



A #:	7447
P&S #:	7017
Date:	JUNE 22, 2012
To:	ALL PARTICIPANTS
Attention:	MANAGING PARTNER/OFFICER; OPERATIONS PARTNER/OFFICER; MANAGER P&S DEPARTMENT; MANAGER DATA PROCESSING; CASHIER
From:	ENTERPRISE RISK MANAGEMENT
Subject:	ADJUSTMENT TO CREDIT RISK RANKING MODEL

National Securities Clearing Corporation (“NSCC”) is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”) which provides common internal credit risk monitoring for its clearing agency subsidiaries, namely NSCC, The Depository Trust Company and Fixed Income Clearing Corporation (for both the Government Securities Division and the Mortgage-Backed Securities Division) (collectively, the “DTCC Clearing Agencies”) to ensure that membership requirements of the DTCC Clearing Agencies are met on an ongoing basis. DTCC utilizes an internal credit risk ranking model to determine credit risk rankings of bank and broker/dealer participants/members for the DTCC Clearing Agencies. This model is quantitatively driven utilizing data contained in regulatory reports (*e. g.*, FOCUS or CALL reports) of the respective Members. A numeric ranking of each Member is generated by this model, based on key financial elements that have, historically, been primarily focused on a participant’s capital, leverage and profitability, as well as asset quality for banks; these factors have relative weightings determined by the model. For any Member for which the model assigns a “weak” rating (*i.e.*, those deemed to pose a relatively higher degree of risk to the clearing agency subsidiaries) are placed on a “Watch List” and, while in that status, are subject to enhanced surveillance and monitoring.

As the liquidity has become more important in assessing the financial strength of participants, it has become a reliable indicator of the short term ability of a participant to meet its obligations. Accordingly, DTCC will add liquidity measures to the model for evaluating the credit risk of clearing agency participants and members, and will revise the relative weighting of liquidity and financial criteria.

In addition, in order to improve the systemic ranking process, DTCC will implement a peer group structure in the model, which it believes will more appropriately rank Members by size and business profile for the comparison of like Members. As a result of these enhancements, some Members may realize an increase in their Clearing Fund requirement.

DTCC offers enhanced access to all important notices via a Web-based subscription service. The 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.

Non-Confidential

The above-described changes will become effective for rankings generated on financial data reported as of the start of business on Monday, July 30, 2012.

Questions regarding this notice, including concerns regarding Clearing Fund, should be directed to Mark Vercruysse, Managing Director – Relationship Management, at (212) 855-4151.