

Required fields are shown with yellow backgrounds and asterisks.

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

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

| | |
|--|---|
| 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) * | Section 806(e)(2) * |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| | Section 3C(b)(2) * |
| | <input type="checkbox"/> |

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|---|---|
| Exhibit 2 Sent As Paper Document | Exhibit 3 Sent As Paper Document |
| <input type="checkbox"/> | <input type="checkbox"/> |

Description

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

Enhance NSCC margining methodology as applied to the family-issued securities of NSCC Members that are on NSCCs Watch List.

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 * Last Name *
 Title *
 E-mail *
 Telephone * Fax

Signature

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

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

(Title *)

Date

By

(Name *)

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.

Persona Not Validated - 1429718904366,

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 *

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, 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

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Advance Notice

(a) This advance notice consists of modifications to the Rules & Procedures (“Rules”) of National Securities Clearing Corporation (“NSCC”), annexed hereto as Exhibit 5, that would enhance NSCC’s margining methodology as applied to family-issued securities of NSCC Members¹ that are placed on NSCC’s “Watch List”, i.e. those Member who present a heightened credit risk to NSCC or have demonstrated higher risk related to their ability to meet settlement, as described below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Clearing Agency

(a) The proposal and this advance notice were approved by the Risk Committee of the Board of Directors of NSCC at a meeting duly called and held on June 27, 2012.

3. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Advance Notice

Not applicable.

4. Clearing Agency’s Statement on Burden on Competition

Not applicable.

5. Clearing Agency’s Statement on Comments on the Advance Notice Received from Members, Participants, or Others

In November 2013, NSCC engaged in outreach to its Members by providing those Members with a description of the proposal and the results of an impact study showing the potential impact of this proposal on Members’ Clearing Fund required deposits. NSCC did not receive any written comments relating to this proposal in response to this outreach. NSCC will notify the Commission of any written comments received by NSCC.

6. Extension of Time Period for Commission Action

Not applicable.

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

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

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

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

Not applicable.

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

Not applicable.

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

Description of Change

NSCC is proposing to enhance its margin methodology as applied to the family-issued securities of its Members that are on its Watch List² by excluding these securities from the volatility component, or “VaR” charge, and then charging an amount calculated by multiplying the absolute value of the long net unsettled positions in that Member’s family-issued securities by a percentage that is no less than 40%. The haircut rate to be charged would be determined based on the Member’s rating on the credit risk rating matrix and the type of family-issued security submitted to NSCC. Fixed income securities that are family-issued securities would be charged a haircut rate of no less than 80% for firms that are rated 6 or 7 on the credit risk rating matrix, and no less than 40% for firms that are rated 5 on the credit risk rating matrix; and equity securities that are family-issued securities would be charged a haircut rate of 100% for firms that are rated 6 or 7 on the credit risk rating matrix, and no less than 50% for firms that are rated 5 on the credit risk rating matrix. NSCC would have the authority to adjust these haircut rates

² As part of its ongoing monitoring of its membership, NSCC utilizes an internal credit risk rating matrix to rate its risk exposures to its Members based on a scale from 1 (the strongest) to 7 (the weakest). Members that fall within the higher risk rating categories (i.e. 5, 6, and 7) are considered on NSCC’s “Watch List”, and may be subject to enhanced surveillance or additional margin charges, as permitted under NSCC’s Rules. See Section 4 of Rule 2B and Section I(B)(1) of Procedure XV of NSCC’s Rules, *supra* Note 1.

from time to time within these parameters as described in Procedure XV of NSCC's Rules without filing a proposed rule change with the Commission pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),³ and the rules thereunder, or an advance notice with the Commission pursuant to Section 806(e)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act"),⁴ and the rules thereunder.

Anticipated Effect on and Management of Risk

As a central counterparty, NSCC occupies an important role in the securities settlement system by interposing itself between counterparties to financial transactions and thereby reducing the risk faced by participants and contributing to global financial stability. The effectiveness of a central counterparty's risk controls and the adequacy of its financial resources are critical to achieving these risk-reducing goals. In that context, NSCC continuously reviews its margining methodology in order to ensure the reliability of its margining in achieving the desired coverage. In order to be most effective, NSCC must take into consideration the risk characteristics specific to certain securities when margining those securities.

Among the various risks that NSCC considers when evaluating the effectiveness of its margining methodology are its counterparty risks and identification and mitigation of "wrong-way" risk, particularly specific wrong-way risk, defined as the risk that an exposure to a counterparty is highly likely to increase when the creditworthiness of that counterparty deteriorates.⁵ NSCC has identified an exposure to wrong-way risk when it acts as central counterparty to a Member with respect to positions in securities that are issued by that Member or that Member's affiliate. These positions are referred to as "family-issued securities." In the event that a Member with unsettled long positions in family-issued securities defaults, NSCC would close out those positions following a likely drop in the credit-worthiness of the issuer, possibly resulting in a loss to NSCC.

Therefore, the overall impact of NSCC's proposal, as described above, on risks presented by NSCC would be to reduce NSCC's exposure to this type of wrong-way risk by enhancing its margin methodology as applied to the family-issued securities of its Members that are on its Watch List, and present a heightened credit risk to the clearing agency or have demonstrated higher risk related to their ability to meet settlement. NSCC believes a reduction in its exposures to wrong-way risk through a margining methodology that more effectively capture the risk characteristics of these positions would contribute to

³ 15 U.S.C. 78s(b)(1).

⁴ 12 U.S.C. 5465(e)(1).

⁵ See Principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions 47n.65 (April 2012), available at <http://www.bis.org/publ/cpss101a.pdf>.

the goal of maintaining financial stability in the event of a Member default and reduce systemic risk overall. Because NSCC Members that are on its Watch List present a heightened credit risk to the clearing agency or have demonstrated higher risk related to their ability to meet settlement, NSCC believes that this charge would more effectively capture the risk characteristics of these positions and can help mitigate NSCC's exposure to wrong-way risk.

NSCC will continue to evaluate its exposures to wrong-way risk, specifically wrong-way risk presented by family-issued securities, including by reviewing the impact of expanding the application of the proposed margining methodology to the family-issued securities of those Members that are not on the Watch List. NSCC is proposing to apply the enhanced margining methodology to the family-issued securities of Members that are on the Watch List at this time because, as stated above, these Members present a heightened credit risk to the clearing agency or have demonstrated higher risk related to their ability to meet settlement. As such, there is a clear and more urgent need to address NSCC's exposure to wrong-way risk presented by these firms' family-issued securities. However, any future change to the margining methodology as applied to the family-issued securities of Members that are not on the Watch List would be subject to a separate proposed rule change pursuant to Section 19(b)(1) of the Act,⁶ and the rules thereunder and an advance notice pursuant to Section 806(e)(1) of the Clearing Supervision Act.⁷

Consistency with the Clearing Supervision Act. The objectives and principles of Section 805(b)(1) of the Clearing Supervision Act specify the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks and support of the stability of the broader financial system.⁸ Rule 17Ad-22(b)(1), promulgated under the Act, requires NSCC to measure its credit exposures to its participants at least once a day and limit its exposures to potential losses from defaults by its participants under normal market conditions so that the operations of the clearing agency would not be disrupted and non-defaulting participants would not be exposed to losses that they cannot anticipate or control.⁹ Rule 17Ad-22(b)(2), promulgated under the Act, requires NSCC to use risk-based models for setting margin requirements.¹⁰

By enhancing the margin methodology as applied to the family-issued securities of its Members that are on its Watch List the proposal would assist NSCC in collecting margin that more accurately reflects the risk characteristics of these securities, thereby limiting NSCC's exposures to potential losses from defaults by these Members under normal market conditions. By more closely capturing the risk characteristics of these

⁶ 15 U.S.C. 78s(b)(1).

⁷ 12 U.S.C. 5465(e)(1).

⁸ 12 U.S.C. 5464(b)(1).

⁹ 17 CFR 240.17Ad-22(b)(1).

¹⁰ 17 CFR 240.17Ad-22(b)(2).

positions, the proposed enhancement to the margining methodology would also assist NSCC in its continuous efforts to ensure the reliability and effectiveness of its risk-based margining methodology. In this way, the proposal would help NSCC, as a central counterparty, maintain effective risk controls, contributing to the goal of maintaining financial stability in the event of a Member default. Therefore, NSCC believes the proposal is consistent with the requirements of Section 805(b)(1) of the Clearing Supervision Act and Rule 17Ad-22(b)(1) and (2), promulgated under the Act, cited above.

11. Exhibits

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of advance notice 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-2015-803)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Advance Notice to Enhance NSCC's Margining Methodology as Applied to Family-Issued Securities of Certain NSCC Members

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010¹ ("Clearing Supervision Act") and Rule 19b-4(n)(1)(i)² under the Securities Exchange Act of 1934 ("Act"), notice is hereby given that on August __, 2015, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the advance notice SR-NSCC-2015-803 ("Advance Notice") as described in Items I, II and III below, which Items have been prepared by NSCC.³ The Commission is publishing this notice to solicit comments on the Advance Notice from interested persons.

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

This Advance Notice consists of amendments to NSCC's Rules & Procedures ("Rules") in order to enhance NSCC's margining methodology as applied to family-

¹ 12 U.S.C. 5465(e)(1).

² 17 CFR 240.19b-4(n)(1)(i).

³ On August __ 2015, NSCC filed this Advance Notice as a proposed rule change (SR-NSCC-2015-003) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule 19b-4, 17 CFR 240.19b-4. A copy of the proposed rule change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

issued securities of those NSCC Members⁴ that are placed on NSCC's "Watch List", i.e. those Member who present a heightened credit risk to NSCC or have demonstrated higher risk related to their ability to meet settlement, as more fully described below.

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

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

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

In November 2013, NSCC engaged in outreach to its Members by providing those Members with a description of the proposal and the results of an impact study showing the potential impact of this proposal on Members' Clearing Fund required deposits. NSCC did not receive any written comments relating to this proposal in response to this outreach. NSCC will notify the Commission of any written comments received by NSCC.

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

Description of Change

NSCC is proposing to enhance its margin methodology as applied to the family-issued securities of its Members that are on its Watch List⁵ by excluding these securities

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

from the volatility component, or “VaR” charge, and then charging an amount calculated by multiplying the absolute value of the long net unsettled positions in that Member’s family-issued securities by a percentage that is no less than 40%. The haircut rate to be charged would be determined based on the Member’s rating on the credit risk rating matrix and the type of family-issued security submitted to NSCC. Fixed income securities that are family-issued securities would be charged a haircut rate of no less than 80% for firms that are rated 6 or 7 on the credit risk rating matrix, and no less than 40% for firms that are rated 5 on the credit risk rating matrix; and equity securities that are family-issued securities would be charged a haircut rate of 100% for firms that are rated 6 or 7 on the credit risk rating matrix, and no less than 50% for firms that are rated 5 on the credit risk rating matrix. NSCC would have the authority to adjust these haircut rates from time to time within these parameters as described in Procedure XV of NSCC’s Rules without filing a proposed rule change with the Commission pursuant to Section 19(b)(1) of the Act,⁶ and the rules thereunder, or an advance notice with the Commission pursuant to Section 806(e)(1) of the Clearing Supervision Act,⁷ and the rules thereunder.

⁵ As part of its ongoing monitoring of its membership, NSCC utilizes an internal credit risk rating matrix to rate its risk exposures to its Members based on a scale from 1 (the strongest) to 7 (the weakest). Members that fall within the higher risk rating categories (i.e. 5, 6, and 7) are considered on NSCC’s “Watch List”, and may be subject to enhanced surveillance or additional margin charges, as permitted under NSCC’s Rules. See Section 4 of Rule 2B and Section I(B)(1) of Procedure XV of NSCC’s Rules, supra Note 1.

⁶ 15 U.S.C. 78s(b)(1).

⁷ 12 U.S.C. 5465(e)(1).

Anticipated Effect on and Management of Risk

As a central counterparty, NSCC occupies an important role in the securities settlement system by interposing itself between counterparties to financial transactions and thereby reducing the risk faced by participants and contributing to global financial stability. The effectiveness of a central counterparty's risk controls and the adequacy of its financial resources are critical to achieving these risk-reducing goals. In that context, NSCC continuously reviews its margining methodology in order to ensure the reliability of its margining in achieving the desired coverage. In order to be most effective, NSCC must take into consideration the risk characteristics specific to certain securities when margining those securities.

Among the various risks that NSCC considers when evaluating the effectiveness of its margining methodology are its counterparty risks and identification and mitigation of "wrong-way" risk, particularly specific wrong-way risk, defined as the risk that an exposure to a counterparty is highly likely to increase when the creditworthiness of that counterparty deteriorates.⁸ NSCC has identified an exposure to wrong-way risk when it acts as central counterparty to a Member with respect to positions in securities that are issued by that Member or that Member's affiliate. These positions are referred to as "family-issued securities." In the event that a Member with unsettled long positions in family-issued securities defaults, NSCC would close out those positions following a likely drop in the credit-worthiness of the issuer, possibly resulting in a loss to NSCC.

⁸ See Principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions 47n.65 (April 2012), available at <http://www.bis.org/publ/cpss101a.pdf>.

Therefore, the overall impact of NSCC's proposal, as described above, on risks presented by NSCC would be to reduce NSCC's exposure to this type of wrong-way risk by enhancing its margin methodology as applied to the family-issued securities of its Members that are on its Watch List, and present a heightened credit risk to the clearing agency or have demonstrated higher risk related to their ability to meet settlement. NSCC believes a reduction in its exposures to wrong-way risk through a margining methodology that more effectively capture the risk characteristics of these positions would contribute to the goal of maintaining financial stability in the event of a Member default and reduce systemic risk overall. Because NSCC Members that are on its Watch List present a heightened credit risk to the clearing agency or have demonstrated higher risk related to their ability to meet settlement, NSCC believes that this charge would more effectively capture the risk characteristics of these positions and can help mitigate NSCC's exposure to wrong-way risk.

NSCC will continue to evaluate its exposures to wrong-way risk, specifically wrong-way risk presented by family-issued securities, including by reviewing the impact of expanding the application of the proposed margining methodology to the family-issued securities of those Members that are not on the Watch List. NSCC is proposing to apply the enhanced margining methodology to the family-issued securities of Members that are on the Watch List at this time because, as stated above, these Members present a heightened credit risk to the clearing agency or have demonstrated higher risk related to their ability to meet settlement. As such, there is a clear and more urgent need to address NSCC's exposure to wrong-way risk presented by these firms' family-issued securities. However, any future change to the margining methodology as applied to the family-

issued securities of Members that are not on the Watch List would be subject to a separate proposed rule change pursuant to Section 19(b)(1) of the Act,⁹ and the rules thereunder and an advance notice pursuant to Section 806(e)(1) of the Clearing Supervision Act,¹⁰ and the rules thereunder.

Consistency with the Clearing Supervision Act. The objectives and principles of Section 805(b)(1) of the Clearing Supervision Act specify the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks and support of the stability of the broader financial system.¹¹ Rule 17Ad-22(b)(1), promulgated under the Act, requires NSCC to measure its credit exposures to its participants at least once a day and limit its exposures to potential losses from defaults by its participants under normal market conditions so that the operations of the clearing agency would not be disrupted and non-defaulting participants would not be exposed to losses that they cannot anticipate or control.¹² Rule 17Ad-22(b)(2), promulgated under the Act, requires NSCC to use risk-based models for setting margin requirements.¹³

By enhancing the margin methodology as applied to the family-issued securities of its Members that are on its Watch List the proposal would assist NSCC in collecting margin that more accurately reflects the risk characteristics of these securities, thereby limiting NSCC's exposures to potential losses from defaults by these Members under

⁹ 15 U.S.C. 78s(b)(1).

¹⁰ 12 U.S.C. 5465(e)(1).

¹¹ 12 U.S.C. 5464(b)(1).

¹² 17 CFR 240.17Ad-22(b)(1).

¹³ 17 CFR 240.17Ad-22(b)(2).

normal market conditions. By more closely capturing the risk characteristics of these positions, the proposed enhancement to the margining methodology would also assist NSCC in its continuous efforts to ensure the reliability and effectiveness of its risk-based margining methodology. In this way, the proposal would help NSCC, as a central counterparty, maintain effective risk controls, contributing to the goal of maintaining financial stability in the event of a Member default. Therefore, NSCC believes the proposal is consistent with the requirements of Section 805(b)(1) of the Clearing Supervision Act and Rule 17Ad-22(b)(1) and (2), promulgated under the Act, cited above.

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

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. NSCC shall not implement the proposed change if the Commission has any objection to the proposed change.

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

NSCC shall post notice its website of proposed changes that are implemented.

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

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2015-803 on the subject line.

Paper Comments:

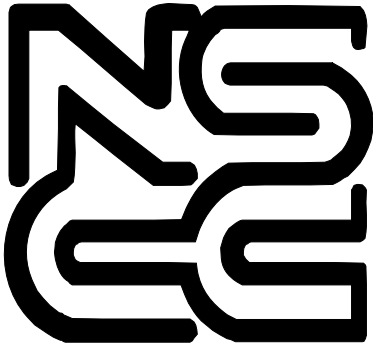
- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2015-803. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the Advance Notice that are filed with the Commission, and all written communications relating to the Advance Notice between

the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 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 DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). 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-2015-803 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

By the Commission.

Brent J. Fields
Secretary



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 XV. CLEARING FUND FORMULA AND OTHER MATTERS¹

I.(A) Clearing Fund Formula for Members

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

(1) For CNS Transactions

(a)(i) The volatility of such Member's net of unsettled Regular Way, When-Issued and When-Distributed pending positions (i.e., net positions that have not yet passed Settlement Date) and fail positions (i.e., net positions that did not settle on Settlement Date), hereinafter collectively referred to as Net Unsettled Positions. When the Corporation deems it appropriate, the volatility of such positions shall be determined after taking into account offsetting pending transactions that: (x) have been confirmed and/or affirmed through an institutional delivery system acceptable to the Corporation², and (y) have not been submitted for processing through the ID Net service. Such calculation shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate.

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

plus

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

² The Corporation may, in its discretion, decline to consider any such transactions, as well as other similar transactions referred to in respect of this Procedure, if it has reason to believe that the institutional counter party may not or cannot settle the transaction.

(b) The net of each day's difference between (x) the contract price of such Member's Regular Way, When-Issued and When-Distributed net positions for transactions not submitted through the ID Net service that have not yet passed Settlement Date and its fail positions, and (y) the Current Market Price for such positions³ (such difference to be known as the "Regular Mark-to-Market"); provided that: (i) the Corporation shall exclude from this calculation any trades for which the Corporation has, under a Clearing Agency Cross-Guaranty Agreement, either obtained coverage for such difference (if the sum of the differences for the trades subject to the agreement is a positive number) or undertaken an obligation to provide coverage for such difference (if the sum of the differences for trades subject to the agreement is a negative number), (ii) the Corporation may, but shall not be required to, exclude from this calculation any shares delivered by the Member in the night cycle to satisfy all or any portion of a short position, and (iii) that if the Member is an ID Net Subscriber and if the value of the Regular Mark-to-Market as computed above is a positive number, then the value of the Regular Mark-to-Market shall be zero;

plus

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

plus

(d) If such Member clears for one or more Market Makers⁴ (i.e., the Member's Correspondent(s) or is itself a Market Maker in any security dominated by either the Member or its Correspondent(s) (where domination is calculated for each Member and each of its Correspondent(s) according to criteria determined by the Corporation from time to time), and if the sum of the absolute values of the Net Unsettled Positions in such dominated security or securities of any one or more of such Market Makers exceeds the excess net capital of the respective Market Maker or the Member (whether or not it is a Market Maker), (i.e., such Market Maker's or Member's Excess), the Corporation may then require the Member to contribute an additional Clearing Fund Deposit to the Corporation either in an amount equal to each such Market Maker's or Member's Excess or the sum of each of the absolute values of the Net Unsettled Positions or a combination of both. In performing the calculation, the Corporation may take into account

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

⁴ As used in this Procedure, the term "Market Maker" shall mean a member firm of the National Association of Securities Dealers, Inc. (NASD) that is registered by the NASD as a Market Maker.

offsetting pending (i.e., non-fail) transactions that have been confirmed and/or affirmed through an institutional delivery system acceptable to the Corporation. In addition, where a Market Maker's Net Unsettled Positions in dominated issues are cleared by one or more Members, the Corporation may treat those positions, for purposes of calculations pursuant to this paragraph, as if they were all cleared by the Market Maker's clearing Member, as listed in the records of the Corporation in accordance with Section 3(e) of Rule 3⁵;

plus

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

plus

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

(g) an amount for certain activity (referred to as "Specified Activity") based on the average of the Member's three highest aggregate calculated charges for daily Specified Activity measured over the most recent 20 settlement days. For purposes of this calculation, "Specified Activity" means transactions (other than Index Receipt creates and redeems and their underlying component securities, or cash component, if applicable) processed by the Corporation on a shortened processing cycle (i.e., otherwise than on a three-day processing and settlement cycle), including T+3 as-of trades,⁶ cash trades, next day settling trades, and similar transactions. This charge shall be calculated by: (i) netting Specified Activity by cusip to a single long or short position, and (ii) applying a charge to each such position, using not less than two standard deviations as determined by historic pricing. The standard deviations will be the same as those derived for the daily volatility calculations; provided however, that as is the case with the volatility charge, for those securities whose volatility is either less amenable to statistical analysis, or so amenable only in a complex manner, the Corporation shall instead apply the same percentage charge to those securities as applied pursuant to clause I.(A)(1)(a) above.

⁵ The Corporation may require or permit such Member to deliver some or all shares necessary to complete a short obligation in lieu of part or all of its requirement under this section or subsection I.(A)(2)(c).

⁶ That is, as-of trades compared or recorded on T+3 prior to the applicable comparison/recording cut-off time, including trades received after the applicable T+2 cut-off time. With respect to next day settling trades, this includes next day as-of trades.

(2) For Balance Order Transactions

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

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

plus

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

plus

(c) If such Member clears for one or more Market Makers (i.e., the Member's Correspondent(s)) or is itself a Market Maker in any security dominated by either the Member or its Correspondent(s) (where domination is calculated for each

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

plus

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

(e) an amount for certain activity (referred to as "Specified Activity") based on the average of the Member's three highest aggregate calculated charges for daily Specified Activity measured over the most recent 20 settlement days. For purposes of this calculation, "Specified Activity" means transactions (other than Index Receipt creates and redeems and their underlying component securities, or cash component, if applicable) processed by the Corporation on a shortened processing cycle (i.e., otherwise than on a three-day processing and settlement cycle), including T+3 as-of trades,⁷ cash trades, next day settling trades, and similar transactions. This charge shall be calculated by: (i) netting Specified Activity by cusip to a single long or short position, and (ii) applying a charge to each such position, using not less than two standard deviations as determined by historic pricing. The standard deviations will be the same as those derived for the daily volatility calculations; provided however, that as is the case with the volatility charge, for those securities whose volatility is either less amenable to statistical analysis, or so amenable only in a complex manner, the Corporation shall instead apply the same percentage charge to those securities as applied pursuant to clause I.(A)(1)(a) above.

⁷ That is, as-of trades compared or recorded on T+3 prior to the applicable comparison/recording cut-off time, including trades received after the applicable T+2 cut-off time. With respect to next day settling trades, this includes next day as-of trades.

(3) For Other Transactions

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

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

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

(4) For Mutual Fund Transactions

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

or

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

or

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

I.(B) Additional Clearing Fund Formula

(1) Additional Deposits for Members on Surveillance

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

The Corporation shall require Members who are rated 5, 6, or 7 on the credit risk matrix to contribute to the Clearing Fund an amount determined by multiplying the absolute value of any long Net Unsettled Positions in classes of "family-issued securities" (defined as securities that were issued by either that Member or by an affiliate of that Member) by a percentage designated by the Corporation; such percentage, to be no less than 40% and up to 100%, would be determined,

from time to time, in the sole discretion of the Corporation, within the parameters described as follows, based on the Member's rating on the credit risk matrix and on the type of family-issued securities submitted to the Corporation.

Fixed income securities that are family-issued securities would be charged a haircut rate of no less than 80% for firms that are rated 6 or 7 on the credit risk matrix, and no less than 40% for firms that are rated 5 on the credit risk matrix; and equity securities that are family-issued securities would initially be charged a haircut rate of 100% for firms that are rated 6 or 7 on the credit risk matrix, and no less than 50% for firms that are rated 5 on the credit risk matrix.

The Corporation shall exclude long Net Unsettled Positions in such family-issued securities of Members who are rated 5, 6, or 7 on the credit risk matrix from the calculations describe in Subsections I.(A)(1)(a)(i) and (ii) and I.(A)(2)(a)(i) and (ii).

(2) Excess Capital Premium

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

Notwithstanding the foregoing, the Corporation may: (i) collect an amount less than the Excess Capital Premium (including no premium), and (ii) return all or a portion of the Excess Capital Premium if it believes that the imposition or maintenance of the Excess Capital Premium is not necessary or appropriate.⁸

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

⁸ The Corporation has identified the following guidelines or circumstances, which are intended to be illustrative, but not limited, where the premium will not be imposed: (a) where the premium results from charges applied with respect to municipal securities trades settling in CNS, where the member has offsetting compared trades settling on a trade-for-trade basis through DTC; and (b) management will look to see whether the premium results from an unusual or non-recurring circumstance where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison or trade recording that would otherwise reduce the margined position if timely submitted, or an unexpected haircut or capital charge that does not fundamentally change its risk profile.

⁹ This section applies to entities whose use of the Corporation's services are restricted to the Mutual

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

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

or

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

or

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

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

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

II. Minimum Clearing Fund and Additional Deposit Requirements

(A) Each Member of the Corporation shall be required to contribute a minimum of \$10,000 (the "minimum contribution"). The first 40% (but no less than \$10,000) of a Member's Required Deposit must be in cash and the remaining amount, may be evidenced by open account indebtedness secured by the pledge of Eligible Clearing Fund Securities, which shall be valued, for collateral purposes, as set forth in subsection III below. A Mutual Fund/Insurance Services Member's entire deposit is required to be in cash.

1. Special Provisions Related to Eligible Clearing Fund Securities:

(a) Any deposits of Eligible Clearing Fund Agency Securities¹⁰ or Eligible Clearing Fund Mortgage-Backed Securities¹¹,

Fund Services and/or the Insurance and Retirement Processing Services. Entities which use or are permitted to use Services other than or in addition to the Mutual Fund Services and Insurance and Retirement Processing Services are covered by section I.(A).

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

respectively, in excess of 25 percent of the Member's Required Deposit will be subject to an additional haircut equal to twice the percentage as specified in the proposed haircut schedule detailed in subsection III below, and

- (b) No more than 20 percent of a Member's Required Deposit secured by pledged Eligible Agency Securities may be of a single issuer.
- (B) All Clearing Fund requirements and other deposit requirements shall be made by Members and Mutual Fund/Insurance Services Members, within one hour of demand unless otherwise determined by the Corporation; provided, however, that to the extent the Member and Mutual Fund/Insurance Services Member is meeting such obligation with a (1) deposit of cash, such deposit shall be made by Federal Funds wire transfer and be received no later than fifteen minutes prior to the close of the Federal Funds wire, and (2) delivery of eligible securities, such delivery shall be received within the deadlines established by a Qualified Securities Depository. At the discretion of the Corporation, cash deposits may be included as part of the Member's or Mutual Fund/Insurance Services Member's, daily settlement obligation.
 - (C) Additional Clearing Fund deposits shall not be requested unless they exceed such threshold as determined by the Corporation from time to time.
 - (D) Where the amount of a Member's and Mutual Fund/Insurance Services Member's deficiency is in excess of \$1,000 but less than \$5,000, the Corporation may require payment in multiples of \$1,000. Where the amount of the deficiency is in excess of \$5,000, the Corporation may require payment in multiples of \$5,000.
- III. Collateral Value of Eligible Clearing Fund Securities
- (A) Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be haircut as follows, or as otherwise determined by the Corporation from time to time:

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

| <u>Security Type</u> | <u>Remaining Maturity</u> | <u>Haircut</u> |
|---------------------------|---------------------------|----------------|
| 1. Treasury | | |
| Bills, Notes, Bonds, TIPS | Zero to 1 year | 2.0% |
| | 1 year to 2 years | 2.0% |
| | 2 years to 5 years | 3.0% |
| | 5 years to 10 years | 4.0% |
| | 10 years to 15 years | 6.0% |
| | 15 years or greater | 6.0% |
| Zero Coupon | Zero to 1 year | 5.0% |
| | 1 year to 2 years | 5.0% |
| | 2 years to 5 years | 5.0% |
| | 5 years to 10 years | 12.0% |
| | 10 years to 15 years | 12.0% |
| | 15 years or greater | 12.0% |
| 2. Agency* | | |
| Notes, Bonds | Zero to 1 year | 7.0% |
| | 1 year to 2 years | 7.0% |
| | 2 years to 5 years | 7.0% |
| | 5 years to 10 years | 7.0% |
| | 10 years to 15 years | 10.0% |
| | 15 years or greater | 10.0% |
| Zero Coupon | Zero to 1 year | 7.0% |
| | 1 year to 2 years | 7.0% |
| | 2 years to 5 years | 7.0% |
| | 5 years to 10 years | 18.0% |
| | 10 years to 15 years | 18.0% |
| | 15 years or greater | 18.0% |

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

3. Mortgage-Backed Security

| | | |
|----------------|------------------------|---|
| Pass-Throughs* | Ginnie Mae | 7.0% |
| | Fannie Mae/Freddie Mac | 7.0% |
| Self-issued** | | 14% (or 21% if Concentration limit is exceeded) |

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