



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information**

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**

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**

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 Sent As Paper Document

**Exhibit 3 - Form, Report, or Questionnaire**

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 Sent As Paper Document

**Exhibit 4 - Marked Copies**

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**

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**

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 text of the proposed changes to the Rules & Procedures (the "Rules") of National Securities Clearing Corporation ("NSCC" or the "Corporation") and are attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed rule change was approved by the NSCC Credit & Market Risk Management Committee at its meeting held on June 17, 2009.

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

(a) The purpose of this filing is to modify the range of haircuts currently applied to Eligible Clearing Fund Securities.

Under NSCC's Rules and Procedures (the "Rules")<sup>1</sup>, Members are required to make deposits to the Clearing Fund, with the amount of each Member's required deposit being fixed by NSCC in accordance with one or more formulas (the "Required Deposit").

A Member may satisfy its Required Deposit with a cash deposit, and NSCC may permit a portion of the Member's deposit (with the exception of the deposit of a Mutual Fund/Insurance Services Member's) to be evidenced by an open account indebtedness, secured by Eligible Clearing Fund Securities. Eligible Clearing Fund Securities consist of certain agency, Treasury, and mortgage-backed securities<sup>2</sup>.

The Rules permit NSCC to fund settlement by pledging Clearing Fund deposits as collateral for loans, and NSCC maintains a committed borrowing facility for this purpose. Due to elevated volatility experienced in the financial markets, collateral haircuts imposed on NSCC under the borrowing facility have increased, and therefore NSCC is required to make corresponding increases in Clearing Fund collateral haircuts to maintain alignment with this facility.

NSCC proposes to modify Procedure XV of the Rules to update the correlating range of haircuts applied to the types of Eligible Clearing Fund Securities. Specifically,

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<sup>1</sup> See Rule 4 (Clearing Fund), Procedure XV (Clearing Fund Formula and Other Matters) and Annex 1 (Version 2 of Procedure XV – Limited Applicability).

<sup>2</sup> See Rule 1 (Definitions and Descriptions) for applicable definitions including Eligible Clearing Fund Securities and its components which are Eligible Clearing Fund Treasury Securities, Eligible Clearing Fund Agency Securities, and Eligible Clearing Fund Mortgage-Backed Securities.

NSCC proposes to increase the haircut to: (i) interest bearing Treasuries with terms greater than 10 years but less than 15 years from a current 5 percent to a proposed 6 percent, and (ii) zero coupon obligations of U.S. Treasury and Agency Securities from the current 2 to 10 percent based on term to a proposed 5 to 12 percent based on term. A complete listing of the haircut schedule and the proposed changes is set forth in the attached Exhibit 5.

These changes will become effective as of August 3, 2009

(b) The proposed rule change facilitates the prompt and accurate clearance and settlement of securities transactions by adjusting NSCC's haircut levels on Clearing Fund collateral and facilitating NSCC's ability to ensure adequate collateral levels are maintained to facilitate settlement in the event of a participant default; and is therefore consistent with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder applicable to NSCC. For the same reasons, the proposal is consistent with the CPSS/IOSCO Recommendations for Central Counterparties regarding margin requirements as the proposed revisions to the Clearing Fund limit NSCC's exposure to potential losses from defaults by its Members.

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) The proposed rule change is to take effect pursuant to paragraph A of Section 19(b)(3).

(b) The proposed rule establishes or changes a due, fee, or other charge applicable only to a member.

(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 based on similar rule filing proposals made by NSCC's affiliate, the Fixed Income Clearing Corporation ("FICC").

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 - Text of the proposed rule change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_ ; File No. SR-NSCC-2009-05)

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by NATIONAL SECURITIES CLEARING CORPORATION ("NSCC") to update the range of haircuts to be applied to Eligible Clearing Fund Securities.

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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 and discussed any comments it received on 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) The purpose of this filing is to modify the range of haircuts currently applied to Eligible Clearing Fund Securities.

Under NSCC's Rules and Procedures (the "Rules")<sup>1</sup>, Members are required to make deposits to the Clearing Fund, with the amount of each Member's required deposit being fixed by NSCC in accordance with one or more formulas (the "Required Deposit").

A Member may satisfy its Required Deposit with a cash deposit, and NSCC may permit a portion of the Member's deposit (with the exception of the deposit of a Mutual Fund/Insurance Services Member's) to be evidenced by an open account indebtedness, secured by Eligible Clearing Fund Securities. Eligible Clearing Fund Securities consist of certain agency, Treasury, and mortgage-backed securities<sup>1</sup>.

The Rules permit NSCC to fund settlement by pledging Clearing Fund deposits as collateral for loans, and NSCC maintains a committed borrowing facility for this purpose. Due to elevated volatility experienced in the financial markets, collateral haircuts imposed on NSCC under the borrowing facility have increased, and therefore NSCC is required to make corresponding increases in Clearing Fund collateral haircuts to maintain alignment with this facility.

NSCC proposes to modify Procedure XV of the Rules to update the correlating range of haircuts applied to the types of Eligible Clearing Fund Securities. Specifically, NSCC proposes to increase the haircut to: (i) interest bearing Treasuries with terms greater than 10 years but less than 15 years from a current 5 percent to a proposed 6 percent, and (ii) zero coupon obligations of U.S. Treasury and Agency Securities from the current 2 to 10 percent based on term to a proposed 5 to 12 percent based on term. A complete listing of the haircut schedule and the proposed changes is set forth in the attached Exhibit 5.

These changes will become effective as of August 3, 2009

(ii) The proposed rule change facilitates the prompt and accurate clearance and settlement of securities transactions by adjusting NSCC's haircut levels on Clearing Fund collateral and facilitating NSCC's ability to ensure adequate collateral levels are maintained to facilitate settlement in the event of a participant default; and is therefore consistent with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder applicable to NSCC. For the same reasons, the proposal is consistent with the CPSS/IOSCO Recommendations for Central Counterparties regarding margin requirements as the proposed revisions to the Clearing Fund limit NSCC's exposure to potential losses from defaults by its Members.

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<sup>1</sup> See Rule 4 (Clearing Fund), Procedure XV (Clearing Fund Formula and Other Matters) and Annex 1 (Version 2 of Procedure XV – Limited Applicability).

<sup>1</sup> See Rule 1 (Definitions and Descriptions) for applicable definitions including Eligible Clearing Fund Securities and its components which are Eligible Clearing Fund Treasury Securities, Eligible Clearing Fund Agency Securities, and Eligible Clearing Fund Mortgage-Backed Securities.

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 yet been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and paragraph (f) of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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 sending an e-mail to [rule-comment@sec.gov](mailto:rule-comment@sec.gov). Please include File No. SR-NSCC-2009-05 on the subject line.
- Paper comments should be sent in triplicate to Florence E. Harmon, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2009-05. 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 Section 100 F Street, NE, Washington DC 20549-1090. Copies of such filing also will be available for inspection and

copying at the principal office of NSCC. 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.

Florence E. Harmon

**Exhibit 5**

**Underlined, boldface** text indicates additions.

~~**Bracketed, struck through boldface**~~ text indicates deletions

PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS<sup>1</sup>

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<sup>2</sup>, 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

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<sup>1</sup> All calculations shall be performed daily or, if the Corporation deems it appropriate, on a more frequent basis.

<sup>2</sup> 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.

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 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<sup>3</sup> (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

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<sup>3</sup> For fail positions, the contract price used for this purpose is the prior day's Market Price.

(d) If such Member clears for one or more Market Makers<sup>4</sup> (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 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<sup>5</sup>;

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.

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<sup>4</sup> As used in this Procedure, the term "Market 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.

<sup>5</sup> 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).

(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,<sup>6</sup> 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.

(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

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<sup>6</sup> 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.

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,<sup>7</sup> 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,

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<sup>7</sup> 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.

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

(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 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.<sup>8</sup>

I. (C) Clearing Fund Formula for Mutual Fund/Insurance Services Members who use the Mutual Fund Services.<sup>9</sup>

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:

(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

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<sup>8</sup> 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.

<sup>9</sup> 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).

(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 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 shall be required to contribute a minimum of \$10,000 (the "minimum contribution"). 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 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<sup>10</sup> or Eligible Clearing Fund Mortgage-Backed Securities<sup>11</sup>, 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

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<sup>10</sup> A Member that is an Agency may not pledge Eligible Clearing Fund Agency Securities of which it is the issuer.

<sup>11</sup> 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.

(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.

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:

<u>Security Type</u>	<u>Remaining Maturity</u>	<u>Haircut</u>
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	<del>5.0%</del> 6.0%
	15 years or greater	6.0%

Zero Coupon	Zero to 1 year	<del>[2.0%]</del> <u>5.0%</u>
	1 year to 2 years	<del>[2.0%]</del> <u>5.0%</u>
	2 years to 5 years	<del>[4.0%]</del> <u>5.0%</u>
	5 years to 10 years	<del>[6.0%]</del> <u>12.0%</u>
	10 years to 15 years	<del>[7.0%]</del> <u>12.0%</u>
	15 years or greater	<del>[9.0%]</del> <u>12.0%</u>
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	<del>[2.0%]</del> <u>5.0%</u>
	1 year to 2 years	<del>[3.0%]</del> <u>5.0%</u>
	2 years to 5 years	5.0%
	5 years to 10 years	<del>[7.0%]</del> <u>12.0%</u>
	10 years to 15 years	<del>[8.0%]</del> <u>12.0%</u>
	15 years or greater	<del>[10.0%]</del> <u>12.0%</u>
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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\* 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.

\*\* 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%.