

IMPORTANT NOTICE

National Securities Clearing Corporation



A#: 6742
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Date: November 18, 2008
To: ALL PARTICIPANTS
Attention: MANAGING PARTNER/OFFICER
OPERATIONS PARTNER/OFFICER
MANAGER P&S DEPARTMENT
MANAGER DATA PROCESSING DEPARTMENT
From: GENERAL COUNSEL'S OFFICE
Subject: RULE FILING SR-NSCC-2008-09

On November 17, 2008, 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 modify NSCC's Rules to provide for an amendment to the Options Exercise Settlement Agreement (the "Accord") between NSCC and The Options Clearing Corporation (the "OCC").

When NSCC implemented risk-based margining, NSCC began collecting a volatility charge on exercised and assigned option positions ("E&A positions") to protect against market risk in the event that NSCC needed to liquidate a defaulting member's unsettled portfolio. OCC also has historically collected a volatility charge, and does not release funds related to E&A positions until the morning of T+4. The volatility charge enables OCC to cover its risk and to make good on its guaranty to NSCC under the current Accord, whereby OCC guarantees to NSCC the mark-to-market on the E&A positions as of the prior day's closing price, regardless of whether OCC has actually collected that mark (i.e. the common member defaults without posting the mark-to-market on the day it defaults). Additionally, until NSCC guarantees the E&A positions at midnight on T+1, there remains the possibility that the E&A positions may be reversed to OCC in the event that a common member defaults. Therefore, OCC's volatility charge also covers OCC should these positions be reversed by NSCC to OCC and OCC must liquidate them.

A common member may, therefore, post volatility-related margin on E&A positions to both NSCC and OCC through settlement date. NSCC and OCC are proposing to amend the Accord to address this double collection of volatility charges, specifically during the three business days following options expiration each calendar month.

Under the proposed amendment, NSCC would accelerate its trade guaranty to the morning of T+1 only with respect to E&A positions resulting from exercises and assignments on an option expiration date

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and upon receipt of clearing fund from the relevant members. This would eliminate the possibility that trades could be reversed to OCC. Additionally, NSCC would require OCC to only guarantee the mark-to-market on those E&A positions as of the prior day's closing price, if OCC has collected that mark-to-market (or has yet to release its volatility charge). Otherwise, OCC will guarantee to NSCC the closing price from two day's prior (i.e. the last mark-to-market amount collected by OCC). This change will bring the calculation of the mark-to-market due to NSCC on E&A positions in the event of member default in line with the market-to-market collected by NSCC on transactions from other marketplaces, and will allow OCC to accelerate the return of its volatility charge to the morning of T+1 (upon confirmation by NSCC that NSCC has received its clearing fund). The above amendment would only apply to the three business days following options expiration each calendar month.

Additionally, NSCC and OCC propose to amend the Accord to enable common members to utilize the E&A short cover program. Under the E&A short cover program, NSCC and OCC, together with The Depository Trust Company ("DTC"), will allow a common member to request the release of short cover securities pledged to OCC at DTC, as part of the member's OCC margin, so that the member may fully or partially complete its CNS security deliver obligation at NSCC on exercise settlement date. Settlement obligations settled in this manner will be excluded from the calculation of any amounts due to NSCC or OCC in the event of a common member default. **There is still some coding and testing required by OCC before the E&A short cover program can be put into use, and the start-up of this feature will be announced by NSCC and OCC.**

The Accord amendment would remain in effect until November 1, 2009, unless extended by mutual agreement.

The full text of this rule change (SR-NSCC-2008-09) 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, N.E. Washington, D.C. 20549. We request that you provide NSCC with a copy of your comments.

Questions regarding this notice may be directed to John Petrofsky at (212) 855-7634 or the undersigned at (212) 855-3208.

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