
5 years to 10 years	4.0%
10 years to 15 years	5.0%
15 years and greater	6.0%

U.S. Treasury Strips

DEFINITION	HAIRCUT
O/N to 1 year	2.0%
1 year to 2 years	2.0%
2 years to 5 years	4.0%
5 years to 10 years	6.0%
10 years to 15 years	7.0%
15 years and greater	9.0%

U.S. Agency Notes and Bonds*

DEFINITION	BASE HAIRCUT	If > 25% of Requirement
O/N to 1 year	2.0%	Additional 2.0%
1 year to 2 years	3.0%	Additional 3.0%
2 years to 5 years	4.0%	Additional 4.0%
5 years to 10 years	5.0%	Additional 5.0%
10 years to 15 years	6.0%	Additional 6.0%
15 years and greater	7.0%	Additional 7.0%

* No participant self-issued securities allowed.
* No more than 20% of requirement from single issuer.

U.S. Agency Zeros*

DEFINITION	BASE HAIRCUT	If > 25% of Requirement
O/N to 1 year	2.0%	Additional 2.0%
1 year to 2 years	3.0%	Additional 3.0%
2 years to 5 years	5.0%	Additional 5.0%
5 years to 10 years	7.0%	Additional 7.0%
10 years to 15 years	8.0%	Additional 8.0%
15 years and greater	10.0%	Additional 10.0%

* No participant self-issued securities allowed.
* No more than 20% of requirement from single issuer.

MBS Pass-Through Securities

DEFINITION	BASE HAIRCUT	If > 25% of Rqmt	If Self Issued Securities	If Self Issued Securities AND > 25% of Requirement
GNMA	6.0%	Additional 6.0%	Additional 6.0%	Additional 12.0%
FNMA/FHLMC	7.0%	Additional 7.0%	Additional 7.0%	Additional 14.0%