| OMB APPROVAL |
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Page 1 of * 40

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

File No.* SR - 2020 - * 801
Amendment No. (req. for Amendments *)

Filing by National Securities Clearing Corporation

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

Initial * ☑ Amendment * ☐ Withdrawal ☐

Section 19(b)(2) * ☐ Section 19(b)(3)(A) * ☐ Section 19(b)(3)(B) * ☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

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

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☑ Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

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

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Enhance the Calculation of the Family-Issued Securities Charge

**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 action.

First Name * Jacqueline Last Name * Chezar

Title * Executive Director and Associate General Counsel

E-mail * jfarinella@dtcc.com

Telephone * (212) 855-3216 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.

Date 01/28/2020

By Nikki Poulos

(Name *)

(Title *)

Managing Director and Deputy General Counsel

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.

npoulos@dtcc.com

*Required fields are shown with yellow backgrounds and asterisks.*

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 ***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies ***

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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, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

☐

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

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

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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**

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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**

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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 Advance Notice**

(a) This advance notice of National Securities Clearing Corporation ("NSCC") consists of modifications to NSCC's Rules and Procedures ("Rules"),[1] annexed hereto as Exhibit 5, in connection with a proposal to enhance the calculation of NSCC's existing charge applied to long positions in Family-Issued Securities[2] ("FIS Charge") by using the same haircut percentages for all Members and no longer using Members' ratings on the Credit Risk Rating Matrix ("CRRM")[3] in calculating this charge, as described below.

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

This advance notice was approved by the Risk Committee of the Board of Directors on June 11, 2019.

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

Not applicable.

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

Not applicable.

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

NSCC has not received or solicited any written comments relating to this proposal. NSCC will notify the Securities and Exchange Commission ("Commission") of any written comments received by NSCC.

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1 Terms not defined herein are defined in the Rules, available at www.dtcc.com/~/media/Files/Downloads/legal/rules/nscc_rules.pdf.

2 A Family-Issued Security is defined in Rule 1 (Definitions and Descriptions) of the Rules as "a security that was issued by a Member or an affiliate of that Member." Supra note 1.

3 See Rule 1 and Section 4 of Rule 2B of the Rules, supra note 1. See also Securities Exchange Act Release Nos. 80734 (May 19, 2017), 82 FR 24177 (May 25, 2017) (SR-DTC-2017-002, SR-FICC-2017-006, SR-NSCC-2017-002); and 80731 (May 19, 2017), 82 FR 24174 (May 25, 2017) (SR-DTC-2017-801, SR-FICC-2017-804, SR-NSCC-2017-801).

**6. Extension of Time Period for Commission Action**

Not applicable.

**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**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act**

**Description of Proposed Changes**

NSCC is proposing to modify the Rules to enhance the calculation of the FIS Charge by using the same haircut percentages for all Members and no longer using Members' ratings on the CRRM in calculating this charge. By using the same haircut percentages to calculate the FIS Charge for all Members, NSCC believes this proposed enhancement would better mitigate the specific wrong-way risk posed by long positions in Family-Issued Securities that the charge was designed to address, as described below.

*Background*

As a central counterparty, NSCC occupies an important role in the securities settlement system by interposing itself between counterparties to financial transactions, thereby reducing the risk faced by participants and contributing to global financial stability. The effectiveness of a central counterparty's risk controls and the adequacy of its financial resources are critical to achieving these risk-reducing goals. As part of its market risk management strategy, NSCC manages its credit exposure to Members by determining the appropriate Required Fund Deposits

to the Clearing Fund and monitoring its sufficiency, as provided for in the Rules.[4] The Required Fund Deposit serves as each Member's margin.

The objective of a Member's Required Fund Deposit is to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event NSCC ceases to act for that Member (hereinafter referred to as a "default").[5] The aggregate of all Members' Required Fund Deposits constitutes the Clearing Fund of NSCC.[6] NSCC may access its Clearing Fund should a defaulting Member's own Required Fund Deposit be insufficient to satisfy losses to NSCC caused by the liquidation of that Member's portfolio.[7]

Pursuant to the Rules, each Member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by NSCC, as identified within Procedure XV of the Rules.[8] NSCC regularly assesses the market, liquidity and other risks that its margining methodologies are designed to mitigate to evaluate whether margin levels are commensurate with the particular risk attributes of each relevant product, portfolio, and market.

Among the various risks that NSCC considers when evaluating the effectiveness of its margining methodology are its counterparty risks, including wrong-way risk. In particular, NSCC seeks to identify and mitigate its exposures to specific wrong-way risk, which is defined as the risk that an exposure to a counterparty is highly likely to increase when the creditworthiness of that counterparty deteriorates.[9] NSCC has identified exposure to specific wrong-way risk when it acts as central counterparty to a Member with long positions in Family-Issued Securities. In the event a Member with long positions in Family-Issued Securities defaults, NSCC would close out those positions following a likely drop in the creditworthiness of the issuer, possibly resulting in a loss to NSCC.

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4 See Rule 4 (Clearing Fund) and Procedure XV (Clearing Fund Formula and Other Matters) of the Rules, supra note 1.

5 The Rules identify when NSCC may cease to act for a Member and the types of actions NSCC may take. For example, NSCC may suspend a firm's membership with NSCC or prohibit or limit a Member's access to NSCC's services in the event that Member defaults on a financial or other obligation to NSCC. See Rule 46 (Restrictions on Access to Services) of the Rules, supra note 1.

6 See Rule 4 (Clearing Fund) of the Rules, supra note 1.

7 Id.

8 Supra note 1.

9 See Principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions, pg. 47 n.65 (April 2012), available at http://www.bis.org/publ/cpss101a.pdf.

In order to address this exposure to specific wrong-way risk, NSCC implemented the FIS Charge in 2015.[10] The FIS Charge is applied to a Member's long positions in Family-Issued Securities, which are the positions NSCC would need to sell into the market following a Member default.[11]

When the FIS Charge was initially implemented, it was only applied to Members that were placed on the Watch List based on the CRRM rating.[12] As part of its ongoing monitoring of its membership, NSCC utilizes the internal CRRM to evaluate its credit risk exposures to its Members based on a scale from strongest to weakest.[13] Members that fall within the higher risk rating categories are considered on NSCC's Watch List and may be subject to enhanced surveillance or additional margin charges, as permitted under the Rules.[14] Therefore, the FIS Charge was applied only to Members on the Watch List based on the reasoning that these Members present a heightened credit risk to NSCC or have demonstrated higher risk related to their ability to meet settlement. However, in the Initial FIS Filing, NSCC proposed to further evaluate its exposure to wrong-way risk presented by positions in Family-Issued Securities by reviewing the impact of expanding the application of the FIS Charge to positions in Family-Issued Securities of all Members.[15]

Following that evaluation, NSCC implemented the current methodology for calculating the FIS Charge, which expanded the application of the charge to all Members, but continues to take into account Members' ratings on the CRRM in calculating the applicable charge.[16] Therefore, under the current methodology, in calculating its Members' Required Fund Deposits, NSCC first excludes long positions in Family-Issued Securities of Members from the applicable volatility charge, and instead charges an amount calculated by multiplying the absolute value of the long Net Unsettled Positions (as such term is defined in Procedure XV of the Rules) in that

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10 See Securities Exchange Act Release No. 76077 (October 5, 2015), 80 FR 61256 (October 9, 2015) (SR-NSCC-2015-003) ("Initial FIS Filing").

11 Short positions in Family-Issued Securities are not subject to the FIS Charge and are subject to the applicable volatility charge, as provided for under the Rules. See Sections I.(A)(1)(a)(iv) and I.(A)(2)(a)(iv) of Procedure XV (Clearing Fund Formula and Other Matters) of the Rules, supra note 1.

12 See supra note 10.

13 See supra note 3.

14 Id.

15 Supra note 10, at 61257.

16 See Securities Exchange Act Release Nos. 81550 (September 7, 2017), 82 FR 43061 (September 13, 2017) (SR-NSCC-2017-010); and 81545 (September 7, 2017), 82 FR 43054 (September 13, 2017) (SR-NSCC-2017-804).

Member's Family-Issued Securities by a percentage that is no less than 40 percent.[17] The percentage that is used in calculating the FIS Charge depends on a Member's rating on the CRRM. Under Procedure XV of the Rules, long Net Unsettled Positions in (1) fixed income securities that are Family-Issued Securities are charged a haircut rate of no less than 80 percent for Members that are rated 6 or 7 on the CRRM, and no less than 40 percent for Members that are rated 1 through 5 on the CRRM; and (2) equity securities that are Family-Issued Securities are charged a haircut rate of 100 percent for Members that are rated 6 or 7 on the CRRM, and no less than 50 percent for Members that are rated 1 through 5 on the CRRM.[18] The haircut rates used in the FIS Charge as applied to positions in fixed income securities were calibrated based on historical corporate issue recovery rate data and address the risk that the Family-Issued Securities of a Member would be devalued in the event of that Member's default.

*Proposed Change*

NSCC is now proposing to enhance the methodology for calculating the FIS Charge by using the higher applicable percentage for all Members, and no longer using a Member's CRRM rating in the calculation.

Since implementation of the current calculation, NSCC has continued to monitor its exposure to specific wrong-way risk and determined that the risk characteristics to be considered when margining Family-Issued Securities extend beyond Members' creditworthiness as measured through the CRRM. More specifically, NSCC believes it may be exposed to specific wrong-way risk despite a Members' rating on the CRRM, and NSCC can better mitigate its exposure to this risk by calculating the FIS Charge without considering Members' CRRM ratings. While the current methodology appropriately assumes that Members with a higher rating on the CRRM present a heightened credit risk to NSCC or have demonstrated higher risk related to their ability to meet settlement, NSCC believes this approach does not take into account the risk that a firm may default due to unanticipated causes (referred to as a "jump-to-default" scenario) not captured by the CRRM rating. The CRRM rating necessarily relies on historical data as a predictor of future risks. Jump-to-default scenarios are triggered by unanticipated causes that could not be predicted based on historical trends or data, for example fraud or other bad acts by management. The proposed change is designed to improve NSCC's ability to cover the specific wrong-way risk posed by long positions in Family-Issued Securities by applying the higher applicable percentage in calculating the FIS Charge for all Members.

In order to implement this proposal, NSCC would amend Sections I.(A)(1)(a)(iv) and I.(A)(2)(a)(iv) of Procedure XV of the Rules, which describe the methodology for calculating the FIS Charge, and provide that (1) fixed income securities that are Family-Issued Securities shall be charged a haircut rate of no less than 80 percent; and (2) equity securities that are Family-Issued Securities shall be charged a haircut rate of 100 percent.

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17 See Sections I.(A)(1)(a)(iv) and I.(A)(2)(a)(iv) of Procedure XV (Clearing Fund Formula and Other Matters) of the Rules, supra note 1.

18 Id.

**Anticipated Effect on and Management of Risk**

NSCC believes that the proposed change to enhance the calculation of the FIS Charge would improve the risk-based methodology NSCC employs to measure market price risk and would better limit NSCC's credit exposures to Members. Specifically, the proposed change would use the higher applicable haircut percentage in calculating the FIS Charge for all Members. These haircut percentages as applied to positions in fixed income securities were calibrated to address the risk that the Family-Issued Securities of a Member would be devalued in the event of that Member's default. Therefore, the proposed FIS Charge would better address NSCC's exposures to specific wrong-way risk with respect to all Members' positions in Family-Issued Securities, particularly in jump-to-default scenarios. By mitigating specific wrong-way risk for NSCC, the proposed change would also mitigate risk for Members, because lowering the risk profile for NSCC would in turn lower the risk exposure that Members may have with respect to NSCC in its role as a central counterparty. Further, the proposal is designed to meet NSCC's risk management goals and its regulatory obligations, as described below.

**Consistency with the Clearing Supervision Act**

Although Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act") does not specify a standard of review for an advance notice, its stated purpose is instructive: to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities and strengthening the liquidity of systemically important financial market utilities.[19]

NSCC believes that the proposal is consistent with the Clearing Supervision Act, specifically with the risk management objectives and principles of Section 805(b), and with certain of the risk management standards adopted by the Commission pursuant to Section 805(a)(2), for the reasons described below.[20]

*Consistency with Section 805(b) of the Clearing Supervision Act*

NSCC believes the proposal is consistent with Section 805(b) of the Clearing Supervision Act because it would enhance the margin methodology applied to long positions in Family-Issued Securities by using the higher applicable percentage for all Members, rather than considering Members' CRRM ratings in the calculation. The proposal would improve NSCC's ability to mitigate specific wrong-way risk exposures in a jump-to-default scenario and, in this way, would assist NSCC in collecting margin that more accurately reflects NSCC's exposure to a Member that clears Family-Issued Securities. The proposal would also assist NSCC in its continuous efforts to improve the reliability and effectiveness of its risk-based margining methodology by taking into account specific wrong-way risk. As such, the proposal would help NSCC, as a central counterparty, promote robust risk management, and thus promote the prompt

19 12 U.S.C. 5461(b).

20 12 U.S.C. 5464(a)(2) and (b).

and accurate clearance and settlement of securities transactions, as well as, in general, protect investors and the public interest.

In its critical role as a central counterparty, NSCC interposes itself between counterparties to financial transactions, thereby reducing the risk faced by its Members and contributing to global financial stability. NSCC's liquidity risk management plays an integral part in NSCC's ability to perform its role as a central counterparty. Therefore, improving the reliability and effectiveness of its risk-based margining methodology would be expected to also reduce systemic risk in the financial system and would promote financial stability by having a positive impact on the safety and soundness of the clearing system.

As a result, NSCC believes the proposal would be consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act, which specify the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks and support of the stability of the broader financial system.[21]

*Consistency with Section 805(a)(2) of the Clearing Supervision Act*

Section 805(a)(2) of the Clearing Supervision Act authorizes the Commission to prescribe risk management standards for the payment, clearing and settlement activities of designated clearing entities, like NSCC, and financial institutions engaged in designated activities for which the Commission is the supervisory agency or the appropriate financial regulator.[22] The Commission has accordingly adopted risk management standards under Section 805(a)(2) of the Clearing Supervision Act and Section 17A of the Securities Exchange Act of 1934 ("Act") ("Covered Clearing Agency Standards").[23]

The Covered Clearing Agency Standards require covered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis.[24] NSCC believes that the proposed change is consistent with the Covered Clearing Agency Standards, in particular Rules 17Ad-22(e)(4)(i),[25] and (e)(6)(i) and (v),[26] each promulgated under the Act, for the reasons described below.

Rule 17Ad-22(e)(4)(i) under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to

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21 12 U.S.C. 5464(b).

22 12 U.S.C. 5464(a)(2).

23 17 CFR 240.17Ad-22(e).

24 Id.

25 17 CFR 240.17Ad-22(e)(4)(i).

26 17 CFR 240.17Ad-22(e)(6)(i) and (v).

effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.[27] The specific wrong-way risk presented by Family-Issued Securities is the risk that, in the event a Member with unsettled long positions in Family-Issued Securities defaults, NSCC would close out those positions following a likely drop in the credit-worthiness of the issuer, possibly resulting in a loss to NSCC. The haircut rates used in calculating the FIS Charge as applied to positions in fixed income securities were calibrated based on historical corporate issue recovery rate data, and, therefore, address the risk that the Family-Issued Securities of a Member would be devalued in the event of that Member's default. The proposal to apply the higher haircuts to all Members would assist NSCC in addressing specific wrong-way risk exposures in a jump-to-default scenario. By addressing this additional risk exposure, NSCC believes the proposal would allow it to calculate the FIS Charge in a way that more accurately reflects the risk characteristics of Family-Issued Securities. The proposal would, therefore, permit NSCC to more accurately identify, measure, monitor and manage its credit exposures to Members with long positions in Family-Issued Securities, and would assist NSCC in collecting and maintaining financial resources that reflect its credit exposures to those Members. Therefore, NSCC believes the proposed change is consistent with Rule 17Ad-22(e)(4)(i).[28]

Rule 17Ad-22(e)(6)(i) under the Act requires that each covered clearing agency that provides central counterparty services establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.[29] Rule 17Ad-22(e)(6)(v) under the Act requires that each covered clearing agency that provides central counterparty services establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products.[30]

As stated above, long positions in Family-Issued Securities present NSCC with exposure to specific wrong-way risk that, in the event a Member with these positions defaults, NSCC would close out those positions following a likely drop in the credit-worthiness of the issuer, possibly resulting in a loss to NSCC. The haircut rates used in the current methodology would continue to be used in the proposed methodology and as applied to positions in fixed income securities were calibrated based on historical corporate issue recovery rate data and address the risk that the Family-Issued Securities of a Member would be devalued in the event of that

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27 17 CFR 240.17Ad-22(e)(4)(i).

28 Id.

29 17 CFR 240.17Ad-22(e)(6)(i).

30 17 CFR 240.17Ad-22(e)(6)(v).

Member's default. Therefore, the calculation of the charge would continue to reflect the risk characteristics of Family-Issued Securities. As described above, the proposed change to apply the higher haircut rates to all Members would improve NSCC's ability to mitigate its exposure to specific wrong-way risk in a jump-to-default scenario. In this way, the proposal would assist NSCC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of long positions in Family-Issued Securities. Additionally, NSCC believes the proposed enhancement to the methodology for calculating the FIS Charge is an appropriate method for measuring its credit exposures to its Members, because the FIS Charge would continue to account for the risk factors presented by these securities, *i.e.* the risk that these securities would be devalued in the event of a Member default. Therefore, NSCC believes the proposed change is consistent with Rule 17Ad-22(e)(6)(i) and (v).[31]

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of advance notice for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Impact Analysis of New FIS Charge Haircut on Clearing Fund. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3 being requested pursuant to 17 CFR 240.24b-2.***

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

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[31] 17 CFR 240.17Ad-22(e)(6)(i) and (v).

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-NSCC-2020-801)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Advance Notice to Enhance the Calculation of the Family-Issued Securities Charge

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act") [1] and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 ("Act"),[2] notice is hereby given that on January __, 2020, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the advance notice SR-NSCC-2020-801 ("Advance Notice") as described in Items I, II and III below, which Items have been prepared by the clearing agency.[3] The Commission is publishing this notice to solicit comments on the Advance Notice from interested persons.

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1 12 U.S.C. 5465(e)(1).

2 17 CFR 240.19b-4(n)(1)(i).

3 On January 28, 2020, NSCC filed this Advance Notice as a proposed rule change (SR-NSCC-2020-002) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule 19b-4 thereunder, 17 CFR 240.19b-4. A copy of the proposed rule change is available at http://www.dtcc.com/legal/sec-rule-filings.aspx.

I. Clearing Agency's Statement of the Terms of Substance of the Advance Notice

This Advance Notice consists of modifications to NSCC's Rules and Procedures ("Rules")[4] in connection with a proposal to enhance the calculation of NSCC's existing charge applied to long positions in Family-Issued Securities[5] ("FIS Charge") by using the same haircut percentages for all Members and no longer using Members' ratings on the Credit Risk Rating Matrix ("CRRM")[6] in calculating this charge, as described below.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the Advance Notice and discussed any comments it received on the Advance Notice. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A and B below, of the most significant aspects of such statements.

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4 Terms not defined herein are defined in the Rules, available at www.dtcc.com/~/media/Files/Downloads/legal/rules/nscc_rules.pdf.

5 A Family-Issued Security is defined in Rule 1 (Definitions and Descriptions) of the Rules as "a security that was issued by a Member or an affiliate of that Member." Supra note 4.

6 See Rule 1 and Section 4 of Rule 2B of the Rules, supra note 4. See also Securities Exchange Act Release Nos. 80734 (May 19, 2017), 82 FR 24177 (May 25, 2017) (SR-DTC-2017-002, SR-FICC-2017-006, SR-NSCC-2017-002); and 80731 (May 19, 2017), 82 FR 24174 (May 25, 2017) (SR-DTC-2017-801, SR-FICC-2017-804, SR-NSCC-2017-801).

(A) Clearing Agency's Statement on Comments on the Advance Notice Received from Members, Participants, or Others

NSCC has not received or solicited any written comments relating to this proposal. NSCC will notify the Commission of any written comments received by NSCC.

(B) Advance Notice Filed Pursuant to Section 806(e) of the Clearing Supervision Act

**Description of Proposed Changes**

NSCC is proposing to modify the Rules to enhance the calculation of the FIS Charge by using the same haircut percentages for all Members and no longer using Members' ratings on the CRRM in calculating this charge. By using the same haircut percentages to calculate the FIS Charge for all Members, NSCC believes this proposed enhancement would better mitigate the specific wrong-way risk posed by long positions in Family-Issued Securities that the charge was designed to address, as described below.

*Background*

As a central counterparty, NSCC occupies an important role in the securities settlement system by interposing itself between counterparties to financial transactions, thereby reducing the risk faced by participants and contributing to global financial stability. The effectiveness of a central counterparty's risk controls and the adequacy of its financial resources are critical to achieving these risk-reducing goals. As part of its market risk management strategy, NSCC manages its credit exposure to Members by determining the appropriate Required Fund Deposits to the Clearing Fund and monitoring

its sufficiency, as provided for in the Rules.[7] The Required Fund Deposit serves as each Member's margin.

The objective of a Member's Required Fund Deposit is to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event NSCC ceases to act for that Member (hereinafter referred to as a "default").[8] The aggregate of all Members' Required Fund Deposits constitutes the Clearing Fund of NSCC.[9] NSCC may access its Clearing Fund should a defaulting Member's own Required Fund Deposit be insufficient to satisfy losses to NSCC caused by the liquidation of that Member's portfolio.[10]

Pursuant to the Rules, each Member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by NSCC, as identified within Procedure XV of the Rules.[11] NSCC regularly assesses the market, liquidity and other risks that its margining methodologies are designed to mitigate to evaluate whether margin levels are commensurate with the particular risk attributes of each relevant product, portfolio, and market.

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7 See Rule 4 (Clearing Fund) and Procedure XV (Clearing Fund Formula and Other Matters) of the Rules, supra note 4.

8 The Rules identify when NSCC may cease to act for a Member and the types of actions NSCC may take. For example, NSCC may suspend a firm's membership with NSCC or prohibit or limit a Member's access to NSCC's services in the event that Member defaults on a financial or other obligation to NSCC. See Rule 46 (Restrictions on Access to Services) of the Rules, supra note 4.

9 See Rule 4 (Clearing Fund) of the Rules, supra note 4.

10 Id.

11 Supra note 4.

Among the various risks that NSCC considers when evaluating the effectiveness of its margining methodology are its counterparty risks, including wrong-way risk. In particular, NSCC seeks to identify and mitigate its exposures to specific wrong-way risk, which is defined as the risk that an exposure to a counterparty is highly likely to increase when the creditworthiness of that counterparty deteriorates.[12] NSCC has identified exposure to specific wrong-way risk when it acts as central counterparty to a Member with long positions in Family-Issued Securities. In the event a Member with long positions in Family-Issued Securities defaults, NSCC would close out those positions following a likely drop in the creditworthiness of the issuer, possibly resulting in a loss to NSCC.

In order to address this exposure to specific wrong-way risk, NSCC implemented the FIS Charge in 2015.[13] The FIS Charge is applied to a Member's long positions in Family-Issued Securities, which are the positions NSCC would need to sell into the market following a Member default.[14]

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12 See Principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions, pg. 47 n.65 (April 2012), available at http://www.bis.org/publ/cpss101a.pdf.

13 See Securities Exchange Act Release No. 76077 (October 5, 2015), 80 FR 61256 (October 9, 2015) (SR-NSCC-2015-003) ("Initial FIS Filing").

14 Short positions in Family-Issued Securities are not subject to the FIS Charge and are subject to the applicable volatility charge, as provided for under the Rules. See Sections I.(A)(1)(a)(iv) and I.(A)(2)(a)(iv) of Procedure XV (Clearing Fund Formula and Other Matters) of the Rules, supra note 4.

When the FIS Charge was initially implemented, it was only applied to Members that were placed on the Watch List based on the CRRM rating.[15] As part of its ongoing monitoring of its membership, NSCC utilizes the internal CRRM to evaluate its credit risk exposures to its Members based on a scale from strongest to weakest.[16] Members that fall within the higher risk rating categories are considered on NSCC's Watch List and may be subject to enhanced surveillance or additional margin charges, as permitted under the Rules.[17] Therefore, the FIS Charge was applied only to Members on the Watch List based on the reasoning that these Members present a heightened credit risk to NSCC or have demonstrated higher risk related to their ability to meet settlement. However, in the Initial FIS Filing, NSCC proposed to further evaluate its exposure to wrong-way risk presented by positions in Family-Issued Securities by reviewing the impact of expanding the application of the FIS Charge to positions in Family-Issued Securities of all Members.[18]

Following that evaluation, NSCC implemented the current methodology for calculating the FIS Charge, which expanded the application of the charge to all Members, but continues to take into account Members' ratings on the CRRM in calculating the applicable charge.[19] Therefore, under the current methodology, in calculating its

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15 See supra note 13.

16 See supra note 6.

17 Id.

18 Supra note 13, at 61257.

19 See Securities Exchange Act Release Nos. 81550 (September 7, 2017), 82 FR 43061 (September 13, 2017) (SR-NSCC-2017-010); and 81545 (September 7, 2017), 82 FR 43054 (September 13, 2017) (SR-NSCC-2017-804).

Members' Required Fund Deposits, NSCC first excludes long positions in Family-Issued Securities of Members from the applicable volatility charge, and instead charges an amount calculated by multiplying the absolute value of the long Net Unsettled Positions (as such term is defined in Procedure XV of the Rules) in that Member's Family-Issued Securities by a percentage that is no less than 40 percent.[20] The percentage that is used in calculating the FIS Charge depends on a Member's rating on the CRRM. Under Procedure XV of the Rules, long Net Unsettled Positions in (1) fixed income securities that are Family-Issued Securities are charged a haircut rate of no less than 80 percent for Members that are rated 6 or 7 on the CRRM, and no less than 40 percent for Members that are rated 1 through 5 on the CRRM; and (2) equity securities that are Family-Issued Securities are charged a haircut rate of 100 percent for Members that are rated 6 or 7 on the CRRM, and no less than 50 percent for Members that are rated 1 through 5 on the CRRM.[21] The haircut rates used in the FIS Charge as applied to positions in fixed income securities were calibrated based on historical corporate issue recovery rate data and address the risk that the Family-Issued Securities of a Member would be devalued in the event of that Member's default.

*Proposed Change*

NSCC is now proposing to enhance the methodology for calculating the FIS Charge by using the higher applicable percentage for all Members, and no longer using a Member's CRRM rating in the calculation.

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20 See Sections I.(A)(1)(a)(iv) and I.(A)(2)(a)(iv) of Procedure XV (Clearing Fund Formula and Other Matters) of the Rules, supra note 4.

21 Id.

Since implementation of the current calculation, NSCC has continued to monitor its exposure to specific wrong-way risk and determined that the risk characteristics to be considered when margining Family-Issued Securities extend beyond Members' creditworthiness as measured through the CRRM. More specifically, NSCC believes it may be exposed to specific wrong-way risk despite a Members' rating on the CRRM, and NSCC can better mitigate its exposure to this risk by calculating the FIS Charge without considering Members' CRRM ratings. While the current methodology appropriately assumes that Members with a higher rating on the CRRM present a heightened credit risk to NSCC or have demonstrated higher risk related to their ability to meet settlement, NSCC believes this approach does not take into account the risk that a firm may default due to unanticipated causes (referred to as a "jump-to-default" scenario) not captured by the CRRM rating. The CRRM rating necessarily relies on historical data as a predictor of future risks. Jump-to-default scenarios are triggered by unanticipated causes that could not be predicted based on historical trends or data, for example fraud or other bad acts by management. The proposed change is designed to improve NSCC's ability to cover the specific wrong-way risk posed by long positions in Family-Issued Securities by applying the higher applicable percentage in calculating the FIS Charge for all Members.

In order to implement this proposal, NSCC would amend Sections I.(A)(1)(a)(iv) and I.(A)(2)(a)(iv) of Procedure XV of the Rules, which describe the methodology for calculating the FIS Charge, and provide that (1) fixed income securities that are Family-Issued Securities shall be charged a haircut rate of no less than 80 percent; and (2) equity securities that are Family-Issued Securities shall be charged a haircut rate of 100 percent.

**Anticipated Effect on and Management of Risk**

NSCC believes that the proposed change to enhance the calculation of the FIS Charge would improve the risk-based methodology NSCC employs to measure market price risk and would better limit NSCC's credit exposures to Members. Specifically, the proposed change would use the higher applicable haircut percentage in calculating the FIS Charge for all Members. These haircut percentages as applied to positions in fixed income securities were calibrated to address the risk that the Family-Issued Securities of a Member would be devalued in the event of that Member's default. Therefore, the proposed FIS Charge would better address NSCC's exposures to specific wrong-way risk with respect to all Members' positions in Family-Issued Securities, particularly in jump-to-default scenarios. By mitigating specific wrong-way risk for NSCC, the proposed change would also mitigate risk for Members, because lowering the risk profile for NSCC would in turn lower the risk exposure that Members may have with respect to NSCC in its role as a central counterparty. Further, the proposal is designed to meet NSCC's risk management goals and its regulatory obligations, as described below.

**Consistency with the Clearing Supervision Act**

Although the Clearing Supervision Act does not specify a standard of review for an advance notice, its stated purpose is instructive: to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities and strengthening the liquidity of systemically important financial market utilities.[22]

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22 12 U.S.C. 5461(b).

NSCC believes that the proposal is consistent with the Clearing Supervision Act, specifically with the risk management objectives and principles of Section 805(b), and with certain of the risk management standards adopted by the Commission pursuant to Section 805(a)(2), for the reasons described below.[23]

*Consistency with Section 805(b) of the Clearing Supervision Act*

NSCC believes the proposal is consistent with Section 805(b) of the Clearing Supervision Act because it would enhance the margin methodology applied to long positions in Family-Issued Securities by using the higher applicable percentage for all Members, rather than considering Members' CRRM ratings in the calculation. The proposal would improve NSCC's ability to mitigate specific wrong-way risk exposures in a jump-to-default scenario and, in this way, would assist NSCC in collecting margin that more accurately reflects NSCC's exposure to a Member that clears Family-Issued Securities. The proposal would also assist NSCC in its continuous efforts to improve the reliability and effectiveness of its risk-based margining methodology by taking into account specific wrong-way risk. As such, the proposal would help NSCC, as a central counterparty, promote robust risk management, and thus promote the prompt and accurate clearance and settlement of securities transactions, as well as, in general, protect investors and the public interest.

In its critical role as a central counterparty, NSCC interposes itself between counterparties to financial transactions, thereby reducing the risk faced by its Members and contributing to global financial stability. NSCC's liquidity risk management plays an integral part in NSCC's ability to perform its role as a central counterparty. Therefore,

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[23] 12 U.S.C. 5464(a)(2) and (b).

improving the reliability and effectiveness of its risk-based margining methodology would be expected to also reduce systemic risk in the financial system and would promote financial stability by having a positive impact on the safety and soundness of the clearing system.

As a result, NSCC believes the proposal would be consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act, which specify the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks and support of the stability of the broader financial system.[24]

*Consistency with Section 805(a)(2) of the Clearing Supervision Act*

Section 805(a)(2) of the Clearing Supervision Act authorizes the Commission to prescribe risk management standards for the payment, clearing and settlement activities of designated clearing entities, like NSCC, and financial institutions engaged in designated activities for which the Commission is the supervisory agency or the appropriate financial regulator.[25] The Commission has accordingly adopted risk management standards under Section 805(a)(2) of the Clearing Supervision Act and Section 17A of the Act ("Covered Clearing Agency Standards").[26]

The Covered Clearing Agency Standards require covered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk

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24 12 U.S.C. 5464(b).

25 12 U.S.C. 5464(a)(2).

26 17 CFR 240.17Ad-22(e).

management practices on an ongoing basis.[27] NSCC believes that the proposed change is consistent with the Covered Clearing Agency Standards, in particular Rules 17Ad-22(e)(4)(i),[28] and (e)(6)(i) and (v),[29] each promulgated under the Act, for the reasons described below.

Rule 17Ad-22(e)(4)(i) under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.[30] The specific wrong-way risk presented by Family-Issued Securities is the risk that, in the event a Member with unsettled long positions in Family-Issued Securities defaults, NSCC would close out those positions following a likely drop in the credit-worthiness of the issuer, possibly resulting in a loss to NSCC. The haircut rates used in calculating the FIS Charge as applied to positions in fixed income securities were calibrated based on historical corporate issue recovery rate data, and, therefore, address the risk that the Family-Issued Securities of a Member would be devalued in the event of that Member's default. The proposal to apply the higher haircuts to all Members would assist NSCC in addressing specific wrong-way risk exposures in a jump-to-default scenario. By addressing this

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27 Id.

28 17 CFR 240.17Ad-22(e)(4)(i).

29 17 CFR 240.17Ad-22(e)(6)(i) and (v).

30 17 CFR 240.17Ad-22(e)(4)(i).

additional risk exposure, NSCC believes the proposal would allow it to calculate the FIS Charge in a way that more accurately reflects the risk characteristics of Family-Issued Securities. The proposal would, therefore, permit NSCC to more accurately identify, measure, monitor and manage its credit exposures to Members with long positions in Family-Issued Securities, and would assist NSCC in collecting and maintaining financial resources that reflect its credit exposures to those Members. Therefore, NSCC believes the proposed change is consistent with Rule 17Ad-22(e)(4)(i).[31]

Rule 17Ad-22(e)(6)(i) under the Act requires that each covered clearing agency that provides central counterparty services establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.[32] Rule 17Ad-22(e)(6)(v) under the Act requires that each covered clearing agency that provides central counterparty services establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products.[33]

As stated above, long positions in Family-Issued Securities present NSCC with exposure to specific wrong-way risk that, in the event a Member with these positions

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31 Id.

32 17 CFR 240.17Ad-22(e)(6)(i).

33 17 CFR 240.17Ad-22(e)(6)(v).

defaults, NSCC would close out those positions following a likely drop in the credit-worthiness of the issuer, possibly resulting in a loss to NSCC. The haircut rates used in the current methodology would continue to be used in the proposed methodology and as applied to positions in fixed income securities were calibrated based on historical corporate issue recovery rate data and address the risk that the Family-Issued Securities of a Member would be devalued in the event of that Member's default. Therefore, the calculation of the charge would continue to reflect the risk characteristics of Family-Issued Securities. As described above, the proposed change to apply the higher haircut rates to all Members would improve NSCC's ability to mitigate its exposure to specific wrong-way risk in a jump-to-default scenario. In this way, the proposal would assist NSCC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of long positions in Family-Issued Securities. Additionally, NSCC believes the proposed enhancement to the methodology for calculating the FIS Charge is an appropriate method for measuring its credit exposures to its Members, because the FIS Charge would continue to account for the risk factors presented by these securities, *i.e.* the risk that these securities would be devalued in the event of a Member default. Therefore, NSCC believes the proposed change is consistent with Rule 17Ad-22(e)(6)(i) and (v).[34]

III. Date of Effectiveness of the Advance Notice, and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested

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34 17 CFR 240.17Ad-22(e)(6)(i) and (v).

by the Commission is received. The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The clearing agency shall post notice on its website of proposed changes that are implemented.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2020-801 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-NSCC-2020-801. 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 website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the Advance Notice that are filed with the Commission, and all written communications relating to the Advance Notice 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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (http://dtcc.com/legal/sec-rule-filings.aspx). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment

submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2020-801 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

By the Commission.

Secretary

**EXHIBIT 3**

**Impact Analysis of New FIS Charge Haircut**

**on Clearing Fund**

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**EXHIBIT 5**

**NATIONAL SECURITIES CLEARING CORPORATION**

**RULES & PROCEDURES**

## TEXT OF PROPOSED RULE CHANGE

**Bold and underlined** text indicates proposed added language.

~~**Bold and strikethrough**~~ text indicates proposed deleted language.

PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS[1]

I.(A) Clearing Fund Formula for Members

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

(1) For CNS Transactions

(a) (i) The volatility of such Member's net of unsettled Regular Way, When-Issued and When-Distributed pending positions (i.e., net positions that have not yet passed Settlement Date) and fail positions (i.e., net positions that did not settle on Settlement Date), hereinafter collectively referred to as Net Unsettled Positions, which shall be the highest resultant value among the following:

* * *

(iv) The Corporation shall exclude from the calculations in subsection (i) above long Net Unsettled Positions in Family-Issued Securities. The amount of Clearing Fund required with respect to long Net Unsettled Positions in Family-Issued Securities shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation; such percentage shall be **(A)** no less than ~~**4**~~**8**0% **for long Net Unsettled Positions in fixed income securities that are Family-Issued Securities,** and **(B)** ~~**up to**~~ 100% **for long Net Unsettled Positions in equity securities that are Family-Issued Securities**~~**, and shall be determined, from time to time, in the sole discretion of the Corporation, within parameters described below, based on the Member's rating on the Credit Risk Rating Matrix and the type of Family-Issued Securities submitted to the Corporation:**~~**;**

~~**(A) Fixed income securities that are Family-Issued Securities shall be charged a haircut rate of no less than 80% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 40% for firms that are rated 1 through 5 on the Credit Risk Rating Matrix.**~~

~~**(B) Equity securities that are Family-Issued Securities shall be charged a haircut rate of 100% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 50% for firms that are rated 1 through 5 on the Credit Risk Rating Matrix;**~~

* * *

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

(2) For Balance Order Transactions

(a) (i) The volatility of such Member's net of unsettled Regular Way, When-Issued and When-Distributed positions that have not yet passed Settlement Date, hereinafter collectively referred to as Net Balance Order Unsettled Positions, which shall be the highest resultant value among the following:

* * *

(iv) The Corporation shall exclude from the calculations in subsection (i) above long Net Balance Order Unsettled Positions in Family-Issued Securities. The amount of Clearing Fund required with respect to long Net Balance Order Unsettled Positions in Family-Issued Securities shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation; such percentage shall be **(A)** no less than **4~~8~~**0% **for long Net Balance Order Unsettled Positions in fixed income securities that are Family-Issued Securities,** and **(B)** ~~**up to**~~ 100% **for long Net Balance Order Unsettled Positions in equity securities that are Family-Issued Securities~~, and shall be determined, from time to time, in the sole discretion of the Corporation, within parameters described below, based on the Member's rating on the Credit Risk Rating Matrix and the type of Family-Issued Securities submitted to the Corporation:~~;**

~~**(A) Fixed income securities that are Family-Issued Securities shall be charged a haircut rate of no less than 80% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 40% for firms that are rated 1 through 5 on the Credit Risk Rating Matrix.**~~

~~**(B) Equity securities that are Family-Issued Securities shall be charged a haircut rate of 100% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 50% for firms that are rated 1 through 5 on the Credit Risk Rating Matrix;**~~

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