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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. SR - 2008 - 07
Amendment No.

Proposed Rule Change by National Securities Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial	Amendment	Withdrawal	Section 19(b)(2)	Section 19(b)(3)(A)	Section 19(b)(3)(B)
☑	☐	☐	☑	☐	☐

Pilot	Extension of Time Period for Commission Action	Date Expires
☐	☐	

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Proposed Rule Change to enhance processing of exchange-traded funds.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	John	Last Name	Petrofsky
Title	Associate Counsel		
E-mail	jpetrofsky@dtcc.com		
Telephone	(212) 855-7634	Fax	(212) 855-3215

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 07/22/2008

By Larry Thompson (Name)

General Counsel (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Larry E. Thompson,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change.

(a) The proposed rule change is annexed hereto as Exhibit 5 and consists of modifications to the Rules & Procedures (the "Rules") of National Securities Clearing Corporation ("NSCC" or the "Corporation") with regard to: (i) expanding index receipt processing to allow for cash as a sole component of creations and redemptions, and (ii) providing for an optional shortened processing cycle for creates and redeems of index receipts and their underlying components.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed change was approved by the Credit & Market Risk Management Committee of NSCC at a meeting duly called and held on June 18, 2008.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.

(a) NSCC reports on, clears and settles domestic index receipts (i.e. shares in exchange-traded funds ("ETFs")) and their underlying component securities through a creation/redemption process, which is initiated by a Member. The purpose of the proposed rule change is to revise the provisions of NSCC's Rules to allow for cash as a sole component of creations and redemptions of index receipts, as well as to allow for an optional shortened processing cycle for creations and redemptions.

Background-- Trading of Index Receipts

NSCC began processing index receipts with the launch of the first ETF, the SPDR, in 1993. NSCC's index receipt processing supports: (i) the establishment of index receipt units (creation), whereby a Member will deliver the underlying component shares to the index receipt agent and receive index receipts, and (ii) the redemption of index receipt units whereby a Member will deliver the index receipts and receive the underlying components. NSCC facilitates the processing of these transactions as set forth below.

Current NSCC Processing

NSCC's process for handling of index receipt transactions is set forth in Procedure II, Section H. Currently, on the day before trade date (T-1), an index receipt agent transmits files to NSCC which contain information regarding the underlying composition of index receipts for creates and redeems occurring the next business day. That evening, NSCC then compiles the information and provides the respective Members with a portfolio composition report/file that lists the composition of index receipts eligible for processing. The file displays the proportionate amount of underlying stocks

that comprise each index receipt. This file also contains a cash component, which is an estimation of accrued dividends and any necessary balancing amount.[1] The portfolio information contained in this file is used for creation/redemption processing the next day, or Trade Date (T). On T, by such time as established by NSCC, the index receipt agent, on behalf of each member placing an index receipt order, will report to NSCC the number of index receipts created and redeemed that day. Such a report constitutes locked-in transactions between the index receipt agent and the Member. The index receipt agent also will report the final cash amount and a transaction amount which represents the index receipt agent's transaction fee. On the night of T, NSCC transmits an index receipt instruction detail report to Members who had activity on T. The report serves as the contract for the creation/redemption activity and lists the number of component shares that the Member, depending upon the underlying shares' CNS eligibility, will deliver to or receive on T+3 from CNS, or otherwise as an item as allotted through the Balance Order Accounting System. On the night of T, each index share instruction is separated into its underlying stock components, and these components are processed through CNS or the Balance Order Accounting Operation and are incorporated into the normal equity clearance and settlement process. Unsettled positions in index receipts and their component securities are currently risk managed as ordinary activity and guaranteed pursuant to the provisions of Addendum K.[2]

Proposed Enhancements

Today, NSCC supports the creation and redemption of index receipts where the underlying components are predominantly NSCC eligible securities (i.e. CNS eligible securities) and which are scheduled to settle on a T+3 basis. The index receipts and the components themselves are processed through CNS. Those index receipts that are not eligible for processing through NSCC are routinely processed outside of NSCC. For the past two years, demand for NSCC's create and redeem service has increased significantly per annum, with large activity for index receipts with non-U.S. equity components increasing the most. As more fully described below, the proposed enhancements will allow Members to create index receipts that (i) have underlying securities other than domestic equity securities for cash as consideration and (ii) will allow an optional shortened settlement cycle for creates and redeems and their underlying components.

1. *Expand the Index Receipt process to allow for Cash as Sole Component for Creations/Redemptions*

Today, all component securities must be NSCC eligible in order for the create and redeem process to be used. The creating broker receives the index receipt from the agent bank and provides the agent all of the fund's underlying components. Currently, cash is

[1] The balancing amount is designed to compensate for any difference between the net asset value of the index receipt and the value of the underlying index. Among other reasons, a difference in value could result from the fact that an index receipt cannot contain fractional shares of a security.

[2] For the NSCC rule filing which implemented this process, see Securities Exchange Act Release No. 31601 (December 16, 1992), [File No. SR-NSCC-92-08].

used as a component only for accrued dividends and any balancing amount, but not as a separate underlying component.

NSCC is proposing to expand its index receipt processing to allow for creates and redeems using cash as the sole underlying component. This enhancement would allow Members and their agent banks to create and redeem index receipts whose underlying components are not currently eligible for processing at NSCC (for example, commodity index receipts). The index receipt agent would use the cash to purchase the components, the settlement of which would occur outside of NSCC.

As such, NSCC proposes to create such a cash option by amending Procedure II, Section H accordingly.

2. Next day (T+1) and T+2 settlement of Creations and Redemptions

Today, the index receipt create and redeem service only allows regular way (T+3) settlement. NSCC is proposing new functionality that would allow a Member to create and redeem index receipts on a shortened settlement cycle. Due to increasing demand among NSCC's Members for shortened settlement of ETF transactions, NSCC proposes to revise its processing to address the timing of the NSCC trade guarantee as well as associated trade processing and Clearing Fund provisions for such shortened settlement index receipts.

Today, shortened settlement for standard equity CNS trades (e.g. next day settlement) are reported in the Consolidated Trade Summary and guaranteed on the night of T. NSCC then collects Clearing Fund payments at 10 a.m. the following morning (T+1). Because next day settling trades are effectively guaranteed in the CNS night cycle prior to margining, NSCC currently employs a process that takes that uncertainty into consideration by collecting a "look-back" premium in the Clearing Fund calculation.[3] Leveraging this existing practice for next day settlement of creates and redeems would prove cost prohibitive based on the large number of "in kind" shares[4] that are exchanged in this process.

NSCC is therefore proposing to delay processing of next day settling creates and redeems and their underlying components until the CNS day cycle, on T+1, (usually at 11:30 a.m.)[5] These transactions would be reported on the Second Supplemental Consolidated Trade Summary (generally released mid-day). Such delayed processing would allow NSCC ample time to collect Clearing Fund payments prior to guaranteeing the transactions, and thus obviate the need for the look-back Clearing Fund premium, and

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[3] In order to account for the risk of unknown positions, Risk Management performs a look back calculation to estimate shortened settlement volumes and values. The shortened settlement component is added to a Members' Clearing Fund requirement for 21 days after each shortened settlement occurs.

[4] Most index receipts are created and redeemed in units of 50,000. If a Member were to create six units they would receive 300,000 shares of the index receipt securities.

[5] Those component securities that are not CNS-eligible would be processed through the Balance Order Accounting Operation.

would still allow the trades to settle on T+1. However, if margin is not timely collected on T+1 the creates and redeems may not be processed.

In addition, NSCC plans to implement a new fee for shortened-cycle creates and redeems as more fully described below.

Therefore, NSCC proposes to amend its Rules as follows to provide for settlement of index receipt transactions on T+1 or T+2 on an optional basis:

a. *Amendment of Addendum K regarding guarantee of next day settling index receipts*

NSCC proposes to amend Addendum K to provide that settlement of creates and redeems, including the underlying components, on a T+1 basis (including T+2 settling as-of creates and redeems submitted on T+1) will be guaranteed on Settlement Date when NSCC determines to complete processing for those items in the day cycle (normally, 11:30 a.m.); provided, however, that the transaction is not removed from processing as described below.[6]

b. *Amend Procedure II to allow for settlement on a shorter than T+3 basis.*

NSCC proposes to amend Procedure II., Section H. to provide that: (i) the index receipt agent may elect for settlement of the creates and redeems on a T+1 or T+2 basis, (ii) as-of index receipt creates and redeems will only be accepted if submitted by the cut-off time designated by NSCC, with submission of next day settling creates and redeems required by such cut-off time on T. As-of transactions submitted on Settlement Date will be rejected, (iii) NSCC reserves the right to remove index receipt transactions from processing in the event that the applicable Member has not met a margin call on settlement date, and (iv) next day settling creates and redeems (including T+2 settling as-of creates and redeems submitted on T+1) will be posted to the Second Supplemental Consolidated Trade Summary and processed in the day cycle of the CNS Accounting Operation.

c. *Amend Procedure XV (Clearing Fund Formula)*

NSCC proposes to amend Procedure XV to provide that creates and redeems of index receipts, as well as the underlying components, will not be subject to the provision which requires that transactions settling on a "shortened cycle" be subject to a "20-day look back provision" which provides for a charge which is based on the average of the Member's three highest aggregate calculated charges for daily "Specified (shortened cycle) Activity" measured over the most recent 20 settlement days.

[6] In addition, the transaction must be submitted for recording by an index receipt agent by such cutoff time as designated by the Corporation (pursuant to Procedure II).

d. *Amend Addendum A (Fee Structure)*

The current fee for regular-way (T+3) settlement of creates and redeems is $30 per create and redeem. To offset additional costs associated with shortened settlement processing, NSCC plans to implement a new fee of $50.00 per create and redeem with a shortened settlement cycle.

Implementation timeframe:

NSCC proposes to implement the changes set forth in this filing in the third quarter of 2008. Members will be advised of the implementation date through issuance of NSCC Important Notices.

(b) The proposed rule change facilitates the prompt and accurate clearance and settlement of securities transactions by providing for accelerated settlement of creates and redeems of index receipts; and is therefore consistent with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder applicable to NSCC.

4. Self-Regulatory Organization's Statement on Burden on Competition.

NSCC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Members, or Others.

Written comments relating to the proposed rule change have not yet been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

6. Extension of Time Period for Commission Action.

NSCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2).

(a) Not applicable

(b) Not applicable

(c) Not applicable.

(d) Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission.

The proposed rule change is not based on the rules of another self-regulatory organization or the Commission.

9. Exhibits

Exhibit 1 - Notice of proposed rule change for publication in the Federal Register.
Exhibit 2 – N/A
Exhibit 3 – N/A
Exhibit 4 – N/A
Exhibit 5 – Proposed Changes to NSCC's Rules

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____; File No. SR-NSCC-2008-07)

SELF-REGULATORY ORGANIZATIONS

(a) Proposed Rule Change by NATIONAL SECURITIES CLEARING CORPORATION ("NSCC") proposing to: (i) expand index receipt processing to allow for cash as a sole component of creations and redemptions, and (ii) provide for an optional shortened processing cycle for creates and redeems of index receipts and their underlying components.

Comments requested within ____ days after the date of this publication.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on _____, NSCC filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NSCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The text of the proposed rule change is attached hereto as Exhibit 5.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(i) NSCC reports on, clears and settles domestic index receipts (i.e. shares in exchange-traded funds ("ETFs")) and their underlying component securities through a creation/redemption process, which is initiated by a Member. The purpose of the

proposed rule change is to revise the provisions of NSCC's Rules to allow for cash as a sole component of creations and redemptions of index receipts, as well as to allow for an optional shortened processing cycle for creations and redemptions.

Background-- Trading of Index Receipts

NSCC began processing index receipts with the launch of the first ETF, the SPDR, in 1993. NSCC's index receipt processing supports: (i) the establishment of index receipt units (creation), whereby a Member will deliver the underlying component shares to the index receipt agent and receive index receipts, and (ii) the redemption of index receipt units whereby a Member will deliver the index receipts and receive the underlying components. NSCC facilitates the processing of these transactions as set forth below.

Current NSCC Processing

NSCC's process for handling of index receipt transactions is set forth in Procedure II, Section H. Currently, on the day before trade date (T-1), an index receipt agent transmits files to NSCC which contain information regarding the underlying composition of index receipts for creates and redeems occurring the next business day. That evening, NSCC then compiles the information and provides the respective Members with a portfolio composition report/file that lists the composition of index receipts eligible for processing. The file displays the proportionate amount of underlying stocks that comprise each index receipt. This file also contains a cash component, which is an estimation of accrued dividends and any necessary balancing amount.[1] The portfolio information contained in this file is used for creation/redemption processing the next day, or Trade Date (T). On T, by such time as established by NSCC, the index receipt agent, on behalf of each member placing an index receipt order, will report to NSCC the number of index receipts created and redeemed that day. Such a report constitutes locked-in transactions between the index receipt agent and the Member. The index receipt agent also will report the final cash amount and a transaction amount which represents the index receipt agent's transaction fee. On the night of T, NSCC transmits an index receipt instruction detail report to Members who had activity on T. The report serves as the contract for the creation/redemption activity and lists the number of component shares that the Member, depending upon the underlying shares' CNS eligibility, will deliver to or receive on T+3 from CNS, or otherwise as an item as allotted through the Balance Order Accounting System. On the night of T, each index share instruction is separated into its underlying stock components, and these components are processed through CNS or the Balance Order Accounting Operation and are incorporated into the normal equity clearance and settlement process. Unsettled positions in index receipts and their component securities are currently risk managed as ordinary activity and guaranteed pursuant to the provisions of Addendum K.[2]

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[1] The balancing amount is designed to compensate for any difference between the net asset value of the index receipt and the value of the underlying index. Among other reasons, a difference in value could result from the fact that an index receipt cannot contain fractional shares of a security.

[2] For the NSCC rule filing which implemented this process, see Securities Exchange Act Release No. 31601 (December 16, 1992), [File No. SR-NSCC-92-08].

Proposed Enhancements

Today, NSCC supports the creation and redemption of index receipts where the underlying components are predominantly NSCC eligible securities (i.e. CNS eligible securities) and which are scheduled to settle on a T+3 basis. The index receipts and the components themselves are processed through CNS. Those index receipts that are not eligible for processing through NSCC are routinely processed outside of NSCC. For the past two years, demand for NSCC's create and redeem service has increased significantly per annum, with large activity for index receipts with non-U.S. equity components increasing the most. As more fully described below, the proposed enhancements will allow Members to create index receipts that (i) have underlying securities other than domestic equity securities for cash as consideration and (ii) will allow an optional shortened settlement cycle for creates and redeems and their underlying components.

1. *Expand the Index Receipt process to allow for Cash as Sole Component for Creations/Redemptions*

Today, all component securities must be NSCC eligible in order for the create and redeem process to be used. The creating broker receives the index receipt from the agent bank and provides the agent all of the fund's underlying components. Currently, cash is used as a component only for accrued dividends and any balancing amount, but not as a separate underlying component.

NSCC is proposing to expand its index receipt processing to allow for creates and redeems using cash as the sole underlying component. This enhancement would allow Members and their agent banks to create and redeem index receipts whose underlying components are not currently eligible for processing at NSCC (for example, commodity index receipts). The index receipt agent would use the cash to purchase the components, the settlement of which would occur outside of NSCC.

As such, NSCC proposes to create such a cash option by amending Procedure II, Section H accordingly.

2. Next day (T+1) and T+2 settlement of Creations and Redemptions

Today, the index receipt create and redeem service only allows regular way (T+3) settlement. NSCC is proposing new functionality that would allow a Member to create and redeem index receipts on a shortened settlement cycle. Due to increasing demand among NSCC's Members for shortened settlement of ETF transactions, NSCC proposes to revise its processing to address the timing of the NSCC trade guarantee as well as associated trade processing and Clearing Fund provisions for such shortened settlement index receipts.

Today, shortened settlement for standard equity CNS trades (e.g. next day settlement) are reported in the Consolidated Trade Summary and guaranteed on the night of T. NSCC then collects Clearing Fund payments at 10 a.m. the following morning (T+1). Because next day settling trades are effectively guaranteed in the CNS night cycle prior to margining, NSCC currently employs a process that takes that uncertainty into

consideration by collecting a "look-back" premium in the Clearing Fund calculation.[3] Leveraging this existing practice for next day settlement of creates and redeems would prove cost prohibitive based on the large number of "in kind" shares[4] that are exchanged in this process.

NSCC is therefore proposing to delay processing of next day settling creates and redeems and their underlying components until the CNS day cycle, on T+1, (usually at 11:30 a.m.)[5] These transactions would be reported on the Second Supplemental Consolidated Trade Summary (generally released mid-day). Such delayed processing would allow NSCC ample time to collect Clearing Fund payments prior to guaranteeing the transactions, and thus obviate the need for the look-back Clearing Fund premium, and would still allow the trades to settle on T+1. However, if margin is not timely collected on T+1 the creates and redeems may not be processed.

In addition, NSCC plans to implement a new fee for shortened-cycle creates and redeems as more fully described below.

Therefore, NSCC proposes to amend its Rules as follows to provide for settlement of index receipt transactions on T+1 or T+2 on an optional basis:

a. *Amendment of Addendum K regarding guarantee of next day settling index receipts*

NSCC proposes to amend Addendum K to provide that settlement of creates and redeems, including the underlying components, on a T+1 basis (including T+2 settling as-of creates and redeems submitted on T+1) will be guaranteed on Settlement Date when NSCC determines to complete processing for those items in the day cycle (normally, 11:30 a.m.); provided, however, that the transaction is not removed from processing as described below.[6]

b. *Amend Procedure II to allow for settlement on a shorter than T+3 basis.*

NSCC proposes to amend Procedure II., Section H. to provide that: (i) the index receipt agent may elect for settlement of the creates and redeems on a T+1 or T+2 basis, (ii) as-of index receipt creates and redeems will only be accepted if submitted by the cut-off time designated by NSCC, with submission of next day settling creates and redeems required by such cut-off time on T. As-of transactions submitted on Settlement Date will be rejected, (iii) NSCC reserves the right to remove index receipt transactions from processing in the event that the applicable Member has not met a margin call on

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[3] In order to account for the risk of unknown positions, Risk Management performs a look back calculation to estimate shortened settlement volumes and values. The shortened settlement component is added to a Members' Clearing Fund requirement for 21 days after each shortened settlement occurs.

[4] Most index receipts are created and redeemed in units of 50,000. If a Member were to create six units they would receive 300,000 shares of the index receipt securities.

[5] Those component securities that are not CNS-eligible would be processed through the Balance Order Accounting Operation.

[6] In addition, the transaction must be submitted for recording by an index receipt agent by such cutoff time as designated by the Corporation (pursuant to Procedure II).

settlement date, and (iv) next day settling creates and redeems (including T+2 settling as-of creates and redeems submitted on T+1) will be posted to the Second Supplemental Consolidated Trade Summary and processed in the day cycle of the CNS Accounting Operation.

c. *Amend Procedure XV (Clearing Fund Formula)*

NSCC proposes to amend Procedure XV to provide that creates and redeems of index receipts, as well as the underlying components, will not be subject to the provision which requires that transactions settling on a "shortened cycle" be subject to a "20-day look back provision" which provides for a charge which is based on the average of the Member's three highest aggregate calculated charges for daily "Specified (shortened cycle) Activity" measured over the most recent 20 settlement days.

d. *Amend Addendum A (Fee Structure)*

The current fee for regular-way (T+3) settlement of creates and redeems is $30 per create and redeem. To offset additional costs associated with shortened settlement processing, NSCC plans to implement a new fee of $50.00 per create and redeem with a shortened settlement cycle.

Implementation timeframe:

NSCC proposes to implement the changes set forth in this filing in the third quarter of 2008. Members will be advised of the implementation date through issuance of NSCC Important Notices.

(ii) The proposed rule change facilitates the prompt and accurate clearance and settlement of securities transactions by providing for accelerated settlement of creates and redeems of index receipts; and is therefore consistent with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder applicable to NSCC.

B. Self-Regulatory Organization's Statement on Burden on Competition.

NSCC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others.

Written comments relating to the proposed rule change have not been solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

- Electronic comments may be submitted by using the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml), or by sending an e-mail to rule-comment@sec.gov. Please include File No. SR-NSCC-2008-07 on the subject line.

- Paper comments should be sent in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington D.C. 20549-1090.

All submissions should refer to File Number SR-NSCC-2008-07. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C §552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington D.C. 20549-9303. Copies of such filing also will be available for inspection and copying at NSCC's principal office and on NSCC's Web site at www.nscc.com. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to the file number above and should be submitted within _____ days after the date of publication.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Nancy M. Morris

Bold, underlined text indicates proposed additions to rules text.

~~**Bold, strike-through text**~~ indicates proposed deletions from rules text.

Double underlined text indicates language that NSCC has proposed to add in a rule filing pending before the Securities and Exchange Commission.

Shaded text indicates language that NSCC has proposed to delete in a rule filing pending before the Securities and Exchange Commission.

RULES AND PROCEDURES

OF

NATIONAL SECURITIES CLEARING CORPORATION

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PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

A. Introduction

Trade Comparison is the first step in the clearance and settlement of securities transactions. It consists of reporting, validating and matching the buy and sell sides of a securities transaction and results in a compared trade. Trade data submitted by Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members as permitted in this Procedure II is submitted on a locked-in basis for Trade Recording, and is converted (if necessary), validated, recorded and reported to Members. Except as specified below, compared and recorded trades are then entered into the CNS Accounting Operation, the Foreign Security Accounting Operation, or the Balance Order Accounting Operation.

All locked-in trade data submitted by Self-Regulatory Organizations and Qualified Special Representatives for recording pursuant to this Procedure II must be submitted Real-time (as that term is defined in the definitions to these Procedures (Procedure XIII)).[1]

[1] Real-time submission will be implemented on [insert date that is the first day of the ninth month following Commission approval of SR-NSCC-2006-04], at which time this paragraph will become effective, and this footnote will be removed from these rules.

Compared and recorded trades are routed to either the CNS Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation. Separate Trade Comparison and Recording is provided for regular way and when-issued and when distributed transactions in equity securities (a) executed on NYSE (round-lot transactions), (b) executed on Amex and (c) traded in OTC and on other national securities exchanges. Separate Trade Comparison and Recording is also provided for debt securities, including when issued and when-distributed transactions, for transactions in all marketplaces.[2]

B. Regular Way NYSE/Amex Equity Securities

1. Trade Input

Self-Regulatory Organizations on behalf of Members may submit to the Corporation trade data relating to regular way transactions in equity securities executed on Amex and, if round-lots, NYSE. NYSE odd-lot trades shall be submitted pursuant to Section III. E. of these Procedures. Regular way trade data may be submitted throughout T until the time specified by the Corporation on the first day following trade date (T+1) (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value and other identifying details as the Corporation may require or permit.

Regular way trade data as submitted by Self-Regulatory Organizations on behalf of Members ("Locked-in Trade Data") is converted, if necessary, and validated. Results of this process are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time. Such reports are available to Members intra-day and on the morning of T+1. Separate reports are issued for transactions executed on the NYSE and Amex.

The reports identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system. Depending upon the format of the report, separate totals may be provided for each of these categories.

The Corporation provides SRO's with the ability to submit listed trades for processing on a trade-for-trade basis. Such transactions are referred to as Special Trades and may be classified as such, whether or not the security is a

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[2] At such time as each exchange and/or marketplace assumes responsibility for trade comparison for transactions executed on or subject to the rules of such exchange and/or marketplace, the Corporation will cease providing comparison services for such transactions.

CNS Security. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

Adjustment reports are produced at such intervals and in such formats as determined by the Corporation showing all compared trade data resulting from T+1 and older adjustments processed by the NYSE and Amex, as well as step out transactions processed that day. Designations for CNS Securities and Balance Order securities are shown in the same manner as on the reports issued as a result of T input. If trades are listed on reports which include totals, the new data is added to or subtracted from such totals, to arrive at new totals. The new totals represent the combined input for T through such cutoff time on T+3 as the Corporation may designate. Trades received after such cutoff time as established on T+ 3 are not included in the normal settlement cycle. Such trades will be assigned a new settlement date which will be the next settlement day following the date the trade is received by the Corporation.

2. Recording of Cash, Next Day and Seller's Option Transactions

Self-Regulatory Organizations on behalf of Members may submit to the Corporation, data relating to cash, next day, and seller's option transactions. Such trade data may be submitted during the timeframes specified by the Corporation from time to time and shall include such trade details as the Corporation may specify (including, if the transaction is a seller's option, the settlement date, which may be no greater than 180 days beyond the trade date). Results of this input are reported by the Corporation on a separate section of the Adjustment reports, and if the securities covered by such trades are CNS-eligible, the recorded trades will be entered into the CNS accounting operation (unless otherwise provided in these Procedures). Cash trades received after such cutoff time as the Corporation designates will be recorded and reported, but may only be settled directly between the parties. Next day as-of trades received on Settlement Date prior to the Corporation's designated cutoff time will settle on that date; otherwise the trade will be assigned a new settlement date which will be the next settlement day following the date the trade is recorded by the Corporation. Trades that are either (i) designated as Special Trades, (ii) in a security which is not CNS-eligible, or (iii) in a security undergoing a corporate action, or (iv) are scheduled to settle between a dividend X date and record date, will be processed on a trade-for-trade basis.

C. Regular Way Over-the-Counter and Other Exchange Equity Securities

1. Trade Input and Comparison

Members, Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members, may submit to the Corporation trade data relating to regular way transactions executed OTC and on other securities exchanges or marketplaces (other than NYSE and Amex). Regular way trade

data may be submitted throughout T until the time specified by the Corporation on the first day following trade date (T+1) (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value and other identifying details as the Corporation may require or permit.

Regular way trade data as submitted by Members, and regular way trade data_submitted by Self-Regulatory Organizations or Qualified Special Representatives on behalf of Members ("Locked-in Trade Data"), is converted, if necessary, validated and with respect to data submitted by Members, matched by the Corporation to insure that the details of each trade are in agreement between the purchaser and seller. Results of this process are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time. With regard to Locked-in Trade Data reported on T by Self-Regulatory Organizations and Qualified Special Representatives, the Corporation may report back such data to Members on separate reports. If data received from a Self Regulatory Organization is the result of a trade executed on a system which provides trading anonymity (i.e. the contra side is not revealed at the time of the trade) the report may list, in lieu of the actual contra side for the trade, an acronym designated by such Self Regulatory Organization. In this case, the contra side shall, for all purposes, be deemed to be one of the entities which the Self Regulatory Organization includes as an eligible entity which may participate in the anonymous trading system.[3] Reports are available to Members intra-day and on the morning of T+1.

The Reports for trade data other than Locked-in Trade Data will categorize the trade data as compared, uncompared and advisory, and may display such other data relevant to such trades as the Corporation shall determine from time to time.

(a) Compared - Items identified as compared are those for which both a purchaser and a seller submitted identical trade data and for which a comparison has been effected.

(b) Uncompared - Items identified as uncompared reflect trades submitted by the Member for which the opposite side either did not submit data or did not submit data which agreed in all respects.

(c) Advisory - Advisory data represents trades submitted by another party against the Member, but which did not match any trade the Member

[3] In the event that the Corporation ceases to act for a Member which is the unidentified contra side of any such trade and the Corporation determines that such trade is to be exited from trade processing, the Self Regulatory Organization shall have the responsibility to identify to Members the trades included in reports produced by the Corporation which are with the affected Member.

submitted. Advisory reports may be generated by the Corporation for items listed as advisory data. The use of Advisory reports explained below.

As with listed equity reports, reports for OTC and other exchange trades will identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system and depending on the format of the report may provide separate totals for each of these categories.

The Corporation provides Members with the ability to clear and settle any compared trade on a trade-for-trade basis. Such transactions are referred to as Special Trades and may be classified as such, whether or not the security is a CNS Security. In order for a transaction to be classified as a Special Trade, each of the purchaser and seller must agree to settle on a trade-for-trade basis and must identify the transaction in its trade input as a Special Trade. If only one party identifies a transaction as a Special Trade, it will not be compared. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

Trade input, submitted by a Member, shall identify the major and minor side executing brokers and the major side Member. The minor side Member may also be submitted. If not submitted, the Corporation shall insert the proper information in accordance with the list maintained by the Corporation as provided for by Section 3(e) of Rule 3.

In order to maximize the number of compared trades, if the major and minor side executing broker information, when used as a criteria in the trade comparison process, results in an uncompared trade, the Corporation will recycle the trade data without the major and/or minor side executing broker information originally submitted. The Regular Way T+1 Contract Lists will indicate when a resulting compared or uncompared trade has been processed without the use of the major and/or minor side executing broker information.

2. Recording of Cash, Next Day and Seller's Option Transactions

Qualified Special Representatives and Self-Regulatory Organizations on behalf of Members may submit to the Corporation data relating to cash, next day and seller's option transactions on securities other than securities processed under Procedure VI. Such trade data may be submitted during the timeframes specified by the Corporation from time to time and shall include such trade details as the Corporation may specify (including, if the transaction is a seller's option, the settlement date, which may be no greater than 180 days beyond the trade date). Results of this input are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time, and if the

securities covered by such trades are CNS-eligible, the recorded trades will be entered into the CNS accounting operation (unless otherwise provided in these Procedures). Cash trades received after such cutoff time as the Corporation designates will be recorded and reported, but may only be settled directly between the parties. Next day as-of trades received on Settlement Date prior to the Corporation's designated cutoff time will settle on that date; otherwise the trade will be assigned a new settlement date which will be the next settlement day following the date the trade is recorded by the Corporation. Trades that are either (i) designated as Special Trades, (ii) in a security which is not CNS-eligible, or (iii) in a security undergoing a corporate action, or (iv) are scheduled to settle between a dividend X and record date, will be processed on a trade-for-trade basis.

3. Resolution of Uncompared Transactions

The Corporation provides the following procedures for resolution of uncompared regular way OTC and other securities exchange equity securities transactions:

(a) Advisory reports are generated by the Corporation for each item listed on output as advisory data. A Member may respond to an advisory listing by submitting acceptance input in such times as determined by the Corporation. If a trade is accepted, it will be reflected on the applicable output as a compared trade.

(b) Transactions may be added through the use of an As-Of submission on T+1 or thereafter. Both the purchaser and the seller must submit the As-Of. If data submitted by each Member matches in all respects, the trade is added for both Members.

(c) Compared odd-lot trades for Balance Order Securities, to the extent that they cannot be aggregated into round-lots with the same contra broker or the balance or shares remaining after the round-lots are aggregated, will be netted and allotted independently from the round-lots.

The Corporation provides a joint service with Self-Regulatory Organizations for the receipt of Locked-in Trades executed on other Exchanges or marketplaces. The results of this input are reported to Members on reports together with OTC transactions.

(d) Reports are produced at such intervals and in such formats as determined by the Corporation showing all compared trade data which occurs after T input. Designations for CNS Securities and Balance Order securities are shown in the same manner as on reports issued as a result of T input. If such trades are listed on reports which include totals, the new data is added to or subtracted from such totals to arrive at new totals. The new totals represent the combined input for T through such cutoff

time on T+3 as the Corporation may designate that is now compared. Trades compared after such cutoff time as established on T+3 are not included in the normal settlement cycle. Such trades will be assigned a new settlement date which will be the next settlement day following the date the trade is compared or received by the Corporation.

D. Debt Securities

1. Trade Input and Comparison

The Corporation provides the following procedures for trade input and comparison of transactions in regular way debt securities, including unit investments trusts, in any par value (excluding fractions and decimals), other than securities submitted through the correspondent clearing service and by regional exchanges/marketplaces or Qualified Securities Depositories:

(a) Trade data as submitted by Members and Municipal Comparison Only Members for comparison processing is converted, if necessary, validated and matched by the Corporation to insure that the details of each trade are in agreement between the purchaser and the seller.

(b) Trade data may be submitted during the timeframes specified by the Corporation from time to time, and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value, settlement date (which may be no greater than 50 business days beyond the trade date), trade date, unique reference number (x-ref), and other identifying details as the Corporation may require or permit and shall be in such formats as specified by the Corporation relative to the method utilized for trade submission.

(c) If the purchaser and seller have submitted trade data that matches in all required respects other than for trade value, the trades shall be deemed compared if one of the following tolerances apply:

(1) Trades that are submitted prior to the cut-off time for intraday comparison established by the Corporation from time to time shall be deemed compared using the seller's contract amount if the contract amounts are within (i) a net $2 difference for trades of $1 million or less and (ii) $2 per million for trades greater than $1 million.

(2) Trades that remain uncompared after the intraday comparison process shall be deemed compared during the end-of-day enhanced comparison process using the seller's contract amount if the contract amounts are within (i) a net $10.00 difference for

trades of $100,000 or less and (ii) $.10 per $1,000 for trades greater than $100,000.

(d) Trades that are submitted prior to the cut-off time for intraday comparison established by the Corporation from time to time shall be deemed compared if the purchaser and seller have submitted trade data that matches in all required respects, including contract amounts which were deemed matched pursuant to the money tolerances in subsection (c), except for the trade date. In such case, the earlier of the two trade dates is used.

(e) Trades deemed compared pursuant to subsections (c) and/or (d) shall be identified on output made available by the Corporation in such format as determined by the Corporation from time to time. Trades that remain uncompared after any end-of-day enhanced comparison process shall be treated as if they were submitted prior to the cut-off time for the next available comparison processing cycle.

(f) Trade input must indicate one of the following: Amex or OTC, municipal security transactions or unit trust fund transactions. If trade input submitted by a Member with respect to trades executed on Amex identifies the major or minor side executing brokers as "Amex" and the major side Member and minor side Member, the trades will appear as Amex transactions on output made available by the Corporation. If the information is not submitted, the trades will appear as OTC transactions on output made available by the Corporation.

(g) Corporate bond trades in quantities of other than multiples of a thousand (round-lots) must be divided into separate trade submissions of the round lot quantity and the odd-lot quantity (multiples of less than one thousand). All compared corporate bond trades in odd-lot quantities will be processed on a trade-for-trade basis. Transactions in municipal securities must be in multiples of a thousand.

(h) Results of the comparison process shall be provided on intraday or end-of-day output, as applicable, and shall categorize trade data as:

(1) Compared/Matched - Items identified either as compared or matched on applicable output are those for which both a purchaser and a seller submitted mandatory trade details that were either identical or were compared pursuant to subsections (c) and/or (d) above and for which a comparison has been effected.

(2) Uncompared/Unmatched - Items identified as uncompared or unmatched on applicable output reflect trades submitted by the Member or the Municipal Comparison Only Member for which the opposite side either did not submit data or did not submit data

which agreed in all required respects including the use of tolerances set forth in subsections (c) and (d) above.

(3) Advisory/Match Request – Items identified as advisory or match request on applicable output represent trades submitted by another party against the Member or Municipal Comparison Only Member, but which did not match any trade the Member or Municipal Comparison Only Member submitted.

Information made available to Members and Municipal Comparison Only Members shall identify each trade as being CNS-eligible, non-CNS-eligible or trade-for-trade/Special Trade through such designation as the Corporation shall determine from time to time.

Depending upon whether trade data is submitted on T or T+n and the format in which output is produced with respect to such data, the output may reflect totals. Information made available to Members and Municipal Comparison Only Members may reflect such other details as the Corporation may determine from time to time.

(i)(i) The Corporation provides Members with the ability to clear and settle any compared trade on a trade-for-trade basis. Such transaction is referred to as a Special Trade and may be classified as such, whether or not the security is a CNS security. In order for a transaction that is submitted for comparison processing to be classified as a Special Trade, each of the purchaser and seller must indicate the appropriate trade-for-trade indicator ("Trade-for-Trade Indicator") on its trade input and such Trade-for-Trade Indicator shall be part of the terms and conditions of the applicable contract. Unless both parties submit the identical Trade-for-Trade Indicator, the trade will not compare. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

(ii) The Corporation provides Members and Municipal Comparison Only Members with the ability to submit trades for comparison-only processing. Trade input must indicate that the trade is being submitted for comparison-only processing and such trade will not be reflected on a Consolidated Trade Summary. Information made available with respect to such trades will not designate such trades as being CNS-eligible, non-CNS-eligible or trade-for-trade/Special Trades.

(j) Members and Municipal Comparison Only Members may override clearing agent designations by submitting trade input for comparison using the appropriate Trade-for-Trade Indicator.

(k)(i) All compared trades between Members in municipal securities which are not eligible for deposit in a Qualified Securities Depository will be processed on a trade-for-trade basis.

(ii) All compared trades in municipal securities between Members and Municipal Comparison Only Members and between two Municipal Comparison Only Members, whether or not eligible for deposit in a Qualified Securities Depository, will be processed on a trade-for-trade basis.

(l)(i) All compared trades in municipal securities which have been processed on a trade-for-trade basis will be listed on the applicable Consolidated Trade Summaries at the original contract price. Each such individual listing (including any such listing pursuant to Section E.2(A)(2)(a) below) will constitute a security order for all purposes of the Corporation's Rules and Procedures, including the National Securities Clearing Corporation Fee Structure. The Corporation may make additional information regarding such trades (e.g., any clearing agent indicated by the applicable contra-party) available to Members and Municipal Comparison Only Members by such means as the Corporation determines from time to time.

(ii) Compared trades between Members in municipal securities which are eligible for deposit in a Qualified Securities Depository will be entered into the CNS Accounting System or processed on a trade-for-trade basis, depending upon the Member's standing instructions to the Corporation; provided, however, that if a Member has a CNS standing instruction and the contra side has a trade-for-trade standing instruction, the transaction will be processed on a trade-for-trade basis notwithstanding the CNS standing instruction, provided, further, that Members may override a CNS standing instruction by submitting trade input for comparison as a Special Trade.

(m) When the Corporation processes municipal securities transactions as Special Trades (with the exception of comparison-only trades), the resultant compared trades, as indicated on the applicable Consolidated Trade Summaries, are subject to the rules of the MSRB, including but not limited to the close-out provisions and delivery requirements and the transactions will not be included in the Balance Order Accounting Operation. Settlement of the resultant compared trades is the responsibility of the parties to the trades.

(n) The Corporation may accept locked-in trade data reported by Self-Regulatory Organizations, Qualified Special Representatives and Service Bureaus on behalf of Members and Municipal Comparison Only Members. Such trade data will be reflected on appropriate output as

determined by the Corporation. Receipt of a locked-in trade that satisfies the Corporation's trade input requirements shall result in a compared trade. The status of such transaction as a compared trade shall not be affected by output indicating a status of "match request" or "unmatched".

Submission of any input or instruction by a Member or Municipal Comparison Only Member on behalf of whom locked-in trade data is being submitted shall have no legal effect notwithstanding output made available by the Corporation as a result of such submission.

Data submitted by a Qualified Special Representative which identifies a trade as a syndicate takedown shall be rejected.

(o) If a trade, other than a trade which the parties have identified as being submitted for comparison-only processing, is submitted with a settlement date of or prior to the date of submission after such cutoff time as the Corporation may designate, the Corporation will assign a delivery date of the next Settlement Date.

(p) Trade input and comparison of transactions submitted for T+2 settlement is handled in the same manner as set forth above with respect to transactions submitted for regular way settlement.

(q) The Corporation shall accept cash and next day transactions for comparison-only processing. Results of the comparison-only process for these items are reported by the Corporation as specified from time to time. Settlement of the resultant compared trades is the responsibility of the parties to the trades.

2. Resolution of Uncompared Trades in Regular Way Debt Securities

The Corporation provides the following procedures for resolution of uncompared trades in Regular Way Debt Securities:

(a) In order to accept a trade that is reported as advisory or match request, a Member or Municipal Comparison Only Member must submit the appropriate instruction within the timeframes specified by the Corporation from time to time.

(b) A Member or a Municipal Comparison Only Member with an advisory or match request that does not agree with the terms of the trade may respond with the appropriate instruction indicating the reason, if any, that the member disagrees with the terms of the trade. Submission of such instruction must be submitted within the timeframes specified by the Corporation from time to time and will cause the trade to be deleted from processing. The Member or Municipal Comparison Only Member may submit a subsequent instruction on the same day to return the trade to processing.

(c) Members and Municipal Comparison Only Members who, subsequent to their submission of trade data, find that such trade data is incorrect may delete uncompared trades by forwarding the appropriate instruction by the time specified by the Corporation from time to time.

(d) No partial deletions for transactions in debt securities will be permitted.

(e) Previously compared trades may be deleted through the submission of offsetting trade details by both parties to the transaction. Each of the purchaser and the seller must submit the trade details within the timeframes specified by the Corporation from time to time and they must match in all respects or match pursuant to subsections (c) and/or (d) of Section II.D.1 above ("Trade Input and Comparison").

(f) Transactions which are deleted and offsetting transactions which are submitted and matched will appear on the appropriate output. Unless otherwise specified herein, deletion of a trade will not extinguish the rights and obligations of either party with respect to such trade.

(g) The Corporation may permit uncompared trade details to be modified by the submitter on the submission date through the use of the appropriate instruction within the timeframes specified by the Corporation from time to time. After the submission date, only such fields as determined by the Corporation from time to time may be modified by the submitter.

(h) Transactions which compare for the first time after such cutoff time as the Corporation may designate on the date on which they were scheduled to settle or later will be assigned a new Settlement Date, which will be the next business day following the date the trade is compared by the Corporation. The assignment of a new Settlement Date applies to both CNS, Balance Order Securities and Special Trades other than those submitted for comparison-only processing.

(i) Trade input which is not compared by such timeframes as determined by the Corporation from time to time shall be deleted from processing.

(j) The Corporation shall have no responsibility for determining whether any trade submission is duplicative of an earlier trade submission. Any such input shall be treated as a separate submission for all purposes of these Rules and Procedures.

(k) Only the submitter of a locked-in trade may submit subsequent processing instructions with respect to such trade and any action in this respect taken by the Member or Municipal Comparison Only Member on behalf of whom such trade has been submitted shall have no legal effect notwithstanding output made available by the Corporation as a result of such action.

E. When-Issued and When-Distributed Securities

The Corporation provides Members with the ability to compare transactions in equity and debt when-issued securities.

1. Equity

(a) Input and Comparison

Trade data for when-issued and when-distributed equity transactions executed on the NYSE or Amex must be submitted and will be compared in the same manner as specified in Section II, paragraph 1 of subsection B. Trade data for when-issued and when-distributed equity transactions executed OTC or on other securities exchanges, must be submitted in the same manner as specified in Section II, paragraph 1 of subsection C. When-issued and when-distributed trade data may be submitted separately or combined with regular way input.

(b) Resolution of Uncompared Trades

When-issued and when-distributed Contract Lists are produced for when-issued and when-distributed transactions. Adjustments to When-issued and when-distributed Contract Lists are made in the same manner as specified for regular way transactions. Time schedules for the submission of contract adjustments are the same as those for regular way trades.

Adjustments may be submitted as long as the security remains in a when-issued and when-distributed status. Any additions and deletions are reflected on Supplemental When-issued and When-distributed Contracts, or for NYSE or Amex equity transactions, on the Adjustment Contract. Such positions are accumulated and carried forward until the security is due for settlement.

(c) Settlement

The Settlement Date for issues traded on a when-issued and when-distributed basis is established by the appropriate regulatory authority. When-issued and when-distributed compared trades will be netted and allotted with regular way trades for the same Settlement Date as the when-issued and when-distributed trades.

When-issued and when-distributed trading activity may enter either the Balance Order Accounting Operation, the Foreign Security Accounting Operation, or the CNS Accounting Operation for settlement at the appropriate time. Determination of eligibility for CNS is at the discretion of the Corporation.

2. Debt

(A) If the Corporation has information that a municipal or corporate debt security[4] is coming to market, the following provisions shall apply:

(1)(a) Municipal and corporate securities transactions that are submitted at least one day prior to the initial Settlement Date for the issue will be processed in accordance with this Section 2(A) if they specify (i) a final settlement amount and a settlement date that is the initial Settlement Date for the issue, (ii) a final settlement amount, a settlement date and a specified number of days after the Initial Settlement Date for the issue, (iii) a dollar price or a dollar price and a specified number of days after the initial Settlement Date for the issue, or (iv) for municipal securities, a price-to-yield and concession (if any) or a price-to-yield concession and a specified number of days after the Initial Settlement Date for the issue.

(b) Municipal and corporate securities transactions that are submitted two days prior to the initial Settlement Date for the issue or later, and contain a settlement date which is after the initial Settlement Date for the issue, but do not meet the above criteria will be treated as regular way transactions. All other transactions that are not submitted as specified above will be rejected.

(2) Trade input, comparison/trade recording, resolution of uncompared trades and settlement for transactions accepted by the Corporation pursuant to subsection (1)(a) of this Section 2(A) above function in the same manner as with respect to regular way transactions, except for the following:

(a) When the initial Settlement Date and all required pricing information for an issue is known by the Corporation (and, if deemed necessary by the Corporation, confirmed in a manner satisfactory to the Corporation), the Corporation will calculate the final settlement amount for all transactions that do not have a final settlement amount, and trades will be deemed compared either if the final settlement amounts are identical or if the final settlement amounts fall within the money tolerances set forth in subsection (c) of Section II.D.1 above ("Trade Input and Comparison"). In addition, when the initial Settlement Date has been changed and the Corporation is notified of a new initial Settlement Date least 2 days prior to such date (independently confirmed, to the extent deemed necessary), the Corporation will recalculate the final settlement amounts for all affected transactions (whether or not the original

[4] The comparison service is not currently available with respect to when-issued corporate debt securities transactions. Members shall be notified via important notice when the service does become available for such transactions.

final settlement amount was calculated by the Corporation), and the new final settlement amounts will be set forth on the applicable contract lists or other applicable output made available by the Corporation.

If a submission contains a settlement date and a final settlement amount, but the Corporation does not have confirmation satisfactory to it of the initial Settlement Date for the issue, then the Corporation will report the transaction as a memo item on the output it makes available to Members. If the Corporation obtains, within 2 days of the submission, confirmation satisfactory to it of the initial Settlement Date for the issue which matches the settlement date submitted or matches the settlement date submitted by taking into account the specified number of extended settlement days submitted, the memo items will be changed to compared or uncompared/advisory as appropriate. If no such confirmation is obtained within 2 days of submission, the items will be dropped.

(b) Any when-issued compared trade which is to be entered into the CNS Accounting Operation will enter the CNS Accounting Operation prior to the opening of business on the day prior to the Settlement Date or prior to the opening of business on the day prior to the date the parties intended to settle the trade for which extended settlement was designated and will be netted with any regular-way compared trades for the same Settlement Date.

(c) Output provided by the Corporation reflecting compared, uncompared and advisory data will provide totals.

(d) (i)The initial Settlement Date for municipal issues is established by the issuer or underwriter, but except as provided below for syndicate takedown trades, the settlement date may be extended by agreement of the submitting parties similar to regular way municipal trades.

(ii) The initial Settlement Date for corporate debt issues is established by the appropriate authority.

(e)(i) If the Corporation is notified that the initial Settlement Date is postponed after the applicable Consolidated Trade Summary has been made available, the fact that trades in such issue are indicated in such Consolidated Trade Summary will be of no force and effect for purposes of the Corporation's Rules and Procedures unless the Corporation notifies Members to the contrary. In such case, the Corporation may adjust accrued interest as determined by the Corporation from time to time. The provisions of this

paragraph also apply to transactions that are treated as regular way transactions pursuant to subsection (1)(b) of this Section 2(A) above.

(f) If the Corporation receives notice that an entire issue has been canceled prior to its initial Settlement Date, trades in such issue will be deleted by the Corporation from the comparison process and, if the applicable Consolidated Trade Summary has been made available, trades in such issue that are indicated in such Consolidated Trade Summary will be considered null and void by the Corporation. To the extent that any trades in such issue have been entered into the CNS Accounting Operation, such trades will be journalled out of CNS. The provisions of this paragraph also apply to transactions that are treated as regular way transactions pursuant to subsection (1)(b) of this Section 2(A) above.

(g) Transactions that remain uncompared at the close of business on the day prior to the initial Settlement Date for the issue shall be deleted from processing.

(h) With respect to municipal securities:

(i) Syndicate takedown trades may only be submitted for comparison by the syndicate manager and such trade input must be identified as a syndicate takedown trade. Submission of a syndicate takedown trade will result in a compared trade which will be reported to the syndicate manager and the syndicate member on output made available by the Corporation. The status of such transaction as a compared trade shall not be affected by output indicating a status of "match request" or "unmatched". If a syndicate manager or a syndicate member does not agree with the terms of a takedown trade as reported on the contract sheet, he may delete the trade by submitting the appropriate instruction to the Corporation by the time specified by the Corporation.

(ii) Syndicate takedown submissions against Members and Municipal Comparison Only Members designated as brokers' brokers by the Corporation will be rejected. The Corporation shall maintain a list of such brokers' brokers which shall be available to Members upon request.

(iii) Only the syndicate manager may submit a withhold or a reversal and such trade input must be identified as a

syndicate takedown trade. Submission of a withhold/reversal will result in a compared withhold/reversal trade which will be reported to the syndicate manager and syndicate member on output made available by the Corporation.

(iv) Submission of any instruction by the syndicate member not otherwise provided for under these Rules and Procedures shall have no legal effect notwithstanding output made available by the Corporation as a result of such submission.

(v) All syndicate takedown trades will settle on a trade-for-trade basis. Extended settlement date will not be available for syndicate takedown trades.

(B) If the Corporation has received a transaction in a security for which the Corporation does not have information with respect to its coming to market that satisfies subsection (A)(1)(a) of this Section 2 above, the Corporation shall pend the transaction. If the Corporation does not receive information that the security is coming to market by the cut-off time on the submission date, the transactions shall be deleted.

F. Trade Comparison by an Authorized Agent

The Corporation permits Trade Comparison to be conducted by a Member for another person. For example, a Member which is a Qualified Clearing Agency may participate in Trade Comparison on behalf of one of its participants whether or not its participant is a Member.

The Member (the agent) may submit trade data for comparison pursuant to subsections B through E above on behalf of, and as agent for, another Member or a Qualified Non-Participant (the principal).

A Non-Participant may become a Qualified Non-Participant by applying to the Corporation for an identifying number in which event the Corporation shall issue an identifying number to the Non-Participant.

If the agent submits trade data on behalf of a principal, it shall identify the principal by name and the number assigned to the principal by the Corporation in the trade data.

The agent shall have all the obligations of the principal under the Rules and these Procedures except that if the principal is a Member which has agreed with the Corporation that it shall have such obligations, it shall have such obligations in lieu of the agent.

In all cases, the agent shall be obligated to settle any CNS Contracts or Balance Order Contracts of its principal pursuant to these Procedures.

The Corporation may also permit trade comparison to be conducted by a Member for the municipal securities transactions of a non-Member. The Member may submit municipal security trade data for comparison pursuant to subsections D and E above on behalf of the non-Member. With respect to these transactions submitted by the Member on behalf of the non-Member, the non-Member shall be liable as principal on the underlying transaction.

G. Reconfirmation and Pricing Service

The Reconfirmation and Pricing Service ("RECAPS") is a fail clearance system run by the Corporation. The system will be run from time-to-time as established by the Corporation for such securities as the Corporation shall determine. The system provides an opportunity to reconfirm and reprice transactions that already have been compared.

Members shall submit to the Corporation, on a day specified by the Corporation, at the time and in the manner established by the Corporation, RECAPS fail information. The day such information is submitted to the Corporation is referred to as "R." RECAPS fail information submitted on R shall be hereinafter referred to as "RECAPS Input." On a day specified by the Corporation, at the time and in the manner established by the Corporation, the Corporation will produce RECAPS Contracts containing standard contract categories (i.e., compared, uncompared and advisory columns). On the next business day after R, at the time and in the manner established by the Corporation, Members: (1) may submit an As-of-trade if the Member failed to timely submit a transaction to RECAPS and (2) must respond to a transaction submitted by a contra side that has not been reconfirmed after processing of RECAPS Input (hereinafter referred to as an "Unreconfirmed RECAP") by submitting in such form as determined by the Corporation an advisory, a DK or a reject and, in the case of a reject, indicating the reason(s) for the rejection and such other information as the Corporation may require. Failure to respond to an Unreconfirmed RECAP shall result in the transaction being deemed DK'ed. A DK'ed transaction extinguishes the rights, if any, of the DK'ing Member in respect of the transaction. Transactions of a Member that have been DK'ed shall be subject to the rules of the appropriate marketplace. As-Of trades will be compared only if there is an exact match; no trade resolution process will be available.

On a day specified by the Corporation, at the time and in the manner established by the Corporation, the Corporation will issue a second set of RECAPS Contracts, reflecting the RECAPS supplemental input received. Settlement information will be distributed to Members depending on the system in which the reconfirmed transaction will settle and settlement will occur, as follows:

(a) CNS - Reconfirmed fails in Securities eligible for CNS at the time of the RECAPS cycle will be forwarded to CNS for settlement on a day specified by the Corporation. A RECAPS CNS Compared Trade Summary will be issued concurrent with the production of the first or second RECAPS Contracts, whichever is appropriate.

(b) Balance Orders - Reconfirmed fails in Balance Order Securities will be netted and allotted, and a RECAPS Non-CNS Compared Trade Summary will be issued, concurrent with the production of the first or second RECAPS Contracts, whichever is appropriate, that will indicate such RECAP Balance Orders and the settlement dates specified by the Corporation.

(c) Trade-for-Trade – The RECAPS Non-CNS Compared Trade Summary will also include receive and deliver information for reconfirmed fails in securities not eligible for the CNS or Balance Order Systems, which will settle on a trade-for-trade basis on a day specified by the Corporation.

In the event that the current market price for a security is not available, or if the original fail price was less than one penny per share, the trade will settle on a trade-for-trade basis as a "Special Trade," with the value on the RECAPS Non-CNS Compared Trade Summary being the amount at which the trade previously was compared. For reconfirmed fails in debt securities, the current market price will include accrued interest from the previous interest payment date to the new Settlement Date. If a fail was open over an interest payment date, the two parties to the trade will be required to settle that interest payment outside RECAPS, although the parties could use the Corporation's Dividend Settlement Service.

The RECAPS CNS Compared Trade Summary and the RECAPS Non-CNS Compared Trade Summary also will include the aggregate value of the original fails. In addition, the RECAPS Non-CNS Compared Trade Summary also includes the aggregate value of the Repriced RECAPS positions (i.e., the current market price of the reconfirmed trades) and the difference between the two, or the net cash adjustment. The net cash adjustment will settle the day the underlying RECAPS contract settles and will be included as part of the Member's daily money settlement with the Corporation. RECAPS, however, will not be a guaranteed service of the Corporation, so that if the Corporation fails to receive payment from a Member, the Corporation, in its discretion, may reverse in whole or part any credit previously given to any Member who is the contra side to a trade reconfirmed and repriced through RECAPS.

For the purposes of the Corporation's Buy-In Rules and Procedures, the Original Settlement Date for transactions reconfirmed through RECAPS, except for transactions in Municipal Securities, shall be considered to be the RECAPS Settlement Date for the reconfirmed transaction. For Municipal Securities, the

Settlement Date shall continue to be the original date of the fail unless provided otherwise by the rules of the Municipal Securities Rulemaking Board, and the buy-in rules of the MSRB shall apply.

At the end of the RECAPS cycle, the Corporation will make available to Members a RECAPS Activity Report, in such form and by such time as determined by the Corporation, containing such information as determined by the Corporation regarding the Member's activity for the RECAPS cycle.

H. Index Receipts

1. Composition and Preliminary Financial Data

Each day, by such time as required by the Corporation from time to time, the Index Receipt Agent shall report to the Corporation, a) the composition of index receipts for creations and redemptions occurring on the next business day ("T"), i.e., the shares and their associated quantities **b) the cash value of the portfolio for cash creates and redeems**, and, if applicable, ~~b)~~ **c)** the estimated cash amount, representing accrued dividend and balancing amount data (hereinafter referred to as the "**Dividend/Balancing** Cash Amount"), and ~~c)~~ **d)** such other financial data as the Corporation may require or permit from time to time.

Each evening, by such time as determined by the Corporation from time to time, the Corporation will make available to Members a Portfolio Report detailing, if applicable, the estimated **Dividend/Balancing** Cash Amount, other financial data and the composition of the next business day's index receipts. The composition data may be used by the Corporation to process index receipt creations and redemptions on the next business day.

2. Creation/Redemption Input

On T, by such time as established by the Corporation from time to time, an Index Receipt Agent may submit to the Corporation on behalf of Members, index receipt creation and redemption instructions **and their scheduled settlement date**, the final **Dividend/Balancing** Cash Amount relative to such instructions and a transaction amount representing the Index Receipt Agent's fee for the processing of the index receipt. **The Index Receipt Agent may elect a Settlement Date of T+1, T+2 or T+3 for the Index Receipts and the component securities or cash. The Index Receipt Agent may submit as-of index creation and redemption instructions, but only if such as-of data is submitted by the cut-off time as designated by the Corporation from time to time, with next day settling creates and redeems required to be submitted by such cut-off time on T.**

On T+1, the Corporation will report to Members on the Index Receipt Detail Report the details of the creations and redemptions submitted, the underlying security components of netted creation and redemption instructions and index receipt positions. The report will indicate the quantity of each component and index receipt to be delivered and received on Settlement Date. The report will also indicate the final **Dividend/Balancing** Cash Amount that must be paid or received and the transaction amount that must be paid on Settlement Date. **The Corporation may remove next day settling index receipt transactions (including T+2 settling as-of creates and redeems submitted on T+1) from the system if either the Member or Index Receipt Agent to the applicable trade has not timely satisfied its Clearing Fund obligation on Settlement Date.**

3. Settlement

Index receipts and the **underlying** component securities which are eligible for CNS **or cash, if applicable,** will be reported on the Consolidated Trade Summary**, or, in the case of next day settling index receipts, the Second Supplemental Consolidated Trade Summary**. The **applicable** Consolidated Trade Summary will also separately indicate the other component securities**, or cash component, if applicable,** due to settle. Component securities will be netted with all other CNS and Non-CNS securities and entered into the CNS and Balance Order Accounting operations for settlement. **Subject to the provisions of Section H. 2. of this Procedure, next day settling index receipts which are CNS eligible will be processed in the day cycle of the CNS Accounting Operation after receipt of applicable Clearing Fund payments.**

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PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS[5]

I.(A) Clearing Fund Formula for Members

Each Member of the Corporation, except as otherwise provided in this Procedure, is required to contribute to the Clearing Fund maintained by the Corporation an amount calculated by the Corporation equal to:

(1) For CNS Transactions

(a)(i) The volatility of such Member's net of unsettled Regular Way, When-Issued and When-Distributed pending positions (i.e., net positions that have not yet passed Settlement Date) and fail positions (i.e., net positions that did not settle on Settlement Date), hereinafter collectively referred to as Net Unsettled Positions. When the Corporation deems it appropriate, the volatility of such positions shall be determined after taking into account offsetting pending transactions that: (x) have been confirmed and/or affirmed through an institutional delivery system acceptable to the Corporation[6], and (y) have not been submitted for processing through the ID Net service. Such calculation shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate.

(ii)The Corporation shall have the discretion to exclude from the above calculations Net Unsettled Positions in classes of securities whose volatility is (x) less amenable to statistical analysis, such as OTC Bulletin Board or Pink Sheet issues or issues trading below a designated dollar threshold (e.g., five dollars), or (y) amenable to generally accepted statistical analysis only in a complex manner, such as illiquid municipal or corporate bonds. The amount of Clearing Fund required with respect to such Net Unsettled Positions shall be determined by multiplying the absolute value of such positions by a percentage designated by the

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[5] All calculations shall be performed daily or, if the Corporation deems it appropriate, on a more frequent basis.

[6] The Corporation may, in its discretion, decline to consider any such transactions, as well as other similar transactions referred to in respect of this Procedure, if it has reason to believe that the institutional counter party may not or cannot settle the transaction.

Corporation, which percentage shall be not less than 10% in respect of the positions covered by subsection x of this paragraph and shall be not less than 2% in respect of the positions covered by subsection y of this paragraph;

plus

(b) The net of each day's difference between (x) the contract price of such Member's Regular Way, When-Issued and When-Distributed net positions for transactions not submitted through the ID Net service that have not yet passed Settlement Date and its fail positions, and (y) the Current Market Price for such positions[7] (such difference to be known as the "Regular Mark-to-Market"); provided that: (i) the Corporation shall exclude from this calculation any trades for which the Corporation has, under a Clearing Agency Cross-Guaranty Agreement, either obtained coverage for such difference (if the sum of the differences for the trades subject to the agreement is a positive number) or undertaken an obligation to provide coverage for such difference (if the sum of the differences for trades subject to the agreement is a negative number), (ii) the Corporation may, but shall not be required to, exclude from this calculation any shares delivered by the Member in the night cycle to satisfy all or any portion of a short position, and (iii) that if the Member is an ID Net Subscriber and if the value of the Regular Mark-to-Market as computed above is a positive number, then the value of the Regular Mark-to-Market shall be zero;

plus

(c) If such Member is an ID Net Subscriber, the net of each day's difference between (x) the contract price of the net positions attributable to such Member's transactions submitted through the ID Net service, and (y) the Current Market Price for such positions (such difference to be known as the "ID Net Mark-to-Market"), provided that if the value of the ID Net Mark-to-Market as computed above is a positive number, then the value of the ID Net Mark-to-Market shall be zero.

plus

(d) If such Member clears for one or more Market Makers[8] (i.e., the Member's Correspondent(s)) or is itself a Market Maker in any security dominated by either the Member or its Correspondent(s) (where domination is calculated for each Member and each of its Correspondent(s) according to criteria determined by the Corporation from

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[7] For fail positions, the contract price used for this purpose is the prior day's Market Price.

[8] As used in this Procedure, the term AMarket Maker@ shall mean a member firm of the National Association of Securities Dealers, Inc. (NASD) that is registered by the NASD as a Market Maker.

time to time), and if the sum of the absolute values of the Net Unsettled Positions in such dominated security or securities of any one or more of such Market Makers exceeds the excess net capital of the respective Market Maker or the Member (whether or not it is a Market Maker), (i.e., such Market Maker's or Member's Excess), the Corporation may then require the Member to contribute an additional Clearing Fund Deposit to the Corporation either in an amount equal to each such Market Maker's or Member's Excess or the sum of each of the absolute values of the Net Unsettled Positions or a combination of both. In performing the calculation, the Corporation may take into account offsetting pending (i.e., non-fail) transactions that have been confirmed and/or affirmed through an institutional delivery system acceptable to the Corporation. In addition, where a Market Maker's Net Unsettled Positions in dominated issues are cleared by one or more Members, the Corporation may treat those positions, for purposes of calculations pursuant to this paragraph, as if they were all cleared by the Market Maker's clearing Member, as listed in the records of the Corporation in accordance with Section 3(e) of Rule 3[9];

plus

(e) An additional payment ("special charge") from Members in view of price fluctuations in or volatility or lack of liquidity of any security. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time;

plus

(f) 5% or such greater amount, as determined by the Corporation, not to exceed 10% of such Member's long fail CNS positions plus 5%, or such greater amount, as determined by the Corporation, not to exceed 10% of such Member's short fail CNS positions, plus.

(g) an amount for certain activity (referred to as "Specified Activity") based on the average of the Member's three highest aggregate calculated charges for daily Specified Activity measured over the most recent 20 settlement days. For purposes of this calculation, "Specified Activity" means transactions **(other than Index Receipt creates and redeems and their underlying component securities, or cash component, if applicable)** processed by the Corporation on a shortened processing cycle (*i.e.*, otherwise than on a three-day processing and settlement cycle), including T+3 as-of trades,[10] cash trades, next day settling trades,

[9] The Corporation may require or permit such Member to deliver some or all shares necessary to complete a short obligation in lieu of part or all of its requirement under this section or subsection I.(A)(2)(c).

[10] That is, as-of trades compared or recorded on T+3 prior to the applicable comparison/recording cut-off time, including trades received after the applicable T+2 cut-off time. With respect to next day settling trades, this includes next day as-of trades.

and similar transactions. This charge shall be calculated by: (i) netting Specified Activity by cusip to a single long or short position, and (ii) applying a charge to each such position, using not less than two standard deviations as determined by historic pricing. The standard deviations will be the same as those derived for the daily volatility calculations; provided however, that as is the case with the volatility charge, for those securities whose volatility is either less amenable to statistical analysis, or so amenable only in a complex manner, the Corporation shall instead apply the same percentage charge to those securities as applied pursuant to clause I.(A)(1)(a) above.

(2) For Balance Order Transactions

(a)(i)The volatility of such Member's net of unsettled Regular Way, When-Issued and When-Distributed positions that have not yet passed Settlement Date, hereinafter collectively referred to as Net Balance Order Unsettled Positions. When the Corporation deems it appropriate, the volatility of such positions shall be determined after taking into account offsetting pending transactions that have been confirmed and/or affirmed through an institutional delivery system acceptable to the Corporation. Such calculation shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate.

(ii)The Corporation shall have the discretion to exclude from the above calculations Net Balance Order Unsettled Positions in classes of securities whose volatility is (x) less amenable to statistical analysis, such as OTC Bulletin Board or Pink Sheet issues or issues trading below a designated dollar threshold (e.g., five dollars), or (y) amenable to generally accepted statistical analysis only in a complex manner, such as illiquid municipal or corporate bonds. The amount of Clearing Fund required with respect to such Net Balance Order Unsettled Positions shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation, which percentage shall be not less than 10% in respect of the positions covered by subsection x of this paragraph and shall be not less than 2% in respect of the positions covered by subsection y of this paragraph;

plus

(b) The net of each day's difference between the contract price of such Member's Net Balance Order Unsettled Positions, and the Current Market Price for such positions, provided that the Corporation shall exclude from this calculation any trades for which the Corporation has, under a Clearing Agency Cross-Guaranty Agreement, either obtained coverage for such difference (if the sum of the differences for the trades subject to the agreement is a positive number) or undertaken an obligation to provide coverage for such difference (if the sum of the differences for trades subject to the agreement is a negative number);

plus

(c) If such Member clears for one or more Market Makers (i.e., the Member's Correspondent(s)) or is itself a Market Maker in any security dominated by either the Member or its Correspondent(s) (where domination is calculated for each Member and each of its Correspondent(s) according to criteria determined by the Corporation from time to time), and if the sum of the absolute values of the Net Balance Order Unsettled Positions in such dominated security or securities of any one or more of such Market Makers exceeds the excess net capital of the respective Market Maker or the Member (whether or not it is a Market Maker), (i.e., such Market Maker's or Member's Excess), the Corporation may then require the Member to contribute an additional Clearing Fund Deposit to the Corporation either in an amount equal to each such Market Maker's or Member's Excess or the sum of each of the absolute values of the Net Balance Order Unsettled Positions or a combination of both. In performing the calculation, the Corporation may take into account offsetting pending (i.e., non-fail) transactions that have been confirmed and/or affirmed through an institutional delivery system acceptable to the Corporation. In addition, where a Market Maker's Net Balance Order Unsettled Positions in dominated issues are cleared by one or more Members, the Corporation may treat those positions, for purposes of calculations pursuant to this paragraph, as if they were all cleared by the Market Maker's clearing Member, as listed in the records of the Corporation in accordance with Section 3(e) of Rule 3;

plus

(d) An additional payment ("special charge") from Members in view of price fluctuations in or volatility or lack of liquidity of any security. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time, plus

(e) an amount for certain activity (referred to as "Specified Activity") based on the average of the Member's three highest aggregate calculated charges for daily Specified Activity measured over the most recent 20 settlement days. For purposes of this calculation, "Specified Activity"

means transactions **(other than Index Receipt creates and redeems and their underlying component securities, or cash component, if applicable)** processed by the Corporation on a shortened processing cycle (*i.e.*, otherwise than on a three-day processing and settlement cycle), including T+3 as-of trades,[11] cash trades, next day settling trades, and similar transactions. This charge shall be calculated by: (i) netting Specified Activity by cusip to a single long or short position, and (ii) applying a charge to each such position, using not less than two standard deviations as determined by historic pricing. The standard deviations will be the same as those derived for the daily volatility calculations; provided however, that as is the case with the volatility charge, for those securities whose volatility is either less amenable to statistical analysis, or so amenable only in a complex manner, the Corporation shall instead apply the same percentage charge to those securities as applied pursuant to clause I.(A)(1)(a) above.

(3) For Other Transactions

The greater of (i) 2-1/2% of such Member's average daily settlement debits and credits other than CNS and Mutual Fund Services debits and credits or (ii) 5% of such Member's average daily settlement debits other than CNS and Mutual Fund Services debits, for other transactions (Other Transactions) as determined by the Corporation from time to time, adjusted for broker/dealer Members by a factor that shall be calculated as follows:

Average Daily Settlement Debits As Determined by the Corporation
Excess Net Capital

The factor calculation shall be adjusted in order to provide a minimum of one with a maximum of three.

(4) For Mutual Fund Transactions

(a) $5,000 if such Member has daily Mutual Fund Services settlement debits of no more than $100,000 with respect to any one Fund Member;

or

(b) $10,000 if such Member has daily Mutual Fund Services settlement debits of no more than $500,000 with respect to any one Fund Member;

or

[11] That is, as-of trades compared or recorded on T+3 prior to the applicable comparison/recording cut-off time, including trades received after the applicable T+2 cut-off time. With respect to next day settling trades, this includes next day as-of trades.

(c) $20,000 if such Member has daily Mutual Fund Services settlement debits of more than $500,000 with respect to any one Fund Member.

I.(B) Additional Clearing Fund Formula

(1) Additional Deposits for Members on Surveillance

Any Settling Member who is placed on surveillance status shall be required to make such additional Clearing Fund deposits as determined by the Corporation on the same day as requested by the Corporation within such timeframe as required by the Corporation from time to time.

(2) Excess Capital Premium

If a Member's contribution to the Clearing Fund, as computed pursuant to Section I.(A) of this Procedure (but excluding any charges as set forth in Subsections I.(A)(1)(c), I.(A)(1)(d), I.(A)(2)(c), and I.(A)(2)(d) of this Procedure), plus any amount collected pursuant to 1.(B)(1) above or Rule 15 (such aggregate amount referred to as the "Calculated Amount"), when divided by its excess net capital or capital (as applicable), as defined in the membership standards set forth in Addendum B, is greater than 1.0 (the "Excess Capital Ratio"), then the Corporation may require such Member to deposit, within such timeframe as the Corporation may require, an additional amount (the "Excess Capital Premium") to the Clearing Fund equal to the product of: (a) the amount by which the Calculated Amount exceeds its excess net capital or capital (as applicable), as defined in the membership standards set forth in Addendum B, multiplied by (b) its Excess Capital Ratio.

Notwithstanding the foregoing, the Corporation may: (i) collect an amount less than the Excess Capital Premium (including no premium), and (ii) return all or a portion of the Excess Capital Premium if it believes that the imposition or maintenance of the Excess Capital Premium is not necessary or appropriate.[12]

[12] The Corporation has identified the following guidelines or circumstances, which are intended to be illustrative, but not limited, where the premium will not be imposed: (a) where the premium results from charges applied with respect to municipal securities trades settling in CNS, where the member has offsetting compared trades settling on a trade-for-trade basis through DTC; and (b) management will look to see whether the premium results from an unusual or non-recurring circumstance where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison or trade recording that would otherwise reduce the margined position if timely submitted, or an unexpected haircut or capital charge that does not fundamentally change its risk profile.

I.(C) Clearing Fund Formula for Mutual Fund/Insurance Services Members who use the Mutual Fund Services.[13]

Each Mutual Fund/Insurance Services Member is required to contribute to the Clearing Fund maintained by the Corporation an amount, in cash, approximately equal to:

(1) If accepted for membership pursuant to Addendum B (Standards of Financial Responsibility and Operational Capability), Section (I)(B):

(a) $5,000 if the Mutual Fund/Insurance Services Member has daily Mutual Fund Services settlement debits of no more than $100,000 with respect to any one Fund Member;

or

(b) $10,000 if the Mutual Fund/Insurance Services Member has daily Mutual Fund Services settlement debits of no more than $500,000 with respect to any one Fund Member;

or

(c) $20,000 if the Mutual Fund/Insurance Services Member has daily Mutual Fund Services settlement debits of more than $500,000 with respect to any one Fund Member.

I.(D) Clearing Fund Formula for Fund Members, Insurance Carrier/Retirement Services Members and Certain Mutual Fund/Insurance Services Members

The Clearing Fund Formula for each Fund Member, Insurance Carrier/Retirement Services Member and those Mutual Fund/Insurance Services Members who use only the Corporation's Insurance and Retirement Processing Services shall be established at such time as the Corporation determines appropriate.

II. Minimum Clearing Fund and Additional Deposit Requirements

(A) Each Member of the Corporation, except for a Mutual Fund/Insurance Services Member, shall be required to contribute a minimum of $10,000 (the "minimum contribution"). Except with respect to a Mutual Fund/Insurance Services Member, the The first 40% (but no less than $10,000) of a Member's Required Deposit must be in cash and the remaining amount, may be evidenced by open account indebtedness

[13] This section applies to entities whose use of the Corporation's services are restricted to the Mutual Fund Services and/or the Insurance and Retirement Processing Services. Entities which use or are permitted to use Services other than or in addition to the Mutual Fund Services and Insurance and Retirement Processing Services are covered by section I.(A).

secured by the pledge of Eligible Clearing Fund Securities, which shall be valued, for collateral purposes, as set forth in subsection III below. A Mutual Fund/Insurance Services Member's entire deposit is required to be in cash.

1. Special Provisions Related to Eligible Clearing Fund Securities:

(a) Any deposits of Eligible Clearing Fund Agency Securities[10] or Eligible Clearing Fund Mortgage-Backed Securities[11], respectively, in excess of 25 percent of the Member's Required Deposit will be subject to an additional haircut equal to twice the percentage as specified in the proposed haircut schedule detailed in subsection III below, and

(b) No more than 20 percent of a Member's Required Deposit secured by pledged Eligible Agency Securities may be of a single issuer.

(B) All Clearing Fund requirements and other deposit requirements shall be made by Members and Mutual Fund/Insurance Services Members, within one hour of demand unless otherwise determined by the Corporation; provided, however, that to the extent the Member and Mutual Fund/Insurance Services Member is meeting such obligation with a (1) deposit of cash, such deposit shall be made by Federal Funds wire transfer and be received no later than fifteen minutes prior to the close of the Federal Funds wire, and (2) delivery of eligible securities, such delivery shall be received within the deadlines established by a Qualified Securities Depository. At the discretion of the Corporation, cash deposits may be included as part of the Member's or Mutual Fund/Insurance Services Member's, daily settlement obligation.

(C) Additional Clearing Fund deposits shall not be requested unless they exceed such threshold as determined by the Corporation from time to time.

(D) Where the amount of a Member's and Mutual Fund/Insurance Services Member's deficiency is in excess of $1,000 but less than $5,000, the Corporation may require payment in multiples of $1,000. Where the amount of the deficiency is in excess of $5,000, the Corporation may require payment in multiples of $5,000.

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[10] A Member that is an Agency may not pledge Eligible Clearing Fund Agency Securities of which it is the issuer.

[11] With regard to a Member that pledges Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, such securities will be subject to a premium haircut, as set forth in subsection III below.

III. Collateral Value of Eligible Clearing Fund Securities

(A) Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be haircut as follows, or as otherwise determined by the Corporation from time to time:

Security Type	Remaining Maturity	Haircut
1. Treasury		
Bills, Notes, Bonds, TIPS	Zero 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 or greater	6.0%
Zero Coupon	Zero 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 or greater	9.0%
2. Agency*		
Notes, Bonds	Zero to 1 year	2.0%
	1 year to 2 years	3.0%
	2 years to 5 years	4.0%
	5 years to 10 years	5.0%
	10 years to 15 years	6.0%
	15 years or greater	7.0%
Zero Coupon	Zero to 1 year	2.0%
	1 year to 2 years	3.0%
	2 years to 5 years	5.0%
	5 years to 10 years	7.0%
	10 years to 15 years	8.0%
	15 years or greater	10.0%

* Any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities in excess of 25 percent of a Member's Required Clearing Fund deposit will be subject to a haircut that is twice the amount of the percentage noted in the haircut schedule. Eligibility requirements will be announced by the Corporation from time to time.

3. Mortgage-Backed Security Pass-Throughs*	Ginnie Mae	6.0%
	Fannie Mae/Freddie Mac	7.0%
Self-issued**		14% (or 21% if Concentration limit is exceeded)

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ADDENDUM A

FEE STRUCTURE

I. TRADE COMPARISON AND RECORDING SERVICE FEES – represent the fees to enter and correct original trade data.

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E. Index Receipts

1. Index Creation and Redemption Units – each side of each Index Creation and Redemption instruction submitted **for regular way (T+3) settlement** - $30 per side.

2. **Index Creation and Redemption Units – each side of each Index Creation and Redemption instruction submitted for shortened settlement - $50 per side.**

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ADDENDUM K

INTERPRETATION OF THE BOARD OF DIRECTORS
APPLICATION OF CLEARING FUND

Pursuant to Rule 47, the Board of Directors has the authority to interpret the Rules of the Corporation. The purpose of this interpretation is to clarify certain provisions of Rule 4 and the extent to which the Clearing Fund may be applied to a loss or liability of the Corporation.

** A Member may deposit Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, however such securities will be subject to a premium haircut. This haircut shall be 14% as an initial matter. If a Member also exceeds the 25% concentration limit, the haircut shall be 21%.

I. APPLICATION OF THE CLEARING FUND TO LOSSES SUSTAINED BY A SYSTEM

1. Section 1 of Rule 4 provides that each Member's Required Deposit shall be allocated by the Corporation among the services for which the Corporation assumes responsibility for completion of transactions and which are designated as such by the Corporation (collectively the "Systems" and individually a "System") and in which the Member participates.

2. The Corporation has in practice assumed responsibility for completion of transactions in each of the following services, and has deemed each of these services to be a System, even though the Corporation has not previously made a formal designation of each such service as a System within the definition of Section 1 of Rule 4:

a). The Corporation guarantees the completion of compared and locked-in CNS and balance orders transactions from a fixed point in the clearance and settlement process. CNS transactions are guaranteed as of the later of: (i) midnight of T+1, and (ii) midnight of the day they are reported as compared or as of midnight on the day they appear on T-Contracts for locked-in trades. With respect to balance order transactions, such transactions are guaranteed as of the later of: (i) midnight of T+1, and (ii) midnight of the day they are reported to Members as compared/recorded on contracts and, in either case, through the close of business on T+3. The Corporation guarantees same day and one day settling trades as of the completion of trade comparison or trade recording processing and with respect to balance order transactions, the Corporation guarantees same day and one day settling trades as of the completion of trade comparison or trade recording through T+3; provided, however, that**: (i) for transactions relating to one day index receipt creates and redeems, including their underlying components, and unless otherwise removed from processing pursuant to Procedure II. H. 2, such transactions will be guaranteed after such time on Settlement Date as the Corporation determines to complete processing of such items in the day cycle of the CNS Accounting Operation, and (ii)** if the contra party to a same day or one day settling trade is a member of an interfacing clearing corporation, such guarantee shall not be applicable unless an agreement to guarantee such trade exists between the Corporation and the interfacing clearing corporation. The Corporation has also adopted a policy of guaranteeing the completion of when-issued and when-distributed trades, as of the later of: (i) midnight of T+1, and (ii) midnight of the day the trades are reported to Members as compared/recorded on contracts and

will consider all when-issued and when-distributed trades of Members as if they were CNS transactions for surveillance purposes regardless of the accounting operation in which they ultimately settle.

b). Subject to the restriction in Addendum D to the Rules, the Corporation guarantees that a Member will be paid for an envelope delivery which is made pursuant to Rule 9 unless the envelope is returned to the Member by the Corporation.

3. In connection with the expansion by the Corporation of its clearance and settlement business, it has become desirable for the Corporation to make formal designations of the services constituting Systems within the definition of Section 1 of Rule 4. Accordingly, the Board hereby designates the services referred to in paragraph I.2. above as services for which the Corporation assumes the responsibility for the completion of transactions, and therefore as Systems within the Rule 4, Section 1 definition. These services are the only services so designated as of this date.

II. APPLICATION OF THE CLEARING FUND TO EXCESS LOSSES AND LOSSES OUTSIDE OF A SYSTEM

1. Section 2(b) of Rule 4 provides that the use of the Clearing Fund in its entirety (which consists in part of all the Funds) shall be limited to satisfaction of losses or liabilities of the Corporation incident to the operation of the clearance and settlement business of the Corporation other than losses or liabilities of a System.

2. Pursuant to Section 2(b) of Rule 4, the entire Clearing Fund must be available to satisfy losses arising outside of a System. There are various circumstances pursuant to which the entire Clearing Fund may be available to satisfy losses outside of a System:

- One circumstance arises out of the Mutual Fund Services. Members that do not participate in the Mutual Fund Services are shielded from exposures to the Mutual Fund Services losses as long as the Corporation continues to have active participants in Mutual Fund Services.

  If the Corporation were to have an unsatisfied Mutual Fund Services loss, such loss may be satisfied from the entire Clearing Fund (less the amounts paid in respect of the Mutual Fund Services).

- An additional circumstance arises out of the Insurance and Retirement Processing Services. If the Corporation were to

have an unsatisfied loss due to a Member's, Mutual Fund/Insurance Services Member's or Insurance Carrier/Retirement Services Member's use of the Insurance and Retirement Processing Services, such loss may be satisfied from the entire Clearing Fund.