

Proposed Rule Change by National Securities Clearing Corporation
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
Date Expires <input type="text"/>			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters).

Proposed processing enhancements with respect to transfers processed through NSCCs Automated Customer Account Transfer Service

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 Last Name
 Title
 E-mail
 Telephone Fax

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
 By
 (Name) (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.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information

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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

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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

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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

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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

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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”) regarding processing enhancements that it proposes to undertake with respect to transfers processed through its Automated Customer Account Transfer Service.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) The proposed change was approved by the Risk Management Committee of NSCC by action of the Committee Chair pursuant to delegated authority on May 17, 2010.

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

(a) Proposal

NSCC’s Automated Customer Account Transfer Service (“ACATS”) enables Members to effect automated transfers of customer accounts among themselves.¹ With respect to ACATS transfers processed through NSCC’s Continuous Net Settlement (“CNS”) system², long and short positions are passed against Members’ positions at The Depository Trust Company (“DTC”) and available securities are delivered from short Members’ accounts at DTC and are allocated to long Members’ accounts by book-entry. Since its inception in 1985, ACATS has provided Member firms with an efficient automated means for the prompt transfer of customer accounts; however, NSCC has determined to undertake certain enhancements relating to the service to: (i) provide for enhanced protection for customer securities that are subject to ACATS transfer such that customer account transfers to new firms are maximized in the event of a firm failure, and

¹ ACATS complements a Financial Industry Regulatory Authority (“FINRA”) rule requiring FINRA members to use automated clearing agency customer account transfer services and to effect customer account transfers within specified time frames.

² CNS is an ongoing accounting system which nets today’s Settling Trades with yesterday’s Closing Positions, producing net short or long positions per security issue for each Member. The Corporation is always contraside for all positions. The positions are then passed against the Member’s Designated Depository positions and available securities are allocated by book-entry. This allocation of securities is accomplished through an evening cycle followed by a day cycle. Positions which remain open after the evening cycle may be changed as a result of trades accepted for settlement that day. CNS allocates deliveries in both the night and day cycles based on an algorithm based on priority groups in descending order, age of position within a priority group, and random numbers within age groups.

(ii) facilitate Members' compliance with their securities possession or control requirements for ACATS transfers processed through CNS.³ Specifically, in furtherance of (i) above (and as more fully described below), NSCC is now proposing to modify its ACATS processing and its Rules to provide that deliveries and/or receives in a particular security processed through CNS would be designated by NSCC to satisfy a Member's ACATS receive or deliver obligation prior to other CNS-related obligations for that Member in the same security, thus allowing NSCC to track the completion status of CNS ACATS items and prevent the reversal of such items that have completed, in the event of the Member's failure. In addition, in furtherance of (ii) above, NSCC is proposing to modify its Rules to clarify that in no event would NSCC have any lien on securities carried by a Member for the account of its customers and delivered through the CNS ACATS service.⁴

Discussion

Through ACATS, an NSCC Member to whom a customer's securities account is to be transferred (the "Receiving Member") may initiate the account transfer process by submitting a Transfer Initiation Request (a "TIF") to NSCC. When a Receiving Member accepts a customer account transfer (and all other preconditions to the processing of an ACATS transfer pursuant to NSCC's Rules have been met)⁵, NSCC will cause all CNS-eligible items in that account to enter NSCC's CNS Accounting Operation prior to the settlement cycle (on the day before Settlement Date), unless NSCC is notified by the Receiving Member that certain otherwise CNS eligible items will be withheld from CNS processing.

Unlike ordinary CNS items which enter CNS at contract value, ACATS CNS items enter CNS unvalued, reflecting their true nature as "free" transfers. However, in order to incentivize deliveries, ACATS items are marked-to-the -market on the morning of Settlement Date. The ACATS items thus are marked to their full CNS value as of the prior day's closing price. On the morning of Settlement Date, the Delivering Member's CNS projection report shows a short securities position and its CNS cash reconciliation report shows a cash debit for the "full value" mark. Conversely, the Receiving Member's projection report shows a long securities position and the summary shows a cash credit

³ Commission Rule 15c3-3 provides that a broker dealer shall promptly obtain and shall thereafter maintain the physical possession or control of all fully-paid securities and excess margin securities carried by a broker or dealer for the account of customers.

⁴ Please note that DTC's Settlement Service Guide currently provides that securities which are delivered to a receiving DTC Participant's account from CNS to a firm's account at DTC are classified as collateral which may be otherwise be made available to NSCC in the event that the DTC Participant fails to settle its NSCC settlement obligation. Pursuant to a separate rule filing, DTC is proposing to revise the service guide such that ACAT deliveries from CNS are deemed to be designated by the DTC Participant as "Minimum Amount Securities" when credited to the Participant's account, thus preventing them from them being designated as collateral for either this purpose or for purposes of DTC's Rules (See DTC Rule 1 for the definition of Minimum Amount Securities).

⁵ See NSCC Rule 50 (Automated Customer Account Transfer Service)

for the mark. If the Delivering Member fulfills his ACATS delivery obligation on Settlement Date, the Delivering Member's short position is cancelled and the money debit for the mark is offset by a credit. Likewise, upon receipt of the securities by the Receiving Member, the Receiving Member's long position is offset and the money credit is debited, eliminating the mark. The result is a "free" transfer of securities; no money is paid by either the Delivering or Receiving Member.

Normally, once transactions are processed through CNS, NSCC becomes the contra party representing the opposite side and guarantees settlement.⁶ However, a CNS ACATS transfer is not guaranteed as to a party that fails to pay any portion of its money settlement obligation (including the mark-to-market charge) to NSCC on Settlement Date.

When a firm fails to meet its settlement obligation, this may require NSCC to reverse ACATS for uncompleted transfers of the defaulting Member in order to eliminate the debits and/or credits calculated pursuant to the marking process described above. ACATS transfers that are currently settled via CNS are fungible with all other CNS activity. Specifically, CNS ACATS receives and delivers are netted with guaranteed settling trades in the same securities, and the CNS system does not currently maintain a distinction between ACATS transactions and other transactions. Pursuant to this proposal, NSCC will modify the process so that it will track ACATS receive and deliver obligations in CNS. The tracking will track customer transfers, and CNS allocations will be applied to ACATS receive and deliver obligations before satisfying another obligation (i.e. trade-related obligation) in a particular security for a particular Member. At the end of each processing day, CNS ACATS fails will continue to be marked to the full market value and netted with all other CNS obligations under NSCC's rules.

In the event of a Member failure, NSCC will leverage this tracking to automatically differentiate between CNS-ACATS transactions that have been completed and those that have not yet completed. In a failure to settle situation, this would enable NSCC to reverse pending ACATS obligations for only uncompleted CNS ACATS transfers of the failing Member and allow assets associated with completed ACATS transfers to remain with the Receiving Member, thus ensuring that CNS-related customer account transfers to new firms are maximized. For this purpose, an ACATS transfer of a failing Member will be deemed uncompleted if the failing Member is: (i) the Delivering Member and it has failed to deliver to CNS all or a portion of the securities associated with the ACATS transfer, or (ii) the Receiving Member and it has failed to receive from CNS all or a portion of the securities associated with the ACATS transfer. However, in either such case, where the Delivering Member has made a partial delivery for an amount of the securities to CNS (the "Delivered Amount") the transfer would be: (i) deemed

⁶ Pursuant to Addendum K of the Rules, NSCC generally guarantees the completion of Continuous Net Settlement ("CNS") and Balance Order trades that have reached the later of midnight of T+1 or midnight of the day they are reported to Members. Shortened process trades, such as same-day and next-day settling trades, are guaranteed upon comparison or trade recording processing.

completed for any amount of the securities received from CNS by the Receiving Member up to an amount not to exceed the Delivered Amount (the “Received Amount”), and (ii) uncompleted for any amount of the securities greater than the Received Amount (in which case, only the uncompleted portion of the item would be subject to reversal). In addition, for the purposes of this Rule, transfers will be deemed uncompleted where the failing Member is: (i) the Delivering Member and it has a flat or overall CNS long position, or (ii) the Receiving Member and it has a flat or CNS short position and, in either case, it fails to pay its settlement obligation. In the event a Delivering Member and Receiving Member fail on the same settlement day and have an ACATS transfer obligation between them, then any transfer deemed uncompleted for the Delivering Member will also be deemed uncompleted as to the Receiving Member. NSCC will notify firms with the details associated with the assets subject to the reversal and firms would need to reestablish customer positions accordingly.

In addition, in order to facilitate Members’ compliance with their securities possession or control requirements for ACATS transfers processed through CNS, NSCC proposes to modify its Rules to clarify that it does not maintain a lien with respect to ACATS assets delivered to a Receiving Member through CNS.

Therefore, NSCC proposes to amend its rules as follows to provide for the ACATS modifications described above:

a. Amend Rule 18 (Procedures for When NSCC Declines or Ceases to Act)

Section 7 of Rule 18 (Procedures for when the Corporation Declines or Ceases to Act) provides that NSCC maintains a lien on all property placed in its possession by a participant as security for any and all liabilities of that participant to NSCC. An existing exception to this rule is where such a lien would be prohibited under Commission Rules 8c-1 and 15c2-1. NSCC proposes to modify this section to clarify that it does not maintain a lien with respect to ACATS assets that have been delivered to a Receiving Member via CNS.

b. Procedure VII (CNS Accounting Operation)

NSCC proposes to modify Procedure VII to provide for the tracking of customer transfers by stating that deliveries of a particular security through CNS will be designated to apply to a Member's ACATS receive and deliver obligations before satisfying another obligation (i.e. trade related obligation) of that Member. In addition, the modified language will indicate that this designation will be provided to the Member's Designated Depository to facilitate the depository's processing of the item in accordance with its procedures.

c. Rule 50 (ACATS)

NSCC will amend Rule 50 to clarify that NSCC may reverse uncompleted ACATS items where either the Delivering or Receiving Member has failed to meet its settlement obligation to NSCC. In addition, this Rule will be revised to note that in the event of such a reversal of uncompleted CNS ACAT obligations, NSCC will make available to each Member files which will show each open position in each security due to settle that day that were subject to the reversal and such other information as the Corporation may deem advisable. The proposed change also includes a technical correction to clarify that ACATS transactions enter the CNS Accounting Operation on the day before Settlement Date (SD-1), rather than T+1, as is currently stated in the Rule.

Implementation timeframe:

NSCC proposes to implement the changes set forth in this filing during the third quarter of 2010. Pending Commission approval, 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 enhancements relating to the processing of customer securities which would enable the implementation of a tracking mechanism to distinguish ACATS activity from other items processed through CNS to allow for: (i) the tracking of receive and deliver obligations associated with ACATS activity, and (ii) preclude the reversal of completed ACATS transfers in the event of a Member's failure-to-settle.

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

NSCC believes that the proposed rule change will not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act as it provides for enhanced protections for the securities of Members' customers consistent with the requirements of the Act and Commission Rule 15c3-3.

5. 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.

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 upon the rules of another self-regulatory organization.

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

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-NSCC-2010-05)

June 4, 2010

SELF-REGULATORY ORGANIZATIONS

Proposed Rule Change by National Securities Clearing Corporation (“NSCC”) regarding processing enhancements that it proposes to undertake with respect to transfers processed through its Automated Customer Account Transfer Service.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), notice is hereby given that on _____ National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by NSCC. The Commission is publishing this notice to solicit comments on the rule change from interested parties.

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

The proposed rule change is annexed 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 these statements.

(A) Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

Proposal

NSCC's Automated Customer Account Transfer Service ("ACATS") enables Members to effect automated transfers of customer accounts among themselves.¹ With respect to ACATS transfers processed through NSCC's Continuous Net Settlement ("CNS") system², long and short positions are passed against Members' positions at The Depository Trust Company ("DTC") and available securities are delivered from short Members' accounts at DTC and are allocated to long Members' accounts by book-entry. Since its inception in 1985, ACATS has provided Member firms with an efficient automated means for the prompt transfer of customer accounts; however, NSCC has determined to undertake certain enhancements relating to the service to: (i) provide for enhanced protection for customer securities that are subject to ACATS transfer such that customer account transfers to new firms are maximized in the event of a firm failure, and (ii) facilitate Members' compliance with their securities possession or control requirements for ACATS transfers processed through CNS.³ Specifically, in furtherance of (i) above (and as more fully described below), NSCC is now proposing to modify its ACATS processing and its Rules to provide that deliveries and/or receives in a particular security processed through CNS would be designated by NSCC to satisfy a Member's ACATS receive or deliver obligation prior to other CNS-related obligations for that Member in the same security, thus allowing NSCC to track the completion status of CNS ACATS items and prevent the reversal of such items that have completed, in the event of

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² CNS is an ongoing accounting system which nets today's Settling Trades with yesterday's Closing Positions, producing net short or long positions per security issue for each Member. The Corporation is always contraside for all positions. The positions are then passed against the Member's Designated Depository positions and available securities are allocated by book-entry. This allocation of securities is accomplished through an evening cycle followed by a day cycle. Positions which remain open after the evening cycle may be changed as a result of trades accepted for settlement that day. CNS allocates deliveries in both the night and day cycles based on an algorithm based on priority groups in descending order, age of position within a priority group, and random numbers within age groups.

³ Commission Rule 15c3-3 provides that a broker dealer shall promptly obtain and shall thereafter maintain the physical possession or control of all fully-paid securities and excess margin securities carried by a broker or dealer for the account of customers.

the Member's failure. In addition, in furtherance of (ii) above, NSCC is proposing to modify its Rules to clarify that in no event would NSCC have any lien on securities carried by a Member for the account of its customers and delivered through the CNS ACATS service.⁴

Discussion

Through ACATS, an NSCC Member to whom a customer's securities account is to be transferred (the "Receiving Member") may initiate the account transfer process by submitting a Transfer Initiation Request (a "TIF") to NSCC. When a Receiving Member accepts a customer account transfer (and all other preconditions to the processing of an ACATS transfer pursuant to NSCC's Rules have been met)⁵, NSCC will cause all CNS-eligible items in that account to enter NSCC's CNS Accounting Operation prior to the settlement cycle (on the day before Settlement Date), unless NSCC is notified by the Receiving Member that certain otherwise CNS eligible items will be withheld from CNS processing.

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⁴ Please note that DTC's Settlement Service Guide currently provides that securities which are delivered to a receiving DTC Participant's account from CNS to a firm's account at DTC are classified as collateral which may be otherwise be made available to NSCC in the event that the DTC Participant fails to settle its NSCC settlement obligation. Pursuant to a separate rule filing, DTC is proposing to revise the service guide such that ACAT deliveries from CNS are deemed to be designated by the DTC Participant as "Minimum Amount Securities" when credited to the Participant's account, thus preventing them from them being designated as collateral for either this purpose or for purposes of DTC's Rules (See DTC Rule 1 for the definition of Minimum Amount Securities).

⁵ See NSCC Rule 50 (Automated Customer Account Transfer Service)

projection report shows a long securities position and the summary shows a cash credit for the mark. If the Delivering Member fulfills his ACATS delivery obligation on Settlement Date, the Delivering Member's short position is cancelled and the money debit for the mark is offset by a credit. Likewise, upon receipt of the securities by the Receiving Member, the Receiving Member's long position is offset and the money credit is debited, eliminating the mark. The result is a "free" transfer of securities; no money is paid by either the Delivering or Receiving Member.

Normally, once transactions are processed through CNS, NSCC becomes the contra party representing the opposite side and guarantees settlement.⁶ However, a CNS ACATS transfer is not guaranteed as to a party that fails to pay any portion of its money settlement obligation (including the mark-to-market charge) to NSCC on Settlement Date.

When a firm fails to meet its settlement obligation, this may require NSCC to reverse ACATS for uncompleted transfers of the defaulting Member in order to eliminate the debits and/or credits calculated pursuant to the marking process described above. ACATS transfers that are currently settled via CNS are fungible with all other CNS activity. Specifically, CNS ACATS receives and delivers are netted with guaranteed settling trades in the same securities, and the CNS system does not currently maintain a distinction between ACATS transactions and other transactions. Pursuant to this proposal, NSCC will modify the process so that it will track ACATS receive and deliver obligations in CNS. The tracking will track customer transfers, and CNS allocations will be applied to ACATS receive and deliver obligations before satisfying another obligation (i.e. trade-related obligation) in a particular security for a particular Member. At the end of each processing day, CNS ACATS fails will continue to be marked to the full market value and netted with all other CNS obligations under NSCC's rules.

⁶ Pursuant to Addendum K of the Rules, NSCC generally guarantees the completion of Continuous Net Settlement ("CNS") and Balance Order trades that have reached the later of midnight of T+1 or midnight of the day they are reported to Members. Shortened process trades, such as same-day and next-day settling trades, are guaranteed upon comparison or trade recording processing.

In the event of a Member failure, NSCC will leverage this tracking to automatically differentiate between CNS-ACATS transactions that have been completed and those that have not yet completed. In a failure to settle situation, this would enable NSCC to reverse pending ACATS obligations for only uncompleted CNS ACATS transfers of the failing Member and allow assets associated with completed ACATS transfers to remain with the Receiving Member, thus ensuring that CNS-related customer account transfers to new firms are maximized. For this purpose, an ACATS transfer of a failing Member will be deemed uncompleted if the failing Member is: (i) the Delivering Member and it has failed to deliver to CNS all or a portion of the securities associated with the ACATS transfer, or (ii) the Receiving Member and it has failed to receive from CNS all or a portion of the securities associated with the ACATS transfer. However, in either such case, where the Delivering Member has made a partial delivery for an amount of the securities to CNS (the “Delivered Amount”) the transfer would be: (i) deemed completed for any amount of the securities received from CNS by the Receiving Member up to an amount not to exceed the Delivered Amount (the “Received Amount”), and (ii) uncompleted for any amount of the securities greater than the Received Amount (in which case, only the uncompleted portion of the item would be subject to reversal). In addition, for the purposes of this Rule, transfers will be deemed uncompleted where the failing Member is: (i) the Delivering Member and it has a flat or overall CNS long position, or (ii) the Receiving Member and it has a flat or CNS short position and, in either case, it fails to pay its settlement obligation. In the event a Delivering Member and Receiving Member fail on the same settlement day and have an ACATS transfer obligation between them, then any transfer deemed uncompleted for the Delivering Member will also be deemed uncompleted as to the Receiving Member. NSCC will notify firms with the details associated with the assets subject to the reversal and firms would need to reestablish customer positions accordingly.

In addition, in order to facilitate Members’ compliance with their securities possession or control requirements for ACATS transfers processed through CNS, NSCC

proposes to modify its Rules to clarify that it does not maintain a lien with respect to ACATS assets delivered to a Receiving Member through CNS.

Therefore, NSCC proposes to amend its rules as follows to provide for the ACATS modifications described above:

a. Amend Rule 18 (Procedures for When NSCC Declines or Ceases to Act)

Section 7 of Rule 18 (Procedures for when the Corporation Declines or Ceases to Act) provides that NSCC maintains a lien on all property placed in its possession by a participant as security for any and all liabilities of that participant to NSCC. An existing exception to this rule is where such a lien would be prohibited under Commission Rules 8c-1 and 15c2-1. NSCC proposes to modify this section to clarify that it does not maintain a lien with respect to ACATS assets that have been delivered to a Receiving Member via CNS.

b. Procedure VII (CNS Accounting Operation)

NSCC proposes to modify Procedure VII to provide for the tracking of customer transfers by stating that deliveries of a particular security through CNS will be designated to apply to a Member's ACATS receive and deliver obligations before satisfying another obligation (i.e. trade related obligation) of that Member. In addition, the modified language will indicate that this designation will be provided to the Member's Designated Depository to facilitate the depository's processing of the item in accordance with its procedures.

c. Rule 50 (ACATS)

NSCC will amend Rule 50 to clarify that NSCC may reverse uncompleted ACATS items where either the Delivering or Receiving Member has failed to meet its

settlement obligation to NSCC. In addition, this Rule will be revised to note that in the event of such a reversal of uncompleted CNS ACAT obligations, NSCC will make available to each Member files which will show each open position in each security due to settle that day that were subject to the reversal and such other information as the Corporation may deem advisable. The proposed change also includes a technical correction to clarify that ACATS transactions enter the CNS Accounting Operation on the day before Settlement Date (SD-1), rather than T+1, as is currently stated in the Rule.

Implementation timeframe:

NSCC proposes to implement the changes set forth in this filing during the third quarter of 2010. Pending Commission approval, 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 enhancements relating to the processing of customer securities which would enable the implementation of a tracking mechanism to distinguish ACATS activity from other items processed through CNS to allow for: (i) the tracking of receive and deliver obligations associated with ACATS activity, and (ii) preclude the reversal of completed ACATS transfers in the event of a Member's failure-to-settle.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NSCC believes that the proposed rule change will not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act as it provides for enhanced protections for the securities of Members' customers consistent with the requirements of the Act and Commission Rule 15c3-3.

(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

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 rule 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 send an e-mail to rule-comment@sec.gov. Please include File No. SR-NSCC-2010-05 on the subject line.
- Paper comments should be sent in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2010-05. 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 submission 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 Trading and Markets, pursuant to delegated authority.

Elizabeth M. Murphy
Secretary

EXHIBIT 5

Bold, underlined text indicates additional language proposed by this rule filing.

~~Bold, Strike-through~~ text indicates language proposed to be deleted by this rule filing.

RULES AND PROCEDURES
OF
NATIONAL SECURITIES CLEARING CORPORATION

RULE 18. PROCEDURES FOR WHEN THE CORPORATION
DECLINES OR CEASES TO ACT

SEC. 1. When the Corporation has declined or ceased to act for a Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, Investment Manager/Agent Member, Fund Member, Commission Billing Member, Data Services Only Member or AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 18) pursuant to Rule 46, it shall provide participants with notice pursuant to the provisions of Section 3 of Rule 45.

SEC. 2. (a) Except as otherwise may be determined by the Board of Directors the following transactions of a Member for which the Corporation has declined or ceased to act shall be excluded from all operations of the Corporation applicable to such transactions:

- (i) any CNS trade which, at the time the Corporation declined or ceased to act for such Member, was not guaranteed by the Corporation pursuant to Addendum K;
- (ii) any Balance Order trade which, at the time the Corporation declined or ceased to act for such Member, was not guaranteed by the Corporation pursuant to Addendum K; and
- (iii) any security orders issued in respect of Special Trades and transactions in Foreign Securities.

Any transactions so excluded shall be settled between the parties and not through the Corporation.

(b) All CNS transactions and Balance Order transactions not excluded pursuant to paragraph (a) of this Section shall be handled as provided for in this Rule.

SEC. 3. (a) Notwithstanding any other provision of this Rule, promptly after the Corporation has declined or ceased to act for a Member, the Corporation shall attempt to complete, in accordance with the provisions of this Section, the open RVP/DVP Transactions of such Member. The Corporation shall notify the relevant RVP/DVP Customer and the trustee or receiver of the Member (if one has been appointed) of the Corporation's intent to attempt to complete such RVP/DVP Transactions. Such notice shall also contain a statement notifying RVP/DVP Customers of the presumed waiver stated in paragraph (f) of this Section. Such notice shall be given by any commercially reasonable means, which shall not be limited to those means specified in Rule 45, and include, but are not limited to, important notice or notification to the RVP/DVP Customer's depository agent or its depository agent's depository.

(b) For purposes of this Rule 18, (i) the "CNS Position" shall be equal to the net of the Member's Long Positions and Short Positions in a CNS Security (which includes, without limitation, any position not excluded by the Corporation pursuant to Section 2), and (ii) the "Net Close Out Position" with respect to a CNS Security shall be equal to the sum of the (X) Long Position or Short Position in such CNS Security plus (Y) the quantity of each RVP/DVP Transaction pertaining to that CNS Security that the Corporation has completed pursuant to this Rule. In determining a CNS Position, the Corporation shall consider Long Positions to be positive numbers and Short Positions to be negative numbers. In determining the Net Close Out Position, the Corporation shall consider any quantity of securities it receives upon completion of an RVP/DVP transaction to be a positive number, and any quantity of securities it delivers upon completion of an RVP/DVP Transaction, to be a negative number.

(c)(i) Subject to paragraph (d) below, the Corporation shall be obligated to attempt to complete all RVP/DVP Transactions in a CNS Security of which the Corporation is aware prior to declining or ceasing to act, but only to the extent that the completion of such RVP/DVP Transactions would not cause the absolute value of the Net Close Out Position in such CNS Security to be greater than the absolute value of the CNS Position in such CNS Security. To the extent that this paragraph requires the Corporation to attempt to complete some but not all of the RVP/DVP Transactions in a particular CNS Security, the Corporation shall determine which of those RVP/DVP Transactions it shall attempt to complete in the same manner that it may, pursuant to subparagraph (ii), determine to attempt to complete any additional RVP/DVP Transactions.

(ii) In determining whether to attempt to complete any additional RVP/DVP Transaction beyond those RVP/DVP Transactions that the Corporation is required to attempt to complete pursuant to subparagraph (c)(i), the Board of Directors may consider any factor it, in its sole discretion, deems appropriate, including the willingness of an RVP/DVP Customer to guaranty fulfillment of its obligation to receive or deliver securities from or to the Corporation, but shall not consider the expected profit or loss arising from any individual RVP/DVP Transaction.

(d) Notwithstanding the provisions of paragraph (c), the Corporation may determine not to complete any open RVP/DVP Transaction pertaining to a particular CNS Security if (i) the Corporation reasonably believes that it cannot complete all RVP/DVP transactions in such CNS Security that it would be obligated to attempt to complete pursuant to paragraph (c)(i), whether due to the inability of the Corporation or the RVP/DVP Customer to make delivery or payment, the unwillingness of the RVP/DVP Customer to make delivery or payment, or otherwise, (ii) there exists allegations of fraud or otherwise questionable activities with respect to such CNS Security, or (iii) the Corporation believes that the completion of an RVP/DVP Transaction in such CNS Security can not be consummated on a timely basis. If the Corporation makes such a determination, then it shall have no further obligations with respect to completing such RVP/DVP Transactions, and shall notify the RVP/DVP Customer (or its depository agent or its depository agent's depository) and the trustee or receiver of the Member (if any) of such determination.

(e) The Corporation will apply the same procedures to open positions arising from security Balance Orders¹ with respect to which there are RVP/DVP Transactions, to the extent to do so is practicable.

(f) All notices to RVP/DVP Customers (or the RVP/DVP Customer's depository agent or its depository agent's depository) shall include language to the effect that the RVP/DVP Customer, by completing the RVP/DVP Transaction, shall be conclusively presumed to have waived any claim with respect to such completed RVP/DVP Transaction, including, but not limited to, any net equity claim, against (i) the Member, (ii) the Member's appointed trustee or receiver (or any successor trustee or receiver), if any, or (iii) the Securities Investor Protection Corporation (SIPC), if the Member is subject to a SIPC liquidation order.

(g) The Net Close Out Positions shall be closed out by the Corporation as provided in Section 6.

SEC. 4. (a)(i) After the Corporation has declined or ceased to act for a Member generally, the Corporation may accept from him envelopes to be delivered to other Members (whether such deliveries are pursuant to security balance orders issued by the Corporation or are otherwise provided for in these Rules) or it may decline to accept any such deliveries, in which case such Member shall make such deliveries and obtain payment therefor otherwise than through the Corporation.

(ii) After the Corporation has declined or ceased to act for a Member generally, it shall decline to accept from other Members envelopes or orders to be delivered to such Member, in which case such other Members shall make such deliveries to such Member and obtain payment therefor otherwise than through the Corporation; provided,

¹ The definitions contained in subsection (c)(ii) shall be deemed modified as follows when used in connection with Balance Orders: the term "CNS Position" shall refer to the Member's net Balance Order position, the term "Long Position" shall refer to such Member's net Balance Order receive obligations and the term "Short Position" shall refer to such Member's net Balance Order deliver obligations.

however, that the Corporation may accept such envelopes in order to complete open RVP/DVP Transactions pursuant to paragraph (e) of Section 3.

SEC. 5 After the Corporation has declined or ceased to act for a Member generally, the Corporation may, in respect of the CNS System, take any of the following actions:

(i) accept from such Member deliveries through the facilities of a Qualified Securities Depository;

(ii) continue to instruct the Qualified Securities Depository designated by such Member to deliver CNS Securities from such Member's account at the Qualified Securities Depository to the Corporation's account in respect of such Member's Short Positions; or

(iii) continue to instruct the Qualified Securities Depository designated by such Member to deliver from the Corporation's account at the Qualified Securities Depository CNS Securities received into the Corporation's account to the Member in respect of his Long Positions and may in connection therewith accord the Member priority, as provided in the Procedures, in respect of all other Members;

provided however, in the event insolvency proceedings have commenced against such Member, the actions contemplated by subparagraphs (ii) and (iii) may be taken to the extent permitted by the applicable rules of the relevant insolvency regime. In the event the Corporation declines to take the actions permitted by the foregoing subparagraphs, the open positions of such Member shall be closed out as provided in paragraph (a) of Section 6.

SEC. 6. (a) Promptly after the Corporation has given notice that it has declined or ceased to act for the Member, and in a manner consistent with the provisions of Section 3, the Net Close Out Position with respect to each CNS Security shall be closed out (whether it be by buying in, selling out or otherwise liquidating the position) by the Corporation; provided however, if, in the opinion of the Corporation, the close out of a position in a specific security would create a disorderly market in that security, then the completion of such close-out shall be in the discretion of the Corporation.

If, in the aggregate, the closing out of CNS securities deliverable to or deliverable by such Member results in a profit, said profit shall be credited to the account of such Member with the Corporation. If, in the aggregate, the selling out and buying in of CNS securities deliverable to or deliverable by such Member results in a loss, said loss shall be debited to the account of such Member with the Corporation.

(b) Except as otherwise may be determined by the Board of Directors:

(i) securities deliverable to or by the Member for whom the Corporation has declined or ceased to act pursuant to security balance orders (except such securities as shall at the time the Corporation so declined or ceased to act have

been delivered pursuant to such orders) relating to Balance Order transactions not excluded pursuant to paragraph (a) of Section 2 shall be sold out or bought in by the Members named in such security balance orders without unnecessary delay in the best available market, subject to such terms and conditions as the Corporation may require, and the delivery of and payment for securities deliverable pursuant to such balance orders shall be governed by the provisions of this paragraph (b);

(ii) Separate accountings as to each business day, as hereinafter provided, shall be had with respect to the profits and losses of other Members (computed on the basis of the Settlement Prices shown on the security balance orders) resulting from the buying in or selling out of Balance Order Securities deliverable to or by the Member for whom the Corporation has declined or ceased to act under security balance orders calling for such delivery on such day; provided, however, in the event that the Corporation instructs a Member that the buy in or sell out of an open Balance Order position must be for cash or guaranteed delivery, as the case may be, then any loss relating to such a buy in or sell out shall only be included in such accountings if such Member complied with such instructions.

(iii) With respect to each separate accounting for the close outs of Balance Order transactions directed by the Corporation:

(A) If a profit results from the selling out or the buying in of Balance Order Securities deliverable to or deliverable by the Member for whom the Corporation has declined or ceased to act under a security balance order, the Member realizing such profit shall at once send a statement of the transaction to the Corporation and shall pay over such profit to it. Such profit shall be applied by the Corporation to the payment of losses incurred by such Member or by other Members in selling out or buying in Balance Order Securities deliverable to or deliverable by the Member, for whom the Corporation has declined or ceased to act, under other security balance orders calling for delivery on the same day.

(B) If a loss results from the selling out or buying in of Balance Order Securities deliverable by the Member for whom the Corporation has declined or ceased to act, under a security balance order the Member sustaining such loss shall at once send a statement of the transaction to the Corporation, which shall pay him the amount of the loss in the manner and to the extent hereinafter provided.

(C)(i) If, in the aggregate, the selling out and buying in of Balance Order Securities deliverable to or deliverable by the Member for whom the Corporation has declined or ceased to act under security balance orders calling for delivery on the same day results in a profit, said profit shall be credited to the account with the Corporation of the Member for whom the Corporation has declined or ceased to act.

- (ii) If, in the aggregate, the selling out and buying in of Balance Order Securities deliverable to or deliverable by the Member for whom the Corporation has declined or ceased to act under security balance orders calling for delivery on the same day results in a loss, the Corporation shall pay the same to the Members sustaining such losses, and debit the net amount to the account with the Corporation of the Member for whom the Corporation has declined or ceased to act.

SEC. 7. (a) After the Corporation has declined or ceased to act for a participant either in respect to a particular transaction or transactions generally, the Corporation shall nevertheless have the same rights and remedies in respect to any debit balance due from such participant or any liability incurred on his behalf as though it had not ceased to act for him.

(b) As security for any and all liabilities now existing, or hereafter arising, of a Member, Mutual Fund/Insurance Services Member or Commission Billing Member to the Corporation, the Corporation shall maintain a lien on all property placed by such participant in its possession, including but not limited to, securities and cash in the process of clearance or on deposit with, or pledged to, the Corporation in satisfaction and/or in excess of such participant's Clearing Fund deposit pursuant to Rule 4, Section 1, and Rule 12, Section 1; provided, however, that in no event shall the Corporation have any lien on securities carried by a Member, Mutual Fund/Insurance Services Member or Commission Billing Member for the account of its customers where: **(i) such lien would be prohibited under Commission Rules 8c-1 and 15c2-1, or (ii) such securities are CNS Securities, and have been delivered from the Corporation's account at a Qualified Securities Depository pursuant to Rule 11 and the CNS Accounting Operation Procedure, and received into a Receiving Member's account (as defined in Rule 50) at a Qualified Securities Depository in order to reduce or eliminate the Long Position of the Member related to the transfer of a customer account initiated through the ACAT Service.**

RULE 50. AUTOMATED CUSTOMER ACCOUNT TRANSFER SERVICE

SEC. 1. The Corporation may provide a service to enable Members and Qualified Securities Depositories, on behalf of their participants (hereinafter referred to as the "QSD"), to transfer accounts of their customers between themselves on an automated basis. Such automated transfer of customer accounts will be known as the Automated Customer Account Transfer Service (hereinafter referred to as the "ACAT Service") and will be processed in accordance with the provisions of this Rule.

SEC. 2. A Member or QSD to whom a customer's full account is to be transferred (hereinafter referred to as the "Receiving Member") may initiate the procedure by submitting to the Corporation, within such time frame as established by

the Corporation from time to time, a transfer initiation request in such automated format as the Corporation may establish from time to time.

SEC. 3. The Corporation will review the transfer initiation request received for such data which the Corporation determines from time to time to be necessary. Notwithstanding the foregoing, the Corporation will not be responsible for the completeness or accuracy of any information contained in the transfer initiation request. If the request does not contain the required data, the Corporation will reject the request. If the Corporation rejects the request, the Receiving Member must reinitiate the request as if it had never been previously submitted. The Receiving Member may submit, through the facilities of the Corporation, such documentation as the Member or QSD who currently has the account (hereinafter referred to as the "Delivering Member") requires to transfer the account, and any such delivery shall be made pursuant to the procedures of the Corporation as the Corporation may provide from time to time. The Corporation assumes no responsibility for the completeness or accuracy of any such form or documentation submitted through the facilities of the Corporation or otherwise.

SEC. 4. Each day the Corporation will produce a report, in such form as determined by the Corporation from time to time, indicating all customer account transfer requests received by the Corporation that day. On a daily basis, Members and QSDs must compare the list of customer account transfer requests as reported by the Corporation that were initiated throughout that day with any transfer initiation requests delivered to or received from the Corporation or from another Member or QSD. Any discrepancies between the report and the transfer initiation requests received or delivered must be immediately reported to the Corporation. To the extent necessary or appropriate, the Corporation will cause an adjustment to be made to such report within such time as the Corporation determines to be necessary.

SEC. 5. Within the time frame established by the Corporation or, to the extent applicable, the Delivering Member's Designated Examining Authority ("DEA"), and, to the extent applicable, pursuant to reasons permitted by the Delivering Member's DEA, the Delivering Member must either reject a customer account transfer request by submitting a rejection to the Corporation in such form as determined by the Corporation from time to time, or submit to the Corporation detailed customer account asset data in such format as established by the Corporation from time to time; provided, however, that if Fund/Serv Eligible Fund assets are to be transferred through Mutual Fund Services, the Delivering Member must specify the quantity of each Fund/Serv Eligible Fund asset to be processed and indicate whether each such transfer shall be a full or a partial transfer². A Delivering Member who rejects a transfer request must indicate the reason for the rejection. Any transfer request that is not responded to by a Delivering Member within such time frame as established by the Corporation from time to time will be deleted from the ACAT Service by the Corporation and the Receiving and Delivering Member's will be notified accordingly. A Receiving Member who desires to resubmit a

² A full transfer will cause all Fund/Serv Eligible Fund account assets, whether greater or lesser than the quantity specified, to be transferred. A partial transfer will cause only the Fund/Serv Eligible Fund account asset quantity specified or such lesser amount to be transferred.

transfer request that is deleted will be required to reinitiate the request as if one had never been previously submitted.

SEC. 6. The Corporation will notify a Receiving Member, in such manner as determined by the Corporation from time to time, of customer account transfer requests that have been rejected by the Delivering Member and the Corporation will cause such requests to be deleted from the ACAT Service unless a correction is submitted by the Receiving Member as set forth below. To the extent the rejection is for enumerated categories, as specified by the Corporation from time to time, within one (1) business day after notification of a Delivering Member's rejection, a Receiving Member may adjust a customer account transfer request by submitting corrections to the Corporation in such manner as determined by the Corporation from time to time. A Delivering Member must either reject the adjusted transfer request by submitting a rejection to the Corporation or submit to the Corporation detailed customer account asset data, in such manner and by such time as determined by the Corporation from time to time. If the Delivering Member fails to respond to the adjusted transfer request within such time frame as established by the Corporation from time to time, the Corporation will delete such request from the ACAT Service and the Receiving and Delivering Members will be notified accordingly. A Receiving Member who desires to resubmit a transfer request that is deleted will be required to reinitiate the request as if one had never been previously submitted.

SEC. 7. Upon receipt by the Corporation from the Delivering Member of customer account asset data, the Corporation will use its best efforts to validate the data for edit errors. However, the Corporation will not assume the responsibility for such validation process. If no edit errors or format errors are discovered by the Corporation in the asset data, details of the account will be reported to both the Delivering Member and the Receiving Member in such manner and by such time as established by the Corporation from time to time. If the Corporation discovers that customer account asset data contains one or more edit errors or, format errors, the Corporation will notify the Receiving Member in such manner and by such time as determined by the Corporation from time to time that customer account asset data has been received from the Delivering Member but that it contains edit errors or format errors. The Corporation will notify the Delivering Member in such manner and by such time as determined by the Corporation from time to time of all customer account asset data reported, indicating that which contains errors. The Delivering Member will be required to correct those items that contain edit errors or format errors in order to permit delivery of the customer's account to occur within the time frame as established by the Delivering Member's DEA. If the Delivering Member fails to correct edit errors or format errors within such time frame established by the Corporation, the Corporation will delete the transfer request from the ACAT Service. A Receiving Member who desires to resubmit a transfer request that is deleted will be required to reinitiate the request as if one had never been previously submitted.

SEC. 8 . A Receiving Member will have one (1) business day after receipt from the Corporation of the report detailing the customer account asset data to review the account and accept all assets, or, to the extent permitted by the Member's DEA, if

applicable, reject one or more assets within a DEA determined asset category, request the Delivering Member to make adjustments to it or, as permitted by the Corporation or, to the extent applicable, the Receiving Member's DEA, reject the account. No action is required by the Receiving Member if it determines to accept all assets in an account. During the one (1) business day time period, only the Delivering Member will be able to add, delete or change an item by delivering to the Corporation such information in such form and by such time as established by the Corporation from time to time, other than with respect to MF/IPS Products (as defined below), which can also be deleted by the Receiving Member. Each business day that a Delivering Member causes an adjustment to be made to an account will give the Receiving Member an additional one (1) business day to review the account. If Fund/Serv Eligible Fund assets and/or IPS Eligible Products ("MF/IPS Products") are to be transferred the Receiving Member shall also, within one (1) business day after receipt from the Corporation of the report detailing the MF/IPS Products data or simultaneous with the submission of an acceleration instruction, submit to the Corporation detailed transfer instructions in such format as established by the Corporation from time to time, which instructions shall be processed through Mutual Fund Services in accordance with Section 16 of Subsection A of Rule 52 or through IPS in accordance with Section 6 of Rule 57, as applicable. If a Receiving Member submits instructions and determines that a modification must be made to such instruction, such modifications must be submitted within the same deadline. Each business day that the Delivering Member causes an adjustment to be made to an account will give the Receiving Member an additional one (1) business day to submit such transfer information. With respect to Fund/Serv Eligible Fund assets, if the Receiving Member fails to properly submit such transfer information within the required time period, the Corporation shall transmit through Mutual Fund Services such standing transfer information as the Corporation shall determine. Each day the Corporation will produce a report indicating the transfer instructions that have been received by the Corporation, if any, and, with respect to Fund/Serv Eligible Fund assets, if no instructions have been received, the standing instructions which will be submitted to the Mutual Fund Processor or Fund Member. Each day the Corporation will produce a report to the Receiving and Delivering Member, indicating the Fund/Serv Eligible Fund customer account asset transfers which have been confirmed or rejected by the Mutual Fund Processor or Fund Member in accordance with Section 16 of Subsection A of Rule 52. Such report will also indicate those transfers which the Mutual Fund Processor or Fund Member has not confirmed or rejected or which have been deleted. Each day the Corporation will produce a report to the Receiving and Delivering Member, indicating the IPS Eligible Products transfers which have been confirmed or rejected by the Insurance Carrier/Retirement Services Member in accordance with Section 6 of Rule 57, or which have been deleted.

SEC. 9. Once a customer account has been accepted by the Receiving Member:

- (i) To the extent a transfer is between a Member and another Member:
- (1) Unless the customer account asset data input to the Corporation indicates that a CNS eligible item is to be delivered ex-CNS or an asset is being tracked through DTC's IPO Tracking System, the Corporation will cause

all CNS eligible items to enter the CNS accounting operation as provided in the Procedures as of ~~T+4~~ **SD-1** and such items shall be subject to Rule 11 and other provisions of the Rules; provided, however, that subject to any rights the Corporation may have as provided in these Rules generally, the Corporation will guarantee the settlement of any such ACAT CNS item only to the extent that **either the the Delivering or the Receiving Member who has a payment obligation to the Corporation arising out of the ACAT CNS item,** pays the Corporation his entire settlement obligation (including any mark-to-market obligation) for the day the ACAT payment obligation arose. To the extent that such Member fails to complete such settlement obligation, in the sole discretion of the Corporation, **open uncompleted CNS ACAT deliver obligations items** may, in whole or in part, be eliminated from the CNS accounting operation.³ If the Corporation eliminates an item, any credits received by a Member arising from the corresponding payment obligation shall be reversed and settlement of the item shall be effected between the Receiving and Delivering Member and not through the Corporation. **In the event of such a reversal, the Corporation will make available to each Member files which will show each open position in each security due to settle that day that were subject to the reversal and such other information as the Corporation may deem advisable.**

- (2) The Corporation will issue an instruction file to DTC specifying the assets to be delivered/received for all non-CNS eligible items and CNS-eligible items designated to be delivered ex-CNS, that are otherwise eligible at DTC, in each case pursuant to the standing instructions filed with the Corporation by the Delivering Member;
- (3) The Corporation will produce ACAT Receive and Deliver Instructions for all non-CNS eligible items (for the purpose of this Rule, all ACAT items subject to a voluntary reorganization as specified in the Procedures

³ **For this purpose, a CNS ACATS item of a failing Member will be deemed to be uncompleted if the failing Member is: (i) the Delivering Member and it has failed to deliver to CNS all or a portion of the securities associated with the item, or (ii) the Receiving Member and it has failed to receive from CNS all or a portion of the securities associated with the item. However, in either such case, where the Delivering Member has made a partial delivery of securities to CNS relating to the item (the "Delivered Amount"), the transfer will be: (i) deemed completed for any amount of the securities received from CNS by the Receiving Member up to an amount not to exceed the Delivered Amount (the "Received Amount"), and (ii) uncompleted for any amount of the securities greater than the Received Amount (in which case, only the uncompleted portion of the item would be subject to reversal). In addition, for the purposes of this Rule, transfers will be deemed uncompleted where the failing Member is: (i) the Delivering Member and it has a flat or overall CNS long position, or (ii) the Receiving Member and it has a flat or CNS short position, and, in either case, it fails to pay its settlement obligation. In the event a Delivering Member and Receiving Member fail on the same settlement day and have an ACATS transfer obligation between them, then any transfer deemed uncompleted for the Delivering Member will also be deemed uncompleted as to the Receiving Member.**

Section VII.H.4. shall be deemed non-CNS eligible items) and CNS-eligible items designated to be delivered ex-CNS.

To the extent that a value is specified on an ACAT Receive and Deliver Instruction, other than for those asset types or asset settling locations designated by the Corporation from time to time, the value for settlement purposes pursuant to Section 10 will be in U.S. dollars and will be based upon (A) in the case of CNS eligible items, the price in the CNS system, or (B) in the case of non-CNS eligible items, (i) the price obtained from a pricing source, if available or, if not available, (ii) the price in U.S. dollars assigned by the Delivering Member or ascribed to such item pursuant to a default matrix as established from time to time by the Corporation, whichever is greater, and will also specify such other information as the Corporation may determine from time to time and shall otherwise, to the extent applicable, be subject to the rules of the Members' DEAs, including, but not limited to, their close-out provisions and shall not be subject to the Rules of the Corporation.

(ii) To the extent a transfer is between QSD participants or between a QSD participant and a Member:

(1) For all DTC eligible assets, other than (a) U.S. dollar cash balances ("Cash"), (b) assets covered by a standing instruction filed by the Delivering Member with the Corporation, and (c) assets for which a special receive/deliver instruction request was received from the Delivering Member at the time asset details were submitted, the Corporation will issue an instruction file to DTC specifying the quantity of each asset to be delivered with a deliver value of zero.⁴

(2) The Corporation will produce ACAT Receive and Deliver Instructions for all assets to be transferred and, upon request, will also produce special receive/deliver instructions naming the Receiving Member and Delivering Member. All such special receive/deliver instructions will specify no value.

(3) For all Cash assets, the Corporation will issue payment instructions to DTC naming the paying/receiving entity.

All assets to be transferred through DTC shall be subject to the rules and procedures of DTC.

SEC. 10. To the extent a transfer is between a Member and another Member:

(i) On Settlement Date as indicated on the ACAT Receive and Deliver Instructions, the Corporation will debit and credit the appropriate Member's settlement account for the value of the applicable items. The actual delivery and corresponding money settlement of the underlying assets, regardless of whether a Member's account has been debited pursuant to this subsection, shall be the

⁴ The special receive/deliver instruction referenced in this Section has the same legal effect as an ACAT Receive and Deliver instruction.

responsibility of the appropriate Member and, to the extent applicable, shall be pursuant to the rules of the Member's DEA. If a Member fails to make a delivery, such failure, to the extent applicable, shall be subject to the rules of the Member's DEA and not the Rules of the Corporation.

(ii) The actual delivery and corresponding money settlement, if any, of Fund/Serv Eligible Fund assets which have been rejected or deleted in accordance with Section 16 of Subsection A of Rule 52 for which ACAT Receive and Deliver Instructions have been issued shall be the responsibility of the appropriate Member and, to the extent applicable, shall be pursuant to the rules of the Member's DEA. If a Member fails to make a delivery, such failure shall be, to the extent applicable, subject to the rules of the Member's DEA and not the Rules of the Corporation.

(iii) On Settlement Date, as indicated on the ACAT Settlement Report, the Corporation will debit and credit the Member's settlement account for the value of the Fund/Serv Eligible Fund assets which were specified by the Delivering Member to be processed through Mutual Fund Services in accordance with Section 16 of Subsection A of Rule 52. The Corporation will credit the settlement account of the Member whose settlement account was debited and debit the settlement account of the Member whose settlement account was credited, for the value of the Fund/Serv Eligible Fund assets within such time frame as specified by the Corporation from time to time following receipt from the Mutual Fund Processor or Fund Member of the transfer data confirmation.

SEC. 11. On each business day, the Corporation will issue to each Member and QSD such reports, in such forms and containing such information as established by the Corporation from time to time, indicating the status and details of requested customer account transfers. On each business day, Members and QSDs must compare the reports received against their records and any discrepancies between the two must be immediately reported to the Corporation. To the extent necessary or appropriate, the Corporation will cause an adjustment to be made to the report.

In addition to the foregoing, to the extent that a Receiving Member determines that information as reported on the transfer initiation request is inaccurate, he may cause an adjustment to be made by submitting corrected data to the Corporation. If a Delivering Member determines that the account number of his customer as reported on the transfer initiation request is inaccurate, he may cause an adjustment to be made by submitting corrected data to the Corporation. In both such cases, corrected data must be submitted to the Corporation within such time as established by the Corporation from time to time.

SEC. 12. The Corporation may also provide services to enable Delivering Members to initiate the transfer of:

(i) residual credit positions, which are received for the benefit of a customer's account by the Delivering Member after the ACAT process is completed or

which, due to a restriction, were not included in the original asset transfer (hereinafter collectively referred to as "Residual Credits");

(ii) a partial account held by a Delivering Member (in the form of cash or securities), (hereinafter collectively referred to as "Partial Accounts");

(iii) cash in respect of fail positions for which delivery is unable to be completed, provided, however, that this transfer may only be initiated to the extent that the fail is between a Member and another Member (hereinafter collectively referred to as "Fail Reversals"); and

(iv) cash or securities mistakenly delivered as part of the ACAT Service, other than Fund/Serv Eligible Fund assets and positions eligible for processing at a Registered Clearing Agency with whom the Corporation has entered into an agreement relating to the ACAT Service (hereinafter referred to as an "ACAT RCA") provided, however, that this transfer may only be initiated to the extent that the delivery is between a Member and another Member (hereinafter collectively referred to as "Reclaims").

Such transfers shall be processed as follows:

1. Transfers may be initiated by a Delivering Member by submitting to the Corporation such details as required by the Corporation from time to time within such time frame as established by the Corporation from time to time. The Corporation will reject a transfer if the details contain an edit or format error. The Corporation will notify the Delivering Member if a transfer is rejected and the Delivering Member must reinitiate the transfer as if it had never been previously submitted. If no edit errors or format errors are discovered by the Corporation in the asset data, details of the account will be reported to both the Delivering Member and the Receiving Member in such manner and by such time as established by the Corporation from time to time.
2. A Receiving Member may reject the transfer by submitting such information as determined by the Corporation by the time and in the manner specified by the Corporation on the same day as the transfer request is received or, in respect of Reclaim transfers, no later than two business days following the day the Reclaim transfer request is received. No action is required by the Receiving Member if it determines to accept the transfer. A Receiving Member may not submit corrections and a Delivering Member may not make adjustments to such transfer request.
3. Settlement Date for all transfers covered by this section shall be one business day following the day the Corporation receives the transfer request unless the request is Reclaim transfer, in which case Settlement Date shall be one business day following the day the Receiving Member accepts the request or the Corporation deems the request accepted, or the request includes options assets which are eligible for processing an ACAT RCA, in which case the settlement

date for all assets shall be two business days following the day the Corporation receives the transfer request.

SEC. 13. A Receiving Member may submit a request to a Delivering Member to initiate the transfer of a partial customer account, in such form as determined by the Corporation from time to time. Such request shall be delivered by the Corporation to the Delivering Member on the same day as received by the Corporation. Each day for a period not to exceed two days, the Corporation will produce a report, in such form as determined by the Corporation from time to time, indicating all such requests received by the Corporation. A Delivering Member must either reject a customer account transfer request by submitting a rejection to the Corporation in such form as determined by the Corporation from time to time, or submit to the Corporation detailed customer account asset data in such format as established by the Corporation from time to time. If a request is rejected, the Delivering Member must indicate the reason for the rejection.

SEC. 14. Notwithstanding the forgoing, to the extent a transfer involves an asset position eligible for delivery at an ACAT RCA (other than the DTC), and both the Receiving Member and the Delivering Member have an account at the ACAT RCA, the Corporation will either: issue an instruction file to the applicable ACAT RCA indicating the quantity of assets to be delivered and received and the delivering/receiving participant, or produce ACAT Receive and Deliver Instructions if requested by the Delivering Member at the time the asset details are submitted or pursuant to a standing instruction filed by the Delivering Member with the Corporation. Such ACAT Receive and Deliver Instructions and instruction files shall not specify a value, unless the transfer is between two Members and the assets to be transferred are government securities (where a nominal value shall be specified) and mortgage-backed securities. In the case of mortgage-backed securities, the ACAT Receive and Deliver Instructions and instruction files shall specify a value for each item (in accordance with the pricing provisions of Section 9 of this Rule for non-CNS eligible items) and, on Settlement Date as indicated on the ACAT Receive and Deliver Instructions and instruction files, the Corporation will debit and credit the appropriate Members' settlement accounts for the specified value of such items.

SEC. 15. The Corporation may report to the Delivering and Receiving Members' DEA, to the extent applicable, such information regarding customer account transfers as may be requested of the Corporation from time to time by the DEA.

SEC. 16. Settlement of money payments between Members arising out of account transfers covered by this Rule shall be made in accordance with Rule 12 and other provisions of these Rules.

SEC. 17. Each Member or participant of a QSD that requests a transfer through the ACAT Service (the "Requesting Firm") agrees to (i) indemnify and hold harmless the Member or participant of a QSD that accepts such transfer request (the "Accepting Firm") from and against any and all losses, claims, damages or liabilities (or actions in respect thereof) to which the Accepting Firm may become subject, under any provision

of law, to the Accepting Firm's customer or to any other person, insofar as such losses, claims, damages or liabilities arise out of or are based upon an unauthorized or allegedly unauthorized transfer request or any inaccurate or allegedly inaccurate documentation or information, in any format, transmitted by the Requesting Firm through NSCC or the ACAT Service and (ii) reimburse the Accepting Firm for any legal or other expenses reasonably incurred by the Accepting Firm in connection with defending any such action or claim as such expenses are incurred. Each Requesting Firm agrees that an Accepting Firm accepting its transfer request through the ACAT Service shall be a third-party beneficiary of the above indemnification and reimbursement obligations in respect of such request, and that such an Accepting Firm may assert any claim under these indemnification and reimbursement obligations as a third-party beneficiary directly against such Requesting Firm.

Each Accepting Firm agrees, promptly after receipt of written notice from any customer of the Accepting Firm or any other person, or after any action is brought against the Accepting Firm by such a customer or other person in respect of a loss, claim, damage or liability that may give rise to the indemnification obligations under the preceding paragraph, to notify the Requesting Firm in writing of the receipt of such notice or action. The Requesting Firm agrees that any failure by the Accepting Firm to give such notice does not relieve the Requesting Firm of any liability to the Accepting Firm under the preceding paragraph. If any action shall be brought against the Accepting Firm that may give rise to the indemnification provisions of the preceding paragraph, the Accepting Firm further agrees that the Requesting Firm shall be entitled to participate therein and/or assume the defense thereof (with counsel satisfactory to the Accepting Firm), without the prejudice to the continuing rights of the Accepting Firm. Each Requesting Firm and Accepting Firm agrees that any Requesting Firm or Accepting Firm benefiting from the notification and participation obligations in this paragraph is intended to be a third-party beneficiary of such obligations and may enforce such obligations as a third-party beneficiary against the promisor thereof.

Each Requesting Firm and Accepting Firm agrees that any dispute between them arising under this section shall be resolved directly between them, and that the Corporation shall not be made a party to any such dispute and shall have no responsibility with respect to the enforcement or satisfaction of any indemnification, reimbursement, notification and participation obligations contained in this section.

PROCEDURE VII. CNS ACCOUNTING OPERATION

A. Introduction

The CNS Accounting Operation processes transactions in CNS Securities. Subject to the provisions of Procedure XVI, and for the purposes of this Procedure VII, references to CNS Securities shall include Eligible ID Net Securities.

Transactions in CNS Securities which are reported as compared or recorded on the various report output issued through such time on Settlement Date, as the Corporation may determine, as well as transactions recorded through Trade Recording (Interface Clearing) and those submitted by Special Representatives, are reported on Consolidated Trade Summaries. The netted obligations are then entered into the CNS Accounting Operation.

CNS is an on-going accounting system which nets today's Settling Trades with yesterday's Closing Positions, producing new short or long positions per security issue for each Member. The Corporation is always the contra side for all positions. The positions are then passed against the Member's Designated Depository positions and available securities are allocated by book-entry. This allocation of securities is accomplished through an evening cycle followed by a day cycle. Positions which remain open after the evening cycle may be changed as a result of trades accepted for settlement that day. Members may control the receipt and delivery of their securities through the use of Exemptions (for deliveries) or Priorities (for receipts).

Money settlement is not associated with the individual security movements but is the result of comparing the Closing Money Balance to the Closing Net Market Value of the Member's CNS account.

Dividends and interest are credited or charged to the Member's account according to the security positions that exist on record date. The record date positions are automatically updated for "As-Of" trades and appropriate due bill activity.

B. Consolidated Trade Summary

All compared and recorded transactions in CNS Securities (excluding Special Trades) are processed through the CNS Accounting Operation. This includes transactions compared under the provisions of Section II, recorded under the provisions of Section III, or entered by Special Representatives under Section IV. Purchases and sales due for settlement on a given day are summarized on the Consolidated Trade Summary.

The Consolidated Trade Summary (or "CTS") is issued in the evening of each settlement day and contains, with respect to CNS Securities:

(i) those trades compared or recorded through T+1 up to the Corporation's cutoff time on that day which are due to settle on the following settlement day (i.e. if the report is issued late Monday evening, it will show trades due to settle on Wednesday), and

(ii) with respect to trades due to settle on the same settlement day (i.e. Tuesday), T+2 and older as-of trades and next day settling trades not previously reported on the prior day's CTS or on any Supplemental CTS, in each case in CUSIP order, reported as broad buys and sells by marketplace or source, netted by issue, quantity and money.

Supplemental Consolidated Trade Summaries are also issued on each settlement day, and report supplemental activity compared or recorded after the evening cutoff time for

CTS report processing (including cash trades), up until the Corporation's daytime cutoff time which are due to settle on that same day.

Note: any T+3 or older as-of trades compared or recorded after such cutoff time on settlement day will settle on the next settlement day and appear on that night's Consolidated Trade Summary.

Net quantities purchased or sold in each security issue are entered into the CNS Stock Record together with their associated contract monies at the beginning of the Settlement Date processing cycle. Subsequent obligations (reflecting supplemental activity), together with their associated contract monies, are entered into the CNS stock record thereafter during such processing cycle until such cutoff time as the Corporation may determine.

The total page of the Consolidated Trade Summary shows totals for all equity and debt transactions and is subdivided by marketplace of execution or source of trade input.

C. Receipt and Delivery of Securities

1. Stock Record Update

Each day, Settling Trades shown on the Consolidated Trade Summary are netted with the Closing Positions which have been carried forward from the previous day. The resulting net positions represent the quantity of each security due for settlement by the Member on Settlement Date. A long position represents the quantity owed to the Member by the Corporation (the Member's fail-to-receive). A short position represents the quantity owed to the Corporation by the Member (the Member's fail-to-deliver). The Corporation is the contra side to all long and short positions. Each long and short position contains an indicator identifying Exemptions, Priority Requests and Buy-Ins (see subsections D and E of this Section). These indicators do not alter positions or effect securities movement, but serve solely to control the settlement process.

2. Selection of Depository

Each Member must select a Qualified Securities Depository for purposes of CNS settlement (the Member's "Designated Depository"). All short positions must be satisfied by, and long positions allocated to, the Member's account at the Designated Depository.

3. Evening Cycle

After the procedures described in paragraph 1 have been completed, each Member's positions are passed to the Designated Depository. Subject to the limitations imposed by Exemptions (see subsection D) and Procedure XVI, securities are transferred from the Member's applicable Designated Depository account to satisfy its short positions. If the quantity on deposit is insufficient to settle the entire short position, a partial movement occurs. Securities received

from Members in settlement of short positions are placed in the Corporation's applicable account at the Designated Depository. The Corporation then provides instructions to deliver those securities from its account at that depository to the Designated Depository accounts of those Members which have long positions.

The results of the evening allocation are recorded on the CNS Settlement Activity Statement distributed the following morning. All security movements in Designated Depositories are made on a "free" basis. Money settlement associated with such security movements is accounted for by the Corporation as a separate function. The Current Market Value of each entry is shown on the Settlement Activity Statement for informational purposes.

4. Day Cycle

Positions which remain open after the evening allocation, or become open as a result of subsequent activity, are recycled on the following day. As additional securities are made available in Members' Designated Depository accounts, additional receipts and deliveries are made against long and short positions. The daytime recycle functions essentially the same as the evening allocation except that the process is continual, entries being effected every few minutes.

In order to notify Members of settlement activity as quickly as possible, Settlement Activity tickets are issued periodically during the day. These tickets are produced by the Designated Depository which actually made the entry to the Member's account, and are made available to the Member shortly after the entry is made.

In addition, in order to notify Member of changes in their positions due to same day (including cash) settling trades or miscellaneous activity, the Corporation will make available information in respect of such activity and new net settling positions as a result thereof, in such form as the Corporation may determine.

At the end of the daytime recycle, all daytime activity is summarized on the CNS Settlement Activity Statement.

D. Controlling Deliveries to CNS

As noted in subsection C, the delivery of securities from a Member's Designated Depository account to satisfy short positions is an automatic process and requires no action on the part of the Member. Securities are removed from the Member's Designated Depository account to the extent that a sufficient quantity is on deposit.

In order for a Member to avoid segregation violations and to meet other delivery needs, a procedure is provided to control this automatic system. The first phase of this procedure provides the Member with its projected positions due for settlement the following day. The second phase involves the submission of instructions by the Member indicating which short positions it does not wish to

settle. Additionally, transactions compared or received on SD-1 or thereafter, including cash or next day transactions) which are processed for next day or same day settlement and which create or increase a short position will automatically be exempted by the Corporation from the delivery. This exemption shall hereinafter be referred to as the "One Day Settling Exemption". **Deliveries in a particular security processed through CNS shall be deemed by the Corporation to satisfy a Member's ACATS deliver obligation prior to other CNS-related deliver obligations for that Member in the same security.**

1. Projection Report

Each morning, a Projection Report is distributed to each Member. This report shows, as of the time of its preparation, the Member's long position or short position for each security, settling trades for the next day, plus any miscellaneous activity and stock dividends payable on the next day; and may include long and short positions due to settle that day. Throughout the day the Corporation will make available updates to this information, in such formats as it may determine.

Long and short positions reflect the Member's status in each security issue as of the time the Projection Report is prepared. These positions may change due to same day settling trades and/or miscellaneous activity, and as the settlement cycle on the day the report is issued continues. If a Member's long and short positions change during the day, the projection position will also change. The Member must, therefore, update these positions based on same day settling trade and settlement activity which occurs during the course of the day.

2. Exemptions

Except as described below, each Member has the ability to elect to deliver all or part of any short position. It controls this process by Exemptions. By indicating a particular quantity as an Exemption, the Member directs the Corporation not to settle certain short positions or portions thereof. Exemptions govern short positions in the CNS Stock Record and not Designated Depository positions. All short positions or positions thereof for which no Exemption is indicated are settled automatically to the extent that the Member has made such securities available in the Member's Designated Depository account or they become available in its Designated Depository account through other depository activity. Notwithstanding the above, a Member may not exempt delivery of any securities available in an agency account established at a Qualified Securities Depository for the processing of transactions through the ID Net Service.

(a) Types of Exemption

The CNS system provides for two levels of Exemption. By proper use of the Projection Report and Exemptions, Members can utilize current inventory as well

as securities received from other sources on settlement day in order to satisfy delivery requirements.

(i) Level 1 Exemption - By submitting a Level 1 Exemption, the Member indicates that the portion of the short position exempted should not be automatically settled against its current Designated Depository position or against any securities which may be received into its Designated Depository account as a result of other depository activity.

(ii) Level 2 Exemption - The submission of a Level 2 Exemption is an instruction by the Member that the portion of the short position exempted should not be automatically settled against its current depository position. Such a position may be satisfied, however, by certain types of "qualified" activity in its Designated Depository account.

(b) Qualified Activity

There are four types of qualified activity which allow short positions carrying Level 2 Exemptions to be settled:

(i) Coded Deposits - The Member deposits securities into its Designated Depository account in the normal manner, but by using a special deposit ticket which indicates that these securities are available for settling Level 2 Exemption quantities.

(ii) Coded Collateral Loan Releases - A Member may release securities from its Designated Depository collateral loan account and wish those securities to be used in settling a Level 2 Exemption quantity. In this case, the Member uses a special Collateral Loan Release form which authorizes such use.

(iii) Receipts from Banks - All securities received against payment from banks are eligible to settle Level 2 Exemption quantities. Settlement of such items is automatic and no special instruction by the Member is required.

(iv) Receipts from Member's Sub-Account - As a result of CNS sub-accounting (see subsection I of this Section), a Member may have a long position in a given security in one CNS account and a short position in the same security in another CNS account. Since both CNS accounts settle against a single Designated Depository Account, the Member may receive securities from itself. If a Member is allocated securities from one CNS account, those securities will automatically override any Level 2 Exemption placed on the short position in its other CNS account.

(c) Methods of Submitting Exemptions

Exemptions may be submitted by using such form or automated means as are acceptable to the Corporation from time to time. Exemptions must either indicate the quantity to be exempted, or indicate all, and designate that quantity as Level 1 or Level 2. A Member may submit daily Exemption instructions to the

Corporation. If a Member has no Exemptions on a given day, instructions may be submitted indicating no Exemptions for either Level 1 or Level 2.

A Member must submit standing Exemption instructions to the Corporation. Standing Exemption instructions will govern all of the Member's short positions for any day on which (i) specific daily Exemption instructions are not submitted to the Corporation, (ii) are not received by the Corporation, or (iii) are unable to be processed by the Corporation. In the absence of such standing Exemption instructions or specific Exemption instructions for that day, the Corporation assigns a Level 1 Exemption to all short positions of that Member.

Exemptions may be submitted by Members through the facilities of service bureaus and other agencies provided that the service bureau or agency has been authorized by the Corporation to act on behalf of its Member.

Exemptions must be submitted for each CNS Sub-Account maintained by the Member (see subsection I of this Section).

(d) Exemption Override

With respect to one day and same day settling transactions, Members may select a standing Exemption override to permit all such short positions to be delivered. Additionally, during the daytime cycle, a Member may override the One Day Settling Exemption as well as other Exemptions entered by the Member the previous evening. To do so, the Member should prepare a Delivery Order (DO) and submit it to its Designated Depository in the normal manner. If the Designated Depository is DTC, the receiving Member must be designated as 888.

The securities designated to be delivered on the DO are first applied to any quantity covered by a Level 1 Exemption and the One Day Settling Exemption. Any remaining quantity (or if no Level 1 Exemption existed, the entire delivery) is applied to any quantity covered by a Level 2 Exemption. If there is still a remaining quantity, that quantity is not processed.

E. Controlling Receipts from CNS

After securities are received by the Corporation from Members with short positions, they are allocated to other Members which have long positions. The allocation of these securities is governed by an algorithm which changes daily so as not to benefit any one Member. Members may change their relative rank within this algorithm by submitting Priority Requests. The submission of a Buy-In Notice will also affect the priority of a Member's long position in that particular security.

1. Standing Priority Request

A Member may enter a Standing Priority Request which moves its long positions in all securities to a higher rank in the allocation formula every day and remains in effect until canceled or changed by the Member in writing.

A Member may enter a Standing Priority Request for the evening cycle only, the day cycle only, or both the evening and day cycles in respect of its general account or any sub-account.

2. Priority Overrides

A Member may override a Standing Priority Request which it has previously submitted, or obtain priority when it has not submitted a Standing Priority Request by submitting a Priority Override. Each Priority Override changes the Member's relative rank in the allocation algorithm for its long position in one security only. The Priority Override remains in effect for one day.

The Member may submit a Priority Override for the specified security for the evening cycle only, the day cycle only, or for both the evening and day cycles.

3. Buy-In Notices

A Member which submits a Buy-In Notice in accordance with the provisions of subsection J of this Section is assigned to a higher relative rank in the allocation algorithm for the quantity of securities specified on the Buy-In Notice than those Members which have requested high priority through the use of a Standing Priority Request or Priority Override.

4. Allocation Algorithm

The algorithm which governs the allocation of long positions is based on priority groups in descending order, age of position within a priority group and random numbers within age groups.

Priority groups include the following:

(a) long positions in a CNS Reorganization Sub-Account established pursuant to paragraph H.4. of this Section VII of these Procedures;

(b) long positions against which Buy-In Notices are due to expire that day but which were not filled the previous day;

(c) long positions against which Buy-In Notices are due to expire the following day;

(d) (i) long positions in a receiving ID Net Subscriber's agency account established at a Qualified Securities Depository, and (ii) long positions against the component securities of index receipts;

(e) in descending sequence, priority levels as specified by Standing Priority Requests and as modified by Priority Overrides.

When more than one long position in a given security exists within the same priority group, the "oldest" position is allocated first. Age is defined as the number of consecutive days during which the position has been long, irrespective of quantity.

When more than one long position in a given security exists within the same priority group all of which have been long the same number of consecutive days, the allocation rank is determined by a computer generated random number. Random numbers, which change daily, are computed so that each Member's random number is different for each security.

The allocation algorithm for the evening and day delivery cycles is computed separately to allow for Standing Priority Requests and Priority Overrides which have specified different levels of priority for evening and day cycles.

Following the allocation of securities to a Member pursuant to the Allocation Algorithm described above, deliveries in a particular security processed through CNS will be deemed by the Corporation to satisfy a Member's ACATS receive obligation prior to other CNS-related receive obligations for that Member in the same security, and this information shall be provided to the Member's Designated Depository to facilitate processing in accordance with the Designated Depository's procedures.

5. Fully-Paid-For Account

(Procedures for Movements to the Long Free Account other than for the Stock Borrow Program)

The Corporation's processing day is divided into two parts. It begins with an evening cycle on the evening preceding the settlement day for which the work is being processed and is followed by a day cycle which ends on the settlement day for which the work is processed. If a Member with a long position and/or a position due for settlement on the next settlement day, in anticipation of receiving securities from the Corporation (other than municipal securities, as that term is defined by the Securities Exchange Act of 1934, as amended), as a result of the allocation process during the evening or day cycle for that settlement day, instructs that securities within its possession or control (other than municipal securities) be delivered on the next day and is subsequently not allocated the securities during the evening or following day cycle, the Member may, in order to

meet the "customer segregation" requirements of SEC Rule 15c3-3, instruct the Corporation, during the day cycle for that settlement day by the time specified by the Corporation, to transfer the position(s) which has not been allocated to a special CNS sub-account (the "Long Free Account"). The Corporation will then debit the Member's settlement account for the value of the position in the Long Free Account. The Long Free Account will be guaranteed by the Corporation and will be marked daily.

All funds which the Corporation receives from debiting the Member's settlement account for the value of a position moved into the Long Free Account and all marks credited to the Long Free Account as a result of marking positions to the market daily, will be segregated by the Corporation from all other funds received by the Corporation. Any time that a Member determines that he no longer needs the position(s) in the Long Free Account for 15c3-3 purposes, he may instruct the Corporation to transfer back the position(s) to its Long Valued Account and make the appropriate adjustment to its settlement account.

NOTE: The SEC has stated that: "any broker/dealer that takes advantage of proposed rule NSCC-82-25 must recall deficits from bank loan within shorter time intervals than those presently allowed under SEC Rule 15c3-3(d)(1). In the case of bank loan, broker/dealers will be expected to effect a recall within one business day instead of the two business days presently allowed.

F. Computation of CNS Money Settlement

The computation of the Net CNS Money Settlement Amount is based on the Accounting Summary and the Cash Reconciliation Statement. The Net CNS Money Settlement is then recorded in the Settlement Statement (described in Section VIII) and is netted with settlement obligations resulting from other services.

1. Accounting Summary

CNS accounting is completed with the issuance of an Accounting Summary at the end of the settlement day. This report is divided into two parts. The first part deals with CNS Stock Record security movements and positions; the second part summarizes money activity and balances. Security and money accounting are two distinct functions under CNS and are performed separately.

The part of the Accounting Summary which deals with security accounting shows the Member's Opening Position, Settling Trades, stock dividends and miscellaneous activity, receipts and deliveries, Closing Position, and Current Market Value of Closing Positions for each security in which it had a position or activity that day. The Current Market Value of closing long positions and closing short positions is totaled at the end of the report. The net of these two figures is the Net Market Value of the Member's account at the end of the day and represents the net value of securities which the Member owes to the Corporation or which the Corporation owes to the Member.

The last section of the Accounting Summary reflects the Member's Opening Money Balance, net money amounts for Settling Trades, cash dividends and interest, miscellaneous activity which may include Clearing Fund calculations and Closing Money Balance. The Closing Money Balance represents the net amount of money which the Member owes to the Corporation or which the Corporation owes to the Member.

The net CNS Money Settlement Amount is calculated by subtracting the Net Market Value from the Closing Money Balance. The effect of this calculation is to bring the Member's money balance into agreement with the market value of its Closing Positions.

The Accounting Summary is the final report produced by the CNS system for each Settlement Date. Members are required to reconcile all security and money balances shown thereon by comparing the Accounting Summary to their own records and promptly reporting any difference to the Corporation for reconciliation.

2. Cash Reconciliation Statement

Although the Accounting Summary constitutes the official record of all CNS activity, positions and settlements, it is produced too late in the afternoon to be used by the Member to determine its money settlement obligations. In order for members to effect a timely settlement, a separate report known as the Cash Reconciliation Statement is used for money calculation.

Although the Cash Reconciliation Statement is a different method of computing the settlement amount arrived at on the Accounting Summary, it relies on the same concepts in that the value of Closing Positions is compared to the money balance for that day, the difference being the Member's money settlement amount. In the case of the Cash Reconciliation Statement, the money settlement is computed in the early morning and is continuously updated throughout the day cycle to reflect activity which takes place during the day. The Corporation will make such updated information available to Members throughout the day cycle in such manner as it may from time to time determine.

The results of the daytime delivery cycle are summarized on a Settlement Activity Statement issued on the afternoon of Settlement Date. Each entry is valued at the Current Market Price with totals at the end of the report. These totals must be posted by the Member to the Cash Reconciliation Statement. When these totals are netted with the preliminary figure shown on the report, the result will be the final Net CNS Money Settlement Amount.

A final Cash Reconciliation Statement is issued on the afternoon of each settlement day, and shows all information shown on the Preliminary Cash Reconciliation Statement updated for daytime activity to arrive at a final settlement amount.

G. CNS Dividend Accounting

Dividend Accounting within the CNS system is based primarily on the Member's Closing Position on the record date for the dividend, distribution, etc. Cash dividends, stock dividends, spinoffs, etc. are calculated and reported to the Member on the morning after record date. On payable date, the appropriate debit or credit is applied to the Member's CNS account.

Stock splits and interest are charged to or credited in a similar manner, but calculations are based on the CNS record date positions updated through the Due Bill period.

1. Record Date Report

Each day the Corporation issues a Record Date Report advising Members of the Closing Positions on record date for the previous day. Appropriate dividend, distribution and interest data including dates, rates and calculated amounts are also shown. The purpose of this report is to advise the Member of the pending dividends which will be applied to its account at a later date. These record date positions should be compared by the Member against its internal records for accuracy.

2. Dividend Activity Report

Cash and stock dividends which are to be applied to a Member's account are shown on the Dividend Activity Report usually produced on the day before payable date. Dividends are calculated according to record date closing positions updated for As-Of Trades. As-Of Trades submitted up to two days prior to payable date and which have an original trade date before ex-dividend date are automatically included in the payment calculation.

Stock dividends shown on this report appear on the Accounting Summary.

The net of all cash dividends appears on the Dividend Activity Report as well as the Accounting Summary and the Cash Reconciliation Statement.

Fractional shares resulting from stock dividends are credited and charged in cash. The cash in-lieu amount is shown on the Dividend Activity Report and is included in the overall total along with cash dividends. Fractional shares are valued using the Current Market Price for the day the report is produced.

Distributions for stock splits and interest calculations are not reflected on this report as updating is necessary during the Due Bill period.

3. Due Bill Accounting

The credit or charge to Members for interest, stock splits, rights distributions or any other distribution which involves trading of a CNS Security with Due Bills, is processed in a different manner. The Designated Depositories automatically

account for security receipts and deliveries during a Due Bill period through an interim accounting system. The Corporation, therefore, credits or debits a Member's CNS account for the appropriate securities or money based only on the Member's Closing Position on Due Bill Redemption Date in the case of stock splits and distributions, and the day prior to payable date in the case of interest.

The quantity or money due to or from each Member appears on a separate Dividend Activity Report which is issued on the morning after Due Bill Redemption Date. Share quantities are added to each Member's long or short position prior to the night delivery cycle for the day's settlement. Cash-in-lieu of fractions, as well as interest amounts, are included in that day's money settlement.

In the case of stock splits, the Current Market Price is adjusted by the rate of the split during the last two days prior to the Due Bill Redemption Date. This process synchronizes the application of additional quantities to the Member's account with the valuation of that security at the new price.

If a particular distribution is not eligible for processing through the interim accounting systems of the Designated Depository, the Corporation records the record date position of the security carrying the Due Bill as well as all receipt and delivery activity during the Due Bill period. Based on the net of these amounts, the Corporation computes the amount to be debited or credited to each Member and records such quantities on the Dividend Activity Report.

4. Optional Dividends

Dividends which may be paid in the form of securities or cash at the option of the holder are processed as follows:

Record date positions are initially recorded in the CNS Dividend Accounting system using the option specified by the issuer as the "default option" (the "default option" is the form in which payment will be made by the issuer if instructions to the contrary are not received).

Each Member with a long position as of the close of business on record date may change the form of payment for all or part of its position by submitting an Optional Dividend Instruction. The Optional Dividend Instruction must be received by the Corporation no later than the cutoff time and date specified by DTC. If an Optional Dividend Instruction is not received from a Member with a long position on record date, that Member will be credited on the basis of the default option.

The Corporation will charge Members with short positions on record date according to the options selected by members with long positions on record date using a random method of allocation. Members with short positions will be advised of the form by which they will be charged only if that form differs from the default option.

H. Miscellaneous CNS Activity

Certain types of activity occur within the CNS system which are reflected on Miscellaneous Activity Reports. Each entry shown on these reports is identified by legend as to type, e.g., reorganization, journal entry, etc. Security entries also appear on the Accounting Summary identified as "miscellaneous". Money entries are netted to a single figure on the Miscellaneous Activity Reports and are identified as "miscellaneous" on the Accounting Summary.

1. Removal of Eligible Securities from CNS

When the Corporation declares a security ineligible for processing through CNS, all net positions in that security are removed from the CNS Stock Record on the effective date. Any pending positions (trades, stock dividends, etc.) are removed as soon as they are posted to the CNS Stock Record. Such entries are posted to the Member's next available Miscellaneous Activity Report issued on the date of removal. The Current Market Value of the security, as of the date of removal, appears on the next available Miscellaneous Activity Report and is posted to the Member's Money account.

When a security is removed from CNS, a random allocation procedure matches Members with long positions to Members with short positions. CNS Receive and Deliver Instructions are produced instructing a Member to receive securities from or deliver securities to another Member of the Corporation or a participant of an interfacing clearing corporation. CNS Receive and Deliver Instructions for equities and corporate bonds are considered Balance Orders (see Section V) and are due for settlement on the date issued and must be settled in the same manner as are Balance Orders. Municipal Bond Receive and Deliver Instructions are subject to the rules of the MSRB and the settlement thereof are the responsibility of the parties to the Receive and Deliver Instructions.

2. Journal Entries

Occasionally, it is necessary to adjust positions within the CNS system. These entries appear on the applicable Miscellaneous Activity Report which identifies, by legend, the type of Journal Entry made.

3. Member Mergers

If two or more Members merge their operations, or if one Member assumes the obligations of one or more other Members, all CNS Stock Record positions and money balances are merged under the new Member number. Such entries are made at the opening of business on the effective date, and appear on the Miscellaneous Activity Report with the legend "Member Merger".

4. Corporate Reorganizations

Through the facilities of the CNS Reorganizations Processing System, the Corporation offers Members the ability to process within the CNS System transactions in certain securities undergoing corporate reorganizations. For the purpose of this System, reorganizations are divided into two categories: "mandatory" reorganizations, consisting of mergers, redemptions, liquidations, reverse splits and name changes; and "voluntary" reorganizations, consisting of tender or exchange offers (collectively "tender offers").

All securities subject to the reorganizations listed above (hereinafter referred to as "the subject security") are included in the CNS Reorganization Processing System except for: (i) securities subject to redemption if there is a conversion privilege attached; (ii) securities subject to a reorganization where baby bonds are issued; and (iii) securities made ineligible for processing at a Qualified Securities Depository during a corporate reorganization. In addition, a security may not be eligible for the CNS Reorganization Processing System if the Corporation determines that operational difficulties prevent the processing of the security in the system. A security ineligible for the CNS Reorganization Processing System is removed from the CNS System, and Receive and Deliver Instructions for such security are issued as explained in paragraph 1 above. Notwithstanding the foregoing, the Corporation may, from time to time, process corporate actions through the CNS Reorganization Processing System that would otherwise be ineligible, if the Corporation, in its sole discretion, determines that it has the capability to do so. In such circumstances, the Corporation will issue a notice detailing how such security will be processed.

To the extent the Corporation receives timely notification of a reorganization, each business day, starting two business days before the effective day of a mandatory reorganization, or four business days before the expiration date of the tender offer ("effective day" and "expiration day" hereinafter referred to as "E") through such time as the Corporation shall determine, the reorganization information received by the Corporation appears on the CNS Reorganization Information Report. If the Corporation does not receive sufficient notification of a pending reorganization to permit inclusion of such information on CNS Reorganization Information Reports on the dates prior to E specified above, the Corporation will provide such information on the CNS Reorganization Information Report as soon as practical after receipt of such information. While the Corporation uses its best efforts to ensure that the reorganization information provided is complete and accurate, the information provided is solely an unofficial summary prepared by the Corporation for the convenience of its members, and the Corporation cannot accept responsibility for the completeness and accuracy of the information.

Processing within the CNS Reorganization Processing System differs between securities subject to voluntary and mandatory reorganizations, and is handled in the following manner:

(a) Mandatory Reorganizations

At such time on or after the effective date of the reorganization as the Corporation shall determine, CNS positions in the subject security are converted into the equivalent positions of the new securities and/or cash. Fractional shares resulting from a reorganization are credited and charged in cash, and are valued using the Current Market Price. These conversions appear on Members' CNS Miscellaneous Activity Reports and are identified as to the type of mandatory conversion.

(b) Voluntary Reorganizations

Except where otherwise indicated in this subsection (b), the processing of subject securities with a protect period of three days is the same as for subject securities with a protect period of greater than three days. The processing of subject securities with a protect period of two days or less shall be in accordance with the time frames set forth in the table below.

On E+2, by such time and in such manner as established by the Corporation from time to time, a Member with a long position (including long positions due to settle up to and including the last day of the protect period) at the close of business on such day in the subject security who seeks to have the Corporation provide the protection described below for such long position, must instruct the Corporation to move its long positions into a CNS Reorganization Sub-Account. Instructions by a Member to move a position to a CNS Reorganization Sub-Account constitute a formal request by the Member for the Corporation to provide such protection for the position moved.

After the night cycle on E+2, by such time and in such manner as established by the Corporation from time to time, the Corporation will issue a report (the "Preliminary Liability Report") to Members with short positions (including short positions due to settle up to and including the last day of the protect period) in a subject security advising of their potential liability based on their short positions as of that time in such subject security.

Note: Any same day settling trade in such subject security that is received for processing after the night cycle of E+2 will be designated a Special Trade and will be cleared and settled on a Member-to-Member basis between the parties directly.

On E+3, a Member who has given the Corporation instructions to move a long position into a CNS Reorganization Sub-Account receives a Preliminary Protection Report advising the Member of its potential moves to a CNS Reorganization Sub-Account. On E+3 Members may delete long positions which will be moved to the Sub-Account in whole or in part by submitting a Delete instruction to the Corporation in such form and until such time on E+3 as established by the Corporation from time to time.

At the time established by the Corporation after the day cycle on E+3 those long positions for which proper instructions have been received are moved to a CNS Reorganization Sub-Account. Simultaneously, the Corporation moves into the Sub-Account a corresponding number of short positions representing those short Members with the oldest positions. If more than one short position is of the same age, positions to be moved are selected on a random basis. As a result of this pairing of long and short positions, a Member with a short position could have only a partial allocation of its position to the CNS Reorganization Sub-Account and thus could have short positions both in the Sub-Account and its CNS General Account. The long and short positions moved into the CNS Reorganization Sub-Account are detailed in a Final Protection Report and Final Liability Report on E+4.

In such form and by such time as established by the Corporation a Member with a long position in a subject security may request the Corporation to move the Member's long position from a CNS Reorganization Sub-Account back to the CNS General Account. In that event, the Corporation also shall move a corresponding short position or positions from the CNS Reorganization Sub-Account to the CNS General Account; positions moved are selected on a random basis.

The Corporation establishes a minimum of two separate CNS Reorganization Sub-Accounts for each security subject to multiple tender offers; provided, however, that if applicable, and provided it has the operational capabilities to do so, the Corporation may establish additional Reorganization Sub-Accounts in order to process affected securities. If there are more tender offers for a security than available CNS Reorganization Sub-Accounts, all positions in the subject security, except for positions that have already been moved to CNS Reorganization Sub-Accounts, are removed from the CNS System, and Receive and Deliver Instructions for the security are issued as explained in paragraph H.1 above. If, after a security has been removed from the CNS System, a Member with a long position in a CNS Reorganization Sub-Account submits a Delete instruction instructing the Corporation to move the position back to the CNS General Account, the Corporation shall issue Receive and Deliver instructions for the security, as described in paragraph H.1 above.

Short positions in the CNS Reorganization Sub-Account are marked from the Current Market Price to the tender offer price on E+4 and on each subsequent day; funds received as a result of such mark payments are retained by the Corporation until the conclusion of the tender offer. The Corporation freezes the positions in the Sub-Account; corresponding long and short positions in the Sub-Account only will be moved out of the Sub-Account (i) through the CNS allocation process, as described below, (ii) upon the request of a Member with a long position, as described above, or (iii) upon conclusion of the tender offer. Positions in the CNS Reorganization Sub-Account automatically are returned to the CNS General Account, and the mark to the tender offer price returned to Members with short positions, when a tender offer is canceled.

The regular CNS allocation process takes place through the day cycle on the last day of the protect period or the expiration of the tender offer, whichever is later. Because the CNS Reorganization Sub-Account always will have the highest priority for allocation, allocations to the Sub-Account from Members covering short positions in both the CNS General Account and CNS Reorganization Sub-Account occur. As a result, each day the CNS Reorganization Sub-Account is balanced by moving excess short positions from the CNS Reorganization Sub-Account to the CNS Account; positions moved are selected on a random basis. In the event that delivery of the subject security is made by the Member with the short position outside the facilities of the Corporation, and the Member does not want its CNS account debited for the securities and/or cash under the terms of the tender offer, both the Members with the long and short positions must, in such form and by such time as established by the Corporation, instruct the Corporation to exit the quantity of shares which has been so delivered from the CNS Reorganization Sub-Accounts of the Members. If the Members do not so instruct the Corporation, the Members' Reorganization Sub-Accounts will not reflect such delivery and the Corporation shall process the credits and debits set forth below based on the position in the Members' CNS Reorganization Sub-Accounts as if the delivery had not occurred. Any adjustments to reflect the delivery must be made between the Members and not through the facilities of the Corporation.

	Date long position member must instruct NSCC to move position to Reorg. Sub-Acct.	Date of short position Preliminary Liability Report	Date of long position Preliminary Protection Report	Last date long members may submit Delete instructions ⁵	Date long positions moved to Reorg. Sub-Account	Date of Final Protection Report and Final Liability Report	Short position marked to tender offer price
2 Day Protect	E+1	E+1	E+2	E+2	E+2	E+3	E+3 or thereafter
1 Day Protect	E	E	E+1	E+1	E+1	E+2	E+2 or thereafter
No Protect	E-1	E-1	E	E	E	E+1	E+1 or thereafter

Upon conclusion of the tender offer, at a time determined by the Corporation, the Corporation makes entries unwinding the CNS Reorganization Sub-Account and established positions representing the terms of the tender offer in the CNS General Account by:

(i) crediting a long Member's CNS Account for the securities distributed under the terms of the offer and/or crediting a long Member's settlement account for the cash distributed under the terms of the tender offer;

(ii) debiting a short Member's CNS Account for the securities distributed under the terms of the tender offer and/or debiting a short Member's settlement account for the cash distributed under the terms of the tender offer; and,

⁵ Same input time deadline on the date indicated as for offers with longer protect periods.

(iii) crediting the settlement account of short Members with the mark to the tender offer price being retained by the Corporation.

In the event that not all shares are accepted pursuant to the terms of a tender offer, entries crediting and debiting the securities and/or cash under the terms of the tender offer are made on a pro rata basis, based on the pro rata acceptance ratio of the tender offer as reported to the Corporation by a Qualified Securities Depository. All entries with respect to the tender offer appear on the Member's CNS Miscellaneous Activity Report and are identified as resulting from a tender offer. Fractional shares resulting from a pro rata acceptance are credited and charged in cash, and are valued using the tender offer price.

The Corporation will provide protection to the long Member for a position in the CNS Reorganization Sub-Account upon completion of the tender offer, but only to the extent of the monetary difference between the Current Market Price and the terms of the tender offer, and only to the extent of the pro rata acceptance ratio of the tender offer as discussed above. In addition, in the event that a long Member incurs, or anticipates that it will incur, liabilities greater than this amount, the long Member must notify the Corporation as soon as possible. Upon receipt of such notice, the Corporation shall reverse the entries made establishing the positions in the cash and/or securities distributed under the terms of the tender offer with respect to (i) the long Member and (ii) a Member or Members, chosen randomly, who had a corresponding short position in the CNS Reorganization Sub-Account. Such entries will reestablish the long and short positions in the CNS Account for such Members in the security subject to the tender offer. Upon so doing, the Corporation shall remove the positions in the security subject to the tender offer from the CNS System and shall (i) issue Receive and Deliver Instruction, at the tender offer price, to the long and short Members, respectively as described in paragraph 1 above; and (ii) credit and debit the appropriate Members' settlement accounts for the terms of the tender offer. Upon giving the Corporation the notice described in this paragraph, the long Member may take such action as it believes to be necessary to protect itself against liability, including executing, without further notice to the short Member or Members, a buy-in of the subject securities pursuant to the provisions of the third paragraph of Section X.B. of these Procedures.

5. Convertible Securities

A Member with a closing long position in a convertible security may submit to the Corporation a CNS Conversion Instruction instructing the Corporation to convert its closing long position (or a portion thereof) from the convertible security to the underlying security. Such instructions are accepted by the Corporation only on:

- (i) the expiration date of the conversion privilege;
- (ii) the date on which the conversion privilege changes to a less favorable rate; or

(iii) the dividend record date for the underlying security.

The Member's long position in the convertible security (or a portion of the long position, if the Member so instructs) is removed from CNS and replaced by a long position in the underlying security according to the ratio specified by the issuer.

The Corporation identifies the Members having the oldest short positions in the convertible security. Age is defined as the number of consecutive days during which the position has been short, irrespective of quantity. If the Members in the oldest age group have a greater quantity of short positions than is needed to satisfy the CNS Conversion Instructions, the short positions of one or more such Members is chosen for conversion on a random basis. The short position (or portion thereof) which has been chosen for conversion will be removed from CNS and replaced by a short position in the underlying security according to the ratio specified by the issuer.

Entries for Members with long or short positions in both the convertible and underlying security will appear on the Miscellaneous Activity Report issued the following day. Such entries are identified by the legend "Conversion". If the conversion results in fractional shares, cash-in-lieu of fractions is credited and debited to the Members involved.

If the date on which the CNS Conversion Instruction is received is the dividend record date for either the convertible security or the underlying security, Members' record date positions are adjusted as if the entries had been made prior to the close of business on record date, notwithstanding the fact that the entries are actually made on the following day.

In the event that the Designated Depositories do not provide book-entry conversion service for a particular security, the Corporation reserves the right to declare such securities ineligible for CNS.

6. Pursuant to Rule 65 and Procedure XVI, the Corporation permits ID Net Subscribers to enter into transactions eligible for the ID Net Service. All such transactions will be recorded on the Miscellaneous Activity Report on the night of T+2. All removals of such transactions from the ID Net Service occurring in either day or evening cycle will also be recorded on the Miscellaneous Activity Report.

I. CNS Sub-Accounting

The Corporation provides sub-accounts for Members for use within certain specialized CNS services, e.g., reorganizations of CNS Securities. For the most part, a sub-account functions as if it were a completely separate Member account in that positions in sub-accounts are maintained separately and separate CNS reports are issued in most cases.

Members do not maintain Designated Depository sub-accounts for the purpose of settling CNS sub-account obligations. Before passing long and short positions in sub-accounts to a Designated Depository for security settlement, the Corporation converts the sub-account number to the Member's regular account. All Designated Depository reports, therefore, reflect activity for CNS sub-accounts under the Member's regular number. When the results of Designated Depository activity are received by the Corporation, the information is converted back to the sub-account before it is posted to the CNS Stock Record.

The CNS Cash Reconciliation Statement reflects a consolidation of the Member's regular account and all sub-accounts.

All other reports are issued separately for each CNS sub-account.

J. Recording of CNS Buy-Ins

1. Except with respect to securities subject to a voluntary corporate reorganization as described in paragraph H.4. of this Section, and except as otherwise provided with respect to municipal securities as set forth in paragraph J.2. below, a Member having a long position at the end of any day may transmit, in such form and within such times as determined by the Corporation from time to time, to the Corporation a Notice of Intention to Buy-In (Buy-In Notice) specifying a quantity of securities not exceeding such long positions which it intends to buy-in (Buy-In Position). With respect to securities subject to a voluntary corporate reorganization, a Member may not transmit a Buy-In Notice after the expiration date of the tender offer until the end of the protection period for the tender offer; provided, however, that at no time may a Member submit a Buy-In Notice for a long position in a CNS Reorganization Sub-Account. For the purpose of this Section, the day the Buy-In Notice is transmitted is referred to as N, and N+1 and N+2 refer to the succeeding days. Each day commences in the evening and includes an evening allocation of securities and a daytime allocation.

A Buy-In Notice may be filed by a Member on successive days, provided the succeeding Buy-In Notice does not specify a quantity of securities covered by the prior Buy-In Notice and the quantity of securities representing the sum of the Buy-In Notices does not exceed the Member's total long position.

For the purpose of these Procedures, an "Original Buy-In Notice" shall mean a Buy-In Notice transmitted by a Member for which the Member is the original submitter, and a "Buy-In Retransmittal Notice" shall mean a Buy-In Notice submitted by a Member with respect to a Buy-In Position for which the Member has a corresponding obligation as to which it has received a buy-in notice initiated outside of the CNS System. (Unless the context otherwise requires, where these Procedures refer to a "Buy-In Notice" without distinction, such reference refers to both an Original Buy-In Notice and a Buy-In Retransmittal Notice.)

Original Buy-In Notice (expiring on N+2):

A Buy-In Position on an Original Buy-In Notice is given high priority for allocation from N+1 through the daytime allocation on N+2. If a Buy-in Position remains unfilled after the evening allocation on N+1, the Corporation issues CNS Retransmittal Notices on the morning of N+1 to a sufficient number of Members with short positions. CNS Retransmittal Notices are issued in an aggregate quantity at least equal to the Buy-in Position. In no case will the Buy-in liability of a Member exceed the Buy-in Position or the total short position of the Member. If several Members have short Positions with the same age, all such Members are issued CNS Retransmittal Notices, even if the total of their Short Positions exceeds the Buy-in Position.

Buy-In Retransmittal Notice (expiring on N+1):

A Member that has a long position in CNS at the end of any day and that has received a buy-in notice initiated outside of the CNS System in that same CUSIP, may submit a Buy-In Retransmittal Notice to the Corporation for execution on N+1 as described below. The Buy-In Retransmittal Notice shall include such information as the Corporation may determine from time to time, including the identity of the entity that initiated the buy-in against the Member. A Buy-In Position on a Buy-In Retransmittal Notice is given high priority for allocation from N through the daytime allocation on N+1.

Upon receipt of the Buy-In Notice on N, the Corporation issues CNS Retransmittal Notices to a sufficient number of Members with short positions. CNS Retransmittal Notices are issued in an aggregate quantity at least equal to the Buy-in Position. In no case will the Buy-in liability of a Member exceed the Buy-in Position or the total short position of the Member. If several Members have short Positions with the same age, all such Members are issued CNS Retransmittal Notices, even if the total of their Short Positions exceeds the Buy-in Position.

The quantity specified on each Member's CNS Retransmittal Notice is its Buy-In Liability.

A Member's Buy-In Liability may be satisfied by the actual settlement of the short position up to the time on N+1 (for a Buy-In Retransmittal Notice), or N+2 (for an Original Buy-In Notice) as specified below. If a deposit of securities is required to satisfy the short position, that deposit should be made prior to the Designated Depository daytime deposit cut-off time on the expiration date of the Buy-In Notice and prior to the time specified below. Going from a short position to a flat or long position due to settling trades, stock dividends, or other activity on N through N+2 does not free a Member from Buy-In Liability. If the Buy-In Position is not satisfied by 3:00 PM on the expiration date of the Buy-In Notice, or due to market events such earlier time as established by the Corporation upon five Business Days' notice the Buy-In may be executed. See Section X for execution procedures.

2. Notwithstanding the foregoing, a Member that has transmitted a Buy-In Notice to the Corporation with respect to a municipal security shall have its Buy-In Position removed from the CNS System prior to commencement of the CNS night cycle on N+1. The Corporation will remove corresponding short position(s) representing the short Member(s) with the oldest position(s) in an aggregate quantity at least equal to the Buy-in Position, and will produce special close-out receive and deliver orders, which may name Members or a participant of an interfacing clearing corporation as the contra side and which receive and deliver orders will be subject to the rules of the MSRB.

K. Instruments with Exercise Privileges

A Member with a short position or a short Settling Trade position in a security to which an exercise privilege attaches will be advised of its potential liability based on its short position or short Settling Trade position on its CNS Projection Report starting on T+2.

A Member with a long position or a long Settling Trade position in a security to which an exercise privilege attaches may submit to the Corporation a Notice of Intention to Exercise ("Exercise Notice") specifying a quantity of securities not exceeding such long position or long Settling Trade position, excluding one day settling positions, which it intends to exercise ("Exercise Position") by the time and in a manner established by the Corporation. (Hereinafter such Member is referred to as the "originator".) For the purpose of this subsection, the day the Exercise Notice is submitted is referred to as N, and N+1 refers to the succeeding day. Each day commences in the evening and includes an evening allocation of securities and a daytime allocation.

If an Exercise Position remains unfilled after the daytime allocation on N, the Corporation will remove this position from CNS and will remove a corresponding short position or positions representing those short Members with the oldest position(s) in an aggregate quantity at least equal to the Exercise Position. Age is defined as the number of consecutive days during which the position has been short, irrespective of quantity. If the Members in an age group needed to satisfy the Exercise Position have a greater quantity of short positions than is needed, positions will be removed on a random basis. The Corporation will issue and make available CNS receive and deliver instructions on the morning of N+1 naming a failing to deliver Member and the originator. The failing to deliver Member shall be liable to the originator for any damages that result from the originator's inability to exercise the security. All claims for such damages shall be made promptly. Liability of the failing to deliver Member shall continue even though exercises of the security may be temporarily suspended. Notwithstanding the foregoing, if the failing to deliver Member is able to deliver the security in sufficient time to allow timely delivery of the security to the tender agent, the liability may be satisfied by delivery of the Exercise Position.