

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 43	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2014 - * 03	Amendment No. (req. for Amendments *)
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Filing 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"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<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)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

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 action (limit 250 characters, required when Initial is checked \*).

To enhance the system that processes corporate actions within NSCC's Continuous Net Settlement ("CNS") system.

**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 \* Farinella

Title \* Director and Senior Associate 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.

(Title \*)

Date 03/06/2014  
By Nikki Poulos  
(Name \*)

Managing Director

Persona Not Validated - 1363961507761,

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 EFFF website.

**Form 19b-4 Information \***

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

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

**Exhibit 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**

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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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 filed by National Securities Clearing Corporation (“NSCC”) in connection with modifications to NSCC’s Rules & Procedures (“Rules”) to enhance the system that processes corporate actions within NSCC’s Continuous Net Settlement (“CNS”) system.

(b) Not applicable.

(c) Not applicable.

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

(a) The proposed rule change was approved by the Businesses and Products Committee of the Board of Directors of NSCC at a meeting duly called and held on June 18, 2013.

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

(a) NSCC has recently enhanced the system that applies corporate actions to Members’ open failed positions within CNS. While the enhancements to corporate action processing would not require NSCC Members to make any coding changes, NSCC is proposing to update Procedure VII of its Rules in order to reflect these enhancements.

One of NSCC’s core service as a central counterparty is trade clearance and settlement through CNS, where compared and recorded transactions in eligible securities<sup>1</sup> for a particular settlement date are netted by issue into one net long (buy) or net short (sell) position. As a continuous net system, those positions are further netted with positions of the same issue that remain open after their originally scheduled settlement date (usually T+3), so that trades scheduled to settle on any day are netted with fail positions to result in a single deliver or receive obligation for each Member for each issue in which it has activity. As part of the services offered to NSCC Members, certain corporate actions, including cash dividends, stock dividends, bond interest, and other mandatory corporate actions (which include redemptions, stock and cash mergers, and name changes) are automatically debited or credited to Member’s CNS accounts with open fail positions in CNS. Members are also permitted to take part in certain voluntary corporate actions, which include tender or exchange offers, with respect to open fail positions in CNS.

Enhancements to the processing of corporate actions within CNS, described below, would provide Members with more timely and detailed information regarding

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<sup>1</sup> To be CNS-eligible, a security must be eligible for book-entry transfer on the books of The Depository Trust Company (“DTC”), an NSCC affiliate, and must be capable of being processed in the CNS system; for example, securities may be ineligible for CNS processing due to certain transfer restrictions (i.e., 144A securities) or due to the pendency of certain corporate actions.

applicable corporate action events, would support additional corporate action events, and would provide short Members (i.e. Members that have failed to deliver securities to CNS) with information on their final liability on the same day that liability is applied to their CNS account. The proposed enhancements would also provide NSCC staff with an improved ability to monitor and process voluntary corporate action events. These enhancements are reflected in the proposed rule changes on Exhibit 5 hereto and are described below.

#### *Optional Dividends*

When a fail position in CNS is subject to a dividend payment, the issuer will specify the form in which that dividend will be paid (i.e. in securities or cash), called the “default option”. NSCC long Members (i.e. Members that have failed to receive securities from CNS) may elect a form of payment that differs from the default option by submitting an instruction to NSCC no later than a pre-set date and cut-off time. While these elections are submitted manually today, under the enhancements to the processing of corporate actions, these elections would be submitted to NSCC electronically.

Today, NSCC sets a cut-off time that is based on the cut-off time set by DTC for the submission of these instructions. Going forward, NSCC would set the date and cut-off time that is earlier than the DTC cut-off time, to provide the short Member with additional time to communicate that election to their counterparty.

NSCC’s Procedure VII, Section G.4 would be updated as marked in Exhibit 5 hereto to reflect these changes.

#### *Support “Offer to Consent” Tender/Exchange Offers*

Today, if a fail position in CNS is subject to a tender or exchange offer that includes an “offer to consent”, in order to participate in that tender or exchange offer the open fail position would be closed and exited out of CNS, and would settle directly between counterparties outside of CNS. The proposed enhancements would permit NSCC Members with fail positions in CNS to participate in tender or exchange offers that include an “offer to consent” within CNS.

Under the proposed Rule changes, CNS would support tender/exchange offers that include an “an offer to consent”. These corporate actions were not previously processed by NSCC in CNS. NSCC’s Procedure VII, Section H.4 would be updated as marked in Exhibit 5 hereto to reflect this change.

#### *Protect Submission and Liability Notification*

Currently, the cut-off time for a long Member to place a “protect” on an open fail position in CNS in order to participate in an upcoming corporate action, or to add shares to a voluntary corporate action, is either on the business day prior to “protect” expiration date or, when there is no “protect” for that corporate action, on the business day prior to the expiration date of the corporate action. Today, because long Members may incur additional costs for failing to meet these deadlines, NSCC staff today may, in its

discretion and on a best efforts basis, may accept and process these instructions either on the “protect” expiration or on the expiration date of the corporate action.

Under the proposed enhancements, NSCC Members would submit these instructions to NSCC electronically, and, for a fee of US \$500.00, NSCC Members would be permitted to submit instructions to place a “protect” on an open fail position in CNS in order to participate in an upcoming corporate action, or to add shares to a voluntary corporate action either on “protect” expiration date or, when there is no “protect” for that corporate action, on the expiration date of the corporate action.

NSCC’s Procedure VII, Section H.4 (b), including the table in that Section, would be updated as marked in Exhibit 5 hereto to reflect this change.

#### *Final Liability & Final Protection Notification*

Today, CNS will alert a short Member of their final assigned liability with respect to voluntary corporate actions either on the business day after “protect” expiration date for that corporate action or, when there is no “protect” for that corporate action, on the business day after the expiration date of the corporate action.

Under the proposed Rule changes, CNS would alert the short Member of their assigned final liability no later than the close of business on the same business day the final liability is assigned to that Member by CNS. The proposed Rule change would also make clear that long Members would be notified that their fail positions in CNS would be subject to the protection for that corporate action no later than the close of business on the same business day the final protection is assigned to that Member by CNS.

NSCC’s Procedure VII, Section H.4 (b), including the table in that Section, would be updated as marked in Exhibit 5 hereto to reflect this change.

#### *SMART/Track for CNS Corporate Actions*

Under the proposed Rule changes, Members would submit instructions to participate in a voluntary reorganization and would access all corporate action processing output data through SMART/Track for CNS Corporate Actions, which is available within the SMART/Track for Corporate Action Liability Notification Service. The output data, which today is delivered to Members through files and reports, would be visible through on-line screens with search options and filters.

NSCC’s Procedure VII, Section H.4 would be updated as marked in Exhibit 5 hereto to remove reference to the existing files and reports.

#### *Restriction on Movement of Positions between CNS Sub-Accounts*

Under the proposed enhancements, when a voluntary reorganization is being processed on a security, CNS would no longer permit the movement of positions for that security between non-reorganization sub-accounts (which include, for example, the CNS General Account and the CNS Fully-Paid-For Account) either on the “protect” expiration

date, or, when there is no “protect” for that voluntary reorganization, on the expiration date of the voluntary reorganization.

In order to make this change, NSCC’s Procedure VII, Section H.4 (b) would be updated as marked in Exhibit 5.

#### *Additional Rule Changes*

In addition to the enhancements described above, NSCC is proposing to amend Procedure VII, Section H.4(b) to make clear that the Rules are drafted assuming the processing of subject securities with a protect period of three days, and the table included in that section sets forth the time frames for processing of subject securities with a protect period of two days or less. As such, NSCC would amend Sections G and H of Procedure VII (CNS Accounting Operation), as described above and as reflected in Exhibit 5 hereto.

#### *Implementation Timeframe*

Subject to approval of this filing, NSCC proposes to implement the proposed rule changes in multiple phases during 2014. Pending Commission approval, Members will be advised of the implementation dates of the proposed rule changes through issuance of NSCC Important Notices.

(b) NSCC believes the proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 (“Act”) and the rules and regulations thereunder applicable to NSCC, in particular Section 17A(b)(3)(F) of the Act<sup>2</sup>, which requires that NSCC’s Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. By providing for greater efficiency and automation with respect to processing corporate actions applicable to open failed positions within CNS, the proposed rule change promotes the prompt and accurate clearance and settlement of securities transactions.

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

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

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

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

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

NSCC does not consent to an extension of the time period specified in Section

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<sup>2</sup> 15 U.S.C. 78q-1(b)(3)(F).

19(b)(2) of the Act for Commission action.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

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

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

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

Not applicable.

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

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed Changes to NSCC’s Rules.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-NSCC-2014-03

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Enhance the System that Processes Corporate Actions within NSCC's Continuous Net Settlement ("CNS") System

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March \_\_, 2014, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Item I, II and III below, which Items have been prepared primarily by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consist of amendments to the Rules & Procedures ("Rules") of NSCC to enhance the system that processes corporate actions within NSCC's Continuous Net Settlement ("CNS") system, as more fully described below.

II. Clearing Agency'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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.



the places specified in Item IV below. NSCC has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

NSCC has recently enhanced the system that applies corporate actions to Members' open failed positions within CNS. While the enhancements to corporate action processing would not require NSCC Members to make any coding changes, NSCC is proposing to update Procedure VII of its Rules in order to reflect these enhancements.

One of NSCC's core service as a central counterparty is trade clearance and settlement through CNS, where compared and recorded transactions in eligible securities<sup>3</sup> for a particular settlement date are netted by issue into one net long (buy) or net short (sell) position. As a continuous net system, those positions are further netted with positions of the same issue that remain open after their originally scheduled settlement date (usually T+3), so that trades scheduled to settle on any day are netted with fail positions to result in a single deliver or receive obligation for each Member for each issue in which it has activity. As part of the services offered to NSCC Members, certain corporate actions, including cash dividends, stock dividends, bond interest, and other mandatory corporate actions (which include redemptions, stock and cash mergers, and name changes) are automatically debited or credited to Member's CNS accounts with open fail positions in CNS. Members are also permitted to take part in certain voluntary

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corporate actions, which include tender or exchange offers, with respect to open fail positions in CNS.

Enhancements to the processing of corporate actions within CNS, described below, would provide Members with more timely and detailed information regarding applicable corporate action events, would support additional corporate action events, and would provide short Members (i.e. Members that have failed to deliver securities to CNS) with information on their final liability on the same day that liability is applied to their CNS account. The proposed enhancements would also provide NSCC staff with an improved ability to monitor and process voluntary corporate action events. These enhancements are reflected in the proposed rule changes on Exhibit 5 hereto and are described below.

#### *Optional Dividends*

When a fail position in CNS is subject to a dividend payment, the issuer will specify the form in which that dividend will be paid (i.e. in securities or cash), called the “default option”. NSCC long Members (i.e. Members that have failed to receive securities from CNS) may elect a form of payment that differs from the default option by submitting an instruction to NSCC no later than a pre-set date and cut-off time. While these elections are submitted manually today, under the enhancements to the processing of corporate actions, these elections would be submitted to NSCC electronically.

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NSCC’s Procedure VII, Section H.4 (b), including the table in that Section, would be updated as marked in Exhibit 5 hereto to reflect this change.

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period of two days or less. As such, NSCC would amend Sections G and H of Procedure VII (CNS Accounting Operation), as described above and as reflected in Exhibit 5 hereto.

*Implementation Timeframe*

Subject to approval of this filing, NSCC proposes to implement the proposed rule changes in multiple phases during 2014. Pending Commission approval, Members will be advised of the implementation dates of the proposed rule changes through issuance of an NSCC Important Notice.

2. Statutory Basis

NSCC believes the proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934 (“Act”) and the rules and regulations thereunder applicable to NSCC, in particular Section 17A(b)(3)(F) of the Act<sup>4</sup>, which requires that NSCC’s Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. By providing for greater efficiency and automation with respect to processing corporate actions applicable to open failed positions within CNS, the proposed rule change promotes the prompt and accurate clearance and settlement of securities transactions.

(B) Clearing Agency’s Statement on Burden on Competition

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

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<sup>4</sup> 15 U.S.C. 78q-1(b)(3)(F).

(C) Clearing Agency'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 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate 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 or disapprove such a 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:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2014-03 on the subject line.

Paper Comments:

- Send paper comments 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-2014-03. 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 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 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 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on NSCC's website (<http://www.dtcc.com/>). All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2014-03 and should be submitted on or before [insert date 21 days from publication in the Federal Register].



For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>5</sup>

Elizabeth M. Murphy  
Secretary

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<sup>5</sup> 17 CFR 200.30-3(a)(12).



NATIONAL  
SECURITIES  
CLEARING  
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

**Underlined and boldface** text indicates new text

**~~Strikethrough and boldface~~** indicates deleted text

## 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, 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, other than buy-in allocations made pursuant to priority groups (b) and (c) above, 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~~**the Corporation**. 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, OW Obligations, 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.

Securities removed from CNS that result in a CNS Receive and Deliver Instruction may be entered into the Obligation Warehouse service in accordance with the Obligation Warehouse Procedure.

#### 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, **which may include those tender or exchange offers that have an offer to consent** (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 **will be provided to Members** ~~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 to provide to Members~~ on the dates prior to E specified above, the Corporation will provide such information ~~on the CNS Reorganization Information Report to Members~~ 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

**The Rules below assume the processing of subject securities with a protect period of three days.** 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 **inform 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 will be informed~~ of its potential moves to a CNS Reorganization Sub-Account. On E+3 Members may add, adjust, or delete long positions which will be moved to the Sub-Account in whole or in part by submitting an 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. On E+3, when ~~the~~ long and short positions are moved into the CNS Reorganization Sub-Account the Corporation will provide Members with long positions their final protection, and will provide Members with short positions their final liability~~are detailed in a Final Protection Report and Final Liability Report on E+4.~~

**Movement of positions for securities that are subject to a voluntary reorganization are not permitted between non reorganization sub-accounts either on the “protect” expiration date, or, when there is no “protect” for that voluntary reorganization, on the expiration date of the voluntary reorganization.**

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.

**The table below sets forth the time frames for the processing of subject securities with a protect period of two days or less.**

	Date long position member must instruct NSCC to move position to Reorg. Sub-Acct. <b>(Standard Date)</b>	Date of short Member notified of potential position Preliminary Liability Report	Date of long Member notified of potential position Preliminary Protection Report	Last date long members may submit Delete instructions <sup>4</sup>	<b>Last date long Members may submit Protect Add or Adjust Instructions (protect add or adjust submitted on CNS end date)*</b>	Date long positions moved to Reorg. Sub-Account	Date long Member notified of Final Protection Report and short Member notified of Final Liability Report	Short position marked to tender offer price
2 Day Protect	E+1	E+1	E+2	E+2	<b>E+2</b>	E+2	E+3 <del>2</del>	E+3 or thereafter
1 Day Protect	E	E	E+1	E+1	<b>E+1</b>	E+1	E+2 <del>1</del>	E+2 or thereafter
No Protect	E-1	E-1	E	E	<b>E</b>	E	E+4	E+1 or thereafter

\* **“CNS end date” is either the protect expiration date of the offer or, when there is no protect, it is the expiration date of the offer.**

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,

(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

<sup>4</sup> ~~Same input time deadline on the date indicated as for offers with longer protect periods.~~

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 office 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. ID Net Service

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.

## 7. Obligation Warehouse

Pursuant to Rule 51 and the Obligation Warehouse Procedure, the Corporation permits Members to submit OW Obligations for processing through the Obligation Warehouse service and CNS-eligible obligations

processed therein may be entered into this accounting operation.<sup>2</sup> Unless otherwise excluded by the Member pursuant to the Obligation Warehouse Procedure, CNS-eligible OW Obligations will be recorded on the Miscellaneous Activity Report on the night before Settlement Date (SD-1) and included in the CNS Accounting Operation in the night cycle on Settlement Date in accordance with the provisions of the Obligation Warehouse Procedure. All OW CNS activity will be reflected 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

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<sup>2</sup> This functionality will be made available to Members at a date no less than 10 business days following announcement of its implementation by Important Notice.



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.