



Important Notice
National Securities Clearing Corporation

A#: 7418
 P&S#: 6988
 DATE: APRIL 30, 2012 **Revised June 26, 2012¹**
 TO: ALL PARTICIPANTS
 ATTENTION: MANAGING PARTNER/OFFICER, OPERATIONS PARTNER/OFFICER,
 COMPLIANCE OFFICER
 FROM: ENTERPRISE RISK MANAGEMENT
 SUBJECT: ANNOUNCEMENT OF NSCC'S UPCOMING PARALLEL PERIOD AND
 IMPLEMENTATION OF THE MARGINING METHODOLOGY CHANGES
 FOR CORPORATE AND MUNICIPAL BONDS

As previously announced in NSCC Important Notice A# 7414, P&S# 6984, dated April 23, 2012, on April 4, 2012 the U.S. Securities and Exchange Commission approved National Securities Clearing Corporation's ("NSCC"), rule filing SR-NSCC-2012-02 (the "Rule Filing")². As more fully described in the Rule Filing, the rule changes will allow NSCC to apply a haircut-based margining methodology, at a rate no less than 2% as is currently permitted by NSCC's Procedure XV, to all municipal and corporate bonds processed through NSCC. This Important Notice provides details of the haircut schedule that will be implemented as a result of the approved rule change.

As described below, an eight week parallel testing period of the haircut methodology will begin **May 14, 2012** and end **July 13, 2012**. NSCC plans to implement the haircut methodology as of **July 16, 2012**. All open corporate and municipal bond positions as of close of business **July 13, 2012** will be subject to a haircut as outlined below.

Municipal Bond Haircut Schedule:

Following the implementation of the haircut methodology, all municipal bond trades processed through NSCC will be subject to a haircut schedule described in the table below.

Time to Maturity (Years)	Time to Maturity (Months)	Haircut Rate
(Years to Maturity) ≤ 1	(Months to Maturity) ≤ 12	2.0%
(Years to Maturity) ≤ 2	13 ≤ (Months to Maturity) ≤ 24	2.0%
(Years to Maturity) ≤ 5	25 ≤ (Months to Maturity) ≤ 60	5.0%
(Years to Maturity) ≤ 10	61 ≤ (Months to Maturity) ≤ 120	6.0%
(Years to Maturity) ≤ 15	121 ≤ (Months to Maturity) ≤ 180	6.5%
> (Years to Maturity)	181 ≤	

¹ DTCC is now offering enhanced access to all important notices via a new, Web-based subscription service. The new notification system leverages RSS Newsfeeds, providing significant benefits including real-time updates and customizable delivery. To learn more and to set up your own DTCC RSS alerts, visit http://www.dtcc.com/subscription_form.php.

Corporate Bond Haircut Schedule:

Following the implementation of the haircut methodology, all corporate trades processed through NSCC will be subject to a haircut that will be calculated based on the historical prices and returns for each of the 36 categories in the Merrill Lynch Bond Index; with a minimum haircut of at least 2%.

Impact Study:

NSCC is currently conducting an impact study that will be sent to all NSCC Members by the first week of May 2012. This analysis will display the Member's daily volatility charge for the calendar year 2011 under the current methodology and what the Member's volatility charge would have been under the new haircut methodology.

Parallel Period:

An eight week parallel testing period will begin **May 14, 2012** and end **July 13, 2012**. Each day during this parallel period, Members can review the impact of the haircut change to their current Clearing Fund Requirement. The Volatility Summary report will be sent to Members to illustrate the volatility contributions as impacted by the haircut methodology. For Members who have obtained access to NSCC Risk Management Reporting Function (NCR) in PBS-U, as previously advised in NSCC Important Notice A# 7333, P&S# 6903, dated December 6, 2011, additional CUSIP level information will be available.

As is consistent with current practice, the first Volatility Summary Report will be sent to Members in the morning based on current contacts on file with DTCC Relationship Management and will reflect Members' actual VaR calculations used in their Clearing Fund requirements. The second Volatility Summary report will be sent to Members in the afternoon and will be for informational purposes only. This report will reflect the change in haircuts for municipal and corporate bond positions. The email subject line will have the word "TEST" added. Using the two reports, Members will be able to compare their volatility contributions associated with municipal and corporate bonds under the current and new methodology.

Questions regarding this Important Notice should be directed to your Relationship Manager.