

IMPORTANT NOTICE

National Securities Clearing Corporation



A#: 6746
P&S# 6316
Date: November 21, 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: Approval of Amendment to NSCC/OCC Accord

The Securities and Exchange Commission ("SEC") has approved NSCC rule filing SR-NSCC-2008-09 related to a modification to NSCC's Rules to amend the Options Exercise Settlement Agreement (the "Accord") between NSCC and The Options Clearing Corporation (the "OCC").

Background

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 fourth business day following the transmission of E&A positions to NSCC (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 at the end of the first business day following the transmission of E&A positions to NSCC (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. The Amendment addresses this double collection of volatility charges, specifically during the three business days following options expiration each calendar month.

Acceleration of NSCC Trade Guaranty for E&A Positions Resulting from Exercises and Assignments on Option Expiration Dates and Revision to OCC Guaranty

Effective immediately, pursuant to the approved rule change, NSCC will 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 and upon receipt of clearing fund from the relevant members. This will eliminate the possibility that those trades could be reversed to OCC. Additionally, NSCC will 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 mark-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 any necessary clearing fund deposits). The above changes will only apply to the three business days following options expiration each calendar month.

E&A Short Cover Program

Additionally, the Amendment will 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, OCC, and DTC at a later date.**

The Amendment will remain in effect until November 1, 2009, unless extended by mutual agreement. Over the next year NSCC and OCC will be reviewing and updating the provisions of the Accord more generally and expect to be making further modifications to improve the interactions between our respective margining requirements.

Questions regarding this notice may be directed to Barbara Hammel, Vice President, Risk Management, at (212) 855-5785, or John Guarrera, Director, Risk Management, at (212) 855-5768. Questions regarding the rule filing may be directed to John Petrofsky, Associate Counsel, at (212)855-7634.

Merrie Faye Witkin
Managing Director and Deputy General Counsel