

**NATIONAL SECURITIES CLEARING CORPORATION**  
**RULES & PROCEDURES**

*Effective January 1, 2025*

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## NATIONAL SECURITIES CLEARING CORPORATION RULES

### RULE 1. DEFINITIONS AND DESCRIPTIONS\*

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules and Procedures, have the meanings herein specified.

#### *ACAT Receive and Deliver Instruction*

The term “ACAT Receive and Deliver Instruction” shall mean such document, form, file, report or other information issued by the Corporation to a Member or to a QSD (as defined in Rule 50), on behalf of such QSD’s participants, which identifies Automated Customer Account Transfer receive and deliver obligations.

#### *ACATS Settlement Accounting Operation*

The term “ACATS Settlement Accounting Operation” relates to the accounting operation for the processing of eligible ACATS transactions in accordance with Procedure XVIII.

#### *Accounting Operation*

The term “Accounting Operation” includes the ACATS Settlement Accounting Operation, Balance Order Accounting Operation, the Foreign Security Accounting Operation and the CNS Accounting Operation.

#### *Acknowledgment Cutoff Time*

The term “Acknowledgement Cutoff Time” means the time set forth as the Acknowledgment Cutoff Time in the DTC Settlement Service Guide which can be found on NSCC’s Website at <https://www.dtcc.com/legal/rules-and-procedures>.

#### *Actual Deposit*

The term “Actual Deposit” has the meaning specified in Rule 4.

#### *Affiliate*

The term “Affiliate” means a Person that controls or is controlled by or is under common control with another Person. Control of a Person means the direct or indirect ownership or power to vote more than 50% of any class of the voting securities or other voting interests of any Person.

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*Agent Clearing Member*

The term “Agent Clearing Member” means a Member that enters into transactions on behalf of Customers in accordance with the provisions of Rule 2D.

*Agent Clearing Member Agreement*

The term “Agent Clearing Member Agreement” means an agreement between the Corporation and a Member who is approved to become an Agent Clearing Member and specifies the terms and conditions deemed by the Corporation to be necessary in order to protect itself and its participants.

*Agent Clearing Member Customer Omnibus Account*

The term “Agent Clearing Member Customer Omnibus Account” means a ledger maintained on the books and records of the Corporation that reflects the outstanding Agent Clearing Member Transactions that an Agent Clearing Member enters into on behalf of Customers and that have been novated to the Corporation, the SFT Positions or SFT Cash associated with those transactions, and any debits or credits of cash associated with such transactions effected pursuant to Rule 12.

*Agent Clearing Member Required Fund Deposit*

The term “Agent Clearing Member Required Fund Deposit” shall have the meaning given to such term in Rule 2D.

*Agent Clearing Member Termination Date*

The term “Agent Clearing Member Termination Date” means the date on which the termination of an Agent Clearing Member’s status as an Agent Clearing Member becomes effective.

*Agent Clearing Member Transaction*

The term “Agent Clearing Member Transaction” shall have the meaning given to such term in Rule 2D.

*Agent Clearing Member Voluntary Termination Notice*

The term “Agent Clearing Member Voluntary Termination Notice” means a written notice from an Agent Clearing Member to the Corporation that the Agent Clearing Member is voluntarily electing to terminate its status as an Agent Clearing Member.

*Aggregate Net SFT Close-out Value*

The term “Aggregate Net SFT Close-out Value” means, with respect to an SFT Member, the sum of the SFT Close-out Value for each SFT Position to which the SFT Member is a party.

*AIP Acknowledgment Cutoff Time*

The term “AIP Acknowledgement Cutoff Time” means, with respect to each AIP Settling Bank regarding AIP Settlement of AIP Debit Balances and AIP Credit Balances, the later of (i) 30 minutes after the AIP Settling Bank has been notified of its AIP Debit Balance or AIP Credit Balance (or, the new AIP Debit Balance or new AIP Credit Balance, if readjusted as set forth herein), as applicable, and (ii) 30 minutes prior to the settlement deadlines established by the Corporation. The Corporation shall post the settlement deadlines for AIP Settlement on the NSCC Website.

*AIP Adjusted Credit Balance*

The term “Adjusted Credit Balance” has the meaning set forth in Rule 53.

*AIP Credit Balance*

The term “Credit Balance” has the meaning set forth in Rule 53.

*AIP Debit Balance*

The term “Debit Balance” has the meaning set forth in Rule 53.

*AIP Fund Administrator*

The term “AIP Fund Administrator” has the meaning set forth in Rule 53.

*AIP Member*

The term “AIP Member” means any Person who is specified in Section 2.(ii)(h) of Rule 2 and has qualified pursuant to the provisions of Rule 2A.

*AIP Non-Member Fund*

The term “AIP Non-Member Fund” means an entity that is not an AIP Member but that the Corporation has approved to settle AIP Payments as described in Rule 53.

*AIP Payment*

The term “AIP Payment” has the meaning set forth in Rule 53.

*AIP Settlement*

The term “AIP Settlement” has the meaning set forth in Rule 53.

*AIP Settling Sub-Account*

The term “AIP Settling Sub-Account” has the meaning set forth in Rule 53.

*AIP Settling Bank*

The term “AIP Settling Bank” means

- (1) a Member which is a bank or trust company which would otherwise qualify under Section 2. (ii)(f) of Rule 2 and Rule 2A and which is a party to an effective Settling Bank Agreement, or
- (2) a Settling Bank Only Member which has qualified under Section 2. (ii)(f) of Rule 2, Rule 2A and Addendum B and which is a party to an effective Settling Bank Agreement.

*Approved SFT Submitter*

The term “Approved SFT Submitter” means a provider of transaction data on an SFT that the parties to the SFT have selected and the Corporation has approved, subject to such terms and conditions as to which the Approved SFT Submitter and the Corporation may agree.

*Average RFD*

The term “Average RFD” has the meaning specified in Rule 4.

*Balance Order Accounting Operation*

The term “Balance Order Accounting Operation” covers all the operations having to do with Balance Order Securities after the Comparison Operation to which these Rules are applicable.

*Balance Order Contracts*

The term “Balance Order Contracts” has the meaning specified in Rule 5.

*Balance Order Securities*

The term “Balance Order Securities” means Cleared Securities other than CNS Securities or Foreign Securities.

*Balance Order System*

The term “Balance Order System” means the method of accounting for and settling securities transactions provided for in these Rules.

*Bilaterally Initiated SFT*

The term “Bilaterally Initiated SFT” means an SFT, the Initial Settlement of which occurred prior to the submission of such SFT to the Corporation.

*Board or Board of Directors*

The terms “Board” or “Board of Directors” means the Board of Directors of National Securities Clearing Corporation, or a committee thereof, acting under delegated authority.

*Business Day*

The term “Business Day” means any day on which the Corporation is open for business. However, on any Business Day that banks or transfer agencies in New York State are closed or a Qualified Securities Depository is closed, no deliveries of securities and no payments of money shall be made through the facilities of the Corporation.

*Buy-In*

The term “Buy-In” shall have the meaning given to such term in Rule 56.

*Buy-In Amount*

The term “Buy-In Amount” means a net amount equal to (x) the Buy-In Costs or Deemed Buy-In Costs of the SFT Securities in respect of which a Transferor has effected a Buy-In, less (y) the amount of the SFT Cash for the relevant SFT (unless the Transferor effected a Buy-In in respect of some, but not all, of the SFT Securities that are the subject of the SFT, in which case (y) shall be the amount of the Corresponding SFT Cash).

*Buy-In Costs*

The term “Buy-In Costs” shall have the meaning given to such term in Rule 56.

*Buy-In Indemnified Parties*

The term “Buy-In Indemnified Parties” shall have the meaning given to such term in Rule 56.

*CET1 Capital*

The term “CET1 Capital” means an entity’s common equity tier 1 capital, calculated in accordance with such entity’s regulatory and/or statutory requirements.

*CFTC*

The term “CFTC” shall mean the Commodity Futures Trading Commission.

*Cleared Securities*

The term “Cleared Securities” means securities included in the lists for which provision is made in Section 1 of Rule 3 and, until such time as the Corporation shall determine

that it shall cease to be a Cleared Security, any security which may be distributed in respect of a CNS Security.

*Clearing Agency Cross-Guaranty Agreement*

The term “Clearing Agency Cross-Guaranty Agreement” shall mean an agreement between the Corporation and one or more Registered Clearing Agencies, or a clearing organization affiliated with or designated by contract markets trading specific futures products under the oversight of the CFTC, relating to the guaranty by the Corporation of certain obligations of a Member to such Registered Clearing Agency or Agencies or CFTC recognized clearing organization.

*Clearing Fund*

The term “Clearing Fund” means the fund created pursuant to Rule 4. Clearing Fund shall include the SFT Deposit, if any, unless otherwise noted in these Rules.

*Clearing Fund Cash*

The term “Clearing Fund Cash” has the meaning specified in Rule 4.

*Closing Position*

The term “Closing Position” means the Long Position or the Short Position of a Member in a security at the close of business on any Business Day.

*CNS Accounting Operation*

The term “CNS Accounting Operation” covers all the operations having to do with CNS Securities after the Comparison Operation to which these Rules are applicable.

*CNS Contracts*

The term “CNS Contracts” has the meaning specified in Rule 5.

*CNS Fails Position*

The term “CNS Fails Position” means either a Long Position or a Short Position that did not settle on the Settlement Date.

*CNS Market Value*

The term “CNS Market Value” has the meaning specified in Rule 41.

*CNS Position*

The term “CNS Position” has the meaning specified in Rule 18.

*CNS Securities*

The term “CNS Securities” means securities which are Cleared Securities, are eligible for transfer on the books of each Qualified Securities Depository and are included in the list for which provision is made in Section 1(b) of Rule 3.

*CNS System*

The term “CNS System” means the method of accounting for and settling securities transactions provided for in these Rules.

*CNS Transaction*

The term “CNS Transaction” has the meaning specified in Rule 11.

*Code*

The term “Code” means the Internal Revenue Code of 1986, as amended.

*Compared Contract*

The term “Compared Contract” has the meaning set forth in Rule 5.

*Comparison Operation*

The term “Comparison Operation” covers all operations having to do with Cleared Securities to which these Rules are applicable.

*Contract Price*

The term “Contract Price” means, with respect to SFT Securities subject to an SFT, the price of such securities at the time the SFT is submitted to the Corporation for novation, which price shall be determined by the SFT Member parties to the relevant SFT and provided by an Approved SFT Submitter to the Corporation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose; provided that if no such price is provided by the time required by the Corporation, the “Contract Price” shall be the Current Market Price of the SFT Securities.

*Controlling Management*

The term “Controlling Management” shall mean the Chief Executive Officer, the Chief Financial Officer, and the Chief Operations Officer, or their equivalents, of an applicant or Member.

*Corporate Contribution*

The term “Corporate Contribution” has the meaning specified in Rule 4.

*Corporation*

The term “Corporation” means National Securities Clearing Corporation.

*Corporation Default*

The term “Corporation Default” shall have the meaning given to such term in Rule 41.

*Corresponding SFT Cash*

The term “Corresponding SFT Cash” means:

- (a) in respect of a Recalled SFT for which a Transferor has effected a Buy-In in respect of some, but not all, of the SFT Securities that are the subject of the SFT, the portion of the SFT Cash for such SFT equal to the product of (i) the percentage of the SFT Securities in respect of which the Transferor effected a Buy-In and (ii) the SFT Cash of the SFT; and
- (b) in respect of a Settling SFT which has a greater quantity of SFT Securities as its subject than the corresponding Linked SFT, the portion of the SFT Cash of the Settling SFT equal to the product of (i) the percentage of the SFT Securities of the Settling SFT that the Linked SFT has as its subject and (ii) the SFT Cash of the Settling SFT.

*Credit Risk Rating Matrix*

The term “Credit Risk Rating Matrix” means a matrix of credit ratings of Members specified in Section 4 of Rule 2B. The matrix is developed by the Corporation to evaluate the credit risk such Members pose to the Corporation and its Members and is based on factors determined to be relevant by the Corporation from time to time, which factors are designed to collectively reflect the financial and operational condition of a Member. These factors include (i) quantitative factors, such as capital, assets, earnings, and liquidity, and (ii) qualitative factors, such as management quality, market position/environment, and capital and liquidity risk management.

*Cross-Guaranty Obligation*

The term “Cross-Guaranty Obligation” shall mean the obligation of a Member to the Corporation pursuant to Rule 25.

*Cross-Guaranty Party*

The term “Cross-Guaranty Party” shall mean a party to a Clearing Agency Cross-Guaranty Agreement.

*Current Market Price*

The term “Current Market Price” means the price for a security determined daily by the Corporation for the purposes of the CNS System. Such price shall be closing price of

such security on the principal stock exchange on which such security is listed on the last previous day on which there were trades on such exchange in such security, or if the security is not listed on a national securities exchange, in such market as the Corporation shall deem appropriate, for trades on the Business Day prior to the day such price is used. If no last sale price is available for the Business Day prior to the day such price is used, then such price shall be such price as the Corporation shall deem appropriate.

### *Customer*

The term “Customer” shall have the meaning given to such term in Rule 2D.

### *Customer Clearing Service*

The term “Customer Clearing Service” means an Agent Clearing Member’s clearing of Agent Clearing Member Transactions for Customers.

### *Cybersecurity Confirmation*

The term “Cybersecurity Confirmation” means a written document provided to the Corporation by all Members, Limited Members and applicants for membership that confirms the existence of an information system cybersecurity program and includes the representations listed below.

Each Cybersecurity Confirmation shall (1) be on a form provided by the Corporation; (2) be signed by a designated senior executive of the Member, Limited Member or applicant who is authorized to attest to these matters; and (3) include the following representations, made with respect to the two years prior to the date of the Cybersecurity Confirmation:

1. The Member, Limited Member or applicant has defined and maintains a comprehensive cybersecurity program and framework that considers potential cyber threats that impact their organization and protects the confidentiality, integrity and availability requirements of their systems and information.
2. The Member, Limited Member or applicant has implemented and maintains a written enterprise cybersecurity policy or policies approved by senior management or the organization’s board of directors, and the organization’s cybersecurity framework is in alignment with standard industry best practices and guidelines, as indicated on the form of Cybersecurity Confirmation.
3. If using a third party service provider or service bureau(s) to connect or transact business or to manage the connection with the Corporation, the Member, Limited Member or applicant has an appropriate program to (a) evaluate the cyber risks and impact of these third-parties, and (b) review the third-party assurance reports.
4. The cybersecurity program and framework protect the segment of the Member’s, Limited Member’s or applicant’s system that connects to and/or interacts with the Corporation.



5. The Member, Limited Member or applicant has in place an established process to remediate cyber issues identified to fulfill the Member's, Limited Member's or applicant's regulatory and/or statutory requirements.
6. The cybersecurity program's and framework's risk processes are updated periodically based on a risk assessment or changes to technology, business, threat ecosystem, and/or regulatory environment.
7. A comprehensive review of the Member's, Limited Member's or applicant's cybersecurity program and framework has been conducted by one of the following:
  - The Member, Limited Member or applicant, if that organization has filed and maintains a current Certification of Compliance with the Superintendent of the New York State Department of Financial Services pursuant to 23 NYCRR 500;
  - A regulator who assesses the program against a designated cybersecurity framework or industry standard, including those that are listed on the form of the Cybersecurity Confirmation and in an Important Notice issued by the Corporation from time to time;
  - An independent external entity with cybersecurity domain expertise, including those that are listed on the form of the Cybersecurity Confirmation and in an Important Notice issued by the Corporation from time to time; and
  - An independent internal audit function reporting directly to the board of directors or designated board of directors committee of the Member, Limited Member or applicant, such that the findings of that review are shared with these governance bodies.

#### *Data Services Only Member*

The term "Data Services Only Member" means a Person who is specified in Section 2.(ii)(a) of Rule 2 and has qualified pursuant to the provisions of Rule 2A.

#### *Declared Non-Default Loss Event*

The term "Declared Non-Default Loss Event" has the meaning specified in Rule 4.

#### *Deemed Buy-In Costs*

The term "Deemed Buy-In Costs" means the product of the number of SFT Securities subject to the relevant Buy-In and the per-share price therefor on the date of the Buy-In obtained from a generally recognized source or the last bid quotation from such a source at the most recent close of trading for the SFT Security.

#### *Defaulting Member*

The term "Defaulting Member" has the meaning specified in Rule 4.

*Defaulting Member Event*

The term “Defaulting Member Event” has the meaning specified in Rule 4.

*Defaulting SFT Member*

The term “Defaulting SFT Member” means an SFT Member for which the Corporation has ceased to act in accordance with Section 14 of Rule 56.

*Default-Related SFT*

The term “Default-Related SFT” shall have the meaning given to such term in Rule 56.

*Distribution*

The term “Distribution” means, with respect to any SFT Security at any time, any cash payment of amounts equivalent to dividends and other distributions on the SFT Security.

*Distribution Amount*

The term “Distribution Amount” means, in respect of an SFT, an amount of cash equal to the product of:

- (a) the amount per security in respect of (x) a cash dividend on the SFT Securities that are the subject of the SFT or (y) an exchange of the SFT Securities that are the subject of the SFT for cash; and
- (b) the number of the relevant SFT Securities subject to the SFT.

*Distribution Payment*

The term “Distribution Payment” means an amount payable by one party to an SFT to the other party to the SFT during the term of the SFT in respect of a Distribution on the SFT Securities subject to the SFT.

*DTC*

The term “DTC” means The Depository Trust Company.

*DTCC*

The term “DTCC” means The Depository Trust & Clearing Corporation.

*DTCC Confidential Information*

The term “DTCC Confidential Information” shall mean all non-public information provided by DTCC and/or the Corporation that (i) is marked or otherwise identified in writing prior to disclosure to the recipient as confidential, (ii) is designated by DTCC or

the Corporation as confidential, or (iii) the recipient knows or, under the circumstances surrounding disclosure, ought to reasonably know is confidential.

*Eligible Clearing Fund Agency Security*

The term “Eligible Clearing Fund Agency Security” shall mean a direct obligation of those U.S. agencies or government sponsored enterprises as the Corporation may designate from time to time, and which satisfies such criteria set forth in notices issued by the Corporation from time to time.

*Eligible Clearing Fund Security*

The term “Eligible Clearing Fund Security” shall mean unmatured bonds which are either an Eligible Clearing Fund Agency Security, an Eligible Clearing Fund Mortgage-Backed Security or an Eligible Clearing Fund Treasury Security.

*Eligible Clearing Fund Mortgage-Backed Security*

The term “Eligible Clearing Fund Mortgage-Backed Security” shall mean a mortgage-backed pass through obligation issued by those U.S. agencies or government sponsored enterprises as the Corporation may designate from time to time, and which satisfies such criteria set forth in notices issued by the Corporation from time to time.

*Eligible Clearing Fund Treasury Security*

The term “Eligible Clearing Fund Treasury Security” shall mean a direct obligation of the U.S. government and which satisfies the criteria set forth in notices issued by the Corporation from time to time.

*Eligible Government Security*

The term “Eligible Government Security” means a Government Security included in the list for which provision is made in Section 1.(e) of Rule 3.

*Eligible Letter of Credit*

The term “Eligible Letter of Credit” has the meaning specified in Rule 4.

*Equity Capital*

The term “Equity Capital” means, as of a particular date, the amount equal to the equity capital as reported on the Member’s or Limited Member’s most recent Consolidated Report of Condition and Income (“Call Report”), or, if the Member or Limited Member is not required to file a Call Report, then as reported on its most recent financial statements or equivalent reporting.

*Event Period*

The term “Event Period” has the meaning specified in Rule 4.

*Excess Net Capital*

The term “Excess Net Capital” means a broker-dealer’s excess net capital, calculated in accordance with such broker-dealer’s regulatory and/or statutory requirements.

*Exchange Act*

The term “Exchange Act” means the Securities Exchange Act of 1934, as amended.

*Existing Master Agreement*

The term “Existing Master Agreement” means, in respect of an SFT, a written agreement that (i) exists at the time transaction data for the SFT is submitted to the Corporation by an Approved SFT Submitter, (ii) provides for, among other things, terms governing the payment and delivery obligations of the parties and (iii) the parties have established (by written agreement, oral agreement, course of conduct or otherwise) will govern such SFT.

*Family-Issued Security*

The term “Family-Issued Security” means a security that was issued by a Member or an Affiliate of that Member.

*FATCA*

The term “FATCA” means (i) the provisions of sections 1471 through 1474 of the Code that were implemented as part of The Foreign Account Tax Compliance Act (or any amendment thereto or successor sections thereof), and the related Treasury Regulations or other official interpretations thereof, as in effect from time to time, and (ii) the provisions of any intergovernmental agreement to implement The Foreign Account Tax Compliance Act as in effect from time to time between the United States and the jurisdiction of the FFI Member’s (or applicant’s) residency.

*FATCA Compliant*

The term “FATCA Compliant” or “FATCA Compliance” means, with respect to an FFI Member, that such FFI Member has qualified under such procedures promulgated by the Internal Revenue Service as are in effect from time to time to establish exemption from withholding under FATCA such that the Corporation will not be required to withhold under FATCA either (i) on “gross proceeds from the sale or other disposition of any property of a type which can produce interest or dividends from sources within the United States” within the meaning of Code section 1473(1)(A)(ii), as may be amended or re-codified from time to time, or (ii) on interest, dividends, etc. from sources within the United States within the meaning of Code section 1473(1)(A)(i), as may be amended or re-codified from time to time, in each case, paid to such FFI Member.

*FFI Member*

The term “FFI Member” means any Member, Limited Member or Sponsored Member that is treated as a non-U.S. entity for U.S. federal income tax purposes. For the avoidance of doubt, FFI Member includes any Member, Limited Member or Sponsored Member that is a U.S. branch of an entity that is treated as a non-U.S. entity for U.S. federal income tax purposes.

*FICC*

The term “FICC” means Fixed Income Clearing Corporation.

*Final Net Settlement Position*

The term “Final Net Settlement Position” shall have the meaning given to such term in Rule 2C.

*Final Settlement*

The term “Final Settlement” means the exchange of SFT Securities for SFT Cash described in clause (b) of the definition of Securities Financing Transaction or SFT.

*Final Settlement Date*

The term “Final Settlement Date” means the Business Day on which the final settlement of a transaction is scheduled to occur. If the transaction is an SFT, the Final Settlement Date means the Business Day on which the Final Settlement of the SFT is scheduled to occur in accordance with Rule 56 or, if the SFT is accelerated in accordance with Rule 56, the date to which the Final Settlement obligations have been accelerated.

*Foreign Financial Institution*

The term “Foreign Financial Institution” means any foreign entity/organization or person with whom the Corporation enters into a link agreement pursuant to Rule 61.

*Foreign Securities*

The term “Foreign Securities” means Cleared Securities which the Corporation has determined to include in the Foreign Security Accounting Operation.

*Foreign Security Accounting Operation*

The term “Foreign Security Accounting Operation” covers all the operations having to do with Foreign Securities after the Comparison Operation to which these Rules are applicable.

*Foreign Security System*

The term “Foreign Security System” means the method of accounting for and settling securities transactions provided for in these Rules.

*Former Sponsored Member*

The term “Former Sponsored Member” shall have the meaning given to such term in Rule 2C.

*FRB*

The term “FRB” means the Board of Governors of the Federal Reserve System and each Federal Reserve Bank, as appropriate.

*FRBNY*

The term “FRBNY” means the Federal Reserve Bank of New York.

*Fund Member*

The term “Fund Member” (previously referred to as a Fund/SERV Member) means any Person who is specified in Section 2.(ii)(b) of Rule 2 and has qualified pursuant to the provisions of Rule 2A.

*Fund/SERV Eligible Fund*

The term “Fund/SERV Eligible Fund” means a fund or other pooled investment entity included in the list for which provision is made in Section 1.(c) of Rule 3.

*Fund/SERV Member - (See “Fund Member”)*

*GAAP*

The term “GAAP” means generally accepted accounting principles, consistently applied.

*Gross Credit Balance*

The term “Gross Credit Balance” for a Business Day as used in respect of a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member means the aggregate amount of money the Corporation credits to the Member’s, Mutual Fund/Insurance Services Member’s, Insurance Carrier/Retirement Services Member’s or Fund Member’s account pursuant to these Rules on such Business Day without accounting for any amount of money the Corporation debits or charges to such participant’s account pursuant to these Rules for such Business Day. The contribution of a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member to the Clearing Fund from time to time does not constitute part of such participant’s Gross Credit Balance.

*Gross Debit Balance*

The term “Gross Debit Balance” for a Business Day as used in respect of a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member means the aggregate amount of money the Corporation debits or charges to the Member’s, Mutual Fund/Insurance Services Member’s, Insurance Carrier/Retirement Services Member’s or Fund Member’s account pursuant to these Rules on such Business Day without accounting for any amount of money the Corporation credits to such participant’s account pursuant to these Rules for such Business Day. Any obligation of a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member to contribute, or make up a deficit in its contribution, to the Clearing Fund does not constitute part of such participant’s Gross Debit Balance.

*He, him, his*

The words “he”, “him” and “his” shall include partnerships, corporations or other organizations or entities, as well as individuals, when the context so requires.

*I&RS Eligible Product*

The term “I&RS Eligible Product” means an insurance product or a retirement or other benefit plan or program included in the list for which provision is made in Section 1.(d) of Rule 3.

*Illiquid Security*

The term “Illiquid Security” means a security that either

- (i) is not listed on a specified securities exchange (defined below), as determined on a daily basis;
- (ii) is listed on a specified securities exchange and, as determined on a monthly basis, (a)(i) its market capitalization is considered a micro-capitalization as of the last Business Day of the prior month or (ii) it is an American depositary receipt and (b) the median of its calculated illiquidity ratio (defined below) of the prior six months exceeds a threshold that will be determined by the Corporation on a monthly basis that is based on the 99th percentile of the illiquidity ratio of all non-micro-capitalization common stocks over the prior six months; or
- (iii) is listed on a specified securities exchange, and, as determined on a monthly basis, has fewer than 31 Business Days of trading history over the past 153 Business Days on such exchange.

For purposes of this definition,

- (i) a “specified securities exchange” is a national securities exchange that has established listing services and is covered by industry pricing and data vendors.

- (ii) a security's market capitalization shall be considered micro-capitalization if its capitalization is below a threshold to be determined by the Corporation from time to time. The Corporation will set the micro-capitalization threshold at a level that the Corporation determines indicates that securities with such capitalization exhibit illiquid characteristics based on its regular review of margining methodologies. Initially, the capitalization threshold shall be \$300 million and may be updated from time to time as announced by Important Notice. For purposes of this criterion, NSCC would calculate the product of the outstanding shares and market price with respect to a security on a daily basis. Each month, NSCC would use the average of those calculations over the prior month to determine market capitalization with respect to a security.
- (iii) the "illiquidity ratio" of a security on any day is equal to (i) the price return of such security on such day (based on the natural logarithm of the ratio between the closing price of the security on such day to the closing price of the security on the prior trading day) divided by (ii) the average daily trading amount<sup>1</sup> of such security over the prior 20 Business Days.<sup>2</sup>

#### *Incremental Additional Independent Amount SFT Cash*

The term "Incremental Additional Independent Amount SFT Cash" means:

- (a) in respect of a Linked SFT, the excess, if any, of the Independent Amount SFT Cash of the Linked SFT over the Independent Amount SFT Cash of the Settling SFT;
- (b) in respect of a Non-Returned SFT, the portion of the Price Differential payable by the Transferee, if any, that is attributable to the Independent Amount SFT Cash of the SFT (which shall be calculated by multiplying such Price Differential by the excess, if any, of the Independent Amount Percentage over 100%); and
- (c) in respect of any other SFT, the Independent Amount SFT Cash of such SFT.

#### *Independent Amount Percentage*

The term "Independent Amount Percentage" means, in respect of an SFT, a percentage obtained by dividing the SFT Cash of such SFT by the Market Value SFT Cash of such SFT.

#### *Independent Amount SFT Cash*

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<sup>1</sup> The daily trading amount equals the daily trading volume multiplied by the end of day price.

<sup>2</sup> Securities that are exchange-traded products or American depositary receipts are not included when calculating the illiquidity ratio threshold. In addition, if the Corporation is unable to retrieve data to calculate the illiquidity ratio for the median illiquidity ratio for a security on any day, the Corporation will use a default value for that day for purposes of the calculation for the security (i.e., the security would essentially be treated as illiquid for that day).



The term “Independent Amount SFT Cash” means the portion, if any, of the SFT Cash for an SFT equal to the amount by which the SFT Cash for such SFT at the time of the Initial Settlement exceeds the Contract Price of the SFT Securities that are the subject of such SFT.

*Independent Amount SFT Cash Deposit*

The term “Independent Amount SFT Cash Deposit” shall have the meaning given to such term in Rule 56.

*Independent Amount SFT Cash Deposit Requirement*

The term “Independent Amount SFT Cash Deposit Requirement” shall have the meaning given to such term in Rule 56.

*Index Receipt Agent*

The term “Index Receipt Agent” has the meaning specified in Rule 7.

*Ineligibility Date*

The term “Ineligibility Date” means, with respect to an SFT, the date on which the SFT Security that is the subject of the SFT becomes an Ineligible SFT Security.

*Ineligible SFT*

The term “Ineligible SFT” means an SFT that has, as its subject, SFT Securities that have become Ineligible SFT Securities.

*Ineligible SFT Security*

The term “Ineligible SFT Security” means an SFT Security that is not eligible to be the subject of a novated SFT.

*Initial Settlement*

The term “Initial Settlement” means the exchange of SFT Securities for SFT Cash described in clause (a) of the definition of Securities Financing Transaction or SFT.

*Insurance Carrier/Retirement Services Member*

The term “Insurance Carrier/Retirement Services Member” (previously referred to as an Insurance Carrier Member) means any Person who is specified in Section 2.(ii)(c) of Rule 2 and who has qualified pursuant to the provisions of Rule 2A.

*Insurance Company*

The term “Insurance Company” means any Person who is subject to supervision or regulation pursuant to the provisions of state insurance law and issues insurance contracts.

*Insurance Entity*

The term “Insurance Entity” means an insurance company, partnership, corporation, limited liability corporation or other organization or entity who is licensed to sell insurance products and is subject to supervision or regulation pursuant to the provisions of state insurance laws.

*Insurance Participant*

The term “Insurance Participant” has the meaning specified in Rule 4.

*Issuer*

The term “Issuer” has the meaning specified in Rule 4.

*Investment Manager/Agent Member*

The term “Investment Manager/Agent Member” means any Person who is specified in Section 2. (ii)(i) of Rule 2 and has qualified pursuant to the provisions of Rule 2A.

*IPO Tracking System*

The term “IPO Tracking System” means the system offered by DTC pursuant to its rules and procedures which allows lead managers and syndicate members of Initial Public Offerings to monitor flipping of new issues in an automated book-entry environment.

*Lender*

The term “Lender” has the meaning specified in Rule 4.

*Limited Member*

The term “Limited Member” means a Person whose use of the Corporation’s services is limited to those services specified by the Corporation and is of a member type specified in Rule 2 as a “Limited Member”.

*Linked SFT*

The term “Linked SFT” means an SFT entered into by the pre-novation SFT Member parties to a Settling SFT that has the same Transferor, Transferee and subject SFT Securities (including CUSIP) as the Settling SFT. A Linked SFT shall include an SFT that has as its subject fewer SFT Securities than the corresponding Settling SFT but

shall not include an SFT that has as its subject more SFT Securities than the corresponding Settling SFT.

*Long Position*

The term “Long Position” means the number of units of a CNS Security which a Member is entitled to receive from the Corporation.

*Loss Allocation Cap*

The term “Loss Allocation Cap” has the meaning specified in Rule 4.

*Loss Allocation Notice*

The term “Loss Allocation Notice” has the meaning specified in Rule 4.

*Loss Allocation Withdrawal Notice*

The term “Loss Allocation Withdrawal Notice” has the meaning specified in Rule 4.

*Loss Allocation Withdrawal Notification Period*

The term “Loss Allocation Withdrawal Notification Period” has the meaning specified in Rule 4.

*Market Value SFT Cash*

The term “Market Value SFT Cash” means the portion of the SFT Cash for an SFT equal to the amount of the SFT Cash for such SFT minus the Independent Amount SFT Cash of such SFT.

*Member*

The term “Member” means any Person specified in Section 2.(i) of Rule 2 who has qualified pursuant to the provisions of Rule 2A. Except where the text of the Rule indicates a contrary intent, the term “Member” shall also include Special Representative.

*Municipal Comparison Only Member*

The term “Municipal Comparison Only Member” means any municipal securities broker or municipal securities dealer, as defined in Section 3(a)(30) and 3(a)(31) respectively, of the Exchange Act, who is specified in Section 2.(ii)(d) of Rule 2 and has qualified pursuant to the provisions of Rule 2A.

*Municipal Securities Brokers’ Broker*

The term “Municipal Securities Brokers’ Broker” means any municipal securities broker as defined in Rule 15c3-1(a)(8)(ii) of the Exchange Act.

*Mutual Fund Participant*

The term “Mutual Fund Participant” has the meaning specified in Rule 4.

*Mutual Fund/Insurance Services Member*

The term “Mutual Fund/Insurance Services Member”<sup>3</sup> means a Person who is specified in Section 2.(ii)(e) of Rule 2 and has qualified pursuant to the provisions of Rule 2A

*National Securities Clearing Corporation*

The term “National Securities Clearing Corporation” means National Securities Clearing Corporation, a New York corporation.

*Net Capital*

The term “Net Capital” means, as of a particular date, the amount equal to the net capital as reported on the Member’s or Limited Member’s most recent Form X-17-A-5 (Financial and Operational Combined Uniform Single (“FOCUS”) Report) or, if the Member or Limited Member is not required to file a FOCUS Report, then as reported on its most recent financial statements or equivalent reporting.

*Net Close Out Position*

The term “Net Close Out Position” has the meaning specified in Rule 18.

*Net Credit Balance*

The term “Net Credit Balance” for a Business Day as used with respect to a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member means the amount by which its Gross Credit Balance for such Business Day exceeds its Gross Debit Balance on such Business Day.

*Net Debit Balance*

The term “Net Debit Balance” for a Business Day as used with respect to a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member means the amount by which its Gross Debit Balance for such Business Day exceeds its Gross Credit Balance on such Business Day.

*Net Balance Order Unsettled Position*

For purposes of calculating each Member’s required contribution to the Clearing Fund pursuant to Procedure XV, the term “Net Balance Order Unsettled Position” as used in

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<sup>3</sup> The members now known as “Mutual Fund/Insurance Services Members” were previously known as either “Mutual Fund Services Members” or “Annuities Agency Members”. The members known as “Mutual Fund Services Members” were, at one point, referred to as “Mutual Fund Services Broker-Dealers” or “Fund/SERV Broker-Dealers”.

Procedure XV means a Member's net of unsettled Regular Way, When-Issued and When-Distributed positions in Balance Order Securities that have not yet passed Settlement Date.

*Net Member Capital*

The term "Net Member Capital" means Net Capital, net assets or equity capital, as applicable to a Member, based on the type of regulation, and in particular the capital requirements, to which the Member is subject.

*Net Unsettled Position*

For purposes of calculating each Member's required contribution to the Clearing Fund pursuant to Procedure XV, the term "Net Unsettled Position" as used in Procedure XV means a Member's net of unsettled Regular Way, When-Issued and When-Distributed positions in CNS Securities that have not yet passed Settlement Date and net positions in CNS Securities that did not settle on Settlement Date.

*Net Worth*

The term "Net Worth" means, as of a particular date, the amount equal to the excess of the assets of a Person over the liabilities of such Person, computed in accordance with generally accepted accounting principles. For Registered Broker-Dealers, Net Worth shall include liabilities that are subordinated to the claims of creditors pursuant to a satisfactory subordination agreement, as defined in Appendix D to Rule 15c3-1 of the Exchange Act.

*Non-Returned SFT*

The term "Non-Returned SFT" shall have the meaning given to such term in Rule 56.

*NSCC*

The term "NSCC" means National Securities Clearing Corporation.

*NSCC Website*

The term "NSCC Website" means any URL (Uniform Resource Locator) designated by the Corporation from time to time which may include DTCC's website at <https://www.dtcc.com>.

*Obligation Warehouse*

The term "Obligation Warehouse" has the meaning specified in Rule 51.

*Off-the-Market Transaction*

The term "Off-the-Market Transaction" shall mean either of the following:

- (1) A single transaction that is: (a) greater than \$1 million in gross proceeds and (b) on the day of the submission of the transaction to the Corporation, either higher or lower than the most recently observed market price of the underlying Cleared Security by a percentage amount determined by the Corporation based upon market conditions and factors that impact trading behavior of the underlying Cleared Security, including the volatility, liquidity and other characteristics of such security; or
- (2) A series of transactions submitted by or on behalf of two Members within the same settlement cycle that, if looked at as a single transaction, would be encompassed by subsection (1) of this definition.

#### *OW Obligation*

The term “OW Obligation” has the meaning specified in Rule 51.

#### *Person*

The term “Person” means a partnership, corporation, limited liability corporation or other organization, entity or an individual.

#### *Price Differential*

The term “Price Differential” means:

- (a) for purposes of the discharge of offsetting Final Settlement and Initial Settlement obligations, (i) the SFT Cash for the Settling SFT (or if the Settling SFT has a greater quantity of SFT Securities as its subject than the corresponding Linked SFT, the Corresponding SFT Cash) minus (ii) the SFT Cash for the Linked SFT; and
- (b) for all other purposes, (i) the SFT Cash for the SFT minus (ii) the product of the Independent Amount Percentage, if any, and the Current Market Price of the SFT Securities.

#### *Procedures*

The term “Procedures” means the Procedures of the Corporation adopted pursuant to Rule 33 and set forth in these Rules & Procedures.

#### *Qualified Securities Depository*

The term “Qualified Securities Depository” means a Registered Clearing Agency which has entered into an agreement with the Corporation pursuant to which it will act as a securities depository for the Corporation and effect book-entry transfers of securities to and by the Corporation in respect of the CNS System and/or the SFT Clearing Service.

*Rate Payment*

The term “Rate Payment” means an amount payable from one party to an SFT to the other party to the SFT at the Final Settlement expressed as a percentage of the amount of SFT Cash for the SFT.

*RBC Ratio*

The term “RBC Ratio” means the ratio of an entity’s total adjusted capital to its risk-based capital, calculated in accordance with such entity’s regulatory and/or statutory requirements.

*Recall Date*

The term “Recall Date” means, in respect of a Recall Notice, the second Business Day following the Corporation’s receipt of such Recall Notice.

*Recall Notice*

The term “Recall Notice” means a notice that triggers the provisions of Section 9(b) of Rule 56 relating to a Buy-In in respect of an SFT and that is submitted by an Approved SFT Submitter on behalf of a Transferor in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose.

*Recalled SFT*

The term “Recalled SFT” means an SFT that has been novated to the Corporation in respect of which a Recall Notice has been submitted.

*Refusal*

The term “Refusal” has the meaning specified in Rule 55.

*Registered Broker-Dealer*

The term “Registered Broker-Dealer” means a broker or dealer registered under the Exchange Act.

*Registered Clearing Agency*

The term “Registered Clearing Agency” means a clearing agency as defined in Section 3(a)(23) of the Exchange Act which has been registered by the SEC pursuant to the provisions of Section 19(a) of the Exchange Act.

*Regular Way*

The term “Regular Way” means settlement in accordance with the standard settlement cycle set forth in Rule 15c6-1(a) of the Exchange Act.

*Required Fund Deposit*

The term “Required Fund Deposit” has the meaning specified in Rule 4. Required Fund Deposit shall include the Sponsoring Member Required Fund Deposit, the Agent Clearing Member Required Fund Deposit and the Required SFT Deposit, if any, unless otherwise noted in these Rules.

*Required SFT Deposit*

The term “Required SFT Deposit” shall have the meaning given to that term in Rule 56 and includes any and all Independent Amount SFT Cash Deposit Requirements.

*RVP/DVP Transaction*

The term “RVP/DVP Transaction” means any wholly executory receipt-versus-payment or delivery-versus-payment transaction between a Member and an RVP/DVP Customer.

*RVP/DVP Customer*

The term “RVP/DVP Customer” means a party who has executed a RVP/DVP Transaction with a Member for whom the Corporation has ceased to act, or with an introducing broker who clears through a Member for whom the Corporation has ceased to act.

*SEC*

The term “SEC” means the Securities and Exchange Commission.

*Section 1446(f)*

The term “Section 1446(f)” means section 1446(f) of the Code and the related Treasury Regulations or other official interpretations thereof, as in effect from time to time.

*Section 1446(f) Withholding*

The term “Section 1446(f) Withholding” means the tax withholding required pursuant to Treasury Regulation Section 1.1446(f)-4(a), upon the transfer of an interest in a publicly traded partnership.

*Section 1446(f) Withholding Agent*

The term “Section 1446(f) Withholding Agent” means an FFI Member that is a Member and has certified to the Corporation that Section 1446(f) Withholding would not apply to any Gross Credit Balance of such FFI Member by providing to the Corporation a Tax Certification.



*Section 1446(f) Withholding Compliance Date*

The term “Section 1446(f) Withholding Compliance Date” means January 1, 2022 or, if the commencement of Section 1446(f) Withholding is delayed beyond January 1, 2022 under Section 1446(f), two calendar months plus one calendar day before such delayed effective date.

*Securities Financing Transaction or SFT*

The term “Securities Financing Transaction” or “SFT” means a transaction between two SFT Members pursuant to which:

- (a) one SFT Member agrees to transfer specified SFT Securities to another SFT Member versus the SFT Cash; and
- (b) the Transferee agrees to retransfer such specified SFT Securities or equivalent SFT Securities (including quantity and CUSIP) to the Transferor versus the SFT Cash on the following Business Day.

*Securities Financing Transaction Clearing Service or SFT Clearing Service*

The term “Securities Financing Transaction Clearing Service” or “SFT Clearing Service” means the service offered by the Corporation to clear SFTs, as more fully described in Rule 56.

*Security*

The term “security” shall have the meaning given that term in the Exchange Act and the general rules and regulations promulgated thereunder. The term “securities” shall mean more than one security.

*Settlement Agent*

The term “Settlement Agent” means the bank or trust company that the Corporation may, from time to time, designate to act as its agent for purposes of receiving money settlement debit amounts from Settling Banks, AIP Settling Banks and participants and paying money settlement credit amounts to Settling Banks, AIP Settling Banks and participants.

*Settlement Date*

The term “Settlement Date” means, with respect to any contracts, security balance orders, security orders or other transactions to which these Rules and Procedures apply, the date specified for the settlement of such contract, security balance order, security order or transaction, as provided in these Rules and Procedures.

### *Settlement Day*

The term “settlement day” means any Business Day on which banks and transfer agencies in New York State are open and on which deliveries of securities and payments of money may be made through the facilities of the Corporation.

### *Settling Bank*

The term “Settling Bank” means

- (1) a Member which is a bank or trust company which would otherwise qualify under Section 2.(ii)(f) of Rule 2 and Rule 2A and which is a party to an effective Settling Bank Agreement, or
- (2) a Settling Bank Only Member which has qualified under Section 2.(ii)(f) of Rule 2, Rule 2A and Addendum B and which is a party to an effective Settling Bank Agreement.

### *Settling Bank Agreement*

The term “Settling Bank Agreement” means an agreement to which the Corporation is a party pursuant to which a Settling Bank or AIP Settling Bank has been appointed to, and affirmatively undertakes to, perform settlement services for, in the case of a Settling Bank, a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member, or, in the case of an AIP Settling Bank, an AIP Member or an AIP Non-Member Fund, which in either case is also a party thereto.

### *Settling Bank Only Member*

The term “Settling Bank Only Member” means a Person who is specified in Section 2.(ii)(f) of Rule 2 and which has qualified pursuant to the provisions of Rule 2A.

### *Settling SFT*

The term “Settling SFT” means, as of any Business Day, an SFT that has been novated to the Corporation, the Final Settlement of which is scheduled to occur on that Business Day.

### *SFT Account*

The term “SFT Account” means a ledger maintained on the books and records of the Corporation that reflects the outstanding SFTs that an SFT Member enters into and that have been novated to the Corporation, the SFT Positions or SFT Cash associated with those transactions and any debits or credits of cash associated with such transactions effected pursuant to Rule 12. The term “SFT Account” shall include any Agent Clearing Member Customer Omnibus Account and any Sponsored Member Sub-Account.

### *SFT Cash*

The term “SFT Cash” means the specified amount of U.S. dollars that the Transferee agrees to transfer to the Transferor at the Initial Settlement of an SFT, (i) plus any Price Differential paid by the Corporation to the SFT Member as Transferor or by the SFT Member as Transferee to the Corporation during the term of the SFT and (ii) less any Price Differential paid by the Corporation to the SFT Member as Transferee or by the SFT Member as Transferor to the Corporation during the term of the SFT.

### *SFT Close-out Value*

The term “SFT Close-out Value” means, with respect to an SFT Position of an SFT Member, an amount equal to:

- (i) if the SFT Member is the Transferor of the SFT Securities that are the subject of such SFT, (a) the CNS Market Value of the SFT Securities that are the subject of such SFT minus (b) the SFT Cash for such SFT; and
- (ii) if the SFT Member is a Transferee of the SFT Securities that are the subject of such SFT, (a) the SFT Cash for such SFT minus (b) the CNS Market Value of the SFT Securities that are the subject of such SFT.

### *SFT Deposit*

The term “SFT Deposit” shall have the meaning given to such term in Rule 56 and includes any and all Independent Amount SFT Cash Deposits.

### *SFT Long Position*

The term “SFT Long Position” means the number of units of an SFT Security which an SFT Member is entitled to receive from the Corporation at Final Settlement of an SFT against payment of the SFT Cash.

### *SFT Member*

The term “SFT Member” means any Member, Sponsored Member acting in its principal capacity, Sponsoring Member acting in its principal capacity or Agent Clearing Member acting on behalf of a Customer, in each case that is a party to an SFT, permitted to participate in the Corporation’s SFT Clearing Service.

### *SFT Position*

The term “SFT Position” means an SFT Member’s SFT Long Position or SFT Short Position in an SFT Security that is the subject of an SFT that has been novated to the Corporation.

*SFT Security*

The term “SFT Security” shall mean a security that is eligible to be the subject of an SFT novated to the Corporation and is included in the list for which provision is made in Section 1(g) of Rule 3. If any new or different security is exchanged for any SFT Security in connection with a recapitalization, merger, consolidation or other corporate action, such new or different security shall, effective upon such exchange, become an SFT Security in substitution for the former SFT Security for which such exchange is made.

*SFT Short Position*

The term “SFT Short Position” means the number of units of an SFT Security that an SFT Member is obligated to deliver to the Corporation at Final Settlement of an SFT against payment of the SFT Cash.

*Short Position*

The term “Short Position” means the number of units of a CNS Security that a Member is obligated to deliver to the Corporation.

*Special Representative*

The term “Special Representative” has the meaning specified in Rule 7. Unless the context otherwise requires, the term “Special Representative” also includes “Qualified Special Representative”, as defined in Rule 7.

*Special Trade*

The term “Special Trade” means a transaction reported to the Corporation involving a Cleared Security either which the parties thereto agree to settle on a Member-to-Member basis or which the Corporation designates as settling on a Member-to-Member basis. Special Trades shall be accounted for and settled as provided in these Rules.

*Specified Location*

The term “Specified Location” shall be the location where a Member receives envelope deliveries.

*Sponsored Member*

The term “Sponsored Member” means any Person that has been approved by the Corporation to be sponsored into membership by a Sponsoring Member pursuant to Rule 2C.

*Sponsored Member Agreement*

The term “Sponsored Member Agreement” shall have the meaning given to such term in Rule 2C.

*Sponsored Member Liquidation Amount*

The term “Sponsored Member Liquidation Amount” shall have the meaning given to such term in Rule 2C.

*Sponsored Member Sub-Account*

The term “Sponsored Member Sub-Account” means a ledger maintained on the books and records of the Corporation that reflects the outstanding SFTs that a Sponsoring Member enters into in respect of a Sponsored Member and that have been novated to the Corporation, the SFT Positions or SFT Cash associated with those transactions and any debits or credits of cash associated with such transactions effected pursuant to Rule 12.

*Sponsored Member Termination Date*

The term “Sponsored Member Termination Date” means the date on which the termination of a Sponsored Member becomes effective.

*Sponsored Member Transaction*

The term “Sponsored Member Transaction” shall have the meaning given to such term in Rule 2C.

*Sponsored Member Voluntary Termination Notice*

The term “Sponsored Member Voluntary Termination Notice” means a written notice from a Sponsored Member to the Corporation that the Sponsored Member is voluntarily electing to terminate its membership.

*Sponsoring Member*

The term “Sponsoring Member” means a Member whose application to become a Sponsoring Member has been approved by the Board of Directors or the Corporation, as applicable, pursuant to Rule 2C.

*Sponsoring Member Agreement*

The term “Sponsoring Member Agreement” means an agreement between the Corporation and a Member who is approved to become a Sponsoring Member and specifies the terms and conditions deemed by the Corporation to be necessary in order to protect itself and its participants.

*Sponsoring Member Guaranty*

The term “Sponsoring Member Guaranty” means a guaranty, in the form and substance acceptable to the Corporation, whereby the Sponsoring Member guarantees to the Corporation the payment and performance by its Sponsored Members of their obligations under these Rules and Procedures in respect of the Sponsoring Member’s Sponsored Member Sub-Accounts, including, without limitation all of the settlement obligations of its Sponsored Members in respect of such Sponsored Member Sub-Accounts.

*Sponsoring Member Liquidation Amount*

The term “Sponsoring Member Liquidation Amount” shall have the meaning given to such term in Rule 2C.

*Sponsoring Member Required Fund Deposit*

The term “Sponsoring Member Required Fund Deposit” shall have the meaning given to such term in Rule 2C.

*Sponsoring Member Settling Bank Omnibus Account*

The term “Sponsoring Member Settling Bank Omnibus Account” shall have the meaning given to such term in Rule 2C.

*Sponsoring Member Termination Date*

The term “Sponsoring Member Termination Date” means the date on which the termination of a Sponsoring Member’s status as a Sponsoring Member becomes effective.

*Sponsoring Member Voluntary Termination Notice*

The term “Sponsoring Member Voluntary Termination Notice” means a written notice from a Sponsoring Member to the Corporation that the Sponsoring Member is voluntarily electing to terminate its status as a Sponsoring Member with respect to all of its Sponsored Members or with respect to one or more of its Sponsored Members.

*Sponsoring/Sponsored Membership Program Indemnified Parties or SMP Indemnified Parties*

The term “Sponsoring/Sponsored Membership Program Indemnified Parties” or “SMP Indemnified Parties” shall have the meaning given to such term in Rule 2C.

*Statutory Disqualification*

The term “Statutory Disqualification” shall have the meaning given that term in Section 3(a)(39) of the Exchange Act.

*Tax Certification*

The term “Tax Certification” means an executed copy of the relevant tax form required by the Internal Revenue Service, as in effect from time to time, that each Member, Limited Member and Sponsored Member (or applicant to become such) shall provide from time to time to the Corporation as set forth under these Rules and Procedures.

*Termination Date*

The term “Termination Date” has the meaning specified in Rule 2B.

*Third Party Administrator Member*

The term “Third Party Administrator Member” (or “TPA Member”) means any Person that acts as a third party administrator on behalf of a retirement or other benefit plan, who is specified in Section 2.(ii)(g) of Rule 2 and has qualified pursuant to the provisions of Rule 2A.

*Third Party Provider Member*

The term “Third Party Provider Member” (or “TPP Member”) means any Person that acts as a routing platform for financial intermediaries, who is specified in Section 2.(ii)(j) of Rule 2 and has qualified pursuant to the provisions of Rule 2A.

*Tier 1 RBC Ratio*

The term “Tier 1 RBC Ratio” means the ratio of an entity’s tier 1 capital to its total-risk weighted assets, calculated in accordance with such entity’s regulatory and/or statutory requirements.

*Transferee*

The term “Transferee” means the SFT Member party to an SFT that agrees to receive SFT Securities from the other SFT Member party to the SFT in exchange for SFT Cash in connection with the Initial Settlement of the SFT.

*Transferor*

The term “Transferor” means the SFT Member party to an SFT that agrees to transfer SFT Securities to the other SFT Member party to the SFT in exchange for SFT Cash in connection with the Initial Settlement of the SFT.

*Volatility Charge*

The term “Volatility Charge” means, in respect to a Member, the portion of its Required Fund Deposit calculated by the Corporation by applying Sections I.(A)(1)(a)(i) – (iii) and (2)(a)(i) – (iii) of Procedure XV.

*Voluntary Termination Notice*

The term “Voluntary Termination Notice” has the meaning specified in Rule 2B.

*Watch List*

The term “Watch List” means, at any time and from time to time, the list of Members whose credit ratings derived from the Credit Risk Rating Matrix are 6 or 7, as well as Members and Limited Members that, based on the Corporation’s consideration of relevant factors, including those set forth in Section 4(d) of Rule 2B, are deemed by the Corporation to pose a heightened risk to the Corporation and its Members.

*Well Capitalized*

The term “Well Capitalized” shall have the meaning given that term in the capital adequacy rules and regulations of the Federal Deposit Insurance Corporation.



## RULE 2. MEMBERS, LIMITED MEMBERS AND SPONSORED MEMBERS

SEC. 1. The Corporation shall make its services, or certain of its services, available to Persons who (i) apply to the Corporation to act for them, (ii) meet the membership qualifications specified in these Rules, (iii) are approved by the Corporation or the Board of Directors, as applicable, and (iv) if required, have contributed to the Clearing Fund as provided in Rule 4.

### SEC. 2. Membership Types

The Corporation shall have the following membership types:

(i) Member –

A Member, unless otherwise limited by the Corporation pursuant to these Rules, may generally access all services made available by the Corporation. Only Members shall be entitled to settle contracts through the Corporation and to participate in the Comparison and Recording Operation and Accounting Operation.

A Member shall include a Member in its capacity as a Sponsoring Member to the extent specified in Rule 2C and an Agent Clearing Member to the extent specified in Rule 2D.

(ii) Limited Members –

In addition to Members, upon the request of an applicant, the Corporation may approve an application by a Person to become a Limited Member, whose use of the Corporation's services is limited to those services specified by the Corporation. Such Limited Members will be termed as follows:

(a) Data Services Only Member –

Participates solely in the transmission of data and information, and shall utilize only those features of services that the Corporation may, from time to time, expressly designate as eligible for access by a Data Services Only Member.

(b) Fund Member –

Participates in the Corporation's Mutual Fund Services, acting as a mutual fund's 1) principal underwriter, 2) co-distributor, 3) sub-distributor, or 4) an entity that is otherwise authorized to process transactions on behalf of a mutual fund.

- (c) Insurance Carrier/Retirement Services Member –  
Participates in the Corporation's Insurance & Retirement Services as provided for in Rule 57.
- (d) Municipal Comparison Only Member –  
Participates in the Corporation's Comparison Operation, solely for the comparison of municipal securities transactions.
- (e) Mutual Fund/Insurance Services Member –  
Participates in the Corporation's Mutual Fund Services and Insurance & Retirement Services as provided for in Rules 52 and 57.
- (f) Settling Bank Only Member –  
Undertakes to perform settlement services with respect to transactions or matters covered by these Rules on behalf of Members, Fund Members, Mutual Fund/Insurance Services Members and Insurance Carrier/Retirement Services Members.
- (g) Third Party Administrator Member –  
Participates in the Corporation's Mutual Fund Services for the purpose of communicating order, redemption or other information on behalf of a retirement or other benefit plan.
- (h) AIP Member –  
Participates in the Corporation's AIP Services as provided in Rule 53.
- (i) Investment Manager/Agent Member –  
Participates in the Corporation's Mutual Fund Services as or on behalf of one or more investment managers to a managed account or similar program.
- (j) Third Party Provider Member –  
Participates in the Corporation's Mutual Fund Services as a routing platform for financial intermediaries.

- (iii) In addition to Members and Limited Members, the Corporation may approve a Person to become a Sponsored Member, whose use of the Corporation's services is limited to those services specified by the Corporation as follows:

Sponsored Member –

Participates in the Corporation's Securities Financing Transaction Clearing Service as provided for in Rule 56.

When these Rules refer to "Members and Limited Members", the reference includes all member types other than Sponsored Members; when reference is made to "participants" in these Rules, the reference generally means all participants other than Settling Bank Only Members, unless the context makes clear it refers to one or more specific member types.

### SEC. 3. Responsible as Principal

A participant who submits, compares, settles or carries out through the Corporation any contract or transaction for a Person who is not also a participant (hereinafter a non-Member) shall, so far as the rights of the Corporation and all other participants are concerned, be liable as a principal, except with respect to municipal security transactions compared by a Member on behalf of the non-Member pursuant to a Municipal Comparison Only Multi-Number Agreement, in which case the non-Member shall remain liable as principal on the underlying transactions. A non-Member who compares, settles or carries out transactions through a participant shall not be deemed to possess any of the rights or benefits of a participant.

### SEC 4. Compliance with Applicable Law

- (i) General

Members, Limited Members and Sponsored Members may not submit or confirm any transaction, charge, request, instruction or transmission through the Corporation's services, nor otherwise utilize the Corporation's services, in contravention of any law, rule, regulation or statute, including, but not limited to, those related to securities, taxation and money laundering, as well as sanctions administered and enforced by the Office of Foreign Assets Control ("OFAC").

- (ii) OFAC

All Members, Limited Members and Sponsored Members must agree not to conduct any transaction or activity through NSCC that it knows to violate sanctions administered and enforced by OFAC.

All Members, Limited Members and Sponsored Members subject to the jurisdiction of the U.S. (as defined by OFAC regulations), with the exception of

Data Services Only Members, Municipal Comparison Only Members, Third Party Administrator Members and Investment Manager/Agent Member, are required to periodically confirm that they have implemented a risk-based program reasonably designed to comply with applicable OFAC sanctions regulations. Failure to do so in the manner and timeframes set forth by the Corporation from time to time will result in a fine.

(iii) FATCA and Section 1446(f)

Each FFI Member must agree not to conduct any transaction or activity through the Corporation if such FFI Member is not FATCA Compliant, unless such requirement has been explicitly waived in writing by the Corporation with respect to the specific FFI Member, provided, however, that no such waiver will be issued if it shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property.

Beginning on the Section 1446(f) Withholding Compliance Date, each FFI Member that is a Member must agree not to conduct any transaction or activity through the Corporation if such FFI Member is not a Section 1446(f) Withholding Agent, unless such requirement has been explicitly waived in writing by the Corporation with respect to the specific FFI Member.

Each FFI Member is required to certify and periodically recertify to the Corporation that such FFI Member is FATCA Compliant and/or a Section 1446(f) Withholding Agent, as applicable, by providing to the Corporation a Tax Certification. Failure to do so in the manner and timeframes set forth by the Corporation from time to time will result in a fine, unless such requirement has been explicitly waived in writing by the Corporation with respect to the specific FFI Member, provided, however, that no such waiver will be issued if it shall cause the Corporation to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property.

An FFI Member shall indemnify the Corporation for any loss, liability or expense sustained by the Corporation as a result of such FFI Member failing to be FATCA Compliant or a Section 1446(f) Withholding Agent.

## RULE 2A. INITIAL MEMBERSHIP REQUIREMENTS

### SEC. 1. ELIGIBILITY FOR MEMBERSHIP

In furtherance of the Corporation's rights and authority to establish standards for membership, the Corporation shall establish, as it deems necessary or appropriate, standards of financial responsibility, operational capability, experience and competence for membership applicable to Members and to Limited Members. The Corporation shall also establish guidelines for the application of such membership standards.

#### A. Qualifications

A Person shall be qualified to become a participant if it satisfies the qualifications for membership applicable to its membership type, as set forth in Addendum B of these Rules.

#### B. Membership Standards

The Corporation shall approve a membership application only upon a determination by the Corporation that the applicant meets the qualifications and financial, operational and other standards applicable to its membership type as set forth in Addendum B of these Rules, or such other qualifications and standards as the Corporation may promulgate.<sup>1</sup> In addition, with regard to any applicant that shall be an FFI Member, such applicant must be FATCA Compliant and/or a Section 1446(f) Withholding Agent, as applicable.

#### C. Application Documents

Each applicant shall, as required by the Corporation from time to time, complete and deliver to the Corporation an Applicant Questionnaire in such form as prescribed by the Corporation from time to time and shall provide such other reports, opinions, financial and other information as the Corporation may determine are appropriate for each membership type.

As part of its membership application, each applicant (as determined by the Corporation with regard to membership type) shall complete and deliver to the Corporation (1) a Tax Certification, and (2) a Cybersecurity Confirmation.

Each applicant (as determined by the Corporation) must also fulfill, within the timeframes established by the Corporation, any operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion), network and connectivity testing at the current NSCC standards (the scope of such

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<sup>1</sup> Pursuant to its authority, the Corporation has established (i) a policy statement on the admission of non-U.S. entities as Members, Mutual Fund/Insurance Services Members, Fund Members and Insurance Carrier/Retirement Services Members, which policy statement is set forth as Addendum O to these Rules and (ii) guidelines with regard to character and other considerations that are reflected in subsection G of this Rule.

testing to be determined by the Corporation in its sole discretion), and related reporting requirements (such as reporting test results to the Corporation in a manner specified) that may be imposed by the Corporation to ensure the operational capability of the applicant.

Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records. Each applicant shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care, and shall not use DTCC Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such applicant's obligations under these Rules or as otherwise required by applicable law. Each applicant acknowledges that a breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the applicant, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

#### D. Evaluation of Applicant

In evaluating a membership application, the Corporation shall, in addition to reviewing the qualifications and standards set forth in Sections 1.A. and 1.B. of this Rule, review any Applicant Questionnaire and any other information submitted by the applicant to the Corporation and shall have such authority to examine the financial responsibility and operational capability of any applicant as set forth in Rule 15.

The Corporation shall approve an applicant only upon a determination by the Corporation that the applicant meets the qualifications, standards and other requirements applicable to the relevant membership type.

Notwithstanding that a membership application shall have been approved by the Corporation, if a material change in condition at the applicant occurs which could bring into question the applicant's ability to perform, and such material change becomes known to the Corporation prior to the applicant commencing use of the Corporation's services (or, for Settling Bank Only Members, prior to the applicant commencing the services of a Settling Bank ), the Corporation shall have the right to stay commencement by the applicant until a reconsideration of the applicant's financial responsibility and operational capability can be completed. As a result of such reconsideration, the Corporation may determine to withdraw approval or condition the approval upon the furnishing of additional information or assurances.

If the Corporation determines that the applicant fails to meet any membership standards, but in the opinion of the Corporation any one or more of such standards as applied to the applicant is unduly or disproportionately severe or the conduct of the applicant has been such as not to make it against the interests of the Corporation, its

participants, creditors or investors to approve such application, the Corporation may approve the application either unconditionally or on a temporary or other conditional basis. When approving an application on a conditional or temporary basis, the Corporation may obtain additional assurances from the applicant as provided for in Rule 15.

Notwithstanding the foregoing, the Corporation may deny an application or request to use one or more additional services of the Corporation upon a determination by the Corporation that the Corporation does not have adequate personnel, space, data processing capacity or other operational capability at such time to perform its services for the applicant or participant without impairing the ability of the Corporation to provide services for its existing participants, to assure the prompt, accurate and orderly processing and settlement of securities transactions or to otherwise carry out its functions; provided, however, that any such applications which are denied pursuant to this paragraph shall be approved as promptly as the capabilities of the Corporation permit.

Before denying an application pursuant to this Rule, the Corporation shall furnish the applicant with a concise written statement setting forth the specific grounds under consideration upon which any such denial may be based and shall notify the applicant of its right to request a hearing to determine whether the application should be denied, such request to be filed by the applicant with the Corporation pursuant to Rule 37.

#### E. Membership and Other Agreements

Each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member, Fund Member, Third Party Administrator Member, Third Party Provider Member, Investment Manager/Agent Member, AIP Member or Data Services Only Member agrees, among other things:

- (a) That the only services or systems which the participant may utilize are those that are permitted by the Corporation. If the participant intends only to use the (i) AIP Services, (ii) Mutual Fund Services and/or (iii) the Insurance & Retirement Services, that the participant will so limit its activities at the Corporation;
- (b) These Rules shall be a part of the terms and conditions of every contract or transaction which the participant may make or have with or through the Corporation;
- (c) Not to submit, clear or settle through the Corporation any contract or transaction unless these Rules are part of the terms and conditions of such contract or transaction;
- (d) That it has reviewed these Rules including the provisions of Rule 4 relating to the Clearing Fund and Addendum D relating to the non-guarantee by the Corporation of payments made in the settlement of transactions submitted through the Corporation's services;

- (e) To abide by these Rules and be bound by all the provisions thereof, and that the Corporation shall have all the rights and remedies contemplated by these Rules. Notwithstanding that the participant may have ceased to be a participant, the participant shall continue to be bound by these Rules as to all matters and transactions occurring while a participant;
- (f) To be bound by any amendment to these Rules with respect to any transaction occurring subsequent to the time such amendment takes effect, as fully as though such amendment were now a part of these Rules; provided, however, that no such amendment shall affect the participant's right to cease to be a participant or alter the provisions of Rule 4, unless before such amendment becomes effective, the participant is given an opportunity to give written notice to the Corporation of the participant's election that the Corporation shall cease to act for the participant;
- (g) Not to submit or confirm any transaction, charge, request, instruction or transmission through the Corporation's services, nor to otherwise utilize the Corporations services, in contravention of any law, rule, regulation or statute;
- (h) To pay to the Corporation the compensation provided for under these Rules for services rendered to the participant, while a participant<sup>2</sup>;
- (i) To pay such fines while a participant as may be imposed in accordance with these Rules for the failure to comply therewith;
- (j) If applicable to its membership type, to pay to the Corporation any amounts which, pursuant to the provisions of Rule 4, shall become payable by the participant to the Corporation and that the determination by the Board of Directors of the Corporation of all questions affecting the charges to which the participant's contribution to the Clearing Fund (if required pursuant to Rule 4) are or may be subject shall be final and conclusive;
- (k) That its books and records<sup>3</sup> shall at all times be open to the inspection of the duly authorized representatives of the Corporation, and that the Corporation

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<sup>2</sup> With respect to Fund Members, the Fund Member agrees to pay to the Corporation the compensation provided for by these for Fund/SERV Eligible Fund transactions if the Fund Member distributes shares on a principal basis. However, to the extent the Fund Member distributes shares of an investment company regulated under the Investment Company Act of 1940, as amended, on an agency basis, then the Fund Member shall agree to pay to the Corporation the compensation provided for by these Rules for transactions in such investment company shares to the extent that the Fund Member can recover such amount from the investment company(ies) whose shares it distributes. Whether the Fund Member distributes shares on a principal or agency basis, the Fund Member shall agree to pay such fines as may be imposed in accordance with these Rules for the failure to comply therewith.

<sup>3</sup> With respect to Fund Members, the Fund Member agrees that the Fund Member's books and records and, to the extent the Fund Member is not a management company, the books and records of each management company affiliated with the Fund Member and, with respect to Fund/SERV Eligible



shall be furnished with all such information in respect of the participant's business and transactions as it may require, provided that if the participant shall cease to be a participant, the Corporation shall have no right to inspect the participant's books and records or to require information relating to transactions wholly subsequent to the time when the participant ceases to be such;<sup>4</sup> and

(l) That to the extent the participant authorizes an agent (if permitted pursuant to these Rules) to receive from and/or transmit to the Corporation data or payments, the participant shall be solely responsible for the acts of said agents as if it were receiving and/or transmitting such data itself and that the failure of said agents to perform shall not excuse the participant from a violation of these Rules.

In addition to the above:

1. Members:

Members that are Municipal Securities Brokers' Brokers agree that (i) if securities received on a Business Day are pledged prior to money settlement on that Business Day, the Corporation shall be paid directly by the pledgee bank the amount the Member is required to pay for the securities received or the Member's net settlement obligation for that Business Day, whichever is less; and (ii) no securities received on a Business Day through a qualified securities depository shall be placed in transfer, withdrawn or delivered to a third party for no value prior to paying the Corporation the amount the Member is obligated to pay for the receipt of the securities or the Member's net settlement obligation for that Business Day, whichever is less.

2. Third Party Administrator Members, Third Party Provider Members and Investment Manager/Agent Members:

Third Party Administrator Members, Third Party Provider Members and Investment Manager/Agent Members shall sign and deliver to the Corporation, (i) documentation and/or agreements in such form as required by the Corporation from time to time, for the payment or collection of charges pursuant to Rule 26 for the processing of transactions through the Mutual Fund Services and (ii) a duly

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Funds that are not investment companies regulated under the Investment Company Act of 1940, as amended, the books and records of any entity affiliated or having any regulatory connection with the fund, shall at all times be open to inspection by the duly authorized representatives of the Corporation and that the Corporation shall be furnished with all such information in respect of its business and transactions as the Corporation may require; provided that if it shall cease to be a Fund Member, the Corporation shall have no right to inspect its books and records, or the books and records of each such management company and/or entity affiliated or connected with the fund, as the case may be, or to require information relating to transactions wholly subsequent to the time when it ceased to be a Fund Member.

<sup>4</sup> This provision is not applicable to Data Services Only Members, Investment Manager/Agent Members, TPP Members or TPA Members.

completed consent and authorization form, designating the Member(s)/Mutual Fund/Insurance Services Member(s) who will be responsible for the settlement of orders initiated by the participant.

Each Settling Bank Only Member or Municipal Comparison Only Member shall sign and deliver to the Corporation such instruments in writing as the Corporation may require from time to time.

#### F. Original Clearing Fund Contribution

An applicant whose application has been approved by the Corporation shall, if required, pay to the Corporation its original contribution to the Clearing Fund determined in accordance with the provisions of Rule 4 and shall, if required, sign and deliver to the Corporation an instrument in writing evidencing any open account indebtedness permitted pursuant to Rule 4.

#### G. Disqualification Criteria

Rule 15 provides the Corporation with the authority to establish, as it deems necessary or appropriate, standards of financial responsibility, operational capability, experience and competence for membership. The Rule also provides the Corporation with the authority to establish guidelines for the application of such membership standards. Pursuant to this authority, the Corporation has determined to establish the following additional standards. The Corporation may deny membership to any applicant or cease to act for any participant when such participant or its Controlling Management has a record that reflects:

(i) the applicant is subject to any Statutory Disqualification as defined in Section 3(a)(39) of the Exchange Act, or an order of similar effect issued by a Federal or State banking authority, or other examining authority or regulator, including a non-U.S. examining authority or regulator;

(ii) the applicant or its Controlling Management is responsible for: (A) making a misstatement of a material fact or has omitted to state a material fact to the Corporation in connection with its application to become a Member or thereafter, (B) fraudulent acts or a violation of the Securities Act of 1933, the Exchange Act, or the Investment Company Act, the Investment Advisers Act or any rule or regulation promulgated thereunder;

(iii) the applicant or its Controlling Management has been convicted within the ten years preceding the filing of the application or at any time thereafter of (A) any criminal offense involving the purchase, sale or delivery of any security, or bribery, or burglary, or conspiracy to commit any offense referred to in this subparagraph (iii), (B) the larceny, theft, robbery, embezzlement, extortion, fraudulent conversion, fraudulent concealment, forgery or misappropriation of funds, securities or other property, (C) any violation of Sections 1341, 1342 or 1343 of Title 18, United States Code, or (D) any other criminal offense involving breach of fiduciary obligation, or arising out of the

conduct of business as a broker, dealer, investment company, adviser or underwriter, bank, trust company, fiduciary, insurance company, or other financial institution;

(iv) the applicant or its Controlling Management has been permanently or temporarily enjoined or prohibited by order, judgment or decree of any court or other governmental authority of competent jurisdiction from acting as a broker, dealer, investment company, adviser or underwriter, bank, trust company, fiduciary, insurance company, or other financial institution, or from engaging or in continuing any conduct or practice in connection with any such activity, or in connection with the purchase, sale or delivery of any security, and the enforcement of such injunction or prohibition has not been stayed; or

(v) the applicant has been expelled or suspended from or had its participation terminated by a national securities association or exchange registered under the Exchange Act, or self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act, or an entity that engages in clearance and settlement activities or a securities depository, or has been barred or suspended from being associated with any member of such an exchange, association, organization, entity, or securities depository.

The Corporation shall retain the right to deny membership to an applicant if the Corporation becomes aware of any factor or circumstance about the applicant or its Controlling Management, which may impact the suitability of that particular applicant as a Member of the Corporation. Further, applicants are required to inform the Corporation as to any member of its Controlling Management that is or becomes subject to Statutory Disqualification (as defined in Section 3(a)(39) of the Exchange Act).

Finally, this Rule shall not be construed to limit the Corporation's authority to deny membership to, cease to act for, or obtain further assurances from, any applicant or participant in accordance with the Corporation's Rules and Procedures when the circumstances warrant even if such circumstances include (or consist solely of) items that are specifically not grounds for such action under this Rule.

## RULE 2B. ONGOING MEMBERSHIP REQUIREMENTS AND MONITORING

### SEC. 1. REQUIREMENTS

The qualifications and standards provided for in Rule 2A<sup>1</sup> shall be continuing membership requirements. In addition, each Member, Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member, Mutual Fund/Insurance Services Member, Data Services Only Member, Settling Bank Only Member, Third Party Administrator Member, Third Party Provider Member, Investment Manager/Agent Member and AIP Member shall comply with the ongoing informational and operational requirements set forth below.

### SEC. 2. DATA TO BE FILED WITH THE CORPORATION

#### A. Reports and Information

Each Member, Mutual Fund/Insurance Services Member, Fund Member, and Insurance Carrier/Retirement Services Member (each hereinafter in this rule referred to collectively as “participants”) shall submit to the Corporation the following reports and information as applicable to such participant, together with all addenda and amendments applicable thereto, within the time periods prescribed by the Corporation from time to time. (Unless specifically set forth below, the time periods prescribed by the Corporation are set forth in the form of notices posted at the NSCC Website. Pursuant to Section 7 of Rule 45, it is the participant’s responsibility to retrieve all notices daily from the NSCC Website.):

(a) with respect to each such participant, a copy of the participant’s annual audited financial statements and, with respect to each such participant whose membership is contingent upon a guarantee of a third party, a copy of the annual audited financial statements of such guarantor. If annual audited financial statements of the entity that is the participant or its guarantor are not available, the Corporation in its sole discretion may accept consolidated financial statements or financial information prepared at the level of the parent of such entity. Financial statements submitted in respect of an Insurance Company shall be prepared substantially in the form adopted by the National Association of Insurance Commissioners (the “NAIC”);

(b) with respect to a participant that is a broker or dealer registered under Section 15 of the Exchange Act, a copy of its: (i) Form X-17-A-5 (Financial and Operational Combined Uniform Single (“FOCUS”) Report); (ii) report of its independent auditors on internal controls; and (iii) any supplemental report required to be filed with the SEC pursuant to Rule 17a-11 of the Exchange Act or 17 C.F.R. Section 405.3, or any successor rules or regulations thereto;

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<sup>1</sup> Including Addendum O to these Rules, as set forth in Section 1.B of Rule 2A.

(c) with respect to a participant that is a bank or a trust company, if the bank or trust company is required to file a Consolidated Report of Condition and Income ("Call Report"), a copy of its Call Report, and (to the extent not contained within such Call Reports) information containing each of its capital levels and ratios; if the bank or trust company is not required to file a Call Report, a copy of its unaudited quarterly financial statements as provided to the state regulatory authority having jurisdiction over the participant, containing each of its capital levels and ratios;

(d) with respect to a participant that is an SEC-registered investment adviser, copies of its Form ADV;

(e) with respect to a participant that is subject to capital or other financial requirements prescribed by its regulatory authority, copies of any regulatory notification required to be made when the participant's capital level or other financial requirement falls below the levels prescribed by the applicable regulator;

(f) with respect to a participant that has received from its regulators an extension of time by which one of the above-listed reports or submissions to the regulator is otherwise due, a copy of the extension letter or other regulatory communication granting such extension; and

(g) with respect to a participant that has provided to the SEC any notice required pursuant to paragraph (e) of the SEC's Rule 15c3-1 shall notify the Corporation of the provision of such notice, and shall furnish the Corporation with a copy of such notice, by the Close of Business on the day that it so provides such notice to the SEC.

Each Member and Limited Member shall complete and deliver to the Corporation a Cybersecurity Confirmation at least every two years, on a date that is set by the Corporation and following notice that is provided no later than 180 calendar days prior to such due date.

The Corporation may from time to time require the submission of additional reports and other information as it may deem necessary or advisable. Reports and information provided to the Corporation pursuant to this Rule shall be provided in the form and to the persons or departments specified by the Corporation from time to time and the provisions of Rule 45 shall not apply thereto.

Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records.

Each Member, Limited Member, or Sponsored Member shall maintain or upgrade their network technology, or communications technology or protocols on the systems that connect to the Corporation to the version being required and within the time periods as provided by Important Notice posted to the Corporation's website.

B. Notification of Changes in Condition

(a) Each Member, Mutual Fund/Insurance Services Member, Fund Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, AIP Member and Data Services Only Member shall:

- (i) promptly inform the Corporation, within two Business Days, both orally and in writing, if it is no longer in compliance with any of the relevant qualifications and standards for membership set forth in these Rules as applicable to its type of membership (regardless of whether in effect at the time the participant was admitted), or with respect to any additional qualifications as required by the Corporation in connection with approval of its admission to, or continued participation in, the Corporation, including in the event of the participant becoming subject to a Statutory Disqualification. Such notification must be given by the participant as soon as practicable and in any event must be received by the Corporation within two Business Days from the date on which the participant first learns of its non-compliance;
- (ii) submit to the Corporation written notice of material organization changes including mergers, acquisitions, changes in corporate form, name changes at least 90 calendar days prior to the effective date of such event unless the member demonstrates that it could not have reasonably given notice within such timeframe.

(b) Each Member shall submit to the Corporation written notice of any event that would effect a change in control of the participant or could have a material impact on such participant's business and/or financial condition, including but not limited to:

- (i) material changes in ownership, control or management;
- (ii) material changes in business lines, including but not limited to new business lines undertaken; or
- (iii) participation as a defendant in litigation which could reasonably be anticipated to have a direct negative impact on the participant's financial condition or ability to conduct business.

With respect to an event (such as a merger or a planned change in business) for which the participant has advance knowledge, written notification must be received by the Corporation as soon as practicable upon the participant's having knowledge that such event is scheduled to occur and, with respect to an event for which the participant does not have advance knowledge thereof, such written notification must be received by the Corporation as soon as practicable after such event has occurred.

(c) Each FFI Member shall inform the Corporation, both orally and in writing, if it (i) undergoes a change in circumstance that would affect its Tax Certification or (ii) otherwise has reason to know that it is not, or will not be, FATCA Compliant, in each case, within two calendar days of knowledge thereof. In addition, beginning on the Section 1446(f) Withholding Compliance Date, each FFI Member that is a Member shall inform the Corporation, both orally and in writing, if it has reason to know that it is not, or will not be, a Section 1446(f) Withholding Agent within two calendar days of knowledge thereof.

(d) Notice provided to the Corporation pursuant to this Section shall be provided in the form and to the persons or departments specified by the Corporation from time to time and the provisions of Rule 45 shall not apply thereto.

(e) Failure to notify the Corporation under this Section may be deemed to be a violation of the Corporation's Rules and therefore may be subject to sanctions. In addition, the Corporation may review the financial responsibility and operational capability of the Member to the extent provided in these Rules and Procedures and otherwise require from the Member additional reporting of its financial or operational condition at such intervals and in such detail as the Corporation shall determine, including, but not limited to, such information as the Corporation may request regarding the businesses and operations of the Member and its risk management practices with respect to services of the Corporation utilized by the Member for another Person or Persons, and shall make a determination as to whether such Member should be placed on the Watch List by the Corporation consistent with the provisions of Section 4 of Rule 2B.

### SEC. 3. OPERATIONAL TESTING

(a) The Corporation may, from time to time, determine those Members, Fund Members, Insurance Carrier/Retirement Services Members, Municipal Comparison Only Members, Mutual Fund/Insurance Services Members, Data Services Only Members, Settling Bank Only Members, Investment Manager/Agent Members, AIP Members, Third Party Provider Members and Third Party Administrator Members (collectively, "participants") who shall be required to fulfill, within the time frames established by the Corporation, certain operational testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting the test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation to ensure the continuing operational capability of the participant. The Corporation may assess a fine upon those participants that fail to fulfill any such operational testing and related reporting requirements within the time frames established by the Corporation.

(b) The Corporation has established standards for designating those participants who shall be required to participate in annual business continuity and disaster recovery testing that the Corporation reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event that business continuity and disaster recovery plans are required to be activated.

The standards shall take into account factors such as: (1) activity-based thresholds; (2) significant operational issues of the participant during the twelve months prior to the designation; and (3) past performance of the participant with respect to operational testing. The specific standards adopted by the Corporation and any updates or modifications thereto shall be published to participants and applied on a prospective basis.

Upon notification that the participant has been designated to participate in the annual business continuity and disaster recovery testing, as described above, participants shall be required to fulfill, within the timeframes established by the Corporation, certain testing requirements (the scope of such testing to be determined by the Corporation in its sole discretion) and related reporting requirements (such as reporting the test results to the Corporation in a manner specified by the Corporation) that may be imposed by the Corporation.

#### SEC. 4. ONGOING MONITORING

(a) All Members and certain Limited Members will be monitored and reviewed by the Corporation on an ongoing and periodic basis, which may include monitoring of news and market developments and review of financial reports and other public information.

- (b) (i) A Member that is (A) a U.S. bank or trust company that files the Consolidated Report of Condition and Income ("Call Report"), (B) a U.S. broker-dealer that files the Financial and Operational Combined Uniform Single Report ("FOCUS Report") or the equivalent with its regulator or (C) a non-U.S. bank or trust company that has audited financial data that is publicly available, will be assigned a credit rating by the Corporation in accordance with the Credit Risk Rating Matrix. Such Member's credit rating will be reassessed each time the Member provides the Corporation with requested information pursuant to Section 2B(e) of Rule 2B, or as may be otherwise required under the Rules and Procedures (including this Rule 2B, Section 4).
- (ii) Because the factors used as part of the Credit Risk Rating Matrix may not identify all risks that a Member specified in paragraph (b)(i) of this Section 4 may present to the Corporation, the Corporation may, in its discretion, override such Member's credit rating derived from the Credit Risk Rating Matrix to downgrade the Member. This downgrading may result in the Member being placed on the Watch List based on relevant factors, including those set forth in paragraph (d) below. The Corporation may also take such additional actions with regard to the Member as are permitted by the Rules and Procedures.



(c) Members other than those specified in paragraph (b)(i) of this Section 4 and Limited Members that are monitored and reviewed by the Corporation pursuant to paragraph (a) of this Section 4 will not be assigned a credit rating by the Credit Risk Rating Matrix but may be placed on the Watch List based on relevant factors, including those set forth in paragraph (d) below, as the Corporation deems necessary to protect the Corporation and its Members.

(d) The factors to be considered by the Corporation under paragraphs (b)(ii) and (c) of this Section 4 include, but are not limited to, (i) news reports and/or regulatory observations that raise reasonable concerns relating to the Member or Limited Member, (ii) reasonable concerns around the Member's or Limited Member's liquidity arrangements, (iii) material changes to the Member's or Limited Member's organizational structure, (iv) reasonable concerns of the Corporation about the Member's or Limited Member's financial stability due to particular facts and circumstances, such as material litigation or other legal and/or regulatory risks, (v) failure of the Member or Limited Member to demonstrate satisfactory financial condition or operational capability or if the Corporation has a reasonable concern regarding the Member's or Limited Member's ability to maintain applicable membership standards and (vi) failure of the Member or Limited Member to provide information required by the Corporation to assess risk exposure posed by the Member's or Limited Member's activity (including information requested by the Corporation pursuant to Section 2B(e) of this Rule 2B).

(e) The Corporation may require a Member or Limited Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Procedure XV (which additional deposit shall constitute a portion of the Member's or Limited Member's Required Fund Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member or Limited Member. The Corporation may also retain any deposit in excess of the Required Fund Deposit of a Member or Limited Member that has been placed on the Watch List as provided in Section 9 of Rule 4.

(f) A Member or Limited Member being placed on the Watch List shall result in a more thorough monitoring of the Member's or Limited Member's financial condition and/or operational capability, which could include, for example, on-site visits or additional due diligence information requests from the Corporation. In addition, the Corporation may require a Member or Limited Member placed on the Watch List to make more frequent financial disclosures, including, without limitation, interim and/or pro forma reports. Members and Limited Members that are on the Watch List are also reported to the Corporation's management committees and regularly reviewed by a cross-functional team comprised of senior management of the Corporation. The Corporation may also take such additional actions with regard to any Member or Limited Member (including a Member or Limited Member placed on the Watch List) as are permitted by the Rules and Procedures.

(g) Unless the context otherwise requires, the parent bank holding company of a Member that has guaranteed the obligations of the Member in accordance with Addendum B, and any material banking subsidiary of such parent bank holding company, shall, for the purpose of applying this Section 4, be treated as if it were also a Member, so that the Member, the parent bank holding company and any material banking subsidiary shall be required individually to meet the standards for a Member not on the Watch List, if the Member is not to be placed on the Watch List.

#### SEC. 5. DTCC CONFIDENTIAL INFORMATION

Each Member, Limited Member and Sponsored Member shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care, and shall not use DTCC Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such Member's, Limited Member's or Sponsored Member's obligations under these Rules or as otherwise required by applicable law. Each Member, Limited Member and Sponsored Member acknowledges that a breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the Member, Limited Member or Sponsored Member, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

#### SEC. 6. VOLUNTARY TERMINATION

A Member, Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member, Mutual Fund/Insurance Services Member, Data Services Only Member, Investment Manager/Agent Member, AIP Member, Third Party Provider Member or Third Party Administrator Member each may elect to voluntarily terminate such membership by providing the Corporation with a written notice of such termination ("Voluntary Termination Notice"). The participant shall specify in the Voluntary Termination Notice a desired date for its withdrawal from membership; provided, however, such date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the participant to the Corporation as of the time such Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation. A participant that is a Limited Member may be deemed to have voluntarily terminated its membership if the Corporation is unable to contact an authorized representative of the participant, as designated by the participant pursuant to Rule 5, and there has been no activity in the account by the participant for at least 6 months.

Such termination will not be effective until accepted by the Corporation, which shall be no later than ten (10) Business Days after the receipt of the Voluntary Termination Notice from such participant, or in the case of a deemed voluntary termination described above, when the Corporation determines that the criteria for a deemed voluntary termination have been met. The Corporation's acceptance or

determination shall be evidenced by a notice to the Corporation's participants announcing the participant's termination and the last trade date for the participant. The effective date of the participant's termination shall be the final settlement date of all transactions of the participant (the "Termination Date"). After the close of business on the Termination Date, a participant that terminates its membership in the Corporation shall no longer be eligible or required to submit transactions to the Corporation for clearance and settlement, unless the Board determines otherwise in order to ensure an orderly liquidation of the participant's open obligations. If any transaction is submitted to the Corporation by such participant that is scheduled to settle after the Termination Date, such participant's Voluntary Termination Notice will be deemed void, and the participant will remain subject to these Rules and Procedures as if it had not given such Voluntary Termination Notice.

A participant's voluntary termination of membership shall not affect its obligations to the Corporation, or the rights of the Corporation, with respect to transactions submitted to the Corporation before the Termination Date (including, but not limited to, any pro-rata charge made by the Corporation pursuant to Section 4 of Rule 4). The return of the participant's Clearing Fund deposit shall be governed by Sections 7, 13 and 14 of Rule 4, as applicable. If an Event Period were to occur after a participant has submitted its Voluntary Termination Notice but on or prior to the Termination Date, in order for such participant to benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4, the participant will need to comply with the provisions of Section 6 of Rule 4 and submit a Loss Allocation Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Voluntary Termination Notice previously submitted by the participant.

## RULE 2C. SPONSORING MEMBERS AND SPONSORED MEMBERS

### SEC.1. General

The Corporation will permit the establishment of a sponsored membership relationship between a Member that is approved as a Sponsoring Member and one or more Persons that are accepted by the Corporation as Sponsored Members of that particular Sponsoring Member.

The rights, liabilities and obligations of Sponsoring Members and Sponsored Members shall be governed by this Rule 2C. References to a "Member" in other Rules and/or Procedures shall not apply to Sponsoring Members and to Sponsored Members, in their respective capacities as such, unless specifically noted as such in this Rule 2C or in such other Rules and/or Procedures.

A Sponsoring Member shall continue to have all of the rights, liabilities and obligations set forth in these Rules and Procedures and in any agreement between it and the Corporation pertaining to its status as a Member, and such rights, liabilities and obligations shall be separate from its rights, liabilities and obligations as a Sponsoring Member except as contemplated under Sections 7, 8 and 9 of Rule 2C and under the Sponsoring Member Guaranty.

### SEC. 2. Qualifications of Sponsoring Members, the Application Process and Continuance Standards.

(a) Any Member shall be eligible to apply to become a Sponsoring Member; however, if a Member is a Registered Broker-Dealer, it shall only be eligible to apply to become a Sponsoring Member if it has (1) Net Worth of at least \$25 million and (2) excess net capital over the minimum net capital requirement imposed by the SEC (or such higher minimum capital requirement imposed by the Member's designated examining authority) of at least \$10 million. The Corporation may require that a Person be a Member for a time period deemed necessary by the Corporation before that Person may be considered to become a Sponsoring Member.

(b) Each Member applicant to become a Sponsoring Member shall complete and deliver to the Corporation an application in such form as may be prescribed by the Corporation from time to time and any other information requested by the Corporation. An application to become a Sponsoring Member shall first be reviewed by the Corporation. Unless the Member is already an Agent Clearing Member under Rule 2D or a sponsoring member of FICC, the Corporation shall recommend approval or disapproval of the application to the Board of Directors.

(c) If the Board of Directors or the Corporation, as applicable, denies the application of a Member to become a Sponsoring Member, such denial shall be handled in the same way as set forth in Section 1 of Rule 2A with respect to membership applications.

(d) The Corporation may impose financial requirements on a Member applying to become a Sponsoring Member that are greater than the required minimum financial standards for being a Sponsoring Member set forth in Section 2(a) of this Rule, based upon the level of the anticipated positions and obligations of such applicant, the anticipated risk associated with the volume and types of transactions such applicant proposes to process through the Corporation as a Sponsoring Member and the overall financial condition of such applicant. With respect to an application of a Member to become a Sponsoring Member that requires the Board of Directors' approval, the Board of Directors shall approve any increased financial requirements imposed by the Corporation in connection with the approval of the application, and the Corporation shall thereafter regularly review such Sponsoring Member regarding its compliance with such increased financial requirements.

(e) Each Sponsoring Member, or any Member applicant to become such, shall also furnish to the Corporation such adequate assurances of its financial responsibility and operational capability within the meaning of Rule 15 as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation, its participants, creditors or investors, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance, settlement and processing of securities transactions.

(f) Each Member whose application is approved to become a Sponsoring Member shall sign and deliver to the Corporation a Sponsoring Member Agreement. Each Member to become a Sponsoring Member shall sign and deliver to the Corporation a Sponsoring Member Guaranty and a related legal opinion in a form satisfactory to the Corporation.

Nothing in these Rules and Procedures shall prohibit a Sponsoring Member from seeking reimbursement from a Sponsored Member for payments made by the Sponsoring Member (whether pursuant to the Sponsoring Member Guaranty, out of Clearing Fund deposits or otherwise) with respect to obligations as to which the Sponsored Member is a principal obligor under these Rules and Procedures, or as otherwise may be agreed by the Sponsored Member and Sponsoring Member.

(g) Each Sponsoring Member shall submit to the Corporation, within the timeframes and in the formats required by the Corporation, the reports and information that all Members are required to submit regardless of type of Member and the reports and information required to be submitted for its respective type of Member, all pursuant to Section 2 of Rule 2B and, if applicable, Addendum O.

(h) A Sponsoring Member's books and records, insofar as they relate to the Sponsored Member Transactions submitted to the Corporation, shall be open to the inspection of the duly authorized representatives of the Corporation to the same extent provided in Rule 2A for other Members.

(i) A Sponsoring Member shall promptly inform the Corporation, both orally and in writing, if it is no longer in compliance with the relevant standards and qualifications for applying to become a Sponsoring Member set forth in this Rule. Notification must take place immediately and in no event later than 2 Business Days from the date on which the Sponsoring Member first learns of its non-compliance. The Corporation shall assess a fine in accordance with the Fine Schedule in Addendum P against any Sponsoring Member that fails to so notify the Corporation. If the Sponsoring Member fails to remain in compliance with the relevant standards and qualifications, the Corporation will, if necessary, undertake appropriate action to determine the status of the Sponsoring Member and its continued eligibility as such. In addition, the Corporation may review the financial responsibility and operational capability of the Sponsoring Member, and otherwise require from the Sponsoring Member additional reports of its financial or operational condition at such intervals and in such detail as the Corporation shall determine. In addition, if the Corporation has reason to believe that a Sponsoring Member may fail to comply with any of the Rules and Procedures applicable to Sponsoring Members, it may require the Sponsoring Member to provide it, within such timeframe, and in such detail, and pursuant to such manner as the Corporation shall determine, with assurances in writing of a credible nature that the Sponsoring Member shall not, in fact, violate any of these Rules and Procedures.

(j) In the event that a Sponsoring Member fails to remain in compliance with the relevant requirements of these Rules and Procedures, the Sponsoring Member Agreement or the Sponsoring Member Guaranty, the Corporation shall have the right to cease to act for the Sponsoring Member in its capacity as a Sponsoring Member pursuant to Section 10 of this Rule, unless the Sponsoring Member requests that such action not be taken and the Corporation determines that, depending upon the specific circumstances and the record of the Sponsoring Member, it is appropriate instead to establish for such Sponsoring Member a time period, which shall be determined by the Corporation and which shall be no longer than 30 calendar days unless otherwise determined by the Corporation, during which the Sponsoring Member must resume compliance with such requirements. In the event that the Sponsoring Member is unable to satisfy such requirements within the time period specified by the Corporation, the Corporation shall, pursuant to these Rules and Procedures, cease to act for the Sponsoring Member in its capacity as a Sponsoring Member pursuant to Section 10 of this Rule.

(k) If the sum of the Volatility Charges applicable to a Sponsoring Member's Sponsored Member Sub-Accounts and its other accounts at the Corporation exceeds its Net Member Capital, the Sponsoring Member shall not be permitted to submit activity into its Sponsored Member Sub-Accounts, unless otherwise determined by the Corporation in order to promote orderly settlement.

(l) A Sponsoring Member may voluntarily elect to terminate its status as a Sponsoring Member, with respect to all Sponsored Members or with respect to one or more Sponsored Members from time to time, by providing the Corporation with a Sponsoring Member Voluntary Termination Notice. The Sponsoring Member shall

specify in the Sponsoring Member Voluntary Termination Notice the Sponsored Member(s) in respect of which the Sponsoring Member is terminating its status (the "Former Sponsored Members") and a desired date for such termination, which date shall not be prior to the scheduled Final Settlement Date of any remaining obligation owed by the Sponsoring Member to the Corporation with respect to the Former Sponsored Members as of the time such Sponsoring Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Sponsoring Member Voluntary Termination Notice from such Sponsoring Member. The Corporation's acceptance shall be evidenced by a notice to the Corporation's participants announcing the termination of the Sponsoring Member's status as such with respect to the Former Sponsored Members and the Sponsoring Member Termination Date. After the close of business on the Sponsoring Member Termination Date, the Sponsoring Member shall no longer be eligible to submit Sponsored Member Transactions on behalf of the Former Sponsored Members, and each Former Sponsored Member shall cease to be a Sponsored Member unless it is the Sponsored Member of another Sponsoring Member. If any Sponsored Member Transactions is submitted to the Corporation by the Sponsoring Member on behalf of a Former Sponsored Member that is scheduled to settle after the Sponsoring Member Termination Date, such Sponsoring Member's Sponsoring Member Voluntary Termination Notice will be deemed void, and the Sponsoring Member will remain subject to this Rule as if it had not given such Sponsoring Member Voluntary Termination Notice.

(m) A Sponsoring Member's voluntary termination of its status as such, in whole or in part, shall not affect its obligations to the Corporation, or the rights of the Corporation, including under the Sponsoring Member Guaranty, with respect to Sponsored Member Transactions submitted to the Corporation before the applicable Sponsoring Member Termination Date. Any such Sponsored Member Transactions that have been novated to the Corporation shall continue to be processed by the Corporation. The return of the Sponsoring Member's Clearing Fund deposit shall be governed by Section 7 of Rule 4. If an Event Period were to occur after a Sponsoring Member has submitted the Sponsoring Member Voluntary Termination Notice but on or prior to the Sponsoring Member Termination Date, in order for the Sponsoring Member to benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4, the Sponsoring Member will need to comply with the provisions of Section 6 of Rule 4 and submit a Loss Allocation Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Sponsoring Member Voluntary Termination Notice previously submitted by the Sponsoring Member.

(n) Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records. Each Sponsoring Member shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care, and shall not use DTCC

Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such Sponsoring Member's obligations under these Rules or as otherwise required by applicable law. Each Sponsoring Member acknowledges that a breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the Sponsoring Member, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

### SEC. 3. Qualifications of Sponsored Members, Approval Process and Continuance Standards.

(a) A Person shall be eligible to apply to become a Sponsored Member if: (x) it is sponsored into membership by a Sponsoring Member, and (y) it (1) is a "qualified institutional buyer" as defined by Rule 144A under the Securities Act of 1933, as amended, or (2) is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i)(H) of Rule 144A under the Securities Act of 1933, as amended, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph. The Corporation shall have the right to rely on the representation provided by the Sponsoring Member regarding satisfaction of (y).

(b) Each time that a Sponsoring Member wishes to sponsor a Person into membership, it shall provide the Corporation with the representation referred to in Section 3(a) of this Rule, as well as any additional information in such form as may be prescribed by the Corporation. The Corporation shall approve or disapprove Persons as Sponsored Members. If the Corporation denies the request of a Sponsoring Member to add a Person as a Sponsored Member, such denial shall be handled in the same manner as set forth in Section 1 of Rule 2A with respect to membership applications except that the written statement referred to therein shall be provided to both the Sponsoring Member and the Person seeking to become a Sponsored Member.

(c) Each Person to become a Sponsored Member shall sign and deliver to the Corporation an agreement whereby the Person shall agree to any terms and conditions deemed by the Corporation to be necessary in order to protect itself and its participants (the "Sponsored Member Agreement"). Each Person to become a Sponsored Member that shall be an FFI Member must be FATCA Compliant.

(d) A Sponsored Member shall immediately inform its Sponsoring Member, both orally and in writing, if the Sponsored Member is no longer in compliance with the requirements of Section 3(a) of this Rule. A Sponsoring Member shall promptly inform the Corporation, both orally and in writing, if a Sponsored Member is no longer in compliance with the requirements of Section 3(a) of this Rule. Notification to the Corporation by the Sponsoring Member must take place within one (1) Business Day from the date on which the Sponsoring Member first learns of the Sponsored Member's non-compliance. The Corporation shall assess a fine in accordance with the Fine Schedule in Addendum P against any Sponsoring Member that fails to so notify the Corporation.



(e) A Sponsored Member may voluntarily elect to terminate its membership by providing the Corporation with a Sponsored Member Voluntary Termination Notice. The Sponsored Member shall specify in the Sponsored Member Voluntary Termination Notice a desired date for the termination, which date shall not be prior to the scheduled Final Settlement Date of any remaining obligation owed by the Sponsored Member to the Corporation as of the time such Sponsored Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Sponsored Member Voluntary Termination Notice from such Sponsored Member. The Corporation's acceptance shall be evidenced by a notice to the Corporation's participants announcing the termination of the Sponsored Member and the Sponsored Member Termination Date. After the close of business on the Sponsored Member Termination Date, the relevant Sponsoring Member shall no longer be eligible to submit Sponsored Member Transactions on behalf of the Sponsored Member. If any Sponsored Member Transaction is submitted to the Corporation by the relevant Sponsoring Member on behalf of the Sponsored Member that is scheduled to settle after the Sponsored Member Termination Date, such Sponsored Member's Sponsored Member Voluntary Termination Notice will be deemed void, and the Sponsored Member will remain subject to this Rule as if it had not given such Sponsored Member Voluntary Termination Notice.

(f) A Sponsored Member's voluntary termination shall not affect its obligations to the Corporation, or the rights of the Corporation, including under the Sponsoring Member Guaranty, with respect to Sponsored Member Transactions submitted to the Corporation before the Sponsored Member Termination Date, and the Sponsoring Member Guaranty shall remain in effect to cover all outstanding obligations of the Sponsored Member to the Corporation that are within the scope of such Sponsoring Member Guaranty.

#### SEC. 4. Compliance with Laws.

Each Sponsoring Member and Sponsored Member shall comply in all material respects with all applicable laws, including applicable laws relating to securities, taxation and money laundering, as well as global sanctions laws, in connection with the use of the Corporation's services.

#### SEC. 5. Sponsored Member Transactions.

A Sponsoring Member shall be permitted to submit to the Corporation Securities Financing Transactions between itself and its Sponsored Members ("Sponsored Member Transactions") in accordance with Rule 56. The Corporation directs each Sponsored Member and Sponsoring Member to settle all Final Settlement, Rate Payment, Price Differential, and other securities delivery and payment obligations arising under a Sponsored Member Transaction that has been novated to the Corporation by causing the relevant cash and securities to be transferred to the

Transferor or Transferee, as applicable, on the books and records of the Sponsoring Member, and each Sponsored Member and Sponsoring Member agrees that any such transfer shall satisfy the Corporation's corresponding obligation with respect to such Sponsored Member Transaction.

#### SEC. 6. Sponsoring Member Agent Obligations.

A Sponsored Member shall appoint its Sponsoring Member to act as agent with respect to the Sponsored Member's satisfaction of its settlement obligations arising under Sponsored Member Transactions between the Sponsored Member and the Sponsoring Member and for performing all functions and receiving reports and information set forth in these Rules and Procedures. The Corporation's provision of such reports and information to the Sponsoring Member shall constitute satisfaction of any obligation of the Corporation to provide such reports and information to the affected Sponsored Members. Notwithstanding the foregoing and any other activities the Sponsoring Member may perform in its capacity as agent for Sponsored Members, each Sponsored Member shall be obligated as principal to the Corporation with respect to all settlement obligations under these Rules and Procedures, and the Sponsoring Member shall not be a principal under these Rules and Procedures with respect to settlement obligations of its Sponsored Members.

#### SEC. 7. Clearing Fund Obligations.

(a) The Corporation shall maintain one or more Sponsored Member Sub-Accounts for a Sponsoring Member. Each Sponsoring Member shall make and maintain so long as such Member is a Sponsoring Member a deposit to the Clearing Fund as a Required Fund Deposit to support the activity in its Sponsored Member Sub-Accounts (the "Sponsoring Member Required Fund Deposit"). Each Sponsoring Member, so long as such Member is a Sponsoring Member, shall also provide Supplemental Liquidity Deposits to the Clearing Fund, as may be required pursuant to Rule 4A; however, the Supplemental Liquidity Deposits shall be calculated without regard to Sponsored Member Transactions. Deposits to the Clearing Fund shall be held by the Corporation or its designated agents, to be applied as provided in these Rules and Procedures.

(b) In the ordinary course, for purposes of satisfying the Sponsoring Member's Clearing Fund requirements under these Rules and Procedures for its Member activity, its Sponsoring Member activity, and, to the extent applicable, its Agent Clearing Member activity, the Sponsoring Member's proprietary accounts, its Sponsored Member Sub-Accounts, and its Agent Clearing Member Customer Omnibus Account(s), if any, shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time and without prior notice to the Sponsoring Member (but being obligated to give notice to the Sponsoring Member as soon as possible thereafter) and whether or not the Sponsoring Member or any of its Sponsored Members is in default of its obligations to the Corporation, treat the Sponsoring Member's accounts as a single account for the purpose of applying Clearing Fund deposits; apply Clearing Fund

deposits made by the Sponsoring Member with respect to any account as necessary to ensure that the Sponsoring Member meets all of its obligations to the Corporation under any other account(s); and otherwise exercise all rights to offset and net against the Clearing Fund deposits any net obligations among any or all of the accounts, whether or not any other Person is deemed to have any interest in such account.

(c) The Sponsoring Member Required Fund Deposit for each Sponsored Member Sub-Account shall be calculated separately based on the Sponsored Member Transactions in such Sponsored Member Sub-Account, and the Sponsoring Member shall, as principal, be required to satisfy the Sponsoring Member Required Fund Deposit for each of the Sponsoring Member's Sponsored Member Sub-Accounts.

(d) Sections 1, 2, 4, 5, 6, 7, 8, 9, 10, 11 and 12 of Rule 4 shall apply to the Sponsoring Member Required Fund Deposit with respect to obligations of a Sponsoring Member under these Rules and Procedures, including its obligations arising under the Sponsored Member Sub-Accounts, and the obligations of a Sponsoring Member under its Sponsoring Member Guaranty to the same extent as such sections apply to any Required Fund Deposit and any other obligations of a Member. For purposes of Section 1 of Rule 4, obligations and liabilities of a Member to the Corporation that shall be secured shall include, without limitation, a Member's obligations as a Sponsoring Member under these Rules and Procedures, including, without limitation, any obligation of any such Sponsoring Member to provide the Sponsoring Member Required Fund Deposit, such Sponsoring Member's obligations arising under the Sponsored Member Sub-Accounts of such Sponsoring Member and such Sponsoring Member's obligations under its Sponsoring Member Guaranty.

(e) A Sponsoring Member shall be subject to such fines as may be imposed in accordance with such Rules or Procedures of the Corporation for any late satisfaction of a Clearing Fund deficiency call.

#### SEC. 8. Right of Offset.

In the ordinary course, with respect to satisfaction of any Sponsored Member's obligations under these Rules and Procedures, the Sponsoring Member's Sponsored Member Sub-Accounts, the Sponsoring Member's proprietary accounts, and the Sponsoring Member's Agent Clearing Member Customer Omnibus Accounts, if any, at the Corporation shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time any obligation of the Sponsoring Member arises under the Sponsoring Member Guaranty to pay or perform thereunder with respect to any Sponsored Member, exercise a right of offset and net any such obligation of the Sponsoring Member under its Sponsoring Member Guaranty against any obligations of the Corporation to the Sponsoring Member in respect of such Sponsoring Member's proprietary accounts at the Corporation.

SEC. 9. Loss Allocation Obligations.

(a) Sponsored Members shall not be obligated for allocations, pursuant to Rule 4, of loss or liability incurred by the Corporation. To the extent that a loss or liability is determined by the Corporation to arise in connection with Sponsored Member Transactions (i.e., in connection with the insolvency or default of a Sponsoring Member), the Sponsored Members shall not be responsible for or considered in the loss allocation calculation, but rather such loss shall be allocated to other Members in accordance with the principles set forth in Section 4 of Rule 4.

(b) To the extent the Corporation incurs a loss or liability from a Defaulting Member Event or a Declared Non-Default Loss Event and a loss allocation obligation arises, that would be the responsibility of a Sponsored Member Sub-Account as if the Sponsored Member Sub-Account were a Member, the Corporation shall calculate such loss allocation obligation as if the affected Sponsored Member were subject to such allocations pursuant to Section 4 of Rule 4, but the Sponsoring Member shall be responsible for satisfying such obligations.

(c) The entire amount of the Required Fund Deposit associated with the Sponsoring Member's proprietary accounts at the Corporation and the entire amount of the Sponsoring Member Required Fund Deposit may be used to satisfy any amount allocated against a Sponsoring Member, whether in its capacity as a Member, a Sponsoring Member, or otherwise. With respect to an obligation to make payment due to any loss allocation amounts assessed on a Sponsoring Member pursuant to Section 9(b) of this Rule, the Sponsoring Member may instead elect to terminate its membership in the Corporation pursuant to Section 6 of Rule 4 and thereby benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4; however, for the purpose of determining the Loss Allocation Cap for such Sponsoring Member, its Required Fund Deposit shall be the sum of its Required Fund Deposits associated with its proprietary accounts at the Corporation (including its proprietary SFT Account pursuant to Rule 56), its Sponsoring Member Required Fund Deposit, and its Agent Clearing Member Required Fund Deposits, if any, for each of its Agent Clearing Member Customer Omnibus Accounts.

SEC. 10. Restrictions on Access to Services by a Sponsoring Member.

(a) The Board of Directors may at any time, upon Corporation providing notice to a Sponsoring Member pursuant to Section 5 of Rule 45, suspend a Sponsoring Member in its capacity as a Sponsoring Member from any service provided by the Corporation either with respect to a particular transaction or transactions or with respect to transactions generally, or prohibit or limit such Sponsoring Member's access to services offered by the Corporation in the event that one or more of the factors set forth in Section 1 of Rule 46 is present with respect to the Sponsoring Member.

(b) Rule 46 shall apply with respect to a Sponsoring Member in the same way as it applies to Members, including the Board of Directors' right to summarily suspend the Sponsoring Member and to cease to act for such Sponsoring Member.

(c) If the Corporation ceases to act for a Sponsoring Member in its capacity as a Sponsoring Member, Section 14 of Rule 56 shall apply and the Corporation shall decline to accept or process data from the Sponsoring Member on Sponsored Member Transactions and the Corporation shall cease to act for all of the Sponsored Members of the affected Sponsoring Member (unless such Sponsored Members are also Sponsored Members of other Sponsoring Members). If the Corporation suspends, prohibits or limits a Sponsoring Member in its capacity as a Sponsoring Member with respect to such Sponsoring Member's access to services offered by the Corporation, the Corporation shall decline to accept or process data from the Sponsoring Member on Sponsored Member Transactions and shall suspend the Sponsored Members of the affected Sponsoring Member (unless they are also Sponsored Members of other Sponsoring Members) for so long as the Corporation is suspending, prohibiting or limiting the Sponsoring Member. Any Sponsored Member Transactions which have been novated to the Corporation shall continue to be processed by the Corporation. The Corporation, in its sole discretion, shall determine whether to close-out the affected Sponsored Member Transactions or permit the Sponsored Members to complete their settlement.

SEC. 11. Restrictions on Access to Services by a Sponsored Member.

(a) The Board of Directors may at any time, upon Corporation providing notice to a Sponsored Member and its Sponsoring Member pursuant to Section 5 of Rule 45, suspend a Sponsored Member from any service provided by the Corporation either with respect to a particular transaction or transactions or with respect to transactions generally, or prohibit or limit such Sponsored Member with respect to access to services offered by the Corporation in the event that one or more of the factors set forth in Section 1 of Rule 46 is present with respect to the Sponsored Member.

(b) Rule 46 shall apply with respect to a Sponsored Member in the same way as it applies to Members, including the Board of Directors' right to summarily suspend a Sponsored Member and to cease to act for such Sponsored Member.

(c) If the Corporation ceases to act for a Sponsored Member, Section 14 of Rule 56 shall apply.

(d) The Corporation shall cease to act for a Sponsored Member that is no longer in compliance with the requirements of Section 3(a) of this Rule.

SEC. 12. Insolvency of a Sponsoring Member.

(a) A Sponsoring Member shall be obligated to immediately notify the Corporation that (a) it fails, or is unable, to perform its contracts or obligations or (b) it is insolvent, as required by Section 1 of Rule 20 for other Members. A Sponsoring Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 20 for other Members. Section 3 of Rule 20 shall apply, in the same manner in which such section applies to other Members, in the case where the Corporation treats a Sponsoring Member as insolvent.

(b) In the event that the Corporation determines to treat a Sponsoring Member as insolvent pursuant to Rule 20, the Corporation shall have the right to cease to act for the insolvent Sponsoring Member pursuant to Section 10 of this Rule. If the Corporation ceases to act for the insolvent Sponsoring Member, the Corporation shall decline to accept or process data from the Sponsoring Member, including Sponsored Member Transactions, and the Corporation shall terminate the membership of all of the insolvent Sponsoring Member's Sponsored Members unless they are the Sponsored Members of another Sponsoring Member. Any Sponsored Member Transactions which have been novated to the Corporation shall continue to be processed by the Corporation. The Corporation, in its sole discretion, shall determine whether to close-out the affected Sponsored Member Transactions and/or permit the Sponsored Members to complete their settlement.

#### SEC. 13. Insolvency of a Sponsored Member.

(a) A Sponsored Member and its Sponsoring Member (to the extent it has knowledge thereof) shall be obligated to immediately notify the Corporation that the Sponsored Member is insolvent or that the Sponsored Member will be unable to perform any of its material contracts, obligations or agreements in the same manner as required by Section 1 of Rule 20 for other Members. For purposes of this section, a Sponsoring Member shall be deemed to have knowledge that a Sponsored Member is insolvent or will be unable to perform on any of its material contracts, obligations or agreements if one or more duly authorized representatives of the Sponsoring Member, in its capacity as such, has knowledge of such matters. A Sponsored Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 20 for other Members. Section 3 of Rule 20 shall apply, in the same manner in which such section applies to other Members, in the case where the Corporation treats a Sponsored Member as insolvent.

(b) In the event that the Corporation determines to treat a Sponsored Member as insolvent pursuant to Rule 20, the Corporation shall have the right to cease to act for the insolvent Sponsored Member pursuant to Section 11 of this Rule. If the Corporation ceases to act for the insolvent Sponsored Member, Section 14 of Rule 56 shall apply with respect to the close-out of the insolvent Sponsored Member's Sponsored Member Transactions.

#### SEC. 14. Liquidation of Sponsored Member and Related Sponsoring Member Positions.

(a) The provisions of this Section 14, which shall supersede any conflicting provisions of this Rule 2C, Rule 18 and Rule 56, shall only apply (i) with respect to the liquidation of positions resulting from Sponsored Member Transactions that have been novated to NSCC, (ii) in the event a Sponsoring Member is not a Defaulting Member and the Corporation has not ceased to act for the Sponsoring Member and (iii) if a Corporation Default has not occurred. In addition, the Corporation may only cause the termination described in subsection (b) of this Section 14 if it has ceased to act for the Sponsored Member at issue and the Sponsoring Member has not performed the

obligations of the Sponsored Member in respect of all positions guaranteed by such Sponsoring Member.

(b) Subject to the provisions of subsection (a) of this Section 14, on any Business Day, the Sponsoring Member or the Corporation may by written notice to the other cause the immediate termination of all, but not fewer than all, of the SFT Positions of the Sponsored Member established in the Sponsored Member Sub-Account. Any such notice shall also cause the immediate termination of all of the corresponding, offsetting SFT Positions of the Sponsoring Member established in the Sponsoring Member's proprietary SFT Account. Each such termination shall be effected by the Sponsoring Member's establishment of a final net settlement position for each eligible security with a distinct CUSIP number that shall equal the net of all outstanding deliver obligations and receive obligations of the parties thereto in each such eligible security (the "Final Net Settlement Position").

(c) To liquidate the Final Net Settlement Positions of any Sponsored Member and the corresponding, offsetting Final Net Settlement Positions of the Sponsoring Member established pursuant to subsection (b) of this Section 14, a Sponsoring Member shall calculate a liquidation amount, which may be equal to zero. The liquidation amount in respect of the Final Net Settlement Positions of a Sponsored Member (the "Sponsored Member Liquidation Amount") shall be due to or from the Corporation from or to the Sponsored Member. The liquidation amount in respect of the corresponding, offsetting Final Net Settlement Positions of the Sponsoring Member (the "Sponsoring Member Liquidation Amount") shall be due to or from the Corporation from or to the Sponsoring Member. If the Sponsored Member Liquidation Amount in respect of the Final Net Settlement Positions of a Sponsored Member is due to the Corporation, the Sponsoring Member Liquidation Amount in respect of the corresponding Final Net Settlement Positions of the Sponsoring Member shall be due to the Sponsoring Member. If the Sponsored Member Liquidation Amount in respect of the Final Net Settlement Positions of a Sponsored Member is due to the Sponsored Member, the Sponsoring Member Liquidation Amount in respect of the Final Net Settlement Positions of the Sponsoring Member shall be due to the Corporation.

Any Sponsoring Member Liquidation Amount calculated by a Sponsoring Member pursuant to this subsection (c) may be based on prices obtained from a generally recognized source or the most recent closing bid or offer quotation from such a source and may include the losses (including costs such as fees, expenses and commissions) and/or gains realized by the Sponsoring Member in entering into replacement transactions and/or entering into or terminating hedge transactions in connection with or as a result of, and any other loss, damage, cost or expense directly arising or resulting from, the liquidation of the Sponsoring Member's Final Net Settlement Positions. The Sponsored Member Liquidation Amount in respect of Final Net Settlement Positions of a Sponsored Member shall equal the Sponsoring Member Liquidation Amount in respect of the corresponding Final Net Settlement Positions of the Sponsoring Member. The Sponsoring Member's calculation of any Sponsored Member Liquidation Amount or Sponsoring Member Liquidation Amount shall be

conclusive and binding on all relevant parties, absent manifest error and subject to any right of the Corporation to indemnification under these Rules and Procedures.

If a Sponsored Member Liquidation Amount is due to the Corporation from the Sponsored Member, the Sponsoring Member shall be obligated to pay such Sponsored Member Liquidation Amount under its Sponsoring Member Guaranty, which obligation shall, notwithstanding anything to the contrary in the Sponsoring Member Guaranty, be payable without demand and (automatically and without further action by any Person) be set off against the obligation of the Corporation to pay the corresponding Sponsoring Member Liquidation Amount to the Sponsoring Member.

If a Sponsored Member Liquidation Amount is due to the Sponsored Member from the Corporation, the Corporation's sole obligation in respect of any such Sponsored Member Liquidation Amount shall be to transfer such amount to the applicable account of the Sponsoring Member at the Settling Bank acting on behalf of a Sponsoring Member (the "Sponsoring Member Settling Bank Omnibus Account"). The Corporation hereby instructs the Sponsoring Member to discharge its obligation to pay the Corporation any Sponsoring Member Liquidation Amount by transferring such amount to the Sponsoring Member's Sponsoring Member Settling Bank Omnibus Account for application to the Corporation's obligation to pay the corresponding Sponsored Member Liquidation Amount to the Sponsored Member. To the extent that the Sponsoring Member transfers such funds to the Sponsoring Member Settling Bank Omnibus Account as provided in this paragraph, (i) the obligations of the Corporation in respect of the Sponsored Member Liquidation Amount shall be discharged and (ii) the obligations of the Sponsoring Member in respect of the corresponding Sponsoring Member Liquidation Amount shall be discharged. The Sponsored Member agrees to accept the transfer of such funds to the Sponsoring Member Settling Bank Omnibus Account in full satisfaction of the obligation of the Corporation to pay the Sponsored Member Liquidation Amount to the Sponsored Member.

(d) The Sponsoring Member shall indemnify the Corporation, and its employees, officers, directors, shareholders, agents and Members (collectively, the "Sponsoring/Sponsored Membership Program Indemnified Parties" or "SMP Indemnified Parties"), for any and all losses, liability, or expenses of an SMP Indemnified Party arising from any claim by an affected Sponsored Member disputing the Sponsoring Member's calculation of any Sponsored Member Liquidation Amount or Sponsoring Member Liquidation Amount pursuant to this Section 14.

(e) The Corporation hereby acknowledges that a Sponsoring Member may take a security interest in the deliver, receive and related payment obligations owed by the Corporation to a Sponsored Member in respect of its transactions that have been novated to the Corporation by such Sponsoring Member and established in the Sponsoring Member's Sponsored Member Sub-Account for the Sponsored Member, including, but not limited to, such Sponsored Member's rights to receive payment of any Sponsored Member Liquidation Amount pursuant to this Section 14.



## RULE 2D. AGENT CLEARING MEMBERS

### SEC. 1. General.

The Corporation will permit a Member that is approved to be an Agent Clearing Member to submit transactions to the Corporation for novation on behalf of one or more its customers (each such customer, a "Customer").

The rights, liabilities and obligations of Agent Clearing Members shall be governed by this Rule 2D. References to a "Member" in other Rules and/or Procedures shall not apply to Agent Clearing Members, in their capacities as such, unless specifically noted as such in this Rule 2D or in such other Rules and/or Procedures.

An Agent Clearing Member shall continue to have all of the rights, liabilities and obligations set forth in these Rules and Procedures and in any agreement between it and the Corporation pertaining to its status as a Member, and such rights, liabilities and obligations shall be separate from its rights, liabilities and obligations as an Agent Clearing Member except as contemplated under Sections 6, 7 and 8 of Rule 2D.

### SEC. 2. Qualifications of Agent Clearing Members, the Application Process and Continuance Standards.

(a) Any Member shall be eligible to apply to become an Agent Clearing Member; however, if a Member is a Registered Broker-Dealer, it shall only be eligible to apply to become an Agent Clearing Member if it has (1) Net Worth of at least \$25 million and (2) excess net capital over the minimum net capital requirement imposed by the SEC (or such higher minimum capital requirement imposed by the Member's designated examining authority) of at least \$10 million. The Corporation may require that a Person be a Member for a time period deemed necessary by the Corporation before that Person may be considered to become an Agent Clearing Member.

(b) Each Member applicant to become an Agent Clearing Member shall complete and deliver to the Corporation an application in such form as may be prescribed by the Corporation from time to time and any other information requested by the Corporation. An application to become an Agent Clearing Member shall first be reviewed by the Corporation. Unless the Member is already a Sponsoring Member under Rule 2C or a sponsoring member of FICC, the Corporation shall recommend approval or disapproval of the application to the Board of Directors.

(c) If the Board of Directors or the Corporation, as applicable, denies the application of a Member to become an Agent Clearing Member, such denial shall be handled in the same way as set forth in Section 1 of Rule 2A with respect to membership applications.

(d) The Corporation may impose financial requirements on a Member applying to become an Agent Clearing Member that are greater than the required minimum financial standards for being an Agent Clearing Member set forth in Section 2(a) of this Rule, based upon the level of the anticipated positions and obligations of

such applicant, the anticipated risk associated with the volume and types of transactions such applicant proposes to process through the Corporation as an Agent Clearing Member and the overall financial condition of such applicant. With respect to an application of a Member to become an Agent Clearing Member, the Board of Directors shall approve any increased financial requirements imposed by the Corporation in connection with the approval of the application, and the Corporation shall thereafter regularly review such Agent Clearing Member regarding its compliance with such increased financial requirements.

(e) Each Agent Clearing Member, or any Member applicant to become such, shall also furnish to the Corporation such adequate assurances of its financial responsibility and operational capability within the meaning of Rule 15 as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation, its participants, creditors or investors, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance, settlement and processing of securities transactions.

(f) Each Member whose application is approved to become an Agent Clearing Member shall sign and deliver to the Corporation an Agent Clearing Member Agreement and a related legal opinion in a form satisfactory to the Corporation.

(g) Each Agent Clearing Member shall submit to the Corporation, within the timeframes and in the formats required by the Corporation, the reports and information that all Members are required to submit regardless of type of Member and the reports and information required to be submitted for its respective type of Member, all pursuant to Section 2 of Rule 2B and, if applicable, Addendum O.

(h) An Agent Clearing Member's books and records, insofar as they relate to the Agent Clearing Member Transactions submitted to the Corporation, shall be open to the inspection of the duly authorized representatives of the Corporation to the same extent provided in Rule 2A for other Members.

(i) An Agent Clearing Member shall promptly inform the Corporation, both orally and in writing, if it is no longer in compliance with the relevant standards and qualifications for applying to become an Agent Clearing Member set forth in this Rule. Notification must take place immediately and in no event later than 2 Business Days from the date on which the Agent Clearing Member first learns of its non-compliance. The Corporation shall assess a fine in accordance with the Fine Schedule in Addendum P against any Agent Clearing Member that fails to so notify the Corporation. If the Agent Clearing Member fails to remain in compliance with the relevant standards and qualifications, the Corporation will, if necessary, undertake appropriate action to determine the status of the Agent Clearing Member and its continued eligibility as such. In addition, the Corporation may review the financial responsibility and operational capability of the Agent Clearing Member, and otherwise require from the Agent Clearing Member additional reports of its financial or operational condition at such intervals and in such detail as the Corporation shall determine. In addition, if the Corporation has

reason to believe that an Agent Clearing Member may fail to comply with any of the Rules and Procedures applicable to Agent Clearing Members, it may require the Agent Clearing Member to provide it, within such timeframe, and in such detail, and pursuant to such manner as the Corporation shall determine, with assurances in writing of a credible nature that the Agent Clearing Member shall not, in fact, violate any of these Rules and Procedures.

(j) In the event that an Agent Clearing Member fails to remain in compliance with the relevant requirements of these Rules and Procedures or the Agent Clearing Member Agreement, the Corporation shall have the right to cease to act for the Agent Clearing Member in its capacity as an Agent Clearing Member pursuant to Section 9 of this Rule or as a Member more generally, unless the Agent Clearing Member requests that such action not be taken and the Corporation determines that, depending upon the specific circumstances and the record of the Agent Clearing Member, it is appropriate instead to establish for such Agent Clearing Member a time period, which shall be determined by the Corporation and which shall be no longer than 30 calendar days unless otherwise determined by the Corporation, during which the Agent Clearing Member must resume compliance with such requirements. In the event that the Agent Clearing Member is unable to satisfy such requirements within the time period specified by the Corporation, the Corporation shall, pursuant to these Rules and Procedures, cease to act for the Agent Clearing Member in its capacity as an Agent Clearing Member pursuant to Section 9 of this Rule or as a Member more generally.

(k) If the sum of the Volatility Charges applicable to an Agent Clearing Member's Agent Clearing Member Customer Omnibus Account(s) and its other accounts at the Corporation exceeds its Net Member Capital, the Agent Clearing Member shall not be permitted to submit activity into its Agent Clearing Member Customer Omnibus Account(s), unless otherwise determined by the Corporation in order to promote orderly settlement.

(l) An Agent Clearing Member may voluntarily elect to terminate its status as an Agent Clearing Member by providing the Corporation with an Agent Clearing Member Voluntary Termination Notice. The Agent Clearing Member shall specify in the Agent Clearing Member Voluntary Termination Notice the desired date for such termination, which date shall not be prior to the scheduled Final Settlement Date of any remaining obligation owed by the Agent Clearing Member in respect of Agent Clearing Member Transactions entered into on behalf of Customers as of the time such Agent Clearing Member Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.

Such termination will not be effective until accepted by the Corporation, which shall be no later than 10 Business Days after the receipt of the Agent Clearing Member Voluntary Termination Notice from such Agent Clearing Member. The Corporation's acceptance shall be evidenced by a notice to the Corporation's participants announcing the termination of the Agent Clearing Member's status as such and the Agent Clearing Member Termination Date. After the close of business on the Agent Clearing Member Termination Date, the Agent Clearing Member shall no longer be eligible to submit

Agent Clearing Member Transactions. If any Agent Clearing Member Transaction is submitted to the Corporation by the Agent Clearing Member on behalf of a Customer that is scheduled to settle after the Agent Clearing Member Termination Date, such Agent Clearing Member's Agent Clearing Member Voluntary Termination Notice will be deemed void, and the Agent Clearing Member will remain subject to this Rule as if it had not given such Agent Clearing Member Voluntary Termination Notice.

(m) An Agent Clearing Member's voluntary termination of its status as such shall not affect its obligations to the Corporation, or the rights of the Corporation with respect to Agent Clearing Member Transactions submitted to the Corporation before the Agent Clearing Member Termination Date. Any such Agent Clearing Member Transactions that have been novated to the Corporation shall continue to be processed by the Corporation. The return of the Agent Clearing Member's Clearing Fund deposit shall be governed by Section 7 of Rule 4. If an Event Period were to occur after an Agent Clearing Member has submitted the Agent Clearing Member Voluntary Termination Notice but on or prior to the Agent Clearing Member Termination Date, in order for the Agent Clearing Member to benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4, the Agent Clearing Member will need to comply with the provisions of Section 6 of Rule 4 and submit a Loss Allocation Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Agent Clearing Member Voluntary Termination Notice previously submitted by the Agent Clearing Member.

(n) Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records. Each Agent Clearing Member shall maintain DTCC Confidential Information in confidence to the same extent and using the same means it uses to protect its own confidential information, but no less than a reasonable standard of care, and shall not use DTCC Confidential Information or disclose DTCC Confidential Information to any third party except as necessary to perform such Agent Clearing Member's obligations under these Rules or as otherwise required by applicable law. Each Agent Clearing Member acknowledges that a breach of its confidentiality obligations under these Rules may result in serious and irreparable harm to the Corporation and/or DTCC for which there is no adequate remedy at law. In the event of such a breach by the Agent Clearing Member, the Corporation and/or DTCC shall be entitled to seek any temporary or permanent injunctive or other equitable relief in addition to any monetary damages hereunder.

### SEC. 3. Compliance with Laws.

Each Agent Clearing Member shall comply in all material respects with all applicable laws, including applicable laws relating to securities, taxation and money laundering, as well as global sanctions laws, in connection with the use of the Corporation's services.

SEC. 4. Agent Clearing Member Transactions.

An Agent Clearing Member shall be permitted to submit to the Corporation on behalf of one or more Customers' Securities Financing Transactions ("Agent Clearing Member Transactions") in accordance with Rule 56.

SEC. 5. Agent Clearing Member Agent Obligations.

(a) An Agent Clearing Member shall be permitted to submit to the Corporation for novation Agent Clearing Member Transactions entered into by the Agent Clearing Member as agent on behalf of one or more Customers. Any such submission shall be in accordance with this Rule. Subject to the provisions of these Rules and Procedures, the Customer Clearing Service may be provided by an Agent Clearing Member to its Customers on any terms and conditions mutually agreed to by the Agent Clearing Member and its Customers; provided, that each Agent Clearing Member shall, before providing Customer Clearing Service to any Customer, enter into an agreement with that Customer that binds the Customer to the provisions of these Rules and Procedures applicable to Agent Clearing Member Transactions and Customers.

(b) With respect to an Agent Clearing Member that submits Agent Clearing Member Transactions to the Corporation for novation on behalf of its Customers, the Corporation shall maintain one or more Agent Clearing Member Customer Omnibus Accounts in the name of the Agent Clearing Member for the benefit of its Customers.

(c) The Agent Clearing Member shall act solely as agent of its Customers in connection with the clearing of Agent Clearing Member Transactions; provided, that the Agent Clearing Member shall remain fully liable for the performance of all obligations to the Corporation arising in connection with Agent Clearing Member Transactions; and provided further, that the liabilities and obligations of the Corporation with respect to Agent Clearing Member Transactions entered into by the Agent Clearing Member shall extend only to the Agent Clearing Member. Without limiting the generality of the foregoing, the Corporation shall not have any liability or obligation arising out of or with respect to any Agent Clearing Member Transaction to any Customer on behalf of whom an Agent Clearing Member entered into the Agent Clearing Member Transaction.

(d) Nothing in these Rules and Procedures shall prohibit an Agent Clearing Member from seeking reimbursement from a Customer for payments made by the Agent Clearing Member (whether out of Clearing Fund deposits or otherwise) under these Rules and Procedures, or as otherwise may be agreed between the Agent Clearing Member and the Customer.

SEC. 6. Clearing Fund Obligations.

(a) The Corporation shall maintain one or more Agent Clearing Member Customer Omnibus Accounts for an Agent Clearing Member. Each Agent Clearing Member shall make and maintain so long as such Member is an Agent Clearing Member, a deposit to the Clearing Fund as a Required Fund Deposit to support the activity in its Agent Clearing Member Customer Omnibus Account(s) (the "Agent

Clearing Member Required Fund Deposit"). Each Agent Clearing Member, so long as such Member is an Agent Clearing Member, shall also provide Supplemental Liquidity Deposits to the Clearing Fund, as may be required pursuant to Rule 4A, to support the activity in its Agent Clearing Member Customer Omnibus Account(s). Deposits to the Clearing Fund shall be held by the Corporation or its designated agents, to be applied as provided in these Rules and Procedures.

(b) In the ordinary course, for purposes of satisfying the Agent Clearing Member's Clearing Fund requirements under these Rules and Procedures for its Member activity, its Agent Clearing Member activity, and, to the extent applicable, its Sponsoring Member activity, the Agent Clearing Member's proprietary accounts, its Agent Clearing Member Customer Omnibus Account(s), and its Sponsored Member Sub-Accounts, if any, shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time and without prior notice to the Agent Clearing Member (but being obligated to give notice to the Agent Clearing Member as soon as possible thereafter) and whether or not the Agent Clearing Member is in default of its obligations to the Corporation, treat the Agent Clearing Member's accounts as a single account for the purpose of applying Clearing Fund deposits; apply Clearing Fund deposits made by the Agent Clearing Member with respect to any account as necessary to ensure that the Agent Clearing Member meets all of its obligations to the Corporation under any other account(s); and otherwise exercise all rights to offset and net against the Clearing Fund deposits any net obligations among any or all of the accounts, whether or not any other Person is deemed to have any interest in such account.

(c) The Agent Clearing Member Required Fund Deposit for each Agent Clearing Member Customer Omnibus Account shall be calculated separately based on the Agent Clearing Member Transactions in such Agent Clearing Member Customer Omnibus Account, and the Agent Clearing Member shall, as principal, be required to satisfy the Agent Clearing Member Required Fund Deposit for each of the Agent Clearing Member's Agent Clearing Member Customer Omnibus Accounts.

(d) Sections 1, 2, 4, 5, 6, 7, 8, 9, 10, 11 and 12 of Rule 4 shall apply to the Agent Clearing Member Required Fund Deposit with respect to obligations of an Agent Clearing Member under these Rules and Procedures, including its obligations arising under the Agent Clearing Member Customer Omnibus Accounts, to the same extent as such sections apply to any Required Fund Deposit and any other obligations of a Member. For purposes of Section 1 of Rule 4, obligations and liabilities of a Member to the Corporation that shall be secured shall include, without limitation, a Member's obligations as an Agent Clearing Member under these Rules and Procedures, including, without limitation, any obligation of any such Agent Clearing Member to provide the Agent Clearing Member Required Fund Deposit and such Agent Clearing Member's obligations arising under SFTs established in the Agent Clearing Member Customer Omnibus Accounts of such Agent Clearing Member.

(e) An Agent Clearing Member shall be subject to such fines as may be imposed in accordance with such Rules or Procedures of the Corporation for any late satisfaction of a Clearing Fund deficiency call.

#### SEC. 7. Right of Offset.

In the ordinary course, with respect to satisfaction of any Customer's obligations under these Rules and Procedures, the Agent Clearing Member's Agent Clearing Member Customer Omnibus Accounts, the Agent Clearing Member's proprietary accounts, and the Agent Clearing Member's Sponsored Member Sub-Accounts, if any, at the Corporation shall be treated separately, as if they were accounts of separate entities. Notwithstanding the previous sentence, however, the Corporation may, in its sole discretion, at any time any obligation of the Agent Clearing Member arises in respect of any Agent Clearing Member Customer Omnibus Account, exercise a right of offset and net any such obligation against any obligations of the Corporation to the Agent Clearing Member in respect of such Agent Clearing Member's proprietary accounts at the Corporation.

#### SEC. 8. Loss Allocation Obligations.

(a) To the extent the Corporation incurs a loss or liability from a Defaulting Member Event or a Declared Non-Default Loss Event and a loss allocation obligation arises, that would be the responsibility of the Agent Clearing Member Customer Omnibus Account as if the Agent Clearing Member Customer Omnibus Account were a Member, the Corporation shall calculate such loss allocation obligation and the Agent Clearing Member shall, as principal, be responsible for satisfying such obligations.

(b) The entire amount of the Required Fund Deposit associated with the Agent Clearing Member's proprietary accounts at the Corporation and the entire amount of the Agent Clearing Member Required Fund Deposit may be used to satisfy any amount allocated against an Agent Clearing Member, whether in its capacity as a Member, an Agent Clearing Member, or otherwise. With respect to an obligation to make payment due to any loss allocation amounts assessed on an Agent Clearing Member pursuant to Section 8(a) of this Rule, the Agent Clearing Member may instead elect to terminate its membership in the Corporation pursuant to Section 6 of Rule 4 and thereby benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4; however, for the purpose of determining the Loss Allocation Cap for such Agent Clearing Member, its Required Fund Deposit shall be the sum of its Required Fund Deposits associated with its proprietary accounts at the Corporation (including its proprietary SFT Account pursuant to Rule 56), its Agent Clearing Member Required Fund Deposits for each of its Agent Clearing Member Customer Omnibus Accounts, and its Sponsoring Member Required Fund Deposit, if any.

#### SEC. 9. Restrictions on Access to Services by an Agent Clearing Member.

(a) The Board of Directors may at any time, upon the Corporation providing notice to an Agent Clearing Member pursuant to Section 5 of Rule 45, suspend an

Agent Clearing Member in its capacity as an Agent Clearing Member from any service provided by the Corporation either with respect to a particular transaction or transactions or with respect to transactions generally, or prohibit or limit such Agent Clearing Member's access to services offered by the Corporation in the event that one or more of the factors set forth in Section 1 of Rule 46 is present with respect to the Agent Clearing Member.

(b) Rule 46 shall apply with respect to an Agent Clearing Member in the same way as it applies to Members, including the Board of Directors' right to summarily suspend the Agent Clearing Member and to cease to act for such Agent Clearing Member.

(c) If the Corporation ceases to act for an Agent Clearing Member in its capacity as an Agent Clearing Member, Section 14 of Rule 56 shall apply and the Corporation shall decline to accept or process data from the Agent Clearing Member on Agent Clearing Member Transactions and close-out any Agent Clearing Member Transactions that have been novated to the Corporation. If the Corporation suspends, prohibits or limits an Agent Clearing Member in its capacity as an Agent Clearing Member with respect to such Agent Clearing Member's access to services offered by the Corporation, the Corporation shall decline to accept or process data from the Agent Clearing Member on Agent Clearing Member Transactions for so long as the Corporation is suspending, prohibiting or limiting the Agent Clearing Member. The Corporation shall close-out any Agent Clearing Member Transactions which have been novated to the Corporation.

#### SEC. 10. Insolvency of an Agent Clearing Member.

(a) An Agent Clearing Member shall be obligated to immediately notify the Corporation that (a) it fails, or is unable, to perform its contracts or obligations or (b) it is insolvent as required by Section 1 of Rule 20 for other Members. An Agent Clearing Member shall be treated by the Corporation in all respects as insolvent under the same circumstances set forth in Section 2 of Rule 20 for other Members. Section 3 of Rule 20 shall apply, in the same manner in which such section applies to other Members, in the case where the Corporation treats an Agent Clearing Member as insolvent.

(b) In the event that the Corporation determines to treat an Agent Clearing Member as insolvent pursuant to Rule 20, the Corporation shall have the right to cease to act for the insolvent Agent Clearing Member pursuant to Section 9 of this Rule. If the Corporation ceases to act for the insolvent Agent Clearing Member, the Corporation shall decline to accept or process data from the Agent Clearing Member, including Agent Clearing Member Transactions. The Corporation shall close-out any Agent Clearing Member Transactions which have been novated to the Corporation.



SEC. 11. Transfer of Agent Clearing Member Transactions in Agent Clearing Member Customer Omnibus Accounts.

(a) The provisions of this Section 11 shall only apply (i) with respect to Agent Clearing Member Transactions that have been novated to NSCC, (ii) in the event the relevant Agent Clearing Member is not a Defaulting Member and (iii) a Corporation Default has not occurred.

(b) To the extent permitted under applicable laws and regulations, an Agent Clearing Member may, upon a default of a Customer and the consent of the Corporation, transfer the Agent Clearing Member Transactions of the Customer established in one or more of the Agent Clearing Member's Agent Clearing Member Customer Omnibus Accounts from such Agent Clearing Member Customer Omnibus Accounts to the Agent Clearing Member's proprietary account at the Corporation as a Member. Any such transfer shall occur by novation, such that the obligations between the Corporation and the relevant Customer in respect of the Agent Clearing Member Transactions shall be terminated and replaced with identical obligations between the Corporation and the Agent Clearing Member, acting as principal. The Agent Clearing Member shall indemnify the Corporation, and its employees, officers, directors, shareholders, agents and Members, for any and all losses, liability, or expenses incurred by them arising from, or in relation to, any such transfer.

SEC. 12. Customer Acknowledgments

Each Agent Clearing Member on behalf of each of its Customers agrees that such Customer, by participating in and entering into Agent Clearing Member Transactions through the Agent Clearing Member, understands, acknowledges, and agrees that:

(a) the service provided by the Corporation with regard to the Customer Clearing Service will be subject to and governed by these Rules and Procedures;

(b) these Rules and Procedures shall govern the novation of Agent Clearing Member Transactions and all transactions between the Customer and its Agent Clearing Member resulting in the novation of such transactions, and at the time of novation of an Agent Clearing Member Transaction, the Customer on whose behalf it was submitted will be bound by the Agent Clearing Member Transaction automatically and without any further action by the Customer or by its Agent Clearing Member, and the Customer agrees to be bound by the applicable provisions of these Rules and Procedures in all respects;

(c) the Corporation shall be under no obligation to deal directly with the Customer, and the Corporation may deal exclusively with the Customer's Agent Clearing Member;

(d) the Corporation shall have no obligations to the Customer with respect to any Agent Clearing Member Transactions submitted by an Agent Clearing Member on

behalf of the Customer, including with respect to any payment or delivery obligations;  
and

(e) the Customer shall have no right to receive from the Corporation, or any right to assert a claim against the Corporation with respect to, nor shall the Corporation be liable to the Customer for, any payment or delivery obligation in connection with any Agent Clearing Member Transactions submitted by an Agent Clearing Member on behalf of the Customer, and the Corporation shall make any such payments or redeliveries solely to the relevant Agent Clearing Member.

### RULE 3. LISTS TO BE MAINTAINED

SEC. 1. (a) The Corporation shall maintain a list of the securities which may be the subject of contracts cleared through the Corporation (hereinafter referred to as "Cleared Securities"), and may from time to time add securities to such list or remove securities therefrom. Unless the Corporation shall otherwise determine, Cleared Securities may only be those issues of securities the issuer of which is subject to, or regularly complies with, Rule 10b-17 of the Exchange Act, promulgated pursuant to the Exchange Act. The Corporation shall accept an issue of securities as a Cleared Security only upon a determination by the Corporation that it has the existing operational capability to do so and to continue successfully to provide its services to Members.

A Cleared Security that the Corporation in its discretion determines no longer meets the requirements imposed pursuant to this Section 1 shall cease to be a Cleared Security. In addition, the Corporation may determine that a Cleared Security shall cease to be a Cleared Security in the event that: (1) such Cleared Security shall have been suspended from trading in the over-the-counter market or on any national securities exchange by the SEC pursuant to Section 12(k) or (j) of the Exchange Act, or has been suspended from trading by another regulatory authority or by a self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), which has authority to suspend such activity; or (2) the Corporation finds that the level of activity in the security during the period of three consecutive months preceding that determination is insufficient to produce benefits commensurate with the costs to the Members arising from its continued inclusion as a Cleared Security; or (3) the Corporation determines that there may exist a legal impediment to the validity or legality of the issuance or continued transfer or delivery of the security; or (4) the Corporation determines, after discussion with the appropriate marketplace regulator, where possible, that continued clearance and settlement by the Corporation presents unacceptable risks to the Corporation and/or its participants; or (5) the Corporation determines that the location of the transfer agent(s) for the security or such transfer agent's capability for reissuing certificates for the security is such as to impair the efficient operation of clearing procedures.

(b) The Corporation shall also maintain a list of Cleared Securities that are eligible for book-entry transfer on the books of each Qualified Securities Depository and are subject to clearance and settlement in the CNS System and may from time to time add Cleared Securities to such list or remove Cleared Securities therefrom.

A Cleared Security shall be removed from the list of CNS Securities upon receipt by the Corporation of written notice from a Qualified Securities Depository that the security is no longer eligible under its rules for transfer by book-entry. A Cleared Security may be removed from the list of CNS Securities, for example, if in the judgment of the Corporation Members may lose important rights or additional risk may be presented to the Corporation or its Members by reason of its continued status as a CNS Security. Any such removal shall be promptly communicated to all Members by the Corporation.

(c) The Corporation shall maintain a list of funds and other pooled investment entities which may be the subject of orders processed through the Corporation's Mutual Fund Services (hereinafter referred to as "Fund/SERV Eligible Funds") and may from time to time add funds and other pooled investment entities to such list or remove Fund/SERV Eligible Funds therefrom. Unless the Corporation shall otherwise determine, a Fund/SERV Eligible Fund must be assigned a CUSIP<sup>1</sup> number, and may only be: (i) an investment company regulated under the Investment Company Act of 1940, as amended; (ii) a fund or other pooled investment entity that is subject to regulation under applicable federal and state banking and/or insurance law; or (iii) a fund or other pooled investment entity subject to regulation under other applicable law which meets criteria established by the Corporation from time to time.

(d) The Corporation shall maintain a list of insurance products and retirement or other benefit plans or programs which may be the subject of orders processed through the Insurance & Retirement Services (hereinafter referred to as "I&RS Eligible Products") and may from time to time add I&RS Eligible Products to such list or remove I&RS Eligible Products therefrom. An I&RS Eligible Product must have been assigned a CUSIP number.

(e) The Corporation shall maintain a list of government securities which may be the subject of contracts processed through the Corporation (hereinafter referred to as "Eligible Government Securities") and may from time to time add government securities to such list or remove government securities therefrom. An Eligible Government Security may only be: an unmatured, marketable debt security in book-entry form that is a direct obligation of the United States Government; such other security issued or guaranteed by the United States, a U.S. government agency or instrumentality, or a U.S. government-sponsored corporation; or, such other security as determined by the Corporation from time to time.

(f) The Corporation shall maintain a list of the securities that may be the subject of a novated Securities Financing Transaction and may from time to time add securities to such list or remove securities therefrom.

SEC. 2. The Corporation shall maintain a list of Eligible Clearing Fund Securities.

SEC. 3. (a) The Corporation shall maintain a list of those Persons who are entitled under the provisions of New York law to pay New York State stock transfer taxes through the facilities of the Corporation.

(b) The Corporation shall maintain a list of Members, Limited Members, and Sponsored Members as set forth in Rule 2.

(c) The Corporation shall maintain a list of broker dealers and others on whose behalf Members have indicated they will act in comparing, clearing and/or

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<sup>1</sup> CUSIP is a registered trademark of the American Bankers Association.

settling trades. Members shall provide the Corporation with such information, in accordance with the Procedures as may be adopted from time to time by the Corporation, or pursuant to agreement.

(d) The Corporation shall maintain a list of Members and Settling Bank Only Members that have agreed to act as Settling Banks.

SEC. 4. Members, Sponsored Members, Mutual Fund/Insurance Services Members, Fund Members, Insurance Carrier/Retirement Services Members, Municipal Comparison Only Members, TPA Members, TPP Members, Investment Manager/Agent Members, and AIP Members shall not:

(a) submit to the Corporation for processing, or

(b) request the inclusion on any list maintained pursuant to this Rule 3 of,

any security or other financial instrument if its issuer is: (i) listed on the Office of Foreign Assets Control ("OFAC") list of specially designated nationals distributed by the U.S. Department of the Treasury, or (ii) incorporated in a country that is on the OFAC list of countries subject to comprehensive sanctions.

SEC. 5. The Corporation shall maintain a list of AIP Members and AIP Eligible Products as referenced in Rule 53. The Corporation shall maintain a list of Members and Settling Bank Only Members that have agreed to act as AIP Settling Banks.

## RULE 4. CLEARING FUND

**SEC. 1. *Required Fund Deposits.*** Each Member shall make and maintain on an ongoing basis a deposit to the Clearing Fund. The amount of each Member's required deposit shall be determined by the Corporation in accordance with Procedure XV and other applicable Rules and Procedures (the "Required Fund Deposit"). The minimum Required Fund Deposit, excluding Required SFT Deposit, for each Member shall be \$250,000. The Corporation may require any such Member to deposit additional amounts to the Clearing Fund pursuant to Rule 15. A Member may in its discretion maintain additional deposits at the Corporation, subject to any Procedures or other requirements the Corporation may establish for such excess amounts. For purposes of these Rules and Procedures, such additional deposits shall be deemed to be part of the Clearing Fund and the Member's Actual Deposit but shall not be deemed to be part of the Member's Required Fund Deposit.

The Corporation may permit Members to satisfy their Required Fund Deposit obligations through a combination of cash and open account indebtedness secured by Eligible Clearing Fund Securities, as further described in Procedure XV<sup>1</sup>. The aggregate of cash deposited, the collateral value of pledged Eligible Clearing Fund Securities determined in accordance with Section II.(A) of Procedure XV, and the face amount of any Eligible Letters of Credit shall not at any time be less than the Member's Required Fund Deposit.

Each Member grants to the Corporation a first priority perfected security interest in its right, title and interest in and to any Eligible Clearing Fund Securities, funds and assets pledged to the Corporation to secure the Member's open account indebtedness or placed by a Member in the possession of the Corporation (or its agents acting on its behalf) (collectively with any Eligible Letters of Credit issued on behalf of a Member in favor of the Corporation, the Member's "Actual Deposit"), in each case to secure all such Member's obligations to the Corporation. The Corporation shall be entitled to

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<sup>1</sup> In addition, the Corporation reserves the right to require participants to post a letter of credit in an instance where the Corporation, in its discretion, believes the participant presents legal risk. In such circumstances the Corporation may require part of a participant's deposit to be evidenced by an open account indebtedness supported by one or more irrevocable letters of credit with a maturity of no more than one year issued on behalf of the participant in favor of the Corporation (i) under which a bank, trust company or United States branch or agency of a foreign bank (hereinafter, an "Issuer"), in each case approved by the Corporation for such purpose, is obligated to honor drafts up to a specified amount drawn on it by the Corporation and (ii) the terms and conditions of which the Corporation determines are acceptable to the Corporation in its sole discretion (each such letter of credit, an "Eligible Letter of Credit"). Any amount drawn on any Eligible Letters of Credit shall be deposited into, and constitute an additional cash deposit to, the Clearing Fund and shall reduce the participant's open account indebtedness by a corresponding amount. Within ten (10) calendar days prior to the stated expiration date of any such Eligible Letter of Credit or within such time as the Corporation shall direct upon receipt by the Corporation of written notice from an approved bank of an earlier expiration date of any Eligible Letter of Credit supporting a participant's open account indebtedness, such participant shall make a substitution for the Eligible Letter of Credit, in accordance with the provisions of this Rule, in the amount required, effective upon or prior to the expiration of the Eligible Letter of Credit.

exercise the rights of a pledgee under common law and a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such assets. Eligible Clearing Fund Securities pledged to secure a Member's open account indebtedness shall be delivered to the Corporation's account at DTC, or on such other terms and conditions as the Corporation may require. The Corporation may in its discretion hold pledged Eligible Clearing Fund Securities in its account at a financial institution designated by the Corporation.

**SEC. 2. *Permitted Use, Investment, and Maintenance of Clearing Fund Assets.*** The Clearing Fund shall only be used by the Corporation (i) to secure each Member's performance of obligations to the Corporation, including each Member's obligations with respect to any loss allocations as set forth in Section 4 of this Rule, (ii) to provide liquidity to the Corporation to meet its settlement obligations, including, without limitation, through the direct use of cash in the Clearing Fund or through the pledge or rehypothecation of pledged Eligible Clearing Fund Securities in order to secure liquidity, and (iii) for investment as set forth in this section.

Each time the Corporation uses any part of the Clearing Fund pursuant to clause (ii) in the preceding paragraph for more than 30 calendar days, the Corporation, at the close of business on the 30<sup>th</sup> calendar day (or on the first Business Day thereafter) from the day of such use, shall consider the amount used but not yet repaid as a loss to the Clearing Fund incurred as a result of a Defaulting Member Event and immediately allocate such loss in accordance with Section 4 of this Rule.

The Corporation may invest any cash in the Clearing Fund, including (i) cash deposited by a Member as part of its Actual Deposit, (ii) the proceeds of (x) any loans made to the Corporation secured by the pledge by the Corporation of Eligible Clearing Fund Securities pledged to the Corporation or (y) any sales of Eligible Clearing Fund Securities pledged to the Corporation, (iii) cash receipts from any investment of, repurchase or reverse repurchase agreements relating to, or liquidation of, Clearing Fund assets, and (iv) cash payments on Eligible Letters of Credit (collectively, "Clearing Fund Cash"), in accordance with the Clearing Agency Investment Policy adopted by the Corporation.

The Corporation shall not be required to segregate each Member's Actual Deposit, but shall maintain books and records concerning the assets that constitute each Member's Actual Deposit.

Each Member shall be entitled to any interest earned or paid on Clearing Fund cash deposits. Any interest on pledged Eligible Clearing Fund Securities that is received by the Corporation shall be credited to the Member's cash deposit to the Clearing Fund, except in the event of a default by such Member on any obligations to the Corporation, in which case the Corporation may exercise its rights under Section 3 of this Rule.

**SEC. 3. *Application of Clearing Fund Deposits and Other Amounts to Members' Obligations.*** If a Member is obligated to the Corporation pursuant to these Rules and

Procedures and (i) fails to satisfy the obligation or (ii) the obligation is a Cross-Guaranty Obligation, the Corporation shall apply to such obligation the amount of such Member's Actual Deposit, any amounts available under a Clearing Agency Cross-Guaranty Agreement, and any proceeds of any of the foregoing to satisfy the obligation, and the Corporation may take any and all actions with respect to such assets and amounts, including assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate. If such application results in any deficiency in the Member's Actual Deposit as compared to its Required Fund Deposit, the Member shall immediately replenish its Actual Deposit. If the Member fails to do so, the Corporation may take disciplinary action against such Member pursuant to Rule 46 or Rule 48. Any disciplinary action that the Corporation takes pursuant to Rule 46 or Rule 48 or the voluntary or involuntary cessation of membership shall not affect the Member's obligations to the Corporation or any remedy to which the Corporation may be entitled under applicable law.

SEC. 4. *Loss Allocation Waterfall, Off-the-Market Transactions.* For the purposes of this Rule, the following terms shall have the following meanings:

"Defaulting Member" shall mean a Member for which the Corporation has ceased to act pursuant to Rule 46.

"Defaulting Member Event" shall mean the determination by the Corporation to cease to act for a Member pursuant to Rule 46.

"Declared Non-Default Loss Event" shall mean the determination by the Board of Directors that a loss or liability incident to the clearance and settlement business of the Corporation may be a significant and substantial loss or liability that may materially impair the ability of the Corporation to provide clearance and settlement services in an orderly manner and will potentially generate losses to be mutualized among Members in order to ensure that the Corporation may continue to offer clearance and settlement services in an orderly manner.

If the Corporation incurs a loss or liability arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporation shall address the loss or liability as follows:

Defaulting Member Events and/or Declared Non-Default Loss Events that occur within a period of ten (10) Business Days (an "Event Period") shall be grouped together for purposes of applying the limits on loss allocation set forth in this Rule.

In the case of a Defaulting Member Event, an Event Period begins on the day the Corporation notifies Members that it has ceased to act for the Defaulting Member (or the next Business Day, if such day is not a Business Day).

In the case of a Declared Non-Default Loss Event, an Event Period begins on the day that the Corporation notifies Members of the Declared Non-Default Loss Event (or the next Business Day, if such day is not a Business Day), which notification shall be issued promptly following any such determination. If a subsequent Defaulting Member



Event or Declared Non-Default Loss Event occurs during an Event Period, any losses or liabilities arising out of or relating to any such subsequent event shall be resolved as losses or liabilities that are part of the same Event Period, without extending the duration of such Event Period.

Each Member shall be obligated to the Corporation for the entire amount of any loss or liability incurred by the Corporation arising out of or relating to any Defaulting Member Event with respect to such Member. To the extent that such loss or liability is not satisfied pursuant to Section 3 of this Rule 4, the Corporation shall apply a Corporate Contribution thereto and charge the remaining amount of such loss or liability ratably to other Members, as further provided below.

The Corporation shall apply the Corporate Contribution to losses and liabilities that arise out of or relate to one or more Defaulting Member Events and/or Declared Non-Default Loss Events that occur within an Event Period. If losses and liabilities with respect to such Event Period remain unsatisfied following application of the Corporate Contribution, the Corporation shall allocate such losses and liabilities to Members, subject to the requirements and limitations below.

Each Member that is a Member on the first day of an Event Period shall be obligated to pay its pro rata share of losses and liabilities arising out of or relating to each Defaulting Member Event (other than a Defaulting Member Event with respect to which it is the Defaulting Member) and each Declared Non-Default Loss Event occurring during the Event Period. Any Member for which the Corporation ceases to act on a non-Business Day, triggering an Event Period that commences on the next Business Day, shall be deemed to be a Member on the first day of that Event Period.

A loss allocation “round” means a series of loss allocations relating to an Event Period, the aggregate amount of which is limited by the sum of the Loss Allocation Caps of affected Members (a “round cap”). When the aggregate amount of losses allocated in a round equals the round cap, any additional losses relating to the applicable Event Period would be allocated in one or more subsequent rounds, in each case subject to a round cap for that round. The Corporation may continue the loss allocation process in successive rounds until all losses from the Event Period are allocated among Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 6 of this Rule.

Each loss allocation shall be communicated to Members by the issuance of a notice that advises the Members of the amount being allocated to them (“Loss Allocation Notice”). Each Member’s pro rata share of losses and liabilities to be allocated in any round shall be equal to (i) the average of its Required Fund Deposit for the seventy (70) Business Days preceding the first day of the applicable Event Period or such shorter period of time that the Member has been a Member (each Member’s “Average RFD”), divided by (ii) the sum of Average RFD amounts of all Members subject to loss allocation in such round.

Each Loss Allocation Notice shall specify the relevant Event Period and the round to which it relates. The first Loss Allocation Notice in any first, second, or subsequent round shall expressly state that such Loss Allocation Notice reflects the beginning of the first, second, or subsequent round, as the case may be, and that each Member in that round has five (5) Business Days from the issuance of such first Loss Allocation Notice for the round (such period, a “Loss Allocation Withdrawal Notification Period”) to notify the Corporation of its election to withdraw from membership pursuant to Section 6 of this Rule, and thereby benefit from its Loss Allocation Cap. The “Loss Allocation Cap” of a Member shall be equal to the greater of (x) its Required Fund Deposit on the first day of the applicable Event Period and (y) its Average RFD.

After a first round of loss allocations with respect to an Event Period, only Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 6 of this Rule shall be subject to further loss allocation with respect to that Event Period.

Members shall pay to the Corporation the amount specified in any first round Loss Allocation Notice on the second Business Day after the Corporation issues any such notice. Members shall pay to the Corporation the amount specified in any subsequent round Loss Allocation Notice on the second Business Day after the Corporation issues such notice, unless the Member has timely notified (or will timely notify) the Corporation of its election to withdraw from membership with respect to a prior loss allocation round pursuant to Section 6 of this Rule.

To the extent that a Member’s Loss Allocation Cap exceeds the Member’s Required Fund Deposit on the first day of the applicable Event Period, the Corporation may, in its discretion, retain any excess amounts on deposit from the Member, up to the Member’s Loss Allocation Cap.

If a Member fails to make payment to the Corporation in respect of a Loss Allocation Notice by the time such payment is due, the Corporation shall have the right to proceed against such Member as a Member that has failed to satisfy an obligation in accordance with Section 3 of this Rule.

If a Member notifies the Corporation of its election to withdraw from membership pursuant to Section 6 of this Rule, the Member shall comply with the provisions of Section 6 of this Rule. If, after notifying the Corporation of its election to withdraw from membership pursuant to Section 6 of this Rule, the Member fails to comply with the provisions of Section 6 of this Rule, its notice of withdrawal shall be deemed void and any further losses resulting from the applicable Event Period may be allocated against it as if it had not given such notice.

To the extent that a loss or liability of the Corporation is determined by the Corporation to arise in connection with the close-out or liquidation of an Off-the-Market Transaction in the portfolio of a Defaulting Member, it shall be allocated directly and entirely to the Member that was the counterparty to such Off-the-Market Transaction; however, no allocation shall be made if the Defaulting Member has satisfied all

applicable intraday mark-to-market margin charges assessed by the Corporation with respect to the Off-the-Market Transaction, as permitted by these Rules and Procedures, prior to its default.

**SEC. 5. *Corporate Contribution.*** For any loss allocation pursuant to Section 4 of this Rule, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporation's corporate contribution to losses or liabilities that are incurred by the Corporation with respect to an Event Period ("Corporate Contribution") shall be an amount that is equal to fifty (50) percent of the amount calculated by the Corporation in respect of its General Business Risk Capital Requirement as of the end of the calendar quarter immediately preceding the Event Period. The Corporation's General Business Risk Capital Requirement, as defined in its Clearing Agency Policy on Capital Requirements, is, at a minimum, equal to the regulatory capital that the Corporation is required to maintain in compliance with Rule 17Ad-22(e)(15) under the Exchange Act. If the Corporate Contribution is applied by the Corporation against a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporate Contribution for any subsequent Event Periods occurring during the two hundred fifty (250) Business Days thereafter shall be reduced to the remaining unused portion of the Corporate Contribution amount that applied for the first Event Period. The Corporation shall notify Members of any such reduction to the Corporate Contribution.

Nothing in these Rules and Procedures shall prevent the Corporation from voluntarily applying amounts greater than the Corporate Contribution against any loss or liability of the Corporation, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, if the Board of Directors, in its sole discretion, believes such to be appropriate under the factual situation existing at the time.

**SEC. 6. *Withdrawal Following Loss Allocation.*** If a Member timely notifies the Corporation of its election to withdraw from membership in respect of a loss allocation round as set forth in Section 4 of this Rule ("Loss Allocation Withdrawal Notice"), the Member shall:

- (i) specify in the Loss Allocation Withdrawal Notice an effective date for its withdrawal from membership, which date shall not be later than ten (10) Business Days following the last day of the Loss Allocation Withdrawal Notification Period,
- (ii) cease all activity that would result in transactions being submitted to the Corporation for clearance and settlement for which such Member would be obligated to perform, where the scheduled final settlement date would be later than the effective date of the Member's withdrawal, and
- (iii) ensure that all clearance and settlement activity for which such Member is obligated to the Corporation is fully and finally settled by the effective date of the

Member's withdrawal from membership, including, without limitation, by resolving by such date all fails and buy-in obligations.

A Member that withdraws in compliance with the requirements of this section shall nevertheless remain obligated for its pro rata share of losses and liabilities with respect to any Event Period for which it is otherwise obligated hereunder; however, its aggregate obligation shall be limited to the amount of its Loss Allocation Cap (as fixed in the round for which it withdrew).

If the Member fails to comply with the requirements in this section, its Loss Allocation Withdrawal Notice will be deemed void, and the Member will remain subject to further loss allocations pursuant to Section 4 of this Rule as if it had not given such Loss Allocation Withdrawal Notice.

**SEC. 7. *Return of Members' Clearing Fund Deposits.*** If a Member gives notice to the Corporation of its election to withdraw from membership, the Member's Actual Deposit in the form of (i) cash or securities shall be returned to it within thirty (30) calendar days and (ii) Eligible Letters of Credit shall be returned to it within ninety (90) calendar days, after all of its transactions have settled and all matured and contingent obligations to the Corporation for which the Member was responsible while a Member have been satisfied.

**SEC. 8. *Changes in Members' Required Fund Deposits.*** Each Member shall deposit in the Clearing Fund such amount that is necessary to satisfy any increase in its Required Fund Deposit within such time as the Corporation shall require. At the time the increase becomes effective, the Member's obligations to the Corporation shall be determined in accordance with the increased Required Fund Deposit whether or not the Member has satisfied such increased amount.

**SEC. 9. *Excess Clearing Fund Deposits.*** The Corporation shall determine with such frequency as it shall, from time to time to specify, whether the amount deposited by each Member to the Clearing Fund may be in excess of such Member's Required Fund Deposit. On any day that the Corporation has determined that an excess deposit exists with respect to any Member, the Corporation will, in the form and manner required by the Corporation, notify each such Member of such excess. Subject to the Corporation's rights under these Rules and Procedures to require additional amounts to be deposited by a Member, upon a Member's request, and in accordance with such procedures as the Corporation may set forth from time to time, the Corporation shall return to the Member such amount of its excess cash on deposit (subject to the minimum amount of cash required to be maintained in the Clearing Fund) and/or pledged Eligible Clearing Fund Securities (valued at their collateral value in accordance with Section II.(A) of Procedure XV on the day of such withdrawal) as the Member requests. Notwithstanding the foregoing, the Corporation may, in its discretion, determine to withhold all or part of any excess deposit of a Member if such Member has been placed on the Watch List pursuant to these Rules and Procedures or if the Corporation determines that the Member's anticipated activities in the Corporation in the

near future may reasonably be expected to be materially different than its activities of the recent past.

The provisions of this Section 9 of Rule 4 shall not limit the rights or remedies of the Corporation as provided by Rule 15 of the Rules and Procedures of the Corporation.

SEC. 10. *No waiver; Subsequent Recovery Against Loss Amounts.* No loss allocation under this Rule shall constitute a waiver of any claim the Corporation may have against a Member for any losses or liabilities, including, without limitation, any loss or liability to which the Member is subject under these Rules and Procedures. If a loss charged pro rata is afterward recovered by the Corporation, in whole or in part, the net amount of the recovery shall be credited to the Persons, including the Corporation, against whom the loss was charged in proportion to the amounts charged against them.

SEC. 11. *Substitution or Withdrawal of Pledged Securities.* Upon notice to the Corporation provided in such form and within such timeframe as determined by the Corporation from time to time, a Member may withdraw or substitute pledged Eligible Clearing Fund Securities, provided that the Member continues to satisfy at all times its Required Fund Deposit.

SEC. 12. *Authority of Corporation.* In furtherance of the rights of the Corporation pursuant to these Rules and Procedures, the Corporation shall have full power and authority to pledge, repledge, hypothecate, transfer, create a security interest in, or assign any or all Actual Deposits and any proceeds thereof for the purpose of securing loans made to the Corporation (the party making any such loan to the Corporation hereinafter referred to as the "Lender"); provided that the proceeds of such loans are used for a purpose permissible under Section 2 of this Rule. Such loans shall be on terms and conditions deemed necessary or advisable by the Corporation (including collateralization thereof) in its sole discretion, and may be in amounts greater, and extend for periods of time longer, than the obligations, if any, of any Member to the Corporation for which such property and Eligible Letters of Credit (if any) were pledged to or deposited with the Corporation; provided, however, that if any such loan is made as a result of a loss or liability suffered by the Corporation, the Corporation will promptly, but in no event later than 30 calendar days from the day the loan is made, repay the loan in full. No Member shall have any right, claim or action against any secured Lender (or any collateral agent of such secured Lender) for the return, or otherwise in respect, of any such collateral pledged by the Corporation to such secured Lender (or its collateral agent), so long as any loans made by such Lender to the Corporation or other obligations, secured by such collateral, are unpaid and outstanding. Subject to the foregoing and to the terms and conditions of such loan, the Corporation shall remain obligated to each such Member to return, and to allow substitution for or withdrawal of, cash, and Eligible Clearing Fund Securities, and Eligible Letters of Credit (if any) pledged or deposited by such Member as a Clearing Fund deposit, or otherwise to collateralize such Member's obligations to the Corporation, under the circumstances and within the time frames specified in these Rules and Procedures. In the event of any conflict or inconsistency between this Rule 4 and any agreement between the Corporation and any Member, this Rule 4 shall govern and prevail.

## RULE 4A. SUPPLEMENTAL LIQUIDITY DEPOSITS

**SEC. 1. Overview.** The Corporation requires sufficient liquidity to enable it to effect the settlement of its payment obligations as a central counterparty and to meet its regulatory obligations. A substantial proportion of the liquidity needed by the Corporation for these purposes is attributable to the exposure presented to the Corporation by its Members who would generate the largest settlement debits in stressed market conditions. In order to ensure that the Corporation has sufficient liquidity to meet its payment and regulatory obligations, such Members shall provide supplemental liquidity deposits to the Clearing Fund to supplement the Corporation's other sources of liquidity pursuant to this Rule 4(A). This Rule 4A describes how such supplemental liquidity deposits to the Clearing Fund shall be calculated and provided.

**SEC. 2. Defined Terms.** The following terms shall have the meanings specified below for purposes of this Rule 4A:

"Affiliated Family" means a group of Members, excluding from the group any Member that is a securities clearinghouse, depository, exchange or other market infrastructure, in which each Member in the group is an Affiliate of at least one other Member in the group.

"Daily Liquidity Need" means, on any Business Day, the payment obligations of the Corporation as a central counterparty, as calculated and determined by the Corporation, for all projected same day, intraday and multiday settlement activity (where appropriate), assuming the default on that day of an Unaffiliated Member or Affiliated Family.

"Intraday Supplemental Liquidity Call" has the meaning given to such term in Section 7 below.

"Lookback Period" means the 24 month period (or longer period as determined by the Corporation in its discretion) prior to each Business Day.

"Options Expiration Activity Period" means the period (i) beginning at the opening of business on the Friday preceding the Saturday that is the monthly expiration date for stock options (or the Business Day before that if such Friday is not a Business Day) and (ii) ending at the close of business on the Settlement Date following such date. If the monthly expiration date for stock options is changed to a Friday, the "Options Expiration Activity Period" shall mean the period (i) beginning at the opening of business on such Friday (or the Business Day before that if such Friday is not a Business Day) and (ii) ending at the close of business on the Settlement Date following such date.

"Peak Liquidity Need" has the meaning given to such term in Section 3 below.

"Qualifying Liquid Resources" means, as of each Business Day, the liquid resources available to the Corporation to enable it to settle its payment obligations as a central counterparty in stressed market conditions (as described below), which may include (i) a commitment to lend under a committed line of credit maintained by the

Corporation to enable it to satisfy losses and liabilities incident to the operation of its clearance and settlement business; (ii) actual deposits to its Clearing Fund, including Supplemental Liquidity Deposits; and (iii) any other prefunded or committed liquidity resources that the Corporation may use to settle its payment obligations as a central counterparty. Qualifying Liquid Resources would not include Supplemental Liquidity Deposits for purposes of this Rule 4(A). In order to simulate stressed market conditions, the Corporation would apply assumptions to the size and availability of its Qualifying Liquid Resources when applying these resources in the calculations made under this Rule 4(A).

“Supplemental Liquidity Deposit” shall have the meaning given to such term in Section 5 and shall include any amount deposited to the Clearing Fund in satisfaction of (i) a Supplemental Liquidity Obligation (pursuant to Section 4 below) or (ii) an Intraday Supplemental Liquidity Call (pursuant to Section 7 below). All Supplemental Liquidity Deposits shall be made in cash by wire transfer to an account designated by the Corporation.

“Supplemental Liquidity Obligation” has the meaning given to such term in Section 4 below.

“Supplemental Liquidity Provider” has the meaning given to such term in Section 3 below.

“Unaffiliated Member” means a Member that (i) is not in any Affiliated Family and (ii) is not a securities clearinghouse, depository, exchange or other market infrastructure.

Capitalized terms that are used but not defined in this Rule 4A shall have the meanings given to such terms elsewhere in these Rules.

### **Supplemental Liquidity Obligations**

**SEC. 3. *Supplemental Liquidity Providers.*** On each Business Day, the Corporation shall determine the “Peak Liquidity Need” of each Member, which shall be:

- a. For Unaffiliated Members, the largest Daily Liquidity Need that the Corporation would have in the event of the default of such Unaffiliated Member on any Business Day during the Lookback Period.
- b. For Members of an Affiliated Family, the largest Daily Liquidity Need that the Corporation would have in the event of the default of such Member on any Business Day during the applicable Lookback Period; and with respect to an Affiliated Family, the largest Daily Liquidity Need that the Corporation would have in the event of the simultaneous default of all Members of that Affiliated Family on any Business Day during the Lookback Period.

The 30 (or fewer) Unaffiliated Members or Affiliated Families with the largest Peak Liquidity Need during the Lookback Period shall be “Supplemental Liquidity Providers” for that Business Day.

**SEC 4. *Supplemental Liquidity Obligations.***

- a. On each Business Day, each Supplemental Liquidity Provider shall have a supplemental liquidity obligation to the Corporation (a “Supplemental Liquidity Obligation”) determined in accordance with the following formula:

$A = B \text{ minus } C$ , where --

- A is the Supplemental Liquidity Obligation of such Supplemental Liquidity Provider;
- B is the Daily Liquidity Need of the Supplemental Liquidity Provider calculated for that Business Day; and
- C is the sum of all Qualifying Liquid Resources available to the Corporation on that Business Day assuming stressed market conditions.
- b. If two or more Supplemental Liquidity Providers have a Supplemental Liquidity Obligation of more than \$2 billion, as determined pursuant to subsection a. above, the Corporation may, in its sole discretion, determine the Supplemental Liquidity Obligation of each Supplemental Liquidity Provider as its pro rata share of the largest Supplemental Liquidity Obligation calculated for that Business Day.

**SEC. 5. *Satisfaction of Supplemental Liquidity Obligations.*** In satisfaction of its Supplemental Liquidity Obligation to the Corporation, a Supplemental Liquidity Provider shall make a supplemental liquidity deposit (a “Supplemental Liquidity Deposit”) to the Clearing Fund in an amount equal to its Supplemental Liquidity Obligation.

**SEC. 6. *Notice of Supplemental Liquidity Obligations and Payment of Supplemental Liquidity Deposits.*** On each Business Day, the Corporation shall provide each Supplemental Liquidity Provider with the amount of its Supplemental Liquidity Obligation for that Business Day. Such notice shall state if the Supplemental Liquidity Obligation was calculated pursuant to Section 4b of this Rule. Within one hour of demand, unless otherwise determined by the Corporation, a Supplemental Liquidity Provider shall make its Supplemental Liquidity Deposit to the Clearing Fund.

**Intraday Supplemental Liquidity Calls**

**SEC. 7. *Determination of Intraday Supplemental Liquidity Calls.***

- a. If, on the first Business Day of an Options Expiration Activity Period, the Corporation observes an increase in its Daily Liquidity Need, the Corporation shall call



on the Supplemental Liquidity Providers whose increase in activity levels or projected settlement activity with respect to monthly expiration of stock options caused (or was the primary cause of) such increase in the Daily Liquidity Need of the Corporation to deposit to the Clearing Fund, as an addition to its Supplemental Liquidity Deposit, an amount equal to the difference between (i) the Daily Liquidity Need of the Corporation on such Business Day, adjusted to account for such increased activity levels and projected settlement activity, and (ii) the sum, on such Business Day, of all Qualifying Liquid Resources assuming stressed market conditions (an “Intraday Supplemental Liquidity Call”). For purposes of this Section 7a, the Corporation would adjust the recalculated Daily Liquidity Need using an estimated netting percentage that is based on that Supplemental Liquidity Provider’s average percentage of netting observed over the prior 24 months.

b. If, on any Business Day other than the first Business Day of an Options Expiration Activity Period, the Corporation observes an increase in its Daily Liquidity Need, the Corporation shall be entitled to call on the Supplemental Liquidity Providers whose increase in activity levels caused (or was the primary cause of) such increase in the Daily Liquidity Need of the Corporation to deposit an Intraday Supplemental Liquidity Call in an amount equal to the difference between (i) the Daily Liquidity Need of the Corporation on such Business Day, adjusted to account for such increased activity levels, and (ii) the sum, on such Business Day, of all Qualifying Liquid Resources assuming stressed market conditions.

**SEC. 8. *Satisfaction of Intraday Supplemental Liquidity Calls.*** Unless otherwise determined by the Corporation within one hour of demand of an Intraday Supplemental Liquidity Call from the Corporation, a Member shall make an additional Supplemental Liquidity Deposit to the Clearing Fund in the amount of the Intraday Supplemental Liquidity Call.

### **Returns of Special Activity Supplemental Liquidity Deposits**

**SEC. 9. *Deposits Made in Satisfaction of a Supplemental Liquidity Obligation.*** A Supplemental Liquidity Provider shall be entitled to a return of the amount of its Supplemental Liquidity Deposit made in satisfaction of a Supplemental Liquidity Obligation or Intraday Supplemental Liquidity Call, payable on the Business Day following the Business Day on which the Supplemental Liquidity Deposit was made, unless otherwise notified by the Corporation.

**SEC. 10. *Ceasing to be a Participant.*** Supplemental Liquidity Deposits shall be subject to the provisions of Section 7 of Rule 4 relating to the refund of deposits to the Clearing Fund when a Member ceases to be a participant.

### **Miscellaneous Matters**

#### **SEC. 11. *Obligations of Affiliated Families and Supplemental Liquidity Providers.***

- a. The Supplemental Liquidity Obligations of an Affiliated Family shall be the several obligations of all of the Members of the Affiliated Family ratably in proportion to their applicable Peak Liquidity Need.
- b. In the event of any failure of a Supplemental Liquidity Provider to satisfy a Supplemental Liquidity Obligation in full when due, the Corporation may (i) debit the amount of any such deficiency to the account of such Member, (ii) collect such amount in system wide settlement, and (iii) credit such amount as a Supplemental Liquidity Deposit for the account of such Member. The Corporation may also exercise any and all of its other default rights under these Rules.

#### **SEC. 12. *Application of Supplemental Liquidity Deposits.***

- a. A Supplemental Liquidity Deposit of a Member may not be withdrawn by the Member unless it is entitled to a return of such deposit pursuant to Sections 9 or 10 above. Notwithstanding Sections 9 and 10 of this Rule, the Supplemental Liquidity Deposit of a Member may be held by the Corporation pursuant to Section 9 of Rule 4.
- b. A Supplemental Liquidity Deposit of a Member shall form a part of the actual deposit of the Member to the Clearing Fund but shall be in addition to, and separate from, (i) the Required Fund Deposit of the Member and (ii) any other deposit of the Member to the Clearing Fund.
- c. A Supplemental Liquidity Deposit of a Member (i) may be invested, paid, applied and loaned as provided in Section 2 of Rule 4 and (ii) may be used to satisfy a loss or liability as provided in Section 3 of Rule 4.
- d. A Supplemental Liquidity Deposit of a Member may not be used to calculate or be applied to satisfy any pro rata charge pursuant to Section 4 of Rule 4.

**SEC. 13. *Information.*** To enable Supplemental Liquidity Providers to understand and manage their obligations to the Corporation, on each Business Day, the Corporation shall make available to each Supplemental Liquidity Provider the amount of the Daily Liquidity Need that the Corporation would have had in the event of the default of such Member on the preceding Business Day.

## RULE 5. GENERAL PROVISIONS

SEC. 1. Receive data covering the buy side and deliver data covering the sell side of any contract calling for delivery of Cleared Securities may be sent for comparison by a Member to the Corporation; such contracts shall be compared by the Corporation to the extent provided for under these Rules and the Procedures. Trade Data may also be provided to the Corporation on a locked-in basis as provided pursuant to the Rules and the Procedures. Output made available by the Corporation on: (i) contracts compared by the Corporation, and (ii) locked-in transactions recorded by the Corporation from data received from a Member or Self-Regulatory Organization (collectively, "Compared Contracts"), shall evidence valid, binding and enforceable compared transactions for purposes of these Rules (notwithstanding with respect to locked-in transactions that the underlying data is not matched with corresponding data submitted to the Corporation by the affected contra-Member). Compared Contracts for CNS Securities and other transactions in respect of CNS Securities submitted to the Corporation under these Rules ("CNS Contracts") shall be accounted for in the CNS System; Compared Contracts for Balance Order Securities and other transactions in respect of Balance Order Securities submitted to the Corporation under these Rules ("Balance Order Contracts") shall be accounted for in the Balance Order System; Compared Contracts for Foreign Securities and other transactions in respect of Foreign Securities submitted to the Corporation under these Rules ("Foreign Security Contracts") shall be accounted for in the Foreign Security System. Delivery of CNS Securities to the Corporation, except as specified in Section 9 of Rule 11, shall be made through the facilities of the Corporation or a Qualified Securities Depository and payment therefore shall be made through the Corporation or such agent as it may designate; delivery of Balance Order Securities may be made through the Corporation in which case payment therefore shall be made through the Corporation or such agent as it may designate; delivery of Foreign Securities shall be made pursuant to arrangements mutually agreed upon by the parties, and the Rules of the Corporation shall not govern such delivery or the failure to deliver such securities; delivery of SFT Securities and SFT Cash to the Corporation shall be made through the facilities of a Qualified Securities Depository. Such comparison, accounting, and, with respect to CNS Securities, Balance Order Securities, SFT Securities and SFT Cash, delivery and payment shall be effected as hereinafter prescribed in these Rules, in such regulations with respect thereto as the Corporation may from time to time adopt and in the Procedures.

When issued and when distributed cleared transactions shall be settled and payment therefor made at such time, in such manner and by the delivery of securities and/or other property as the Corporation may determine, or shall be canceled and thereafter shall be null and void if the Corporation determines that the plan or proposal pursuant to which the securities were to be issued or distributed has been abandoned or materially changed.

SEC. 2. Every Member, Mutual Fund/Insurance Services Member, Settling Bank Only Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Manager,

Fund Member, Data Services Only Member and AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 5) shall appoint a representative that is duly authorized in the name of and on behalf of the participant to sign all instruments, to correct errors and to perform such other duties as may be required under these Rules and Procedures and to transact all business requisite in connection with the operations of the Corporation which representative shall be capable of taking such action in a manner consistent with the daily time schedules and other requirements established by or pursuant to these Rules and Procedures.

Each participant will be allotted a number which must be included in all submissions by him in connection with the operations of the Corporation.

The official date of the Comparison Operation, the Accounting Operation and the settlement of contracts is the Settlement Date for such contracts and summaries, security balance orders, security orders, CNS System reports, checks relating thereto, except as may be otherwise directed by the Corporation, either in general or in particular instances, shall bear that date even though they may be issued on a preceding day.

SEC. 3. A participant may appoint one or more persons as its agent(s) with respect to all data, contracts or transactions, transmitted or received, compared, confirmed, accounted for, settled, delivered or carried out through or by the Corporation and all matters relating thereto, provided that such appointment has been consented to by the Corporation and is evidenced by such appointments, authorizations, certifications and other agreements in such form as may be required by the Corporation.

SEC. 4. The Corporation may, in its discretion, require a participant to provide appropriate staff in their offices during specified hours on non-Business Days when such is deemed necessary by the Corporation to insure the integrity of its systems and/or for the protection of the Corporation.

SEC. 5. All reports in electronic format shall be deemed delivered to and received by each participant when made available for retrieval by the Corporation, and each such entity shall be obligated to retrieve and review such reports and notify the Corporation promptly of any error contained in such reports.

RULE 6. (RULE NUMBER RESERVED FOR FUTURE USE)

RULE 7. COMPARISON AND TRADE RECORDING OPERATION  
(INCLUDING SPECIAL REPRESENTATIVE/INDEX RECEIPT AGENT)

SEC. 1. A Member acting as a Special Representative or Qualified Special Representative, may submit to the Corporation for trade recording, trade data on any transaction calling for delivery of Cleared Securities between it and another person. A Member may also submit to the Corporation for comparison trade data on any transaction calling for delivery of Cleared Securities that are also debt securities between it and another person, or for other transactions as otherwise provided through the Obligation Warehouse service in accordance with Rule 51 and Procedure II A.

SEC. 2. Special Representatives

(a) For the purposes of these Rules, a "Special Representative" shall be either a Member or a Registered Clearing Agency which applies to the Corporation for such status and designates those Members for which it will act. The Corporation will not act upon any instruction received from a Special Representative which applies pursuant to this paragraph until each Member for which the Special Representative proposes to act has consented thereto in a writing delivered to the Corporation.

(b) A Special Representative may submit to the Corporation transaction data as to the rights and obligations of Members which calls for the delivery of Cleared Securities and is between Members. The obligations of the Member reflected in such transaction data shall be deemed to have been confirmed and acknowledged by each Member designated by the Special Representative as a party thereto and to have been adopted by such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules shall be valid and binding upon such Member to the same extent as any Compared Contract under this Rule. A Member which has been so designated by a Special Representative shall resolve any differences or claims regarding the rights and obligations reflected in the transaction data submitted by the Special Representative with the Special Representative, and the Corporation shall have no responsibility in respect thereof or to adjust its records or the accounts of the Member in any way, otherwise than pursuant to the instructions of the Special Representative.

SEC. 3. Qualified Special Representatives

(a) For the purposes of these Rules, a Qualified Special Representative is a Special Representative who:

- (1) operates an automated execution system where it is always the contra side to each transaction; or
- (2) has a parent corporation or affiliated corporation that operates an automated execution system where the Special Representative is always the contra side to each transaction; or

- (3) clears for a broker/dealer who operates an automated execution system where the broker/dealer is always the contra side to each transaction, and the subscribers to the automated execution system enter into an agreement with the broker/dealer and the Special Representative acknowledging the Special Representative's role in the clearance of trades executed on the automated execution system.

(b) A Qualified Special Representative may submit to the Corporation in automated form trade data from such automated execution system as locked-in trades. The obligations of the Member reflected in such trade data as the Qualified Special Representative's contra-party shall be deemed to have been confirmed and acknowledged by each Member designated by the Qualified Special Representative as the contra party thereto and to have been adopted by such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules, shall be valid and binding upon such Member to the same extent as any transaction compared under this Rule. A Member which has been designated as the contra-party to a trade by a Qualified Special Representative shall resolve any differences or claims regarding the rights and obligations reflected in the trade data submitted by the Qualified Special Representative with the Qualified Special Representative, and the Corporation shall have no responsibility in respect thereof or to adjust its records or the accounts of the Member in any way, other than pursuant to the instructions of the Qualified Special Representative.

#### SEC. 4. Index Receipt Agent

(a) For the purposes of these Rules an Index Receipt Agent shall be a Member which has entered into an Index Receipt Authorization Agreement as required by the Corporation from time to time. A Member desiring to become an Index Receipt Agent shall first submit an application to be reviewed by the Corporation.

(b) An Index Receipt Agent may submit to the Corporation transaction data, which may reflect the netted results of other transactions, as to the rights and obligations of Members which calls for the delivery of cleared securities and is between Members. The obligations of the Member reflected in such transaction data shall be deemed to have been confirmed and acknowledged by each Member or designated by the Index Receipt Agent as a party thereto and to have been adopted by such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules shall be valid and binding upon such Member to the same extent as any Compared Contract under this Rule.

SEC. 5. Trade data submitted to the Corporation by a Member pursuant to Section 1 of this Rule or by a Qualified Special Representative pursuant to Section 3 of this Rule, and transaction data submitted to the Corporation by a Special Representative or Index Receipt Agent pursuant to Section 2 or 4 of this Rule, as

applicable, shall be submitted in the form and manner, and in accordance with the time schedules, prescribed by, or pursuant to, the Procedures.

The name of a Member, Special Representative, Qualified Special Representative or Index Receipt Agent printed, stamped or written on any form, document or other item issued by him or used in a transmission received from him pursuant to this Rule or the Procedures shall be deemed to have been adopted by him as his signature and shall be valid and binding upon him in all respects as though he had manually affixed his signature to such form, document or other item or transmission.

Each Member, Special Representative, Qualified Special Representative and Index Receipt Agent shall promptly check all information in any format that is made available to him by the Corporation pursuant to this Rule or the Procedures.

Any trade data submitted to the Corporation by a Member pursuant to Section 1 of this Rule which is not compared by the Corporation, or any such item compared by the Corporation which is subsequently deleted as provided in the Procedures and not later compared, or any transaction data received by the Corporation which is subsequently deleted as provided in the Procedures shall be adjusted directly between the parties.

Balance Order Contracts produced in accordance with the Procedures on the basis of trade data submitted by Members or Qualified Special Representatives pursuant to Section 1 or 3, as applicable, of this Rule or transaction data submitted by Special Representatives and Index Receipt Agents pursuant to Section 2 or 4, as applicable, of this Rule will, as specified in the Procedures, either (i) be entered in the Balance Order Accounting Operation or (ii) be excluded from the Balance Order Accounting Operation in which case appropriate receive and deliver security orders will be issued by the Corporation in connection therewith and such security orders shall have the same status as security balance orders issued in connection with the Balance Order Accounting Operation and will be subject to all Rules pertaining to such security balance orders unless otherwise specified by the Corporation.

CNS Contracts produced in accordance with the Procedures on the basis of trade data submitted by Members or Qualified Special Representatives pursuant to Section 1 or 3, as applicable, of this Rule or transaction data submitted by Special Representatives and Index Receipt Agents pursuant to Section 2 or 4, as applicable, of this Rule will be entered in the CNS Accounting Operation for settlement as provided in the Procedures and shall be subject to Rule 11.

Foreign Security Contracts produced in accordance with the Procedures on the basis of trade data submitted pursuant to this Rule will be entered in the Foreign Security Accounting Operation as provided in the Procedures.



Notwithstanding the foregoing, Special Trades in Balance Order Securities and CNS Securities shall not enter the Accounting Operation, but will instead be subject to the provisions of Section 9 of Rule 11.

SEC. 6. The Corporation may determine, in its discretion, to accept, from self-regulatory organizations, as defined in the Exchange Act, and/or derivatives clearing organizations that are registered or deemed to be registered with the CFTC pursuant to the Commodity Exchange Act (either directly or through subsidiary or affiliated organizations<sup>1</sup>) and/or service bureaus, initial, or supplemental trade data on behalf of Members for trade recording and input into the Corporation's Comparison Operation (with respect to debt securities) or compared trade data, on behalf of Members for input into the Corporation's Accounting Operation provided that a Member is a party to the trade or transaction. In determining whether to accept trade data from an organization, as described in this Section 6, the Corporation may require such organization to provide a Cybersecurity Confirmation, and to maintain or upgrade their network technology, or communications technology or protocols on the systems that connect to the Corporation to the version being required and within the time periods, as described in Rule 2B, Section 2A.

Such data shall be in a form acceptable to the Corporation, in its discretion, and within such time frames as the Corporation may, in its discretion, require. The Corporation shall deem the report of any such data by any such organization to have been authorized by the Member on whose behalf the data shall have been reported. Data reported by any such organization(s) to the Corporation shall not be deemed to be reported by the Member to the Corporation until such data is accepted by the Corporation.

A determination by the Corporation to accept data from such organization(s) on behalf of a Member shall not be deemed to be an approval of such organization(s), or an assumption by the Corporation of any responsibility or liability for such organization's operation or failure to operate, which shall remain solely between the Member and such organization(s). The Corporation shall be entitled to rely upon any data so submitted without inquiry into the accuracy or validity of such data. It shall be the responsibility of the Member to take appropriate corrective action to resolve any differences resulting from the submission of incorrect data to the Corporation. Acceptance by the Corporation of data from such organization(s) shall not relieve the Member from, or alter, amend or modify, any obligations of the Member pursuant to the Corporation's Rules.

SEC. 7. All trade data submitted to the Corporation for trade recording pursuant to Sections 2(b), 3(b) or 6 of this Rule shall be submitted in Real-time, as that term is defined in Procedure XIII of these Rules, and on a trade-by-trade basis, in the form executed without any form of "pre-netting" of such trades prior to their submission. The

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<sup>1</sup> This may include a trade reporting facility that: (i) is affiliated with, and is operated as a facility of, a self-regulatory organization (SRO), and (ii) the rules and operations of which are the subject of a rule change of the SRO that has been duly filed with the SEC and is effective.

Corporation shall deem any form of trade summarization, compression, or other form of netting or practice that combines two or more trades prior to their submission to the Corporation, or any practice or action designed to contravene this prohibition, as a violation of this Rule, and this prohibition shall apply to any Member (including any Special Representative or Qualified Special Representative) that, directly or indirectly, engages in such pre-netting.

Trade data submitted to the Corporation for trade recording pursuant to Section 2(b) of this Rule is not subject to the requirements of this Section if (1) the counterparty to that trade is an Affiliate of the submitting firm on the Corporation's records at the time the trade data is submitted; (2) the trade data is submitted to facilitate a position movement between two unaffiliated clearing brokers on behalf of a common client for custody purposes ("Client Custody Movements"); or (3) the trade data represents aggregated transactions of fractional shares. Trade data representing aggregated transactions of fractional shares must be submitted to the Corporation for trade recording in units of full shares and should be submitted for trade recording as promptly as reasonably practical.

## RULE 8. BALANCE ORDER AND FOREIGN SECURITY SYSTEMS

SEC. 1. The Corporation will conduct a Balance Order Accounting Operation based upon Balance Order Contracts as specified in the Procedures pursuant to which the Corporation will net the deliver and receive obligations of each Member in each security issue, allot and match the offsetting obligations of Members and prepare and issue to Members (i) a separate deliver security balance order for each delivery of each security to be delivered, showing the Settlement Price in respect thereof established by the Corporation and (ii) a separate receive security balance order offsetting each such deliver security balance order showing the Settlement Price in respect thereof established by the Corporation.

SEC. 2. The Corporation will conduct a Foreign Security Accounting Operation based upon Foreign Security Contracts as specified in the Procedures pursuant to which the Corporation will issue receive and deliver security orders representing the daily netted position of each Member with respect to its transactions with another Member in each Foreign Security.

SEC. 3. The obligation of a Member to receive and pay for securities and the obligation of a Member to deliver securities pursuant to deliver or receive security balance orders or security orders shall be fixed at the time such orders are made available to the Members, although they may not in fact have been received by such Members.

## RULE 9. ENVELOPE SETTLEMENT SERVICE

### SEC. 1. General

The Corporation may, at its facilities (at those locations as it may determine from time to time as announced via Important Notice) offer a service, to be known as the Envelope Settlement Service (“ESS”), through which it may receive envelopes, of the type approved by the Corporation, from Members (each, a “delivering Member”) addressed to Members (each, a “receiving Member”) on Business Days. The services offered by the Corporation through ESS will include the processing and settlement of: (a) security deliveries and receives and associated charges, (b) money-only settlement-related charges, and (c) claims for dividends and interest, each of which has been submitted by Members in accordance with the provisions of these Rules. Such envelopes will be sorted and made available, at the same facility where received by the Corporation, to the authorized representatives of the Members to whom they are addressed as provided in this Section 1. The delivery of envelopes and the related processing of payments by the Corporation are not guaranteed services of the Corporation and are subject to reversal as provided in Section 4 of this Rule.

1. Deliveries of envelopes to the Corporation shall be made in accordance with the schedule from time to time specified by the Corporation.
2. An envelope delivered to the Corporation shall contain only such securities as permitted by the Corporation from time to time; tickets relating to such securities contained in the envelope; or such other items as the Corporation may from time to time permit, including but not limited to, documentation by a delivering Member necessary for the receiving Member to identify the reason for a money-only charge, and notices of intent and claim forms associated with claims for dividends and interest. Envelopes which contain securities other than as permitted by the Corporation are subject to return by the Corporation to the delivering Member and the related credit and debit of the payment amount therefor may be reversed in accordance with Section 4 of this Rule.
3. The envelopes shall be accompanied by a credit list in such form prescribed by the Corporation. The credit list shall list each of the envelopes delivered with it and shall show the number of the Member to whom each envelope is addressed and the total money value, if any, of the items contained in that envelope, and each credit list shall be totaled. In addition, the envelopes must be accompanied, in such format as prescribed by the Corporation, with an indicator as to whether or not the envelope contains a security. Where an envelope contains a security, the delivering Member must provide the Corporation with identifying information with respect to the security (including CUSIP or ISIN), and quantity.

Securities may not be comingled in the same envelope with other items permitted by the Corporation to be processed through ESS. The Corporation may also: (a) prohibit comingling of any variety of items in a single envelope, and (b) limit the number of envelopes that may be submitted per credit list, as it determines

from time to time. However, a Member may deliver no more than one security (defined by CUSIP or ISIN) per envelope. All envelopes delivered through ESS must also be accompanied with such other information as required by the Corporation from time to time, including, when applicable, information regarding OFAC certification.

4. Each separate item in an envelope shall be accompanied by tickets or orders, in duplicate, containing such information as may be necessary for the receiving Member to identify the item. An envelope containing more than one item must also contain an adding machine tape of the money value of the items included in such envelope. The total shown on such tape must be the same as the total money value recorded on the credit list for that envelope.
5. All envelopes delivered to the Corporation will be checked against the credit list which accompanies them to see that each envelope on the credit list has been received. If the envelopes delivered are properly listed on the accompanying credit list, the Corporation will stamp the duplicate credit list and make it immediately available to the delivering Member's representative making the delivery. All envelopes listed on a credit list shall be deemed to have been accepted by the Corporation when the Corporation stamps the duplicate credit list on which such envelopes are listed, and at the time of such stamping the envelope shall be deemed for all purposes, subject to the rights of the Corporation under Section 4 of this Rule and Section 2 of Rule 12, to have been delivered to the receiving Member, unless any such envelope shall be found by the Corporation to contain impermissible items, in which case subsection 2 of this Section 1 shall apply. Prior to the stamping of the credit list, envelopes will be held by the Corporation for the delivering Member and after stamping for the receiving Member.
6. The Corporation will sort the envelopes accepted by it and, subject to the rights of the Corporation under Section 4 of this Rule and Section 2 of Rule 12, will make such envelopes available to the authorized representatives of the receiving Members to whom they are addressed through the Corporation's facilities. Except as the Corporation may determine to be appropriate or necessary, the Corporation will not examine the contents of the envelopes nor verify the payment amounts shown on the credit list, and it shall not be responsible with respect thereto, except to deliver the envelopes accepted by it to the authorized representatives of the receiving Members to whom they are addressed.
7. The Corporation when it stamps a credit list is authorized to, and will, credit the delivering Member's account with the payment amount shown on such stamped credit list and debit the receiving Member's account with the same amount.
8. Each receiving Member shall send to the Corporation at the times on Business Days specified by the Corporation and, in addition, at frequent intervals on Business Days a representative authorized, pursuant to Rule 27, to receive envelopes delivered through the Corporation's facilities.

9. In case of any irregularity or error in an item, the receiving Member may return such item to the delivering Member outside the Corporation, or through the service provided under this Rule by putting such item in an envelope and delivering the envelope in the same manner as provided by this Section 1 for the delivery by Members, except that the tickets in the envelope and the credit list accompanying the envelope, which are used in connection therewith, shall bear the legend "Reclamation". If such delivery of returned items is to be made through the Corporation it shall be made on the day received or on the next Business Day in accordance with the schedule specified by the Corporation. An irregularity in an item shall be deemed to exist only when the receiving Member does not know the delivery, such as deliveries of the wrong securities, deliveries of the wrong number of shares or units, deliveries for the wrong payment amount, or deliveries which do not meet the requirements of Rule 44, if applicable. No irregularity in an item shall be deemed to exist solely by reason of the delivery having been effected through the Corporation, rather than by another means, unless the delivering Member and the receiving Member shall have entered into a prior agreement providing for such delivery by another means or the rules of a self-regulatory organization, as defined in the Exchange Act, require delivery of such item through other means.
10. Payment amounts which the Corporation has agreed to credit to a Member on account of deliveries made to receiving Members and payment amounts which the Corporation has agreed to debit to a receiving Member on account of receipts from delivering Members pursuant to this Section shall be credited or debited from time to time during each Business Day and shall be included in the settlement for that day, pursuant to Rule 12, subject to the rights of the Corporation pursuant Section 4 of this Rule and Section 2 of Rule 12.
11. The Corporation may enter information relating to ESS securities transactions into the Obligation Warehouse service where a delivering Member has provided an OW Control Number (as defined in Procedure IIA).

SEC. 2. The Corporation may provide the services described in Section 1 of this Rule relating to deliveries and receives of securities in respect of envelopes received by it from Members at one of its facilities as set forth in Section 1 which envelopes contain securities and are to be delivered to another Member at a facility other than the facility at which the envelope is received (an "intercity delivery"). Such services shall be limited to such securities, tickets and items as specified in subsection 2 of Section 1 and any other Rules or Procedures of the Corporation with respect thereto, and shall be provided in the same manner as specified in Section 1 of this Rule, except that:

1. Each envelope delivered to the Corporation which involves an intercity delivery must be sealed.
2. The value of the securities contained in all envelopes which involve intercity deliveries by a Member on a single day shall not exceed the amount of the insurance provided by the delivering Member's blanket bond which covers such

securities, or, in any event, the amount of the insurance provided by the Corporation's blanket bond which covers such securities.

3. The provisions of paragraphs 5, 6 and 7 of Section 1 of this Rule to the contrary notwithstanding, if an envelope which involves an intercity delivery is properly sealed, the Corporation will stamp the duplicate credit list as received and make it immediately available to the party making the delivery. When the Corporation's facility at which the envelope is to be received (the "receiving facility") receives the envelope and the accompanying credit list, it shall stamp such credit list and make the envelope available to the receiving party. A sealed envelope with its accompanying credit list shall be deemed to have been accepted by the Corporation when stamped at the facility at which the Corporation receives it from the delivering party (the "delivering facility"). An envelope shall be deemed, subject to subsection 2 of Section 1 and to the rights of the Corporation under Section 4 of this Rule and Section 2 of Rule 12, to have been delivered to the receiving party as of the time when the Corporation stamps the credit list at the receiving facility.

Before the Corporation has stamped the accompanying credit list at the receiving facility, it will hold the envelope as the property of the delivering party and, after such stamping, it will hold the envelope as the property of the receiving party.

The Corporation shall be responsible for an envelope up to the amount indicated on the accompanying credit list between the time the Corporation has stamped a copy of the credit list attached to the envelope at the delivering facility and the time at which the envelope is deemed, subject to the rights of the Corporation under Section 2 of Rule 12 and Section 4 of this Rule, delivered to the receiving party if:

- (a) the seal on the envelope is broken; or
- (b) the sealed envelope with its accompanying credit list is lost, stolen, destroyed or the like; provided, however, that in no event shall the Corporation be liable for any amount in excess of the value indicated on the accompanying credit list.

In any event, it shall be the responsibility of the delivering party to furnish the Corporation with certificate numbers and such other information as the Corporation shall deem appropriate.

4. The Corporation, after it has stamped a credit list at the receiving facility, will credit the delivering party's account with the amount shown on such stamped credit list and debit the receiving party's account with the same amount. Such debits and credits shall be included in the settlement for the day on which such credits and debits are made.
5. Returned items which are received by the Corporation prior to the final reclamation or delivery times designated by the Corporation, and appropriate

debits and credits therefor, will be entered on the same day they are received in the case of a reclamation.

SEC. 3. In the event a Member receives an envelope that contains only part of the securities described by the accompanying ticket or order and the Member does not reclaim the envelope within the time frame prescribed by the Corporation, the Member may request the delivering Member to furnish certificate numbers of the missing securities.

In the event a receiving Member does not receive an envelope or receives an envelope that does not contain any securities and the receiving Member determines that he has been charged for the delivery, the receiving Member may request the delivering Member to identify the securities and furnish certificate numbers related to the delivery.

Requests for certificate numbers should be made promptly.

If a request is made on the day of delivery, the delivering Member must furnish certificate numbers no later than the end of the second Business Day following delivery. If a request is made on the day following delivery or any subsequent day, the delivering Member must furnish certificate numbers no later than the end of the first Business Day following the request. If certificate numbers are not furnished to the receiving Member within the requisite time frame and if the Corporation determines that the receiving Member's request was made promptly, the charges related to the delivery will be subject to reversal.

#### SEC. 4. Reversal of Payment Amount Credits and Debits.

1. The Corporation may reverse, in whole or in part in its sole discretion, any payment amount credited to a delivering Member and debited to a respective receiving Member with respect to any envelope delivery under this Rule 9 if, on any Business Day:
  - (a) An envelope has been found to contain anything other than permitted securities, tickets relating thereto and other items, as provided pursuant to this Rule, or that the contents of an envelope are otherwise inappropriate for delivery through the facilities of the Corporation; or
  - (b) The Corporation reasonably believes that the respective receiving Member will not pay or has not paid the payment amount in respect of an envelope, whether by net settlement or otherwise, and regardless of whether the receiving party that is, or is acting on behalf of, the receiving Member has taken delivery of the envelope prior to such reversal; or
  - (c) If the Corporation ceases to act for the delivering Member, the receiving Member or both.



2. The delivering Member and the receiving Member shall resolve any disputes or claims with respect to any such reversal outside the Corporation, including, but not limited to, any dispute arising because the receiving Member has taken delivery of the envelope prior to the reversal. If the receiving Member has not, at the time of a reversal of payment, taken delivery of the envelope, the Corporation shall return the affected envelope to the appropriate delivering Member.

## RULE 10. FAILURE TO DELIVER ON SECURITY BALANCE ORDERS

If a Member shall not make delivery of all the Cleared Securities to be delivered pursuant to a security balance order by the time on Business Days specified by the Corporation, the Member to whom the Cleared Securities are to be delivered may cause such securities as are not so delivered to be bought-in as provided for in the rules of the applicable marketplace.

## RULE 11. CNS SYSTEM

SEC. 1. (a) The CNS System is a system for accounting and settling CNS Contracts whereby a Member's Settling Trades in CNS Securities are netted so that with respect to each issue of CNS Securities in which the Member has activity, the Member is either obligated to deliver units of that security (a "Short Position") or is entitled to receive units of that security (a "Long Position"), the delivery obligation being to the Corporation and the right to receive being against the Corporation as more specifically set forth in paragraphs (b) and (c) below; whereby Short Positions or Long Positions outstanding in respect of prior activity are brought forward on a perpetual basis and, together with stock dividends or distributions payable or receivable in respect of Short Positions or Long Positions, miscellaneous entries and CNS Securities delivered to or by Members, are merged, netted and carried forward, leaving in each Member's account all transactions which have failed in delivery or receipt; and whereby the contract money of all Settling Trades is netted with cash dividends or distributions receivable and payable and increases and decreases in obligations to the Clearing Fund, if applicable, and miscellaneous items resulting in the closing CNS System money balance for each Member which, for the purpose of computing the CNS System money settlement (including marking any Long or Short Position of a Member at the close of business to the Current Market Price), is adjusted by the net market value of all Closing Positions.

(b) Each obligation of any Member (the "Receiving Member") to pay for securities delivered to that Member by another Member (the "Delivering Member") under a transaction which (i) has been compared or reported by the Corporation and (ii) will be subject to the CNS Accounting Operation (each a "CNS Transaction"), and each obligation of any Delivering Member to deliver securities to any Receiving Member under any such transaction, shall be assumed by the Corporation at the point in the clearance and settlement process determined as set forth in paragraph (c) below. Simultaneously with the assumption of any such obligations by the Corporation, the related rights of the Receiving Member to receive securities from the Delivering Member and the related rights of the Delivering Member to receive payment from the Receiving Member for securities delivered shall be assigned to the Corporation. The assumption of these obligations and the assignment of these rights with respect to any CNS Transaction places the Corporation between the Delivering Member and the Receiving Member, creating an obligation on the part of the Delivering Member to deliver securities to the Corporation and on the part of the Receiving Member to receive and pay for securities delivered by the Corporation, as well as an obligation on the part of the Corporation to receive and pay for securities delivered by the Delivering Member and to deliver securities to the Receiving Member.

(c) The assumptions and assignments referred to in the paragraph (b) of this Section for any CNS Transaction of any Member shall occur when the Corporation's guarantee to complete the transaction becomes effective. For purposes of the preceding sentence, the Corporation shall be deemed to have guaranteed completion of a CNS Transaction when the clearance and settlement process for the transaction has reached the stage at which the Corporation will complete the CNS Accounting

Operation for such transaction notwithstanding that the Corporation may cease to act for the Member. This stage may be designated in the Corporation's Rules or Procedures or in any interpretation or statement of policy relating thereto, and it may be different for different types of transactions.

(d) Whenever the Corporation shall be required to exit or delete any CNS Transaction from the CNS System, the obligation to deliver and/or the obligation to pay for securities delivered, as well as the correlative rights to receive securities and/or to receive payment for securities delivered, shall be further assumed by and assigned to such Members as may be designated by the Corporation, in accordance with its Rules and Procedures, in the appropriate Balance Orders, security orders, reports or as otherwise may be appropriate.

(e) All rights and liabilities with respect to any CNS Transaction other than those specifically assigned and assumed by the Corporation as set forth in paragraph (b) of this subsection shall be retained by the Members who are the original counterparties to the transaction as compared or reported by the Corporation. It is specifically understood that the rights and liabilities retained by such Members shall not include ownership rights in the securities delivered to the Corporation pursuant to CNS Transactions (all of which ownership rights shall be in the Corporation) and any other rights and liabilities that cannot be legally separated from the rights and liabilities assigned and assumed by the Corporation.

SEC. 2. The Corporation will maintain a position for each Member in each CNS Security for which the Member has a Short Position (reflecting units which the Member is obligated to deliver to the Corporation) or a Long Position (reflecting units which the Member is entitled to receive from the Corporation).

SEC. 3. Pursuant to the instructions of each Member given in the manner prescribed in the Procedures and on the basis of information provided to the Member by the Corporation and information otherwise available to the Member, the Corporation will instruct the Qualified Securities Depository designated by the Member in the manner prescribed by the Corporation to deliver to the Corporation's account at the Qualified Securities Depository on each Settlement Date CNS Securities credited to the Member's account for the purpose of reducing or eliminating Short Positions of the Member; and the Corporation will instruct the Qualified Securities Depository to deliver from the Corporation's account at the Qualified Securities Depository, in accordance with the priorities specified in the Procedures, CNS Securities so received into the Corporation's account at the Qualified Securities Depository to the Member necessary to reduce or eliminate Long Positions of the Member. Notwithstanding the foregoing, deliveries and receipts of securities may also be effected in such other manner as may be prescribed in the Procedures.

SEC. 4. On each settlement day the Corporation will issue to each Member reports which will show each CNS position in each security due to settle that day and such other information as the Corporation may deem advisable. With respect to obligations due to settle that day, the obligation of a Member to receive and pay for

CNS Securities and the obligation of a Member to deliver CNS Securities shall be fixed at each time a net settling position is determined for that Member in accordance with the CNS processing and information in respect of that new net settling position is made available.

SEC. 5. (a) On the morning of each settlement day the Corporation will issue to each Member a Cash Reconciliation Statement showing the amount receivable or payable by the Member in respect of the CNS System for that settlement day on the basis of settlement activity completed prior to the preparation of the Cash Reconciliation Statement. On the morning of each settlement day the Corporation will also issue to each Member a statement which will reflect the receipts and deliveries of securities in settlement of Long or Short Positions for that date which shall have been completed prior to the preparation of the Cash Reconciliation Statement. Thereafter on such settlement day the Corporation will issue to each Member a statement or statements of other receipts and deliveries of securities in settlement of Long or Short Positions which are completed on that date. The Member, on the basis of such statements, shall determine the final amount receivable or payable by the Member in respect of the CNS system for that settlement day in the manner specified in the Procedures.

(b) On each settlement day the Corporation will issue to each Member an accounting summary which will reflect each CNS Security in which there was activity or in which the Member had an opening Long or Short Position, the Member's opening Long or Short Position, the Member's activity in such CNS Securities for that day, the transactions into and out of its Qualified Securities Depository account or receipts and deliveries otherwise effected as described in Section 3 of this Rule or in the Procedures, the Closing Position for that day in each CNS Security and the Closing Position valued at the Current Market Price, resulting in a net long market value or short market value in CNS Securities. The accounting summary also will show the Member's money activity for that settlement day.

SEC. 6. The Corporation may, when it deems it necessary for the protection of Members in view of the price fluctuations in or volatility or lack of liquidity of any security require all Members to make additional mark-to-the-market payments on any Long or Short Position in respect of such security or to make mark-to-the-market payments in respect of all transactions in such security prior to the Settlement Date for such transaction.

SEC. 7. In the event a Member has a Long Position in a CNS Security, the Member (the "originator") may demand immediate delivery thereof by submitting, at or before the time specified in the Procedures, to the Corporation a Buy-In Intent, in the form prescribed by the Procedures. The originator will be given priority for CNS allocation, in the manner prescribed by the Procedures, in respect of the allocation by the Corporation of securities covered by the Buy-In Intent, in the settlement on the settlement day prior to the expiration of the buy-in and if the securities are not allocated to the originator in that settlement, in the settlement on the settlement day the buy-in expires. The processing of a Buy-In Intent through the delivery of CNS Retransmittal Notices to Members with Short Positions shall be accomplished in accordance with

Section J of Procedure VII, and the subsequent execution of such buy-in by the originator, as necessary, shall be accomplished in accordance with Procedure X.

With respect to buy-ins of municipal securities, in lieu of receiving priority for CNS allocation, the filing of a Buy-In Intent will be treated as an instruction to remove the securities subject to the buy-in from the CNS System, which shall be accomplished in accordance with the procedures in Section J of Procedure VII.

SEC. 8. After receipt of notice by the Corporation that the issuer of a CNS Security has declared a stock or cash dividend on such security or has authorized a stock-split or a distribution of rights or other property with respect to a CNS Security, the Corporation will issue a Record Date Report which will show each Member's record date Long or Short Position in the security at the close of business on the Record Date (herein called "Record Date Position").

(a) On the payable date for a cash dividend (or, if the payable date is not a settlement day, then on the settlement day immediately following such payable date) each Member shall be obligated to pay an amount equal to the dividend on any Short Position included in the Member's Record Date Position and shall be entitled to receive an amount equal to the dividend on any Long Position included in the Member's Record Date Position. Such amounts, when debited or credited, as appropriate, may be adjusted as provided for under Section G of Procedure VII.

(b) On the payable date for a stock dividend (or, if the payable date is not a settlement day, then on the settlement day immediately following such payable date), the securities position of each Member shall be adjusted to reflect the Member's obligation to deliver the amount of the stock dividend on any Short Position included in the Member's Record Date Position to the Corporation or to reflect the Member's right to receive the amount of the stock dividend on any Long Position included in the Member's Record Date Position from the Corporation. Fractional shares shall not be added to any Short or Long Position in respect of any stock dividend or other distribution. In lieu thereof, the Corporation shall credit or debit, as the case may be, an amount of cash in respect of fractional shares based on the Current Market Price of the security.

(c) The procedure set forth in paragraph (b) shall apply to distributions other than dividends, provided, however, that in the case of stock-splits or distributions in respect of which a CNS Security is traded with due bills after the record date for such stock-split or distribution, the securities position of each Member in such CNS Security shall be adjusted to reflect the Member's obligation to deliver the amount of the stock split or distribution on its Short Position at the close of business on the due bill redemption date (the "Due Bill Redemption Date") to the Corporation or to reflect the Member's right to receive the amount of the stock-split or distribution on its Long Position at the close of business on the Due Bill Redemption Date from the Corporation.

(d) An "as of" trade entered at least one settlement day prior to the payable date in respect of a cash or stock dividend or other distribution not trading with due bills

after the record date, provided the original trade date for the trade is before the ex-dividend date for such dividend, will be subject to the same procedures as those set forth above; an “as of” trade entered prior to or on the Due Bill Redemption Date in respect of other distributions which trade with due bills after the record date will be subject to the same procedures as those set forth above. Any “as of” trades entered outside these specified timeframes shall not be accorded dividend protection in the CNS System.

(e) When a dividend or distribution in securities which are not CNS Securities is declared on a CNS Security or rights which are not CNS Securities are issued in respect of a CNS Security, the items will be reported to each Member having a Long or Short Position in the CNS Security on the close of business on Record Date. Such dividends, distributions or rights shall not, however, be settled in the CNS System; the Corporation shall match the Short and Long Positions in respect thereof in that manner which the Corporation in its discretion may provide and issue receive and deliver security orders in respect thereof, which orders shall have the same status as security balance orders issued in connection with the Balance Order Accounting Operation and will be subject to those provisions of these Rules pertaining to such security balance orders unless otherwise specified by the Corporation.

(f) Dividends which may be paid in the form of securities or cash at the election of the holder will be processed in the manner prescribed in the Procedures.

(g) Notwithstanding the foregoing provisions of this subsection 8, the Corporation may adopt any procedures deemed appropriate by it in respect of any transaction to which such provisions are not fully applicable.

SEC. 9. A trade in a CNS Security or Balance Order Security may be designated a Special Trade in which case it will be cleared and settled on a Member-to-Member basis; the parties to the Special Trade shall notify the Corporation at the time and in manner specified in the Procedures, and the Corporation shall issue receive and deliver security orders in respect thereof, which orders shall be settled by the parties directly. To the extent such Special Trade is for a security that is eligible for book-entry transfer on the books of a Qualified Securities Depository, and the deliverer has filed with the Corporation a standing instruction, the Corporation will issue an instruction on file to a Qualified Securities Depository specifying the quantity of such security to be delivered from the deliverer to the receiver and the money settlement amount related thereto. The Corporation may enter obligations arising from such Special Trades into the Obligation Warehouse service in accordance with timeframes as determined by the Corporation from time to time.

SEC. 10. In the event a CNS Security is removed from the list of CNS Securities pursuant to Rule 3, the Corporation shall, on the first settlement day on which such securities are not deliverable through the facilities of all Qualified Securities Depositories and on each subsequent settlement day for any CNS Contracts entered in the CNS Accounting Operation prior to the effective date of removal, or upon such removal, match with respect to each such settlement day opening Short or Long

Positions in such security in that manner which the Corporation in its discretion may provide, issue receive and deliver security orders in respect thereof for any such day, which orders shall have the same status as security balance orders issued in connection with the Balance Order Accounting Operation and will be subject to those provisions of these Rules pertaining to such security balance orders unless otherwise specified by the Corporation and close out such positions in the CNS System.



## RULE 12. SETTLEMENT

SEC. 1. Settlement of money payments with respect to transactions or matters covered by these Rules, shall be made as provided in this Rule or, with respect to settlement of money payments with respect to the AIP Service ("AIP Settlement"), as provided in Rule 53. The Corporation shall debit or credit itself, Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members, Fund Members and AIP Members with the amounts payable and receivable in accordance with the provisions of such Rules. AIP Settlement shall not be subject to the remaining provisions of this Rule 12 and shall be subject to the provisions of Rule 53.

At such time as determined by the Corporation, the Corporation shall produce, each Business Day, a settlement statement which will reflect the debits and credits which have been entered into a Member's, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member's or Fund Member's (each hereinafter referred to as a "participant" for purposes of this Rule 12) account with respect to matters or transactions covered by these Rules, plus debits or credits, if any, reflecting amounts that the Corporation will pay to or receive from any entity under any Clearing Agency Cross-Guaranty Agreement, and shall reflect a net amount payable to or payable by the Corporation. Each such participant shall settle, by such time as established by the Corporation, through a Settling Bank (unless the Corporation permits otherwise), by Federal Funds payment in the manner provided in the Procedures, the net amount reflected on such settlement statement.

A participant will be deemed to have failed to settle when the Corporation receives a Refusal from such participant's Settling Bank and the participant has failed to pay its Net Debit Balance (or it has failed to pay its Net Debit Balance if permitted by the Corporation to settle otherwise than through a Settling Bank), or when its Settling Bank has failed to pay the Settling Bank's net-net debit balance by the time specified by the Corporation from time to time.

If the Corporation does not produce such settlement statement each such participant shall settle with the Corporation by a Federal Funds wire transfer, by determining the amount payable to or by such participant as reflected on such participant's records. A participant that fails to timely settle may be subject to action by the Corporation pursuant to Rule 46 or 48. Such participant shall also be subject to such fines as the Corporation deems appropriate pursuant to these Rules. Any difference between said amount and the actual net settlement amount which is not settled on that Business Day, shall be settled on the next Business Day by Federal Funds payment by such time as determined by the Corporation.

Notwithstanding any other provisions of these Rules, the Corporation maintains the right to require a participant to furnish to the Board of Directors all documents relied upon by such participant in determining amounts payable to or by the Corporation in respect of this Rule.

In the event the Board of Directors determines that such books, records and documents do not appropriately support amounts tendered pursuant to this Rule, such participant shall be subject to action by the Corporation pursuant to Rule 46 or Rule 48.

At such time as determined by the Corporation, the Corporation shall also produce, each Business Day, a settlement statement which shall reflect the information contained in that Business Day's prior settlement statement, any adjustments to those amounts and the payments made to or by the Corporation.

SEC. 2. Notwithstanding any provision in these Rules to the contrary, until the effective time (as defined below):

(a) any action taken by the Corporation or a Qualified Securities Depository pursuant to an instruction given by the Corporation to deliver securities from the Corporation's account at a Qualified Securities Depository to the account of a Member at a Qualified Securities Depository by book-entry on a Business Day for which payment is to be made by the Member to the Corporation (a "Depository Instruction") shall, notwithstanding the nature of such action, not constitute an appropriate entry on the books of the Qualified Securities Depository specifically identifying the securities so as to constitute a delivery thereof or reducing the account of the Corporation and increasing the account of the Member by the amount of the obligation or the number of shares or rights subject to the instruction;

(b) any receipt of securities by a Member pursuant to Rule 9 on such Business Day for which payment is to be made by the Member to the Corporation (a "physical receipt") shall, whether or not the securities subject to the physical receipt remain in the possession of the Corporation, not constitute a voluntary transfer of possession of such securities by the Corporation to the Member; and

(c) any action taken by the Corporation pursuant to an instruction given to the Corporation by a Member to move a position to its Fully-Paid-For Subaccount shall not constitute an appropriate entry on the Corporation's books so as to constitute such movement.

The "effective time" referred to in the foregoing sentence shall be the time that is (A) the earlier of (i) the time it is finally determined by the Corporation on such Business Day that the Member's Gross Credit Balance for such Business Day equals or exceeds his Gross Debit Balance for such Business Day, or (ii) if the Member's Gross Debit Balance exceeds his Gross Credit Balance and the Member settles through a Settling Bank, the time as finally determined by the Corporation, that the Settling Bank representing such Member has a net-net credit balance or (iii) if the Member's Gross Debit Balance exceeds his Gross Credit Balance, the time as finally determined by the Corporation that the Member has paid its Net Debit Balance or, if the Member settles through a Settling Bank, the Settling Bank representing such Member has settled its net-net debit balance; and (B) when the Corporation has no obligation on account of a receive or deliver obligation of a Member under the terms of any Clearing Agency Cross Guaranty Agreement which creates an obligation on the part of the Corporation

irrespective of whether the Member is in a net credit or net debit position with the Corporation. In the event the Corporation, prior to the effective time, ceases to act for the Member with respect to transactions generally pursuant to Rule 46 or Rule 48, the Corporation shall have the right

- (A) in respect of securities subject to a Depository Instruction to take such actions as permitted under the terms of any Clearing Agency Cross-Guaranty Agreement or as otherwise specified in these Rules and
- (B) in respect of securities subject to a physical receipt, to retain possession of such securities and sell out such securities in the manner specified in Section 3 of this Rule provided, however, that if
  - (i) in the case of a Depository Instruction, any security subject thereto is
    - (A) transferred out of the Member's account at the Qualified Securities Depository by book-entry or
    - (B) physically withdrawn by the Member from his account at the Qualified Securities Depository and physically delivered by the Member to a third party for value, or
  - (ii) in the case of a physical receipt and physical possession by the Member, any security is physically delivered by the Member to a third party for value, such security shall be deemed for all purposes to have been delivered by the Corporation to the Member; and provided, further, that, to the extent that a Member shall obtain physical possession of any such security by physical withdrawal thereof from the Qualified Securities Depository or receipt from the Corporation or obtain control of any such security, the Member shall hold the same in trust for the benefit of the Corporation and the Corporation shall have the right to reclaim possession thereof from the Member and if the Member shall transfer or pledge the securities to a third party for value by a book-entry transaction on the books of the Qualified Securities Depository or by a physical delivery of securities of which it has obtained physical possession, the Corporation shall have the right to reclaim, and shall be entitled to, any proceeds obtained by the Member as a result thereof. Notwithstanding the foregoing, the Corporation shall not have the right to instruct a Qualified Securities Depository to retain securities pursuant to clause (A) of the foregoing sentence until the Qualified Securities Depository has effected any retention or sale which the Qualified Securities Depository elects to effect pursuant to the rules of the Qualified Securities Depository or the Qualified Securities Depository elects not to effect any such retention and then the Corporation's right to instruct the Qualified Securities Depository to retain securities pursuant to said clause (A) shall be limited to instructing the Qualified Securities Depository to retain such amount of securities as shall not reduce the amount of securities of any issue remaining in the Member's account below the Minimum Amount (as defined in the rules of the Qualified Securities Depository). In the event a Settling Bank

which represents a Member with a Net Debit Balance, which Settling Bank has a net-net credit balance or has paid its net-net debit balance to the Corporation prior to such time as the Corporation ceases to act for such Member with respect to transactions generally pursuant to Rule 46 or Rule 48, the Corporation shall thereafter (a) instruct the Qualified Securities Depository to transfer the securities covered by any Depository Instruction from the Corporation's account at the Qualified Securities Depository to the Member's account at the Qualified Securities Depository by book-entry and such instruction shall constitute an entry on the books of the Qualified Securities Depository reducing the account of the Corporation at the Qualified Securities Depository and increasing the account of the Member at the Qualified Securities Depository by the amount of the obligation or the number of shares or rights subject to the instruction, and (b) deliver the securities covered by any physical receipt to the Member and possession of any securities shall be deemed to have been voluntarily transferred by the Corporation to the Member, and the Corporation shall make appropriate adjustments in the accounts of the Members to reflect such transactions.

SEC. 3. In the event the Corporation shall sell any securities pursuant to any Clearing Agency Cross-Guaranty Agreement or these Rules, such sale may be made in any available market or at public auction or by private sale, including the sale to a Member or Members having Long Positions in the CNS System, and may be made without further demand or notice to the Member. If the sale is made on any market, or if the sale is at public auction, the Corporation may purchase the securities sold for its own account. The Corporation shall retain the Gross Credit Balance of the Member for the Business Day on which the instruction to deliver was given and shall, upon receipt of the proceeds of the sale of such securities, apply the Gross Credit Balance and such proceeds to the payment of the Member's Gross Debit Balance for such Business Day and any surplus shall be credited to the account of the Member with the Corporation.

SEC. 4. Any action taken by the Corporation or a Qualified Securities Depository pursuant to an instruction given by the Corporation or a Member to the Qualified Securities Depository to deliver securities from the Member's account at the Qualified Securities Depository to the Corporation's account at the Qualified Securities Depository on a Business Day for which payment is to be made by the Corporation which does not become effective under the rules of the Qualified Securities Depository shall not result in a reduction in the Member's Short Position in the CNS System in the amount of such securities. If the amount of money to be paid to the Member in respect of such an attempted delivery shall have been credited to the Member's money account with the Corporation, the Corporation may deduct such amount from the Member's Gross Credit Balance for such Business Day (the "withheld amount") and may apply such withheld amount to the purchase of equivalent securities for delivery to the Qualified Securities Depository in order to eliminate any Short Position of the Corporation in its account at the Qualified Securities Depository and, prior to such purchase, may upon demand of the Qualified Securities Depository, pay the withheld amount to the Qualified Securities Depository for its retention subject to return to the Corporation upon the Corporation's delivery to the Qualified Securities Depository of the purchased securities. Such

securities may be purchased by the Corporation in any available market or by private purchase, including purchase from the Qualified Securities Depository. If the purchase price of such securities is less than the withheld amount, the difference between the purchase price and the withheld amount shall be credited to the account of the Member with the Corporation. If the purchase price of such securities is more than the withheld amount, the difference between the purchase price and the withheld amount shall be debited to the account of the Member with the Corporation.

SEC. 5. Notwithstanding any provision in these Rules to the contrary, for so long as any Clearing Agency Cross-Guaranty Agreement shall be in effect, any net amount payable or balance due to a Member under this Rule 12 (hereinafter a "Net Payment Amount") shall, to the extent and under the circumstances specified in such Clearing Agency Cross-Guaranty Agreement, take into account amounts owed by such Member to any Cross-Guaranty Party and the Corporation shall apply against any Net Payment Amount due to a Member any amounts owed by such Member to such Cross-Guaranty Party in accordance with the terms of the relevant Clearing Agency Cross-Guaranty Agreement. A Member's entitlement to receive any Net Payment Amount from the Corporation shall be limited to any amount remaining after application of settlement payment balances in accordance with such Clearing Agency Cross-Guaranty Agreement and may be satisfied by payment to the Member from the Corporation or a Cross-Guaranty Party.

SEC. 6. Notwithstanding any agreement between the Corporation and the participant to the contrary, the Corporation shall have the right at any time and from time to time to aggregate and net all or any balances due from the Corporation against all or any balances due to the Corporation.

### RULE 13. EXCEPTION PROCESSING

Notwithstanding any provisions in these Rules and Procedures to the contrary, in the event that a security may not otherwise be eligible for processing through the CNS, Balance Order or other system, the Corporation, in its sole discretion, may adopt, from time to time, procedures deemed appropriate for the processing of such security. Any such procedures shall be promptly communicated to Members by the Corporation and the Members shall be bound by the procedures set forth in such notice as fully as though such procedures were now a part of the Rules and Procedures of the Corporation. Each such notice shall be effective only for the security covered therein.

## RULE 14. TRANSFER TAXES

SEC. 1. The Corporation may accept New York State Stock Transfer Tax reports and remittances from Members pursuant to the provisions of the New York State Tax Law and the regulations promulgated thereunder. Remittances shall be forwarded to the New York State Stock Tax Commission on behalf of the Member.

SEC. 2. The Corporation shall charge each Member's settlement account the amount of the New York State Stock Transfer Tax indicated on reports filed by the Member on its own behalf.

SEC. 3. New York State Stock Transfer Tax credits received by the Corporation shall be returned to the Member in accordance with the instructions of the New York State Tax Commission.

RULE 15. ASSURANCES OF FINANCIAL RESPONSIBILITY AND  
OPERATIONAL CAPABILITY

SEC. 1. The Corporation shall have the authority to examine the financial responsibility and operational capability of any Member or Limited Member or any applicant to become such, to determine whether the requisite standards of financial responsibility and operational capability are met. In conducting such examinations, the Corporation may require a participant or applicant to furnish such information, to make its books and records available and to provide sworn or unsworn testimony, as will be sufficient, in the opinion of the Corporation, to demonstrate the financial responsibility and operational capability of the participant. In connection with such examinations, the Corporation may also require testimony from the employees of the participant or applicant under examination or from any other person and may request and receive records, reports or other information as may be relevant to the matter under examination from any other self-regulatory organization (as defined by Section 3(a)(26) of the Exchange Act) or other examining authority or regulator having authority to examine, regulate or license such participant or applicant.

SEC. 2. (a) Each Member or Limited Member, or any applicant to become such, shall furnish to the Corporation such adequate assurances of its financial responsibility and operational capability as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation, its participants, creditors or investors, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance, settlement and processing of securities transactions. Upon the request of a participant or applicant, or otherwise, the Corporation may choose to confer with the participant or applicant before or after requiring it to furnish adequate assurances pursuant to this Rule.

(b) Adequate assurances of the financial responsibility or operational capability of a participant or applicant to become such, as may be required pursuant to these Rules and Procedures, may include, but shall not be limited to, as appropriate under the context of the participant's use of the Corporation's services:

- (i) additional reporting by the participant (or by the entity providing a guarantee) of its financial or operational condition at such intervals and in such detail as the Corporation shall determine;
- (ii) entering into agreements concerning the provision of operational support services by an entity acceptable to the Corporation;
- (iii) restrictions on the participant's use of the Corporation's services;
- (iv) increased Clearing Fund deposits (including additional amounts required in respect of trade activity received by the Corporation after calculation of the applicable Required Fund Deposit);



- (v) additional payments to the Corporation in such amounts as may be determined by the Corporation each morning reflecting a percentage of up to 100 percent of the participant's (i) average amount of total daily net debit positions or (ii) morning gross debit activity;
- (vi) delivering securities to the Member only against immediate payment by the Member to the Corporation; and
- (vii) assurances as may be required pursuant to the Corporation's guidelines and/or Procedures.

SEC. 3. Any non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records.

SEC. 4. A participant's failure to furnish information or otherwise comply with the requirements of this Rule may subject the participant to restrictions on access to the Corporation's services pursuant to Rule 46 or the imposition of a fine or disciplinary proceedings pursuant to Rule 48, amongst other rights of the Corporation as provided under these Rules.

RULE 16. (RULE NUMBER RESERVED FOR FUTURE USE)

RULE 17. (RULE NUMBER RESERVED FOR FUTURE USE)

RULE 18. PROCEDURES FOR WHEN THE CORPORATION CEASES TO ACT

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

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

- (i) any CNS trade which, at the time the Corporation ceased to act for such Member, was not guaranteed by the Corporation pursuant to Addendum K;
- (ii) any Balance Order trade which, at the time the Corporation ceased to act for such Member, was not guaranteed by the Corporation pursuant to Addendum K;
- (iii) any security orders issued in respect of Special Trades and transactions in Foreign Securities;
- (iv) any Long and Short Positions resulting from OW Obligations of the Member, in whole or in part, that were entered into the CNS Accounting Operation;
- (v) any cash adjustment relating to OW Obligations of the Member forwarded to settlement in accordance with the Obligation Warehouse procedure; and
- (vi) any uncompleted ACATS transaction in accordance with Rule 50.

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

(b) All CNS transactions and Balance Order transactions not excluded pursuant to paragraph (a) of this Section shall be handled as provided for in this Rule, or, if applicable, as may otherwise be provided for in these Rules and Procedures.

SEC. 3. (a) Notwithstanding any other provision of this Rule, promptly after the Corporation has ceased to act for a Member, the Corporation shall attempt to complete, in accordance with the provisions of this Section, the open RVP/DVP Transactions of such Member. The Corporation shall notify the relevant RVP/DVP Customer and the trustee or receiver of the Member (if one has been appointed) of the Corporation’s intent to attempt to complete such RVP/DVP Transactions. Such notice shall also contain a

statement notifying RVP/DVP Customers of the presumed waiver stated in paragraph (f) of this Section. Such notice shall be given by any commercially reasonable means, which shall not be limited to those means specified in Rule 45, and include, but are not limited to, Important Notice or notification to the RVP/DVP Customer's depository agent or its depository agent's depository.

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

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

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

(d) Notwithstanding the provisions of paragraph (c), the Corporation may determine not to complete any open RVP/DVP Transaction pertaining to a particular CNS Security if (i) the Corporation reasonably believes that it cannot complete all RVP/DVP transactions in such CNS Security that it would be obligated to attempt to complete pursuant to paragraph (c)(i), whether due to the inability of the Corporation or the RVP/DVP Customer to make delivery or payment, the unwillingness of the

RVP/DVP Customer to make delivery or payment, or otherwise, (ii) there exists allegations of fraud or otherwise questionable activities with respect to such CNS Security, or (iii) the Corporation believes that the completion of an RVP/DVP Transaction in such CNS Security can not be consummated on a timely basis. If the Corporation makes such a determination, then it shall have no further obligations with respect to completing such RVP/DVP Transactions, and shall notify the RVP/DVP Customer (or its depository agent or its depository agent's depository) and the trustee or receiver of the Member (if any) of such determination.

(e) The Corporation will apply the same procedures to open positions arising from security Balance Orders<sup>1</sup> with respect to which there are RVP/DVP Transactions, to the extent to do so is practicable.

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

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

#### SEC. 4.

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

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

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

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

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

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

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

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

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

- (b) Except as otherwise may be determined by the Board of Directors:
  - (i) securities deliverable to or by the Member for whom the Corporation has ceased to act pursuant to security balance orders (except such securities as shall at the time the Corporation so ceased to act have been delivered pursuant to such orders) relating to Balance Order

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

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

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

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



security balance orders calling for delivery on the same day results in a profit, said profit shall be credited to the account with the Corporation of the Member for whom the Corporation has ceased to act.

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

SEC 7. After the Corporation has ceased to act for a Member, the Corporation shall exclude any OW Obligations of that Member from further processing in the OW service.

SEC. 8. (a) After the Corporation has ceased to act for a participant either in respect to a particular transaction or transactions generally, the Corporation shall nevertheless have the same rights and remedies in respect to any debit balance due from such participant or any liability incurred on his behalf as though it had not ceased to act for the Member.

(b) As security for any and all liabilities now existing, or hereafter arising, of a Member or Mutual Fund/Insurance Services Member to the Corporation, the Corporation shall maintain a lien on all property placed by such participant in its possession, including but not limited to, securities and cash in the process of clearance or on deposit with, or pledged to, the Corporation in satisfaction and/or in excess of such participant's Clearing Fund deposit pursuant to Rule 4, Section 1, and Rule 12, Section 1; provided, however, that in no event shall the Corporation have any lien on securities carried by a Member or Mutual Fund/Insurance Services Member for the account of its customers where: (i) such lien would be prohibited under Rules 8c-1 and 15c2-1 of the Exchange Act, or (ii) such securities have been delivered from the Corporation's account at a Qualified Securities Depository pursuant to the ACATS Settlement Accounting Operation, and received into a Receiving Member's account at a Qualified Securities Depository.

SEC. 9. (a) Notwithstanding any contrary provision of these Rules (with the exception of Rules 41 and 42), if the Corporation has ceased to act for a Member either in respect to a particular transaction or transactions generally, and the Corporation is a party to an agreement with a Registered Clearing Agency or a derivatives clearing organization registered under the Commodity Exchange Act, 7 U.S.C. § 1 *et seq.*, which relates to the provision of the Corporation's services in connection with such clearing agency or clearing organization's liquidation, termination or acceleration of one or more securities contracts, commodity contracts, forward contracts, repurchase agreements, swap agreements, master netting agreements or similar agreements of the Member

with such clearing agency or clearing organization (for purposes of this Rule, a “Close-Out Agreement”), the Corporation shall continue to act to the extent provided in such Close-Out Agreement.

(b) Except as otherwise provided in the Close-Out Agreement, any deposit, payment, financial assurance or accommodation relating to a Member as to which the Corporation has ceased to act that is provided to the Corporation pursuant to a Close-Out Agreement, and any transaction undertaken or service provided by the Corporation which relates to a Member as to which the Corporation has ceased to act that is undertaken or provided by the Corporation pursuant to a Close-Out Agreement, shall be treated by the Corporation as having been received, provided or undertaken for the account of such Member for which the Corporation has ceased to act. Notwithstanding the preceding sentence, any deposit, payment, financial assurance or accommodation provided to the Corporation pursuant to a Close-Out Agreement shall be returned or released by the Corporation as provided for in the applicable Close-Out Agreement.

(c) Except as otherwise provided in Section 8 of this Rule, the Corporation shall have a lien upon, and may apply, any property of a Member in the Corporation’s possession for which the Corporation has ceased to act in satisfaction of any obligation, liability or loss that relates to a transaction undertaken or service provided by the Corporation in respect of such Member pursuant to a Close-Out Agreement.

## RULE 19. MISCELLANEOUS RIGHTS OF THE CORPORATION

In connection with any sale of securities by the Corporation required pursuant to these Rules or the Procedures (including, without limitation, any sale of securities pursuant to Rule 12 or Rule 18), the Corporation may pledge, hypothecate, transfer, create a security interest in, or assign any or all of such securities for the purpose of securing loans to, or other financing for, the Corporation, such loans or other financing to be on terms and conditions deemed necessary or advisable by the Corporation (including, without limitation, loans or other financing obtained for the purpose of facilitating the disposition of securities and/or financing any settlement obligation of the Corporation). The purpose of this Rule is to clarify that provisions in the Rules or Procedures requiring the Corporation to sell securities do not prevent the Corporation from taking other actions with respect to those securities that are consistent with the required sale. Consequently, this Rule shall not be construed to limit the Corporation's right to pledge, hypothecate, transfer, create a security interest in, or assign any securities or instruments in any other situation, whether or not there is a provision of the Rules or Procedures specifically authorizing any such action.

## RULE 20. INSOLVENCY

SEC. 1. A Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, Data Services Only Member or AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 20) who fails to perform his contracts or obligations or determines that he is unable to do so or is insolvent shall immediately notify the Corporation pursuant to Section 4 of Rule 45.

SEC. 2. A participant shall be treated by the Corporation in all respects as insolvent:

- (a) upon receipt of oral or written notice, pursuant to Section 1 of this Rule, or
- (b) if the participant shall be a member of Securities Investor Protection Corporation, in the event that a court finds that the participant meets any one of the conditions set forth in clauses (i), (ii), (iii), (iv) or (v) of Section 5(b)(1)(A) of the Securities Investor Protection Act of 1970, or
- (c) in the event that the participant is determined by the Corporation to be insolvent or in the event of the entry of a decree or order by a court having jurisdiction in the premises adjudging the participant bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the participant under the Federal Bankruptcy Code or any other applicable Federal or State law, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the participant or of any substantial part of his property, or ordering the winding up or liquidation of his affairs or the institution by the participant of proceedings to be adjudicated a bankrupt or insolvent or the consent by him to the institution of bankruptcy or insolvency proceedings against him, or the filing by him of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other applicable Federal or State law, or the consent by him to the filing of any such petition, or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the participant or of any substantial part of his property, or the making by him of an assignment for the benefit of creditors, or the admission by him in writing of his inability to pay his debts generally as they become due, or the taking of corporate action by the participant in furtherance of any such action.

SEC. 3. The Corporation shall notify participants pursuant to the provisions of Section 4 of Rule 45, of actions taken by the Corporation pursuant to Rule 46.

## RULE 21. HONEST BROKER

Any Member who activates The Depository Trust Company's "Honest Broker" procedures authorizes the Corporation to submit to The Depository Trust Company, on such Member's behalf, for each open CNS short position, such data as is necessary to identify the Corporation as The Depository Trust Company participant account to which a redelivery of released pledged securities is to be made. Such authorization shall continue for the entire time period the Member utilizes the Honest Broker procedure. Any CNS credit for a delivery which is completed through this procedure shall not be included with the Member's other CNS daily credits as provided in Rule 12, but shall be payable by the Corporation to The Depository Trust Company on the day such delivery is completed.

## RULE 22. SUSPENSION OF RULES

The time fixed by these Rules, the Procedures or any regulations issued by the Corporation for the doing of any act or acts may be extended or the doing of any act or acts required by these Rules, the Procedures or any regulations issued by the Corporation may be waived or any provision of these Rules, the Procedures or any regulations issued by the Corporation may be suspended by the Board of Directors or by the Chairman of the Board, the President, the General Counsel or such other officers of the Corporation having a rank of Managing Director or higher whenever, in its or his judgment, such extension, waiver or suspension is necessary or expedient.

A written report of any such extension, waiver or suspension (other than an extension of time of less than eight hours), stating the pertinent facts, the identity of the person or persons who authorized such extension, waiver or suspension and the reason such extension, waiver or suspension was deemed necessary or expedient, shall be promptly made and filed with the Corporation's records and shall be available for inspection by any Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, Data Services Only Member or AIP Member during regular business hours on Business Days. Any such extension or waiver may continue in effect after the event or events giving rise thereto but shall not continue in effect for more than 60 calendar days after the date thereof unless it shall be approved the Board of Directors within such period of 60 calendar days.

## RULE 23. ACTION BY THE CORPORATION

Where action by the Board of Directors is required by these Rules, the Corporation may act, to the full extent permitted by law, by the Chairman of the Board, the President, or any Managing Director or Executive Director, or by such other Person or Persons, whether or not employed by the Corporation, as may be designated by the Board of Directors from time to time.

## RULE 24. CHARGES FOR SERVICES RENDERED

SEC. 1. Each Member, Sponsored Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, Data Services Only Member and AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 24) shall pay such fees and charges to the Corporation as shall be specified by the Corporation or in the Procedures and approved by the Board of Directors on a reasonable and non-discriminatory basis.

Members shall be responsible for all fees pertaining to their respective Sponsoring Member activity or Agent Clearing Member activity, if applicable, as set forth in the Corporation’s Fee Structure.

SEC. 2. A participant may be charged for any unusual expenses caused directly or indirectly by such participant including, but without limitation, the cost of producing records pursuant to a court order or other legal process in any litigation or other legal proceeding to which such participant is a party or in which such records relating to such participant are so required to be produced, whether such production is required at the instance of such, or of any other party other than the Corporation.



## RULE 25. CROSS-GUARANTY OBLIGATION

The Corporation may, from time to time, enter into one or more Clearing Agency Cross-Guaranty Agreements. In addition to a Member's or Mutual Fund/Insurance Services Member's other obligations to the Corporation under these Rules, each Member and Mutual Fund/Insurance Services Member is obligated to the Corporation for an amount equal to any guaranty payment the Corporation is required to make to a Cross-Guaranty Party pursuant to the terms of any Clearing Agency Cross-Guaranty Agreement.

## RULE 26. BILLS RENDERED

The Corporation will render bills to Members, Sponsored Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members, TPA Members, TPP Members, Investment Manager/Agent Members, Fund Members and AIP Members for charges on account of the business of any month and will charge their respective accounts with the amounts thereof on or before such date as determined by the Corporation from time to time. Members shall receive bills for their respective aggregate Sponsoring Member activity and Agent Clearing Member activity, if applicable, as set forth in the Fee Structure.

The Corporation will render bills to Data Services Only Members monthly for charges, if any, in connection with the use of the Corporation's services, and such bills shall be paid immediately.

The Corporation will render bills to Municipal Comparison Only Members monthly for charges in connection with the comparison of municipal securities transactions and such bills shall be paid immediately.

Please refer to Addendum A (Fee Structure) for fee descriptions and charges.

RULE 27. ADMISSION TO PREMISES OF THE CORPORATION –  
POWERS OF ATTORNEY, ETC.

No Person will be permitted to enter the premises of the Corporation as the representative of any Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, Data Services Only Member or AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 27) unless he has first been approved by the Corporation and has been issued such credentials as the Corporation may from time to time prescribe and such credentials have not been canceled or revoked. Such credentials must be shown on demand, and to gain entry to the Corporation’s premises, must be prominently displayed while on said premises, and may limit the portions of the premises to which access is permitted thereunder. Any credentials issued pursuant to this Rule may be revoked at any time by the Corporation in its discretion, and prompt notice of such revocation shall be given to the employer of the person whose credentials have been so revoked.

Every Person to whom, as a representative of a Member credentials have been or may hereafter be issued by the Corporation authorizing such person to have access, during the hours when securities or envelopes are to be received and delivered, to the portion of the Corporation’s premises in which such activity occurs, shall be deemed to have been authorized by such Member to receive and deliver securities or envelopes on behalf of such Member.

Any participant or AIP Member shall, if any person in its employ to whom any credentials have been issued pursuant to this Rule or to whom a power of attorney or other authorization has been given to act for it in connection with the work of the Corporation shall for any reason cease to be so employed, give to the Corporation immediate notice in writing of such termination of employment and if any such power of attorney or other authorization is otherwise revoked or canceled, shall likewise give to the Corporation immediate notice in writing of such revocation or cancellation. All credentials issued pursuant to this Rule shall be immediately surrendered to the Corporation upon their revocation by the Corporation or by the employer or upon the termination of the employment of the holder thereof.

Unless revoked by the Corporation, all credentials, authorizations, and powers of attorney issued pursuant to this Rule or in connection with the work of the Corporation shall remain in full force and effect until the Corporation shall have received written notice of the revocation thereof or of the termination of the holder’s employment.

## RULE 28. FORMS

In connection with any transactions or matters handled through, with or by the Corporation under or pursuant to the Rules, such forms of tickets, lists, notices and other documents shall be used as the Corporation may from time to time prescribe, and additions to, changes in and elimination of any such forms may be made by the Corporation at any time in its discretion. In addition, any information required to be delivered to the Corporation by use of any such forms may be delivered by the use of any media as shall be prescribed in the Procedures or by the Corporation from time to time.

## RULE 29. QUALIFIED SECURITIES DEPOSITORIES

Each Member shall be a participant in a Qualified Securities Depository. If any such Member shall not at any time be a participant in a Qualified Securities Depository, the Corporation may cease to act for such Member pursuant to Rule 46. Unless permitted to take summary action pursuant to Rule 46 the Corporation shall promptly hold a hearing prior to ceasing to act. During the interim between the time that such Member is no longer a participant in a Qualified Securities Depository and the time that the Corporation ceases to act for such Member, such Member shall be required to effect securities settlement by physical delivery.

RULE 30. (RULE NUMBER RESERVED FOR FUTURE USE)

RULE 31. (RULE NUMBER RESERVED FOR FUTURE USE)

## RULE 32. SIGNATURES

With respect to any and all agreements and other documents entered into between a Member, Sponsored Member and Limited Member and the Corporation, or otherwise delivered to or by the Corporation pursuant to these Rules and Procedures, the use of an electronic signature shall have the same validity and effect as the use of a signature affixed by hand.



## RULE 33. PROCEDURES

The Board of Directors shall, pursuant to these Rules, prescribe from time to time Procedures and other regulations in respect of the business of the Corporation. The Board of Directors may, by resolution, delegate to the Chairman of the Board, the President, any Senior Managing Director, Managing Director or any other officer of the Corporation the power to prescribe Procedures and regulations. Each Member and Limited Member (each hereinafter referred to as a “participant” for purposes of this Rule 33) will be bound by such Procedures and regulations and any amendment thereto in the same manner as it is bound by the provisions of these Rules.

#### RULE 34. INSURANCE

The Corporation shall use its best efforts to maintain, or arrange for the maintenance of, such insurance, including fidelity bonds, in such amounts and having such coverage regarding the business of the Corporation as the Board of Directors shall deem appropriate. The insurance policies or contracts pursuant to which such insurance is provided shall be open to the inspection of the Members, Mutual Fund/Insurance Services Members, Municipal Comparison Only Members, Insurance Carrier/Retirement Services Members, TPA Members, TPP Members, Investment Manager/Agent Members, Fund Members, Data Services Only Members and AIP Members (each hereinafter referred to as a “participant” for purposes of this Rule 34) at the offices of the Corporation during regular business hours on Business Days. If the Corporation shall materially reduce the amount or coverage of any such insurance or the persons providing such insurance shall notify the Corporation of a material reduction in the amount of coverage thereof, the Corporation shall promptly notify each participant and the SEC thereof stating the effective date of such reduction.

## RULE 35. FINANCIAL REPORTS

As soon as practicable after the end of each calendar year, the Corporation shall make available to each Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, Data Services Only Member and AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 35) audited U.S. GAAP financial statements of the Corporation, including the independent auditors’ report on the financial statements for such calendar year. The Corporation shall undertake to make available such financial statements and report to participants within 60 days following the last day of the Corporation’s fiscal year.

The Corporation shall also undertake to make available to participants unaudited U.S. GAAP financial statements of the Corporation within 30 days following the last day of the Corporation’s fiscal quarter for each of the first three fiscal quarters of each year.

## RULE 36. RULE CHANGES

The Corporation shall promptly notify all Members, Limited Members and Registered Clearing Agencies of any proposal it has made to change, revise, add or repeal any Rule or Procedure, and of the text or a brief description of the proposed Rule or Procedure and its purpose and effect, by posting such proposal on the NSCC Website. Members, Limited Members and Registered Clearing Agencies may submit to the Corporation for its consideration their comments with respect to any such proposal, and such comments shall be filed with the Corporation's records and copies thereof delivered to the SEC.

## RULE 37. HEARING PROCEDURES

SEC. 1. A Member, a Mutual Fund/Insurance Services Member, Settling Bank Only Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, a Data Services Only Member, AIP Member or applicant (each hereinafter in this Rule referred to as the "Interested Person") may, when permitted by these Rules, request a hearing by filing with the Secretary of the Corporation within 5 Business Days from the date on which the Corporation informed it of an action or proposed action of the Corporation with respect to the Interested Person, or 2 Business Days in the case of summary action taken against the Interested Person pursuant to Rule 46 (or such other applicable time period specified by these Rules), a written request for a hearing setting forth (i) the action or proposed action of the Corporation with respect to which the hearing is requested and (ii) the name of the representative of the Interested Person who may be contacted with respect to the hearing. Within 7 Business Days after the Interested Person files such written request with the Corporation, or 3 Business Days in the case of summary action taken against the Interested Person pursuant to Rule 46, the Interested Person shall submit to the Corporation a clear and concise written statement setting forth with particularity the action or proposed action of the Corporation with respect to which the hearing is requested, the basis for objection to such action, whether the Interested Person intends to attend the hearing and whether the Interested Person chooses to be represented by counsel at the hearing. If the written statement contests the Corporation's determination that the Interested Person has violated a Rule or procedure, the statement must specifically admit or deny each violation alleged and detail the reasons why the Rules or procedures alleged to have been violated are being contested. Any alleged violation not specifically denied shall constitute an admission to that violation. The Corporation may deny the statement if it fails to set forth a prima facie basis for contesting the violation. The failure of the Interested Person to file the written request referred to above within the time period required by these Rules and/or the failure of the Interested Person to submit the written statement within the time period specified above will be deemed to be an election to waive the right to a hearing. The Corporation shall notify the Interested Person in writing of the date, place and hour of the hearing at least 5 Business Days prior to the hearing (unless the parties agree to waive the 5 Business Day requirement).

SEC. 2. If the Corporation has assessed a fine and an Interested Person desires to dispute the fine and complies with the requirements described above regarding filing a written request for a hearing and a written statement, the Corporation shall automatically conduct a review of the disputed fine. The Corporation may examine the written statement submitted by the Interested Person and/or arrange a meeting with the Interested Person to discuss the disputed fine. If the Corporation determines to waive the fine, it shall inform the Board of its determination and its reasons thereof. The Board may, in its discretion, determine to reinstate any fine waived by the Corporation. If the Corporation determines not to waive the fine as a result of the review process, the Interested Person shall be entitled to a hearing before a panel pursuant to Section 3 or

Section 4 of this Rule 37. The Corporation shall advise the Interested Person of the result of the review process.

### SEC. 3. Minor Rule Violations.

A hearing requested in connection with a violation of the Rules of the Corporation for which a fine may be assessed against the Interested Person in an amount not to exceed \$5,000 (a "Minor Rule Violation"), shall be held before a panel of three officers of the Corporation (a "Minor Violation Panel"). The members of the Minor Violation Panel shall select one of their numbers to be the chairman, and the chairman shall be the person in charge of the conduct of the hearing. At the hearing, an officer of the Corporation shall present the case against the Interested Person. The Interested Person shall have an opportunity to be heard and may be represented by counsel. A record shall be kept of the hearing and the costs associated with the hearing may, in the discretion of the Corporation, be charged in whole or in part to the Interested Person if the decision is adverse to the Interested Person. The Minor Violation Panel shall provide the Interested Person with a written statement of its decision no later than 10 Business Days after the conclusion of the hearing. If the decision of the Minor Violation Panel is adverse to the Interested Person, the Interested Person may request a further hearing under Section 4 of this Rule by filing a written request with the Secretary of the Corporation within 5 Business Days of receipt of such written statement. The Corporation shall notify the Interested Person of the date, time and place of the hearing at least 5 Business Days prior to the hearing. The failure of the Interested Person to submit the written request within the required time period shall be deemed an election to waive the right to any further hearing.

A Minor Rule Violation as defined in this Rule shall be deemed a minor rule violation within the meaning of Rule 19d-1(c)(2) under the Exchange Act, and this Rule shall be deemed a "plan" within the meaning thereof. The action imposed by the Corporation shall not be considered "final" for purposes of paragraph (c) (1) of Rule 19d-1 of the Exchange Act in any instance in which the fine is in an amount that does not exceed \$2,500, imposed against an Interested Person that is not a Member and with respect to which the Interested Person does not seek an adjudication pursuant to Section 4 of this Rule 37.

SEC. 4. A hearing on any matter not covered by Section 2 of this rule, or a further hearing requested pursuant to Section 2 shall be before a panel (hereinafter the "Panel") of three individuals drawn from members of the Board of Directors or their designees. The members of the Panel shall be selected by the Chairman of the Board.

Notwithstanding the above, the Panel shall not include any individual representing the Interested Person against which the proposed action is to be taken, nor any person who had responsibility for the action or proposed action of the Corporation as to which the hearing relates.

At the hearing, the Interested Person shall be afforded an opportunity to be heard and may be represented by counsel if the Interested Person has so elected pursuant to

Section 1 of this Rule. A record shall be kept of the hearing, and the cost associated with the hearing may, in the discretion of the Panel, be charged in whole or in part to the Interested Person in the event that the decision at the hearing is adverse to the Interested Person.

SEC 5. The Panel shall advise the Interested Person of its decision within 10 Business Days after the conclusion of the hearing. If the decision of the Panel shall have been to deny the Interested Person's application to become a Member, a Mutual Fund/Insurance Services Member, a Settling Bank Only Member, a Municipal Comparison Only Member, an Insurance Carrier/Retirement Services Member, a TPA Member, a TPP Member, an Investment Manager/Agent Member, a Fund Member, a Data Services Only Member or an AIP Member or to prohibit or limit the Interested Person's access to the services offered by the Corporation in accordance with Rule 46, a notice of decision setting forth the specific grounds upon which the decision is based shall be furnished to the Interested Person. If the decision of the Panel shall have been to impose a disciplinary sanction on the Interested Person in accordance with Rule 48 or to affirm any summary action previously taken against the Interested Person pursuant to Section 3 of Rule 46, a notice of decision setting forth (i) any act or practice in which the Interested Person has been found to have engaged, or which the Interested Person has been found to have omitted, (ii) the specific provision(s) of the Rules or Procedures of the Corporation or of the applicable agreements with the Corporation which any such act or practice or omission to act has been deemed to violate, and (iii) the sanction imposed and the reasons therefor shall be furnished to the Interested Person. A copy of the Panel's notice of decision shall also be furnished to the Chairman of the Board.

Decisions of the Panel are final, but the Board of Directors may in its discretion modify any sanction or reverse any decision of the Panel that is adverse to the Interested Person.

SEC. 6. The reversal or modification at the hearing or subsequently by the Board of Directors of any action previously taken against the Interested Person pursuant to these Rules shall not invalidate the acts of the Corporation or its officers or directors taken prior to such reversal or modification.

SEC. 7. Any action or proposed action of the Corporation as to which an Interested Person has the right to request a hearing pursuant to Rule 37 shall be deemed final (i) when the Interested Person stipulates to the taking of such action by the Corporation, at which time the Corporation shall furnish the Interested Person with a statement containing the information referred to in Section 4 of this Rule, or (ii) upon the expiration of the applicable time period provided in these Rules for the filing of a written request for a hearing or a written statement pursuant to Section 1 of this Rule, at which time any such proposed action of the Corporation shall become effective and at which time the Corporation shall furnish the Interested Person with a statement containing the information referred to in Section 4 of this Rule, or (iii) if a hearing has been held pursuant to Section 4 of this Rule 37, when the Corporation gives notice to the Interested Person of the Panel's decision.

SEC. 8. The Corporation may at any time establish procedures for a hearing not otherwise provided for by these Rules with respect to any action or proposed action of the Corporation.



## RULE 38. GOVERNING LAW AND CAPTIONS

### SEC. 1 Governing Law

These Rules and Procedures and all agreements and other documents entered into between a Member, Sponsored Member or Limited Member and the Corporation, or otherwise delivered to or by the Corporation pursuant to these Rules and Procedures, and the rights and obligations thereunder, shall be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts executed and performed therein, unless otherwise expressly provided.

### SEC. 2 Captions

Captions to any Rules are for information and guidance only, are not part of any Rule and are to be given no consideration in applying or construing any Rules.

## RULE 39. RELIANCE ON INSTRUCTIONS

The Corporation may accept or rely upon any instruction given to the Corporation by a Member, Sponsored Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Fund Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Data Services Only Member, AIP Member or Special Representative, Index Receipt Agent or Approved SFT Submitter (each hereinafter referred to as a “participant” for purposes of this Rule 39) in any form acceptable to the Corporation and in accordance with the Procedures, which reasonably is understood by the Corporation to have been delivered to the Corporation by such participant. In the case of instructions given by a Special Representative, Index Receipt Agent or Approved SFT Submitter, Investment Manager/Agent Member, TPP Member, or TPA Member, the Corporation shall be entitled to act pursuant to any such instruction as though such instruction had been received from the Member or Sponsored Member for which the Special Representative, Index Receipt Agent or Approved SFT Submitter or TPP Member, TPA Member or Investment Manager/Agent Member is acting.

Any participant delivering instructions as provided above, or on whose behalf a Special Representative, Approved SFT Submitter, TPA Member, TPP Member, or Investment Manager/Agent Member, shall deliver instructions as provided above, shall indemnify the Corporation, and any of its employees, officers, directors, shareholders, agents, and participants who may sustain any loss, liability or expense as a result of (a) any act done in reliance upon the authenticity of any instruction received by the Corporation, (b) the inaccuracy of the information contained therein or (c) effecting transactions in reliance upon such information or instruction against any such loss, liability or expense so long as such transactions are effected in accordance with such information and instructions even though they are inaccurate or not authentic and so long as the person asserting a right to indemnification shall not have knowledge of such inaccuracy or lack of authenticity at the time of the event or events giving rise to such loss, liability or expense.

Notwithstanding the foregoing, the Corporation will not act upon any instruction purporting to have been given by a participant or from a Special Representative, Approved SFT Submitter, TPA Member, TPP Member, or Investment Manager/Agent Member, commencing one Business Day after the Corporation receives written notice from the participant that the Corporation shall not accept such instructions until such time as the participant shall withdraw such notice.

# RULE 40. WIND-DOWN OF A MEMBER, FUND MEMBER OR INSURANCE CARRIER/RETIREMENT SERVICES MEMBER

When a Member, Mutual Fund/Insurance Services Member, Fund Member, Insurance Carrier/Retirement Services Member or AIP Member notifies the Corporation that it intends to wind down its activities, the Corporation may, in its sole discretion, in order to protect itself and its participants, determine that such Member, Mutual Fund/Insurance Services Member, Fund Member, Insurance Carrier/Retirement Services Member or AIP Member is a “Wind-Down Member”. In that event and, without limiting any other rights of the Corporation under these Rules and Procedures, the Corporation may impose conditions on, or take actions with respect to, the Wind-Down Member as provided below.

As soon as practicable after the Corporation determines that a Member, Mutual Fund/Insurance Services Member, Fund Member, Insurance Carrier/Retirement Services Member or AIP Member is a Wind-Down Member, the Corporation shall notify the Wind-Down Member, all other participants and the SEC of such determination.

The Corporation may, in its discretion, impose conditions on, or take actions with respect to, the Wind-Down Member as appropriate to mitigate risk the Corporation perceives may be presented by the Wind-Down Member, including but not limited to, the following:

- (i) Permitting the Wind-Down Member to submit to the Corporation only transactions that serve to support the wind-down;
- (ii) Permitting the Wind-Down Member to continue use of one or more of the Corporation’s services, notwithstanding that it may not meet some or all of the financial or operational requirements for continuance as a Member or Limited Member, as applicable;
- (iii) Restricting or modifying the Wind-Down Member’s use of any or all of the Corporation’s services (whether generally, or with respect to certain transactions);
- (iv) Requiring additional assurances of the financial responsibility or operational capability of the Wind-Down Member through, for example, submission of a guaranty of the Wind-Down Member’s obligations to the Corporation by an entity acceptable to the Corporation and/or additional reporting by the Wind-Down Member;
- (v) Agreeing to complete one or more trades to which the Wind-Down Member is a party prior to the time the Corporation’s guaranty otherwise would become effective pursuant to these Rules and Procedures;
- (vi) Requiring the Wind-Down Member to post increased Clearing Fund deposits and/or to post its Required Fund Deposit all in cash or in

proportions of cash, qualifying bonds and Eligible Letters of Credit different from those permitted under Rule 4;

- (vii) Prohibiting the Wind-Down Member from withdrawing Clearing Fund on deposit in excess of its Required Fund Deposit;
- (viii) Calculating the Required Fund Deposit of the Wind-Down Member in a manner different from the applicable formulae provided in the Procedures, in order to more appropriately reflect the risk presented by the Wind-Down Member to the Corporation, such as for example, not applying certain components of such calculation; or
- (ix) Liquidating by buying-in or selling-out, as applicable, any open positions of the Wind-Down Member, for the benefit of such Wind-Down Member with any profit or loss resulting therefrom being debited or credited, as applicable, to the settlement account of the Wind-Down Member.

If the Corporation takes, or mandates, any action pursuant to this Rule, the Corporation shall, as soon as practicable thereafter, notify the SEC and such other participants as it deems proper due to the nature of such action.

Notwithstanding the foregoing, the Corporation shall not be restricted from exercising any of its rights in these Rules or in any agreements between itself and the Wind-Down Member at any time, including the Corporation's right at any time to cease to act for the Wind-Down Member pursuant to Rule 46.

## RULE 41. CORPORATION DEFAULT

SEC. 1. If a “Corporation Default” occurs pursuant to Section 2 below, all CNS Transactions which have been guaranteed but have not yet settled, and all obligations and related rights arising thereunder which have been assigned to and assumed by the Corporation pursuant to these Rules, shall be immediately terminated, and the Board shall determine a single net amount owed by or to each Member with respect to such CNS Transactions by applying the valuation and netting procedures set forth in Section 3 of this Rule 41 below. Notwithstanding the foregoing, (a) the occurrence of a Corporation Default shall not affect the rights and obligations of Members party to Balance Orders that they would otherwise have on account of such transactions under these Rules and applicable law; and (b) the treatment of any pending non-guaranteed transactions shall be determined in accordance with the provisions of Rule 42 (Wind-down of the Corporation).

SEC. 2. Certain Definitions. For purposes of this Rule 41:

(a) Notwithstanding anything to the contrary in the Rules, the following events shall constitute a “Corporation Default”:

- (i) Failure by the Corporation to make, when due, any undisputed payment or delivery to a Member required to be made by it under and in accordance with these Rules and such failure is not remedied within 7 days after notice of such failure is given to the Corporation by the affected Member; *provided* that this clause (i) shall not apply to (A) obligations of the Corporation to Wind-Down Members, or Members for whom the Corporation has otherwise ceased to act pursuant to Rule 46 (including an insolvent Member), (B) any payment or delivery which the Corporation satisfies by alternate means as provided in these Rules, or (C) any obligation of the Corporation that is not a payment or delivery obligation of the Corporation to a Member under these Rules; or
- (ii) The Corporation (A) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (B) institutes a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or presents a petition for its winding-up or liquidation or makes a general assignment for the benefit of creditors; (C) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation and, in each case, such proceeding or petition results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation; or (D) seeks or becomes subject to the appointment of a receiver, trustee, or other

similar official pursuant to the federal securities laws or Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act for it or for all or substantially all its assets.

(b) the “CNS Position” of a Member in any CNS Security shall be equal to the net of the Member’s unsettled Long Positions and Short Positions in such security as of the close of Business on the Default Date (and, for the avoidance of doubt, this shall include both CNS positions that have not yet passed Settlement Date and fail positions);

(c) “Default Date” means the date on which the event that constitutes the Corporation Default occurs; and

(d) “Net Contract Value” means, for each Member’s CNS Position in a given CNS Security, the net of the Member’s (x) contract price for such net position that, as of the Default Date, has not yet passed Settlement Date, and (y) the Current Market Price in the CNS System on the Default Date for its fail positions, in each case as shown on the applicable reports issued by the Corporation to the Member in accordance with the Procedures applicable to the CNS System.

### SEC. 3 Valuation and Calculation of Claims.

(a) As promptly as practicable, but in any event within 45 days after the Default Date, the Corporation shall fix a dollar amount to be paid or received by each Member to or from the Corporation in connection with the termination of a CNS Transaction, after taking into account all of the applicable following netting and offsetting:

- (i) The Corporation shall value all CNS Positions by using the Current Market Price, as determined for the CNS System, as of the close of business on the next Business Day immediately following the Default Date, so that each Member shall have the same per share price for a given security in which it had an open CNS Position (the resulting value referred to as the “CNS Market Value”);
- (ii) For each Member, the Net Contract Value of its terminated CNS Positions shall be determined as provided in subsection 2(d) above; which amount shall be positive or negative, as applicable;
- (iii) To determine each Member’s CNS Close-out Value, (x) the Net Contract Value for each CUSIP shall be subtracted from the CNS Market Value for such CUSIP, and (y) the resulting difference for all CUSIPS in which the Member had a CNS Position shall be summed, and the resulting amount shall be positive or negative, as applicable.
- (iv) The CNS Close-out Value shall be further netted and offset against any other amounts, or the value of any property, as valued by the Corporation, that may be due to, or owing from, the Member under

these Rules, taking into account the application of any provisions of Rule 4 relating to loss allocation, including in the event that the Member is in default of its obligations to deliver funds to the Corporation, or the Corporation has prior to the Default Date Ceased to Act for the Member.

(b) The Board shall notify each Member of the CNS Close-out Value, taking into account the netting and offsetting provided for in subsections 3(a)(i) to (iv) above. Members who have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board, subject to any applicable setoff rights. Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members' and any other creditors' claims pursuant to the underlying contracts with respect thereto, these Rules and applicable law. For the avoidance of doubt, nothing herein shall limit the rights of the Corporation upon a Member default (including following a Corporation Default), including any rights under any Clearing Agency Cross-Guaranty Agreement or otherwise.

SEC. 4. Interpretation in Relation to the Federal Deposit Insurance Corporation Act of 1991:

The Corporation and the Members intend that these Rules be interpreted in relation to certain terms (identified below) that are defined in the Federal Deposit Insurance Corporation Act of 1991 ("FDICIA"), as amended, as follows:

The Corporation is a "clearing organization";

Any obligation of a Member or the Corporation to make any payments to the other is a "covered clearing obligation" and a "covered contractual payment obligation";

An entitlement of a Member or the Corporation to receive a payment from the other is a "covered contractual payment entitlement";

The Corporation and each Member is a "member" of the "clearing organization";

The amount by which the covered contractual payment entitlements of a Member or the Corporation exceed the covered contractual payment obligations of such Member or the Corporation after netting pursuant to Rule 18 or this Rule 41 is its "net entitlement";

The amount by which the covered contractual payment obligations of a Member or the Corporation exceed the covered contractual payment entitlements of such Member or the Corporation after netting under a netting pursuant to Rule 18 or this Rule 41 is its "net obligation"; and

These Rules, together with all other agreements between the Corporation and a Clearing Member, are a "netting contract", the margin, Clearing Fund and other provisions of these Rules granting an interest in any funds or property of a member to the Corporation constitute a "security agreement or arrangement or other credit

enhancement” relating to such netting contract and the close-out process in Rule 18 or this Rule 41 constitutes the “terminat[ion], liquidat[ion], accelerat[ion], and nett[ing]” of obligations.



## RULE 42. WIND-DOWN OF THE CORPORATION

### SEC. 1. Defined Terms

(a) For purposes of this Rule 42:

“Bridge Entity” has the meaning given to such term in the definition of “Transferee” in this Section 1(a).

“Business” means the Critical Services and any Non-Critical Services of the Corporation included in a Transfer.

“Comparability Period” means a period of time following the Transfer, to be agreed between the Corporation and a Transferee, during which the Business transferred from the Corporation to the Transferee shall be operated by the Transferee in a manner comparable to the manner in which the Business was previously operated by the Corporation, as more specifically set forth in Section 9 of this Rule 42.

“Corporation Default Rule” means Rule 41 of the Corporation.

“Critical Services” means the services of the Corporation described in the Rules and Procedures of the Corporation that have been identified as critical services in the Recovery and Wind-down Plan.

“Delinquent Limited Member” means a Limited Member of the Corporation that is delinquent in the performance of any of its obligations to the Corporation (as determined by the Corporation).

“Delinquent Member” means a Member of the Corporation that is delinquent in the performance of any of its obligations to the Corporation (as determined by the Corporation).

“Eligible Limited Member” means a Limited Member of the Corporation other than a Non-Eligible Limited Member.

“Eligible Member” means a Member of the Corporation other than a Non-Eligible Member.

“Failover Entity” has the meaning given to such term in the definition of “Transferee” in this Section 1(a).

“Guaranteed Transaction” means a transaction in CNS Securities or Balance Order Securities that is processed through the facilities of the Corporation and guaranteed by the Corporation.

“Last Settlement Date” has the meaning given to such term in Section 2(c)(3) of this Rule 42.

“Last Transaction Acceptance Date” has the meaning given to such term in Section 2(c)(2) of this Rule 42.

“Limited Member” means a Limited Member or Sponsored Member of the Corporation (other than a Settling Bank Only Member) or a Limited Member or Sponsored Member of the Transferee (other than a Settling Bank Only Member), as the context requires.

“Limited Member Agreement” means the form of agreement between a Limited Member and the Corporation or between a Limited Member and the Transferee, as the context requires, providing, *inter alia*, for the Limited Member to be bound by the Rules and Procedures of the Corporation or the Rules and Procedures of the Transferee, as applicable to such Limited Member.

“Member” means a Member of the Corporation (other than a Settling Bank or AIP Settling Bank) or a Member of the Transferee (other than a Settling Bank or AIP Settling Bank), as the context requires.

“Member Agreement” means the form of agreement between a Member and the Corporation or between a Member and the Transferee, as the context requires, providing, *inter alia*, for the Member to be bound by the Rules and Procedures of the Corporation or the Rules and Procedures of the Transferee, as applicable to such Member.

“Non-Critical Services” means the services of the Corporation described in the Rules and Procedures of the Corporation other than the Critical Services.

“Non-Eligible Limited Member” means a Limited Member of the Corporation that is a Delinquent Limited Member or Withdrawing Limited Member.

“Non-Eligible Member” means a Member of the Corporation that is a Delinquent Member or Withdrawing Member.

“Non-Guaranteed Transaction” means any transaction that is processed through the facilities of the Corporation other than a Guaranteed Transaction.

“Recovery and Wind-down Plan” means the plan for the recovery and orderly wind-down of the Corporation necessitated by credit losses, liquidity shortfalls, losses from general business risk or any other losses, adopted by the Corporation pursuant to Rule 17Ad-22(e)(3)(ii) under the Exchange Act.

“Recovery Plan” means the portion of the Recovery and Wind-down Plan addressing recovery.

“Risk Reducing Transaction” means a Guaranteed Transaction that offsets one or more other Guaranteed Transactions, and thereby reduces the potential exposure of the Corporation with respect to such Guaranteed Transactions.

“Rules and Procedures” means the Rules and Procedures of the Corporation or the Rules and Procedures of the Transferee, as the context requires.

“Settling Bank” means a Settling Bank, Settling Bank Only Member or AIP Settling Bank for Members and Limited Members of the Corporation or a Settling Bank, Settling Bank Only Member or AIP Settling Bank for Members and Limited Members of the Transferee, as the context requires.

“Settling Bank Agreement” means the form of agreement between a Settling Bank and the Corporation or between a Settling Bank and the Transferee, as the context requires, providing, *inter alia*, for the Settling Bank to be bound by the Rules and Procedures of the Corporation or the Rules and Procedures of the Transferee, as applicable to such Settling Bank.

“Third Party Entity” has the meaning given to such term in the definition of “Transferee” in this Section 1(a).

“Transfer” means a transfer of the Business of the Corporation pursuant to the Wind-down Plan.

“Transferee” means an entity to which the Business of the Corporation is transferred pursuant to the Wind-down Plan, and may include (i) a failover entity established by DTCC (a “Failover Entity”), (ii) a then-existing or newly-established third party entity (a “Third Party Entity”) or (iii) a bridge entity formed to operate the Business on an interim basis (a “Bridge Entity”). The Transferee shall be an entity that is legally, financially and operationally qualified to continue to operate the Business that is to be transferred from the Corporation to the Transferee.

“Transferee Documents” means the Rules and Procedures, Member Agreement, Limited Member Agreement and Settling Bank Agreement of the Transferee.

“Transfer Notice” has the meaning given to such term in Section 3 of this Rule 42.

“Transfer Time” has the meaning given to such term in Section 2(c)(1) of this Rule 42.

“Wind-down Plan” means the portion of the Recovery and Wind-down Plan addressing wind-down.

“Withdrawing Limited Member” means a Limited Member of the Corporation that has given notice to the Corporation of its election to withdraw as a Limited Member but that, at the Transfer Time, has not yet ceased to be a Limited Member (as determined by the Corporation).

“Withdrawing Member” means a Member of the Corporation that has given notice to the Corporation of its election to withdraw as a Member but that, at the Transfer Time, has not yet ceased to be a Member (as determined by the Corporation).

(b) Capitalized terms that are used in this Rule 42 but not defined in Section 1(a) above shall have the meanings given to such terms in other Rules and Procedures of the Corporation.

SEC. 2. Initiation of Wind-down Plan

(a) The Board of Directors may authorize the initiation of the Wind-down Plan and a transfer of the Business from the Corporation to a Transferee if the Board of Directors determines, in the exercise of its business judgment and subject to its fiduciary duties:

- (1) that the application of some or all of the recovery tools set forth in the Recovery Plan, necessitated by credit losses, liquidity shortfalls, losses from general business risk or any other losses:
  - A. has not restored the Corporation to viability as a going concern, able to continue to provide its Critical Services to Members and Limited Members of the Corporation in a safe and efficient manner; or
  - B. will not likely restore the Corporation to viability as a going concern, able to continue to provide its Critical Services to Members and Limited Members of the Corporation in a safe and efficient manner; and
- (2) that the implementation of the Wind-down Plan and a Transfer of the Business from the Corporation to a Transferee is in the best interests of the Corporation, its shareholders and creditors, Members and Limited Members and the US financial markets.

(b) The Board of Directors shall identify:

- (1) the Critical Services and any Non-Critical Services that shall be transferred from the Corporation to the Transferee at the Transfer Time; and
- (2) any Non-Critical Services that shall not be transferred from the Corporation to the Transferee.

The Critical Services and any Non-Critical Services that are transferred from the Corporation to the Transferee at the Transfer Time shall be provided by the Transferee following the Transfer Time. Any Non-Critical Services that are not transferred from the Corporation to the Transferee shall be terminated at the Transfer Time.

- (c) The Board of Directors shall establish:
- (1) the date and time (the “Transfer Time”) of the Transfer;
  - (2) the last day that transactions may be submitted to the Corporation for processing (the “Last Transaction Acceptance Date”); and
  - (3) the last day that transactions submitted to the Corporation for processing will be settled (the “Last Settlement Date”).

The Corporation shall not accept any transactions (i) for processing after the Last Transaction Acceptance Date or (ii) which have a designated Settlement Date that occurs after the Last Settlement Date. All transactions to be processed and/or settled after the Transfer Time shall be submitted to the Transferee in accordance with the Rules and Procedures of the Transferee, and the Corporation shall have no responsibility for such transactions.

(d) To the extent that the Board of Directors deems it to be practicable based on the available resources of the Corporation, the Board of Directors may provide for pending transactions to be run off and settled prior to the Transfer Time, with the objective of facilitating the settlement of transactions in the ordinary course. In furtherance of this objective, so long as a Corporation Default has not occurred, the Board of Directors may provide for how such transactions accepted by the Corporation on or prior to the Last Transaction Acceptance Date shall be processed and settled, including:

- (1) whether such transactions must be Risk Reducing Transactions; and
- (2) whether such transactions will be processed (i) in the ordinary course or (ii) in accordance with any special or exception processing procedures that will apply through the close of business on the Last Settlement Date.

### SEC. 3. Notice of Transfer of the Business

If the Board of Directors determines to implement a Transfer of the Business from the Corporation to a Transferee in accordance with this Rule 42 and the terms and conditions of the Wind-down Plan, the Corporation shall, in such manner as may be provided by the Rules and Procedures of the Corporation and subject to any required regulatory or judicial approval or consent:

- (a) provide Members, Limited Members and Settling Banks with a notice (a “Transfer Notice”) setting forth:
- (1) the decision taken by the Board of Directors to Transfer the Business from the Corporation to the Transferee and a brief statement of the reasons therefor;

- (2) the name of the Transferee and basic information about the Transferee;
- (3) a description of the material financial and operational terms of the Transfer;
- (4) the (i) Transfer Time, (ii) Last Transaction Acceptance Date and (iii) Last Settlement Date;
- (5) a summary of the matters described in Sections 4 through 8 of this Rule 42;
- (6) a list setting forth (i) which Members and Limited Members of the Corporation are Eligible Members and Limited Members and (ii) which Members and Limited Members of the Corporation are Non-Eligible Members and Limited Members; and
- (7) a list setting forth (i) the Critical Services and any Non-Critical Services that will be transferred from the Corporation to the Transferee at the Transfer Time and (ii) any Non-Critical Services that will not be transferred from the Corporation to the Transferee; and

(b) make available to Members, Limited Members and Settling Banks a copy of the Transferee Documents.

No delay or failure on the part of the Corporation to provide a Transfer Notice or make available a copy of the Transferee Documents to any Member, Limited Member or Settling Bank shall alter the timing or effectiveness of the Transfer. The Corporation shall also furnish the Transfer Notice and a copy of the Transferee Documents to its regulators.

**SEC. 4.      Transfer of Members, Limited Members and Settling Banks**

Prior to the Transfer Time, the Corporation shall enter into arrangements with a Transferee that is a Failover Entity, or shall use commercially reasonable efforts to enter into arrangements with a Transferee that is a Third Party Entity or Bridge Entity, providing in either case that, at the Transfer Time, by operation of this Rule 42 and with no further action required by any party:

(a) each Eligible Member of the Corporation shall become (i) a Member of the Transferee and (ii) a party to a Member Agreement with the Transferee;

(b) each Eligible Limited Member of the Corporation shall become (i) a Limited Member of the Transferee and (ii) a party to a Limited Member Agreement with the Transferee; and

(c) each Settling Bank for Members and Limited Members of the Corporation shall become (i) a Settling Bank for Members and Limited Members of the Transferee and (ii) a party to a Settling Bank Agreement with the Transferee.

SEC. 5. Status of Members, Limited Members and Settling Banks

Prior to the Transfer Time, the Corporation shall enter into arrangements with a Transferee that is a Failover Entity, or shall use commercially reasonable efforts to enter into arrangements with a Transferee that is a Third Party Entity or Bridge Entity, providing in either case that, from and after the Transfer Time:

(a) An Eligible Member of the Corporation that has become a Member of the Transferee shall have all of the rights and be subject to all of the obligations of a Member set forth in the Rules and Procedures of the Transferee, including the legal, financial, operational and collateral requirements of the Transferee applicable to such Member.

(b) An Eligible Limited Member of the Corporation that has become a Limited Member of the Transferee shall have all of the rights and be subject to all of the obligations of a Limited Member set forth in the Rules and Procedures of the Transferee, including the legal, financial and operational requirements of the Transferee applicable to such Limited Member.

(c) A Settling Bank for Members and Limited Members of the Corporation that has become a Settling Bank for Members and Limited Members of the Transferee shall have all of the rights and be subject to all of the obligations of a Settling Bank set forth in the Rules and Procedures of the Transferee, including the operational requirements of the Transferee applicable to such Settling Bank.

SEC. 6. Right of Non-Eligible Members and Limited Members to Apply to the Transferee

Nothing contained in this Rule 42 shall:

(a) preclude a Non-Eligible Member of the Corporation from applying after the Transfer Time to become a Member of the Transferee in accordance with such eligibility requirements and procedures as may be prescribed by the Transferee, but such Non-Eligible Member shall not have the benefit of the automatic admission arrangements provided in Section 4(a) of this Rule 42; or

(b) preclude a Non-Eligible Limited Member of the Corporation from applying after the Transfer Time to become a Limited Member of the Transferee in accordance with such eligibility requirements and procedures as may be prescribed by the Transferee, but such Non-Eligible Limited Member shall not have the benefit of the automatic admission arrangements set forth in Section 4(b) of this Rule 42.

SEC. 7.        Right to Withdraw from the Transferee

Nothing contained in this Rule 42 shall:

(a)     preclude an Eligible Member of the Corporation that has become a Member of the Transferee pursuant to Section 4(a) of this Rule 42 from electing to withdraw as a Member from the Transferee at any time after the Transfer Time, subject to the Rules and Procedures of the Transferee;

(b)     preclude an Eligible Limited Member of the Corporation that has become a Limited Member of the Transferee pursuant to Section 4(b) of this Rule 42 from electing to withdraw as a Limited Member from the Transferee at any time after the Transfer Time, subject to the Rules and Procedures of the Transferee; or

(c)     preclude a Settling Bank for Members and Limited Members of the Corporation that has become a Settling Bank for Members and Limited Members of the Transferee pursuant to Section 4(c) of this Rule 42 from electing to withdraw as a Settling Bank from the Transferee at any time after the Transfer Time, subject to the Rules and Procedures of the Transferee.

SEC. 8.        Disposition of Pending Transactions

At the Transfer Time:

(a)     any pending transactions that are Guaranteed Transactions shall be treated as provided in the Corporation Default Rule; and

(b)     any pending transactions that are Non-Guaranteed Transactions shall be settled by the parties outside the facilities of the Corporation, including, if agreed by the Transferee, through the facilities of the Transferee.

SEC. 9.        Certain Ex Ante Matters

Prior to the Transfer Time, the Corporation shall enter into arrangements with a Transferee that is a Failover Entity, or shall use commercially reasonable efforts to enter into arrangements with a Transferee that is a Third Party Entity or Bridge Entity, providing in either case that, with respect to the Critical Services and any Non-Critical Services that are transferred from the Corporation to the Transferee, for at least the duration of the Comparability Period, in order to facilitate a smooth Transfer of the Business from the Corporation to the Transferee:

(a)     the Rules and Procedures, Member Agreement, Limited Member Agreement and Settling Bank Agreement of the Transferee shall be comparable in substance and effect to the Rules and Procedures, Member Agreement, Limited Member Agreement and Settling Bank Agreement of the Corporation;

(b)     the rights and obligations of Members, Limited Members and Settling Banks of the Transferee under the Rules and Procedures of the Transferee shall be



comparable in substance and effect to the rights and obligations of Members, Limited Members and Settling Banks of the Corporation under the Rules and Procedures of the Corporation; and

(c) the Critical Services and any Non-Critical Services provided by the Transferee shall be provided in a manner that is comparable in substance and effect to the manner in which such Critical Services and Non-Critical Services were provided by the Corporation.

SEC. 10. Subordination of Claims

In the event of any insolvency of the Corporation following the commencement of any Event Period (as defined in Rule 4), the unsecured claims (if any) of Members and Limited Members of the Corporation that failed to pay or perform any obligation to the Corporation or elected to withdraw as Members or Limited Members from and after such time shall (i) rank *pari passu* with each other and (ii) be subordinate to the claims of other unsecured creditors of the Corporation.

SEC. 11. Further Assurances; Additional Powers; Miscellaneous Matters

(a) Members, Limited Members and Settling Banks of the Corporation shall assist and cooperate with the Corporation to effectuate any Transfer of the Business from the Corporation to a Transferee, including without limitation (i) by complying with the terms and conditions of this Rule 42 and their obligations hereunder and (ii) by providing the Corporation and the Transferee with such financial and operational information as they may request. The Corporation may provide to a Transferee any financial and operational information it has with respect to Members, Limited Members and Settling Banks of the Corporation as may be necessary and appropriate to effectuate an orderly Transfer of the Business from the Corporation to the Transferee.

(b) The Corporation may take such other actions and enter into such other arrangements (on behalf of itself and its Members, Limited Members and Settling Banks) as may be necessary and appropriate to effectuate an orderly Transfer of the Business from the Corporation to a Transferee, and otherwise accomplish the purposes of the Wind-down Plan.

(c) As a condition to receiving, and by virtue of accepting, the continuing benefits of being Members, Limited Members and Settling Banks of the Corporation, such Members, Limited Members and Settling Banks (i) hereby expressly agree to the arrangements set forth in this Rule 42 relating to their becoming Members, Limited Members and Settling Banks, as the case may be, of the Transferee in the circumstances described herein and (ii) hereby expressly grant to the Corporation an irrevocable power of attorney to execute and deliver on their behalf such documents and instruments as the Transferee may request for this purpose. As Members, Limited Members and Settling Banks of the Corporation, such Members, Limited Members and Settling Banks are subject to the Rules and Procedures of the Corporation.

(d) No actions taken or omitted to be taken by the Corporation pursuant to this Rule 42 shall be deemed to constitute a default by the Corporation in the performance of any of its other obligations to Members, Limited Members and Settling Banks of the Corporation pursuant to any other Rules and Procedures of the Corporation.

(e) The Corporation shall have no liability to any Members, Limited Members, or Settling Banks of the Corporation for any actions taken or omitted to be taken by the Corporation pursuant to this Rule 42.

(f) The Corporation shall have no liability to any third parties, including any customers or clients of any Members, Limited Members or Settling Banks of the Corporation, for any actions taken or omitted to be taken by the Corporation pursuant to this Rule 42.

(g) In connection with the Transfer of the Business from the Corporation to the Transferee, (i) the Corporation shall assign all of its Member Agreements, Limited Member Agreements and Settling Bank Agreements to the Transferee and (ii) the Transferee shall assume such Member Agreements, Limited Member Agreements and Settling Bank Agreements.

(h) All rights of the Corporation that are not assigned to the Transferee in connection with the Transfer of the Business from the Corporation to the Transferee, including any claims of the Corporation against Members, Limited Members and Settling Banks arising at any time prior to the Transfer Time, shall remain rights of the Corporation, enforceable by the Corporation in accordance with their terms and subject to applicable law (including insolvency law).

(i) All obligations and liabilities of the Corporation that are not assigned to and assumed by the Transferee in connection with the Transfer of the Business from the Corporation to the Transferee shall remain obligations and liabilities of the Corporation, enforceable against the Corporation in accordance with their terms and subject to applicable law (including insolvency law).

(j) In the event of any conflict between the provisions of this Rule 42 and any other Rules and Procedures of the Corporation, the provisions of this Rule 42 shall prevail.

RULE 43. (RULE NUMBER RESERVED FOR FUTURE USE)

## RULE 44. DELIVERIES PURSUANT TO BALANCE ORDERS

SEC. 1. All deliveries of securities pursuant to a deliver balance order produced in the Balance Order System or as the consequence of the pairing of Long and Short Positions in the CNS System (Order), other than security orders relating to Special Trades, shall be subject to the provisions of this Rule.

SEC. 2. Deliveries must be made at the receiver's Specified Location.

SEC. 3. The receiver shall accept a partial delivery on any Order provided the portion remaining undelivered is not an amount which includes an odd-lot.

SEC. 4. Without limiting the rights of any receiver that has designated a Specified Location other than New York City, to the extent a deliver balance order is for a security that is eligible for book-entry transfer on the books of DTC, and the deliverer has filed with the Corporation a standing instruction, the Corporation will issue an instruction on file to DTC specifying the quantity of each security to be delivered from the deliverer to the receiver and the money settlement related thereto.

SEC. 5. Each delivery of certificates evidencing equity securities:

- (1) in which the Order is for 100 shares may be in one certificate for the exact number of shares or certificates totaling 100 shares,
- (2) in which the Order is greater than 100 shares and a multiple of 100 shall be in the exact amount of the contract, or in multiples of 100 shares, or in amounts from which units of 100 shares can be made, or a combination thereof equaling the amount of the contract,
- (3) in which the Order is for more than 100 shares but not in a multiple of 100 shall be in multiples of 100 shares, or in amounts from which units of 100 shares can be made, or a combination thereof, plus either the exact amount for the odd lot or smaller amounts equaling the odd lot, or
- (4) in which the Order is for less than 100 shares shall be in the exact amount of the contract or for smaller units aggregating the amount of the contract.

SEC. 6. (a) Each delivery of bonds or similar evidences of indebtedness in coupon bearer form shall be made in denominations of \$1,000 or in denominations of \$100 or multiples thereof aggregating \$1,000.

(b) Each delivery of bonds or similar evidences of indebtedness in fully registered bond issues shall be made in denominations of \$1,000 or multiples thereof or in amount of \$100 or multiples aggregating \$1,000, but in no event in denominations larger than \$100,000.

SEC. 7. The units of delivery for certificates of deposit for bonds shall be the same as prescribed for bonds in Section 6 of this Rule.

SEC. 8. Each delivery must also meet the good delivery requirements set forth in the rules of the primary market place where the securities are traded notwithstanding that such requirements would not otherwise apply to a transaction compared, cleared or settled through the Corporation.

## RULE 45. NOTICES

SEC. 1. Any notice pursuant to these Rules from the Corporation to an Interested Person as defined in Rule 37 shall be sufficiently served on such Interested Person if the notice is in writing, and is mailed to the Interested Person's office address or e-mailed to the Interested Person's e-mail address. Any notice to an Interested Person, if mailed, shall be deemed to have been given when deposited in the United States Postal Service, with postage thereon prepaid, directed to the Interested Person at its office address, and if e-mailed, shall be deemed to have been given when routed to the e-mail address of the Interested Person.

SEC. 2. Any notice from an Interested Person to the Corporation shall be sufficiently served on the Corporation if the notice is in writing and is delivered or mailed to the Corporation at its principal place of business, Attention: Secretary, or such other place as it designates, with a copy of the notice sent by electronic mail to the General Counsel's Office of the Corporation at [gcocontractnotices@dtcc.com](mailto:gcocontractnotices@dtcc.com). Any such notice to the Corporation shall be deemed to have been given when received.

SEC. 3. Any notice required to be given to participants by the Corporation pursuant to Rule 18 shall state the Corporation's decision to cease to act for a participant. The Corporation may provide in such notice or a subsequent notice the steps to be taken in the Comparison Operation, Accounting Operation, Settlement or other activities as well as how pending transactions shall be affected.

SEC. 4. Any notice required to be given to the Corporation by a participant pursuant to Rule 20 shall be given both orally and in writing as soon as possible after the time of insolvency. Notice by the Corporation pursuant to Rule 20 to all participants shall be given as soon as possible after the time of insolvency and shall state whether the Corporation has ceased to act for the insolvent participant as well as how pending matters will be affected and what steps will be taken in connection therewith.

SEC. 5. Any notice required to be given by the Corporation pursuant to Section 2 of Rule 46 shall set forth the specific grounds under consideration upon which any suspension, prohibition or limitation of access may be based and shall contain notice to the participant of its right to request a hearing, such request to be filed by such participant with the Corporation pursuant to Rule 37.

SEC. 6. Any notice required to be given by the Corporation to a participant pursuant to Section 2 of Rule 48 shall set forth the charges against the participant and shall contain notice to such participant of its right to request a hearing, such request to be filed by it with the Corporation pursuant to Rule 37.

SEC. 7. Notwithstanding anything in these Rules to the contrary, and other than with respect to notices covered by Sec. 5 or 6 of this Rule, the Corporation may distribute notices to participants by posting such notices on the NSCC Website. The Corporation shall deem a notice sufficiently served once the notice is posted on the

NSCC Website, and it is the responsibility of the participants to retrieve notices daily from the NSCC Website.

## RULE 46. RESTRICTIONS ON ACCESS TO SERVICES

SEC. 1. The Board of Directors may suspend a Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, Data Services Only Member or AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 46) or prohibit or limit such participant’s access to services offered by the Corporation in the event that (a) the participant has been and is expelled or suspended from any regulatory or self-regulatory organization, or (b) the participant is in default of any delivery of funds or securities to the Corporation, (c) the participant is in such financial or operating difficulty, that the Corporation determined, in its discretion, that such action is necessary for the protection of the Corporation, the participants, creditors, or investors; with respect to a bank or trust company Member or Mutual Fund/Insurance Services Member (and a parent bank holding company of a Member that has guaranteed the obligations of the Member in accordance with Addendum B) such difficulty shall include but not be limited to impaired capital or the appointment by the primary Federal or State bank supervisor of a receiver to take control of the bank, (d) the Corporation has reasonable grounds to believe that such participant is subject to a Statutory Disqualification, (e) the Corporation determines that such participant does not meet the applicable qualifications for membership or limited access set forth in Rule 2A, Rule 2B and Addendum B, (f) such participant has failed to comply with any financial or operational requirement of the Corporation, or (g) in any circumstances in which, in the discretion of the Corporation, adequate cause exists to do so.

SEC. 2. Before suspending a participant or prohibiting or limiting such participant’s access to services offered by the Corporation pursuant to this Rule, the Corporation shall notify such participant pursuant to Section 5 of Rule 45.

SEC. 3. Notwithstanding Section 2 of this Rule, the Board of Directors may summarily suspend a participant’s access to services offered by the Corporation in the event that either one or more of conditions (a), (b) or (c) of Section 1 of this Rule apply to such participant. In the event that any such participant has been summarily suspended, the Corporation shall cease to act for such participant in accordance with Rule 18, except as otherwise provided in the Rules. Any summary action which may be taken by the Board of Directors pursuant to this Section of Rule 46 may instead be taken by one or more designees of the Board of Directors in the event that a quorum of the Board of Directors is unable to meet, provided that any summary action taken by one or more designees must be confirmed by the Board of Directors within 3 Business Days. Any participant that has been summarily suspended or whose access has been summarily prohibited or limited pursuant to this Section of Rule 46 shall be promptly furnished a written statement of the grounds for the decision and shall be notified of its right to request a hearing, pursuant to Rule 37. A request for a hearing must be in writing and filed within 2 Business Days of receipt from the Corporation of such statement. Any such hearing requested pursuant to Rule 37 shall be held as promptly as possible after the Corporation has taken summary action against the participant pursuant to this Rule.



SEC. 4. Any action taken by the Corporation pursuant to this Rule may include, but shall not be limited to, any one or more of the following actions:

- (a) ceasing to act for the participant pursuant to Rule 18; and
- (b) limiting or excluding the participant's participation in one or more classes of transactions or services which are, depending on membership type, available to the participant, including but not limited to (i) envelope "receive" transactions, (ii) CNS positions or Balance Order obligations of the Member, or (iii) transactions involving ancillary services of the Corporation

#### RULE 47. INTERPRETATION OF RULES

The Board of Directors of the Corporation or their designee(s) shall have the authority to interpret the Rules of the Corporation. Interpretations of the Board of Directors or their designee(s) shall be final and conclusive.

## RULE 48. DISCIPLINARY PROCEEDINGS

SEC. 1. The Corporation may discipline any Member or Limited Member (each hereinafter referred to as a “participant” for purposes of this Rule 48) for a violation of any provision of the Rules or the Procedures of the Corporation, such participant’s agreements with the Corporation, or for any error, delay or other conduct detrimental to the operations of the Corporation, or for not providing adequate facilities for such participant’s business with the Corporation, by expulsion, suspension, limitation of or restriction on activities, functions and operations, fine or censure or any other fitting sanction; provided, however, that the fine for any single offense shall not exceed the sum of \$20,000. Fines shall be payable in the manner and at such time as determined by the Corporation from time to time.

SEC. 2. Before imposing any disciplinary sanction on a participant pursuant to this Rule, the Corporation shall notify such participant pursuant to Section 6 of Rule 45 of the charges against such participant and its right to a hearing.

RULE 49. RELEASE OF CLEARING DATA AND CLEARING FUND DATA

(a) Absent valid legal process or as provided in paragraph (b) hereof, the Corporation will only release Clearing Data relating to transactions of a particular participant and Clearing Fund Data to such participant upon his written request; however, if the participant is a Sponsored Member, the Corporation will also release Clearing Data relating to transactions of such participant to such participant's Sponsoring Member upon the Sponsoring Member's written request.

(b) The Corporation, in its sole discretion, may release Clearing Data relating to transactions of participants and/or the Clearing Fund Data of participants to (i) regulatory organizations and self-regulatory organizations, as defined in the Exchange Act, or other comparable Federal or State statutes, (ii) clearing agencies registered with the SEC of which the participant is a member, and (iii) to any clearing organization that is affiliated with or has been designated by a futures contract market under the oversight of the CFTC, of which the participant is a member. Provided, however, that nothing in this Rule shall prevent the Corporation from releasing Clearing Data to others, provided that such data shall be in a form as to prevent the disclosure, whether patently or in easily discernible format, of proprietary and/or confidential financial, operational or trading data of a particular participant or inappropriately arranged groups of participants.

(c) With respect to the foregoing, the release of any Clearing Data and/or Clearing Fund Data shall be conditioned upon either (i) a written request, or (ii) the execution of a written agreement with the Corporation, whichever appropriate in the Corporation's discretion and the Corporation, in its discretion, shall establish the conditions under which such data shall be released and the fees, if any, to be paid for such data.

(d) The term "Clearing Data" shall mean, for the purposes of this Rule, transaction data which is received by the Corporation for inclusion in the clearance and/or settlement process of the Corporation, or such data, reports or summaries thereof, which may be produced as a result of processing such transaction data. The term "Clearing Fund Data" shall mean, for the purposes of this Rule, information regarding a participant's clearing fund, margin and other similar requirements and deposits at the Corporation, or such data, reports or summaries thereof, which may be produced by the Corporation from time to time.

(e) The foregoing notwithstanding, this Rule is not intended to, nor shall it be deemed to be in contravention, or a limitation, of the Corporation's obligations, as a self-regulatory organization, to cooperate and share data with other regulatory and self-regulatory organizations for regulatory purposes.

## RULE 50. AUTOMATED CUSTOMER ACCOUNT TRANSFER SERVICE

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

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

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

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

SEC. 5. Within the time frame established by the Corporation or, to the extent applicable, the Delivering Member's Designated Examining Authority ("DEA"), and, to the extent applicable, pursuant to reasons permitted by the Delivering Member's DEA, the Delivering Member must either reject a customer account transfer request by submitting a rejection to the Corporation in such form as determined by the Corporation from time to time, or submit to the Corporation detailed customer account asset data in such format as established by the Corporation from time to time; provided, however,

that if Fund/SERV Eligible Fund assets are to be transferred through Mutual Fund Services, the Delivering Member must specify the quantity of each Fund/SERV Eligible Fund asset to be processed and indicate whether each such transfer shall be a full or a partial transfer<sup>1</sup>. A Delivering Member who rejects a transfer request must indicate the reason for the rejection. Any transfer request that is not responded to by a Delivering Member within such time frame as established by the Corporation from time to time will be deleted from ACATS by the Corporation and the Receiving and Delivering Member's will be notified accordingly. A Receiving Member who desires to resubmit a transfer request that is deleted will be required to reinitiate the request as if one had never been previously submitted.

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

SEC. 7. Upon receipt by the Corporation from the Delivering Member of customer account asset data, the Corporation will use its best efforts to validate the data for edit errors. However, the Corporation will not assume the responsibility for such validation process. If no edit errors or format errors are discovered by the Corporation in the asset data, details of the account will be reported to both the Delivering Member and the Receiving Member in such manner and by such time as established by the Corporation from time to time. If the Corporation discovers that customer account asset data contains one or more edit errors or, format errors, the Corporation will notify the Receiving Member in such manner and by such time as determined by the Corporation from time to time that customer account asset data has been received from the Delivering Member but that it contains edit errors or format errors. The Corporation will notify the Delivering Member in such manner and by such time as determined by the Corporation from time to time of all customer account asset data reported, indicating that which contains errors. The Delivering Member will be

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<sup>1</sup> A full transfer will cause all Fund/SERV Eligible Fund account assets, whether greater or lesser than the quantity specified, to be transferred. A partial transfer will cause only the Fund/SERV Eligible Fund account asset quantity specified or such lesser amount to be transferred.

required to correct those items that contain edit errors or format errors in order to permit delivery of the customer's account to occur within the time frame as established by the Delivering Member's DEA. If the Delivering Member fails to correct edit errors or format errors within such time frame established by the Corporation, the Corporation will delete the transfer request from ACATS. A Receiving Member who desires to resubmit a transfer request that is deleted will be required to reinitiate the request as if one had never been previously submitted.

SEC. 8. A Receiving Member will have one (1) Business Day after receipt from the Corporation of the report detailing the customer account asset data to review the account and accept all assets, or, to the extent permitted by the Receiving Member's DEA, if applicable, reject one or more assets within a DEA determined asset category, request the Delivering Member to make adjustments to it or, as permitted by the Corporation or, to the extent applicable, the Receiving Member's DEA, reject the account. No action is required by the Receiving Member if it determines to accept all assets in an account. A Receiving Member may accelerate the transfer of the customer account by either (i) providing an acceleration instruction to the Corporation upon receipt of the customer account asset data list from the Corporation and accepting all assets or (ii) deleting nontransferable assets as defined by the Receiving Member's DEA and as permitted by the Corporation and accepting the remaining assets. Once a Receiving Member has accelerated the transfer, the transfer will be in accelerated status. During the one (1) Business Day time period, the Delivering Member will be able to add, delete or change an item, provided that the Receiving Member did not accelerate the transfer, by delivering to the Corporation such information in such form and by such time as established by the Corporation from time to time; however, the Receiving Member may delete nontransferable assets as defined by the Receiving Member's DEA and as permitted by the Corporation during the one (1) Business Day time period. Once the Receiving Member accelerates the transfer, the Delivering Member will be prohibited from making any adjustments to the account. If the transfer is not in an accelerated status, each Business Day that a Delivering Member causes an adjustment to be made to an account will give the Receiving Member an additional one (1) Business Day to review the account. If Fund/SERV Eligible Fund assets and/or I&RS Eligible Products ("MF/I&RS Products") are to be transferred the Receiving Member shall also, within one (1) Business Day after receipt from the Corporation of the report detailing the MF/I&RS Products data or simultaneous with the submission of an acceleration instruction, submit to the Corporation detailed transfer instructions in such format as established by the Corporation from time to time, which instructions shall be processed through Mutual Fund Services in accordance with Section 16 of Subsection A of Rule 52 or through I&RS in accordance with Section 6 of Rule 57, as applicable. If a Receiving Member submits instructions and determines that a modification must be made to such instruction, such modifications must be submitted within the same deadline. Modifications to an already submitted instruction will not be permitted if the transfer is in accelerated status. Each Business Day that the Delivering Member causes an adjustment to be made to an account will give the Receiving Member an additional one (1) Business Day to submit such transfer information. With respect to Fund/SERV Eligible Fund assets, if the Receiving Member fails to properly submit such transfer information within the required time period, the Corporation shall transmit

through Mutual Fund Services such standing transfer information as the Corporation shall determine. Each day the Corporation will produce a report indicating the transfer instructions that have been received by the Corporation, if any, and, with respect to Fund/SERV Eligible Fund assets, if no instructions have been received, the standing instructions which will be submitted to the Mutual Fund Processor or Fund Member. Each day the Corporation will produce a report to the Receiving and Delivering Member, indicating the Fund/SERV Eligible Fund customer account asset transfers which have been confirmed or rejected by the Mutual Fund Processor or Fund Member in accordance with Section 16 of Subsection A of Rule 52. Such report will also indicate those transfers which the Mutual Fund Processor or Fund Member has not confirmed or rejected or which have been deleted. Each day the Corporation will produce a report to the Receiving and Delivering Member, indicating the I&RS Eligible Products transfers which have been confirmed or rejected by the Insurance Carrier/Retirement Services Member in accordance with Section 6 of Rule 57, or which have been deleted.

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

- (i) To the extent a transfer is between a Member and another Member:
  - (1) The Corporation will cause relevant items deemed by it to be eligible pursuant to Procedure XVIII to be entered into the ACATS Settlement Accounting Operation.
  - (2) The Corporation will issue an instruction file to DTC specifying the assets to be delivered/received for all items that are not eligible for the ACATS Settlement Accounting Operation that are otherwise eligible at DTC, in each case pursuant to the standing instructions filed with the Corporation by the Delivering Member.
  - (3) The Corporation will produce ACATS Receive and Deliver Instructions for items that are not eligible for the ACATS Settlement Accounting Operation or for inclusion in the file sent to DTC per (2) above.

To the extent that a value is specified on an ACATS Receive and Deliver Instruction, other than for those asset types or asset settling locations designated by the Corporation from time to time, the value for settlement purposes pursuant to Section 10 will be in U.S. dollars and, in the case of items not eligible for the ACATS Settlement Accounting Operation, will be based upon (i) the price obtained from a pricing source, if available or, if not available, (ii) the value of that asset provided to the Corporation by the Delivering Member<sup>2</sup>, and will also specify such other information as the Corporation may determine from time to time and shall otherwise, to the extent applicable, be

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<sup>2</sup> Members who are also members of FINRA are expected to adhere to FINRA rules regarding valuation of assets in connection with transfer instructions.



subject to the rules of the Members' DEAs, including, but not limited to, their close-out provisions and shall not be subject to the Rules of the Corporation.

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

- (1) For all DTC eligible assets, other than (a) U.S. dollar cash balances ("Cash"), (b) assets covered by a standing instruction filed by the Delivering Member with the Corporation, and (c) assets for which a special receive/deliver instruction request was received from the Delivering Member at the time asset details were submitted, the Corporation will issue an instruction file to DTC specifying the quantity of each asset to be delivered with a deliver value of zero.<sup>3</sup>
- (2) The Corporation will produce ACAT Receive and Deliver Instructions for all assets to be transferred and, upon request, will also produce special receive/deliver instructions naming the Receiving Member and Delivering Member. All such special receive/deliver instructions will specify no value.
- (3) For all Cash assets, the Corporation will issue payment instructions to DTC naming the paying/receiving entity.

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

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

(i) On Settlement Date as indicated on the ACATS Receive and Deliver Instructions, the Corporation will debit and credit the appropriate Member's settlement account for the value of the applicable items (excluding items included within the ACATS Settlement Accounting Operation). The actual delivery and corresponding money settlement of the underlying assets, regardless of whether a Member's account has been debited pursuant to this subsection, shall be the responsibility of the appropriate Member and, to the extent applicable, shall be pursuant to the rules of the Member's DEA. If a Member fails to make a delivery, such failure, to the extent applicable, shall be subject to the rules of the Member's DEA and not the Rules of the Corporation.

(ii) The actual delivery and corresponding money settlement, if any, of Fund/SERV Eligible Fund assets which have been rejected or deleted in accordance with Section 16 of Subsection A of Rule 52 for which ACAT Receive and Deliver Instructions have been issued shall be the responsibility of the appropriate Member and, to the extent applicable, shall be pursuant to the rules of the Member's DEA. If a

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<sup>3</sup> The special receive/deliver instruction referenced in this Section has the same legal effect as an ACAT Receive and Deliver instruction.

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

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

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

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

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

(i) residual credit positions, which are received for the benefit of a customer's account by the Delivering Member after the ACAT process is completed or which, due to a restriction, were not included in the original asset transfer (hereinafter collectively referred to as "Residual Credits");

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

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

(iv) cash or securities mistakenly delivered as part of ACATS (hereinafter collectively referred to as “Reclaims”), other than Fund/SERV Eligible Fund assets and positions eligible for processing at a Registered Clearing Agency with whom the Corporation has entered into an agreement relating to ACATS (hereinafter referred to as an “ACAT RCA”).

Such transfers shall be processed as follows:

1. Transfers may be initiated by a Delivering Member by submitting to the Corporation such details as required by the Corporation from time to time within such time frame as established by the Corporation from time to time. The Corporation will reject a transfer if the details contain an edit or format error. The Corporation will notify the Delivering Member if a transfer is rejected and the Delivering Member must reinitiate the transfer as if it had never been previously submitted. If no edit errors or format errors are discovered by the Corporation in the asset data, details of the account will be reported to both the Delivering Member and the Receiving Member in such manner and by such time as established by the Corporation from time to time.

2. A Receiving Member may reject the transfer by submitting such information as determined by the Corporation by the time and in the manner specified by the Corporation on the same day as the transfer request is received or, in respect of Reclaim transfers, no later than two Business Days following the day the Reclaim transfer request is received. No action is required by the Receiving Member if it determines to accept the transfer. A Receiving Member may not submit corrections and a Delivering Member may not make adjustments to such transfer request, except a Receiving Member may delete Fund/SERV Eligible Fund assets for Partial Accounts and Residual Credits.

3. Settlement Date for all transfers covered by this section shall be one Business Day following the day the Corporation receives the transfer request unless:

- (i) the request is Reclaim transfer, in which case Settlement Date shall be one Business Day following the day the Receiving Member accepts the request or the Corporation deems the request accepted, or
- (ii) the request includes either options assets which are eligible for processing an ACAT RCA, or Fund/SERV Eligible Fund assets, whereby the settlement date for all assets included in the transfer shall be two Business Days following the day the Corporation receives the transfer request.

SEC. 13. A Receiving Member may submit a request to a Delivering Member to initiate the transfer of a partial customer account, in such form as determined by the Corporation from time to time. Such request shall be delivered by the Corporation to the Delivering Member on the same day as received by the Corporation. Each day for a period not to exceed two days, the Corporation will produce a report, in such form as

determined by the Corporation from time to time, indicating all such requests received by the Corporation. A Delivering Member must either reject a customer account transfer request by submitting a rejection to the Corporation in such form as determined by the Corporation from time to time, or submit to the Corporation detailed customer account asset data in such format as established by the Corporation from time to time. If a request is rejected, the Delivering Member must indicate the reason for the rejection. If the Delivering Member submits detailed account asset data, and the transfer is not rejected by the Receiving Member, Settlement Date for this transfer request will be one Business Day after the Delivering Member has submitted the asset account data unless the transfer contains options assets or Fund/SERV Eligible Fund assets, in which case the settlement date for all assets will be two Business Days.

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

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

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

SEC. 17. Each Member or participant of a QSD that requests a transfer through ACATS (the "Requesting Firm") agrees to (i) indemnify and hold harmless the Member or participant of a QSD that accepts such transfer request (the "Accepting Firm") from and against any and all losses, claims, damages or liabilities (or actions in respect thereof) to which the Accepting Firm may become subject, under any provision of law, to the Accepting Firm's customer or to any other person, insofar as such losses, claims, damages or liabilities arise out of or are based upon an unauthorized or allegedly unauthorized transfer request or any inaccurate or allegedly inaccurate documentation or information, in any format, transmitted by the Requesting Firm through NSCC or

ACATS and (ii) reimburse the Accepting Firm for any legal or other expenses reasonably incurred by the Accepting Firm in connection with defending any such action or claim as such expenses are incurred. Each Requesting Firm agrees that an Accepting Firm accepting its transfer request through ACATS shall be a third-party beneficiary of the above indemnification and reimbursement obligations in respect of such request, and that such an Accepting Firm may assert any claim under these indemnification and reimbursement obligations as a third-party beneficiary directly against such Requesting Firm.

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

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

SEC. 18. The Corporation does not guaranty completion of ACATS transactions. In the event a Member fails to meet its settlement obligation to the Corporation:

- (1) For any transaction that entered the ACATS Settlement Accounting Operation but was subsequently exited from the ACATS Settlement Accounting Operation on ACATS settlement date, the transaction will be considered uncompleted and will be reversed against the original debit or credit value applied to their settlement account upon exit.<sup>4</sup>

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<sup>4</sup> The ACATS reversal for this transaction would be processed in the same way as a transaction that did not enter the ACATS Settlement Accounting Operation. The exception would be for a Fund/SERV Eligible Fund asset, as NSCC tracks the completion of this asset on settlement date and would only reverse an uncompleted transaction.

- (2) Any transaction or, if partially completed, the uncompleted portion of a transaction of the Member in the ACATS Settlement Accounting Operation, will be reversed if it remains outstanding (or uncompleted) upon the Member's failure to settle, and:
  - a. If the timing of that reversal on settlement date is before such transaction would have either entered the CNS General Accounting System or issued as a Member to Member instruction for a DTC-eligible transaction, the transaction will be reversed without a settlement debit or credit (as there was no debit or credit value originally applied to the Member's settlement account), or
  - b. If the reversal occurred on settlement date after such transaction either entered the CNS General Accounting System or was issued as a Member to Member instruction for a DTC-eligible transaction, the transaction will be reversed against the debit or credit value that was originally applied to the Member's settlement account.
- (3) For all other uncompleted ACATS transactions not applicable to (1) and (2) of this Section, such transactions and any related debits or credits will be reversed.

## RULE 51. OBLIGATION WAREHOUSE

### SEC. 1. General

The Corporation may offer a service to Members for: (i) the comparison of securities transactions that are not otherwise submitted by or on behalf of Members for trade comparison or recording through other NSCC systems or services, (ii) tracking, storage and maintenance of obligations either compared through the service, or forwarded to it from other NSCC accounting operations or services in accordance with the Rules and Procedures through the time of settlement of such obligations (such obligations shall collectively be referred to as “OW Obligations”), (iii) the repricing and updating of fail obligations, (iv) the pair off of certain eligible open obligations. As regards to tracking and maintenance, the Corporation will cause CNS-eligible OW Obligations to be entered into the CNS Accounting Operation on a regular basis.<sup>1</sup> This service shall be known as the “Obligation Warehouse” service. In addition, in accordance with this Rule and the Obligation Warehouse Procedure, a Member shall submit to the Obligation Warehouse for repricing, netting and allotting, fail data with respect to transactions already compared through the facilities of the Corporation or other facilities.

### SEC. 2. Eligible Obligations

The Obligation Warehouse shall be available for use by Members for the tracking, records storage and maintenance of transactions in such securities or classes of securities as the Corporation shall determine from time to time.

### SEC. 3. Non-Guaranteed Service and Settlement

The Obligation Warehouse shall not be a guaranteed service of the Corporation. Except with respect to: (i) OW Obligations that have been forwarded to the CNS Accounting Operation in accordance with Procedure II A. and Procedure VII, and (ii) any cash adjustment forwarded to the settlement system of the Corporation in accordance with the Obligation Warehouse Procedure, the settlement of OW Obligations shall occur between the parties themselves. Any obligations (settlement or otherwise) arising from OW Obligations shall be the sole responsibility of the Members that are parties to the obligation. In the event of the default of a Member, the Corporation within such time frames as determined from time to time and whether before or after settlement on any Business Day, may: (i) exit all OW Obligations of such Member, (ii) reverse all credits and debits for the Member relating to OW Obligations that have entered the CNS Accounting Operation, and (iii) reverse any cash adjustment of the Member forwarded to settlement pursuant to the Obligation Warehouse Procedures.

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<sup>1</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.

#### SEC. 4. Limitations on Liability

(a) Notwithstanding any other provision in the Rules of the Corporation; the Corporation will not be liable for any action taken, or any delay or failure to take any action, hereunder or otherwise to fulfill the Corporation's obligations to users of the Obligation Warehouse service, other than for losses caused directly by the Corporation's gross negligence, willful misconduct, or violation of federal securities laws for which there is a private right of action.

(b) Under no circumstances will the Corporation be liable for any indirect, consequential, incidental, special, punitive or exemplary loss or damage (including, but not limited to, loss of business, loss of profits, trading losses, loss of opportunity and loss of use) howsoever suffered or incurred, regardless of whether the Corporation has been advised of the possibility of such damages or whether such damages otherwise could have been foreseen or prevented.



## RULE 52. MUTUAL FUND SERVICES

A. Fund/SERV®

SEC. 1. The Corporation may provide a service to enable Members, Mutual Fund/Insurance Services Members, TPA Members, TPP Members, Investment Manager/Agent Members, and Fund Members to process and/or settle, as the case may be, on an automated basis purchase and redemption orders and transactions in interests in Fund/SERV Eligible Funds (such interests, whether structured as shares, units, or other denominations shall be referred to as “shares” for purposes of these Rules), transmit registration instructions and/or to enable, as the case may be, the transfer on an automated basis of the value of Fund/SERV Eligible Fund shares. Such automated processing of Fund/SERV Eligible Fund shares shall be known as Fund/SERV and will be accomplished in accordance with the provisions of this Rule.

SEC. 2. A Member, Mutual Fund/Insurance Services Member, TPA Member, TPP Member or Investment Manager/Agent Member who desires to submit a Fund/SERV Eligible Fund order (e.g. purchase, redemption, exchange) or transaction to another Member (referred to as a Mutual Fund Processor) or Fund Member may do so by submitting order data to the Corporation on the day the order is intended to take place (“Trade Date”) or, to the extent established by each Fund Member, any day thereafter (hereinafter referred to as “As-Of” orders) or any day prior to the Trade Date, in such form and by such times as established by the Corporation from time to time.<sup>1</sup> An order submitted by a Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or TPA Member that does not indicate otherwise shall be settled through the facilities of the Corporation. An order processed through Fund/SERV but not settled through the Corporation’s facilities is referred to hereinafter as a “Fund/SERV Processing Only Transaction,” and the settlement of such transactions is the responsibility of the parties thereto.

SEC. 3. Upon receipt of the order data, the Corporation will review the order data for such information which the Corporation determines from time to time to be necessary (including applicable Fund Member or Mutual Fund Processor parameters). If such order data does not contain the information required by the Corporation, the Corporation will reject the order data and will advise the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or the TPA Member, as the case may be, of such rejection in such form and by such times as established by the Corporation from time to time. If the order data appears to contain the information required by the Corporation, subject to any rights the Corporation may have as provided in the Rules generally, the Corporation will transmit the order data to the Mutual Fund Processor or Fund Member and, if submitted by a TPP Member, TPA Member or Investment Manager/Agent Member, to the corresponding Member or Mutual Fund/Insurance Services Member with the obligation to settle the order (hereinafter referred to as the TTP/TPA/IMA Settling Entity), in such

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<sup>1</sup> A Fund Member or Mutual Fund Processor may indicate to the Corporation the parameters and types of orders it is willing to process through Fund/SERV.

form and by such times as established by the Corporation from time to time. To the extent the Corporation has knowledge that it is unable to transmit the order data to the Mutual Fund Processor or Fund Member, the Corporation will use its best efforts to contact the Mutual Fund Processor or Fund Member and so advise. Notwithstanding the foregoing, to the extent a Mutual Fund Processor or Fund Member fails to receive the order data, the Mutual Fund Processor or Fund Member, as soon as practicable, must contact the Corporation. Upon request by the Mutual Fund Processor or Fund Member, the Corporation may make summary order data available to the Mutual Fund Processor or Fund Member to the extent the Corporation has such data available. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member who desires to resubmit an order that has been rejected must resubmit the order as if it had never been submitted and such order shall be submitted within the time frames established by the Corporation from time to time.

SEC. 4. A Mutual Fund Processor or Fund Member may acknowledge (in the case of an interval fund repurchase order), confirm or reject an order received from a Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member by transmitting such acknowledgement, confirmation or rejection to the Corporation in such form and by such time as established by the Corporation from time to time. If the order was submitted by a TPP Member, TPA Member or Investment Manager/Agent Member, the corresponding TPP/TPA/IMA Settlement Entity will be notified of the action taken by the Mutual Fund Processor or Fund Member. All orders (except money market purchase orders) not acknowledged, confirmed or rejected within such time will be deleted from the Fund/SERV system. Upon receipt of a rejection from a Mutual Fund Processor or Fund Member, the Corporation will delete the unsettled order from Fund/SERV. Responsibility for adjusting any orders which are deleted from Fund/SERV is between the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or the TPA Member, as the case may be, and the Mutual Fund Processor or Fund Member. In addition to the foregoing, if a Mutual Fund Processor or Fund Member recognizes that he has incorrectly priced orders, other than exchange orders, that were confirmed through Fund/SERV, in order to adjust the price for all such orders (other than money market orders) he may, until the day prior to settlement day, submit a reconfirmation in such form and by such time as established by the Corporation from time to time and with respect to money market orders settling on a same day basis he may on settlement day submit a reconfirmation in such form and by such time as established by the Corporation from time to time; provided, however, that no reconfirmation may be submitted if a Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member has submitted a correction, as provided for in Section 7 of this Rule; instead, the procedures set forth in Section 7 of this Rule shall apply.

SEC. 5. A Mutual Fund Processor or Fund Member who desires to originate a confirmed order (including an As-Of order) to a Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member (other than for money market and exchange orders) may do so by submitting such

confirmed order data to the Corporation in such form and by such time as established by the Corporation from time to time (any such confirmed order originated by a Mutual Fund Processor or Fund Member will hereinafter be referred to as a "Fund Originated Order").

SEC. 6. Upon receipt of a Fund Originated Order, the Corporation will review the order data for such information as the Corporation determines from time to time to be necessary. If the order data does not contain the information required by the Corporation, the Corporation will reject the order data and will advise the Mutual Fund Processor or Fund Member of such rejection in such form and by such time as established by the Corporation from time to time. A Fund Member or Mutual Fund Processor who desires to resubmit a Fund Originated Order that has been rejected must resubmit the order as if it never had been submitted and such order must be submitted within the time frames established by the Corporation from time to time. If the order data appears to contain the information required by the Corporation, subject to any rights which the Corporation may have as provided in the Rules generally, the Corporation will report such confirmed Fund Originated Order to the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or the TPA Member and the corresponding TPP/TPA/IMA Settling Entity, as the case may be, in such form and by such time as established by the Corporation from time to time.

SEC. 7. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member who does not agree with the terms of an order (including confirmed, reconfirmed and As-Of orders), other than an exchange order or a money market order, may submit a correction. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member or TPP/TPA/IMA Settling Entity who does not agree with the terms of a Fund Originated Order (including As-Of Fund Originated Orders) may submit a deletion. Corrections and deletions must be submitted in such form and by such time as established by the Corporation from time to time. In the case of exchanges and money market orders, corrections and deletions are not accepted. Exchange and money market orders will settle as confirmed by the Mutual Fund Processor or Fund Member. Money Market purchase orders will settle as submitted by the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or the TPA Member if not rejected by the Fund Member or Mutual Fund Processor. A deletion of a Fund Originated Order pursuant to this subsection will cause the Fund Originated Order to be deleted from Fund/SERV, and such order must be adjusted directly between the Member, Mutual Fund/Insurance Services Member, TPP Member, TPA Member or Investment Manager/Agent Member, as the case may be, and the Mutual Fund Processor or Fund Member.

SEC. 8. A Mutual Fund Processor or Fund Member may either acknowledge (in the case of an interval fund repurchase order), accept or reject a correction in such form and by such time as established by the Corporation from time to time. A Mutual Fund Processor or Fund Member must submit a correction confirmation in order to accept a correction. Corrections which are not confirmed or rejected within such time will be

deleted from the Fund/SERV system. Upon receipt of a rejection, the Corporation will delete the order from Fund/SERV. Any orders which are deleted from Fund/SERV must be adjusted directly between the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or the TPA Member, as the case may be, and the Mutual Fund Processor or Fund Member.

SEC. 9. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member may submit a money only related charge against a Mutual Fund Processor or Fund Member, and a Mutual Fund Processor or Fund Member may submit a money only related charge against a Member, Mutual Fund/Insurance Services Member or another Mutual Fund Processor or Fund Member in such form and by such time as established by the Corporation from time to time. Upon receipt of a money only related charge, the Corporation will review the data for such information as the Corporation determines from time to time to be necessary (including applicable Fund Member or Mutual Fund Processor parameters). If the data does not contain the information required by the Corporation, the Corporation will reject the money only related charge and will advise the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member, Mutual Fund Processor or Fund Member as the case may be in such form and by such time, as established by the Corporation from time to time. If the money only related charge appears to contain the information required by the Corporation, subject to any rights which the Corporation may have as provided in the Rules generally, the Corporation will report such money only related charge to the appropriate contra party in such form and by such time, as established by the Corporation from time to time. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member or TPP/TPA/IMA Settling Entity, Mutual Fund Processor or Fund Member who does not agree with the terms of a money only related charge may submit a deletion in such form and by such time, as established by the Corporation from time to time.

SEC. 10. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member or TPP/TPA/IMA Settling Entity who does not want an order (including an exchange order) to settle within Fund/SERV, may submit an exit instruction in such form and by such time as established by the Corporation from time to time. Upon receipt of an exit instruction the Corporation will review the data for such information as the Corporation determines from time to time to be necessary. If the data does not contain the information required by the Corporation, the Corporation will reject the exit and advise the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member or TPP/TPA/IMA Settling Entity, as the case may be, in such form and by such time as established by the Corporation from time to time. If the exit instruction appears to contain the information required by the Corporation, the Corporation will report such exit to a Fund Member, Mutual Fund Processor, Investment Manager/Agent Member, TPP Member or TPA Member and corresponding TPP/TPA/IMA Settling Entity, as the case may be, within such time as established by the Corporation from time to time. A properly submitted exit instruction will cause such order to be deleted from Fund/SERV and such order must be adjusted directly between the Member, Mutual Fund/Insurance

Services Member and Fund Member or Mutual Fund Processor. If a TPP/TPA/IMA Settling Entity does not submit an exit instruction in such form and by such time as established by the Corporation from time to time, the TPP/TPA/IMA Settling Entity shall be responsible for the settlement of such order in accordance with the provisions of these Rules.

SEC. 11. (a) All money market purchase orders and all other confirmed or reconfirmed orders and money only related charges for which settlement is to take place through the facilities of the Corporation, except for orders that have been deleted, rejected or exited, or for which releases to settlement have not been submitted by the Fund Member or Mutual Fund Processor, will settle in accordance with the time frames as established by the Corporation from time to time, or in such extended or shortened time frame as established by agreement of the submitting parties; provided however, that such modified time frame shall be no shorter than T. On settlement date, the Corporation will debit and credit the appropriate Members', Mutual Fund/Insurance Services Members', Mutual Fund Processors' or Fund Members' account for the value of such orders and money only related charges.

(b) Settlement of money payments between Fund Members, Mutual Fund Processors and Members and Mutual Fund/Insurance Services Members arising out of orders and money only related charges for Mutual Fund Services transactions submitted through Fund/SERV for which settlement is to take place through the facilities of the Corporation, shall be made in accordance with Rule 12 and other provisions of these Rules. Settlement of all other transactions and charges shall be made directly between, and are the responsibility of, the parties thereto.

SEC. 12. If a Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member (hereinafter referred to as the "Firm Initiating Party") determines that data transmitted to a Fund Member or Mutual Fund Processor (hereinafter referred to as the "Fund Responding Party") in respect of a settled order is incorrect or if a Fund Member or Mutual Fund Processor (hereinafter referred to as the "Fund Initiating Party") determines that data transmitted to a Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member (hereinafter referred to as the "Firm Responding Party") in respect of a settled order is incorrect, the respective Firm or Fund Initiating Party may submit an extended correction instruction to the Corporation within such time as established by the Corporation from time to time. Upon receipt of the extended correction instruction, the Corporation will review the data for such information as the Corporation determines from time to time to be necessary. If the data does not contain the information required by the Corporation, the Corporation will reject the extended correction instruction and advise the respective Firm or Fund Initiating Party in such form and by such time as established by the Corporation from time to time. If the extended correction instruction appears to contain the information required by the Corporation, the Corporation will report the extended correction instruction to the respective Firm or Fund Responding Party and, if submitted by a Firm Initiating Party that is a TPP Member, TPA Member or Investment Manager/Agent Member, to the corresponding TPP/TPA/IMA Settling Entity within such time as established by the

Corporation from time to time. A Fund Responding Party must reject or confirm the extended correction instruction in such form and within such time as established by the Corporation from time to time. Extended correction instructions not confirmed or rejected by a Fund Responding Party within such time as established by the Corporation from time to time will be deleted from the Fund/SERV system by the Corporation. Extended correction instructions will settle as submitted by the Fund Responding Party if not rejected by a Firm Responding Party or a TPP/TPA/IMA Settling Entity.

SEC. 13. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member may submit registration data for orders and transactions processed and/or settled through Fund/SERV by transmitting such data to the Corporation in such form and by such time as established by the Corporation from time to time. Upon receipt of the registration data, the Corporation will review the data for such information which the Corporation determines from time to time to be necessary (including applicable Fund Member or Mutual Fund Processor parameters). If such data does not contain the information required by the Corporation, the Corporation will reject the data and report such rejection to the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member and the TPA Member, as the case may be, in such form and by such time as established by the Corporation from time to time. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member or a TPA Member who desires to resubmit registration data that has been rejected must resubmit the registration data as if it had never been submitted. If the registration data appears to contain the information required by the Corporation, the Corporation will transmit the data to the Mutual Fund Processor or Fund Member in such form and by such time as established by the Corporation from time to time. The Mutual Fund Processor or Fund Member must accept or reject the registration data in such form and by such time as established by the Corporation.

#### SEC. 14. ACAT/TRANSFERS

(a) Within the time frame established by the Corporation, the Corporation may transmit, to a Mutual Fund Processor or Fund Member, Fund/SERV Eligible Fund customer account transfer data in such form and by such time as established by the Corporation from time to time. The Mutual Fund Processor or Fund Member must reject or confirm the transfer in such format and by such time as established by the Corporation. Transfers not confirmed or rejected within such time frame will be deleted from the Fund/SERV system by the Corporation.

(b) The Corporation may permit a Member to designate another Member or Mutual Fund/Insurance Services Member as its ACATS-Fund/SERV Agent with regard to the re-registration of eligible book share mutual fund assets. Members and ACATS-Fund/SERV Agents must notify the Corporation of such designation in such form and within such timeframe as determined by the Corporation from time to time.

If such designation is made, the ACATS-Fund/SERV Agent (and not the ACAT Receiving or Delivering Member, as the case may be) will be identified on reports and output transmitted to a Mutual Fund Processor or Fund Member. Notwithstanding such designation, the Member shall at all times be responsible for all provisions of these Rules.

#### SEC. 15. Transfer of Registration

(a) The Corporation may provide a service to enable the transfer of instructions relating to the registration of Fund/SERV Eligible Fund Shares between a Member and a Fund Member or Mutual Fund Processor (each, a “participant”). For purposes of this Section 15, the participant to which the registration is to be transferred is referred to as the “Receiving Participant” and the participant that initially holds the registration that is subject to transfer is referred to as the “Delivering Participant”.

(b) In accordance with procedures established by the Corporation, a request for a registration transfer may be initiated by a Member in its capacity as a Delivering Participant or Receiving Participant, by submission of an instruction in such form and within such time frames as established by the Corporation from time to time. The Corporation will reject an instruction that does not conform to the requirements set forth in the Corporation’s procedures and will notify the Member of such rejection. Details of all requests for a transfer of registration made in accordance with the procedures of the Corporation shall be reported to the Delivering and Receiving Participants.

(c) The Fund Member or Mutual Fund Processor to which the transfer request is directed must reject or confirm the request in such form and within the time period established by the Corporation. A request that is not responded to in a timely manner, or one that is rejected by the Fund Member or Mutual Fund Processor, will be deleted within the time periods established by the Corporation. Details of rejections or confirmations of all requests made in accordance with the procedures of the Corporation, and all requests which have been deleted in accordance with such procedures, shall be reported to the Member that initiated the request.

(d) The Corporation will not be responsible for the completeness or accuracy of any information contained in a transfer request or any other instruction transmitted by a participant relating to the transaction. The submission of a transaction or instruction through the Corporation shall not otherwise relinquish, extinguish or affect any legal rights, remedies or obligations of the participant arising out of such transaction or instruction.

(e) Unless otherwise agreed between the participants that are a party to a transfer request transaction subject to this Section 15, each participant that submits a transfer request through the Corporation (the “Requesting Participant”) agrees as follows:

- (i) to indemnify and hold harmless the participant that accepts such request, the affiliated companies of such participant and the

respective directors, officers, employees and agents of each of such (collectively, the “Accepting Participant”) from and against any and all demands, damages, liabilities, and losses, or any pending or completed actions, proceedings or investigations (including reasonable attorney fees and other costs, including all expenses of litigation or arbitration, judgments, fines or amounts paid in settlement consented to by the Requesting Participant, whose consent shall not be unreasonably withheld) (collectively, “Losses”) to which any of them may be or become subject as a result of or arising out of (A) the Accepting Participant receiving and acting upon such request, or (B) any negligent act, omission, or willful misconduct by the Requesting Participant or its agents relating to such request; provided, however, that the Requesting Participant shall not be liable for any Losses to the extent that they arise from the negligence or misconduct of the Accepting Participant. Each Requesting Participant agrees that an Accepting Participant shall be a third-party beneficiary of the above indemnification and reimbursement obligations in respect of such request, and that the Accepting Participant may assert any claim under these indemnification and reimbursement obligations as a third-party beneficiary directly against such Requesting Participant: and

- (ii) That it will have obtained from the holder(s) of the account(s) to which the request relates (the “Accountholder(s)”), written authorization, signed by the Accountholder(s), for the request in compliance with applicable law, and to furnish a copy of such authorization to the Accepting Participant upon request; and
- (iii) With respect to a transfer request relating to an Individual Retirement Account (“IRA”), Roth IRA, SIMPLE IRA, Profit Sharing and Money Purchase Plan Account and other types of tax-deferred or tax-advantaged accounts (“Accounts”) for which the Accepting Participant acted as trustee or custodian (or an agent or affiliate thereof) and with respect to which the Requesting Participant makes the Fund Transfer Request in the capacity as a successor trustee or custodian (or an agent or affiliate thereof), that (A) the Requesting Participant (or, if the Requesting Participant is acting in the capacity as an agent or affiliate, the entity on whose behalf it acts) is qualified to act as successor trustee or custodian pursuant to applicable provisions of the Internal Revenue Code; (B) in all cases, the transfer is a trustee-to-trustee transfer and as such is a non-taxable and non-reportable transaction for federal income tax withholding and reporting purposes, (C) that for purposes of effecting the transfer of such Accounts, the Accepting Participant appoints the Requesting Participant as the Accepting Participant’s agent to act on its behalf solely to receive and accept the



instructions from an accountholder with respect to the Account transfer, and the Requesting Participant hereby accepts such appointment.

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

#### SEC. 16. Transfers of Fund/SERV Eligible Fund Shares.

(a) A Fund Member or Mutual Fund Processor to whom the value of Fund/SERV Eligible Fund shares is to be transferred (hereinafter referred to as the "Receiving Fund Member") may initiate the process by submitting a transfer request to the Corporation in such form and by such time on the submission date as established by the Corporation from time to time.

(b) The Fund Member or Mutual Fund Processor indicated by the Receiving Fund Member (hereinafter referred to as the "Delivering Fund Member") must acknowledge or reject a transfer request by submitting either an acknowledgment containing such information and in such form as established by the Corporation from time to time or a rejection instruction containing such information and in such form as established by the Corporation from time to time. The Delivering Fund Member will have up to two (2) Business Days after the submission of a transfer request to acknowledge or reject the transfer request. A transfer request that is not responded to timely by a Delivering Fund Member, and a transfer request that is rejected by a Delivering Fund Member, will be deleted from Fund/SERV.

(c) A Delivering Fund Member that has acknowledged a transfer request must confirm the value of the Fund/SERV Eligible Fund shares to be transferred by submitting a confirmation to the Corporation in such form as established by the Corporation from time to time. The Delivering Fund Member must submit the confirmation no earlier than one (1) Business Day and no later than ten (10) Business Days after the submission of an acknowledgment. Failure to timely submit a confirmation will cause the transfer request to be deleted from Fund/SERV.

(d) A Delivering Fund Member that has confirmed a transfer request may submit a reconfirmation to change any information submitted in the confirmation by transmitting such reconfirmation to the Corporation in such form as established by the Corporation from time to time prior to the inclusion of the value of the transfer in the settlement cycle of the Corporation as provided in paragraph (h) below.

(e) A Receiving Fund Member may cancel a transfer request by submitting an exit instruction in such form as established by the Corporation from time to time prior to the inclusion of the value of the transfer in the settlement cycle of the Corporation as

provided in paragraph (h) below. A properly submitted exit instruction will cause such transfer to be deleted from Fund/SERV.

(f) The Corporation will review transmissions received from Receiving Fund Members and Delivering Fund Members for such information as the Corporation determines from time to time to be necessary. If the transmission does not contain the information required by the Corporation, the Corporation will reject the transmission and will advise the appropriate Receiving Fund Member or Delivering Fund Member. If the transmission appears to contain the information required by the Corporation, subject to any rights the Corporation may have as provided in the Rules generally, the Corporation will send the transmission to the appropriate Receiving Fund Member or Delivering Fund Member.

(g) A Receiving Fund Member who desires to resubmit a transfer request that has been rejected, deleted or exited, or an exit instruction that has been rejected by the Corporation, must resubmit such transfer request or exit instruction as if it had never been submitted. A Delivering Fund Member who has an acknowledgment, rejection, confirmation or reconfirmation rejected by the Corporation must resubmit such acknowledgment, rejection, confirmation or reconfirmation.

(h) All confirmed and reconfirmed transfer requests, except for transfer requests that have been rejected, deleted or exited, will settle in the next settlement cycle of the Corporation after such confirmation or reconfirmation. On settlement date, the Corporation will debit the Delivering Fund Member's account and credit the Receiving Fund Member's account for the value of the Fund/SERV Eligible Fund shares transferred. Settlement of money payments between Receiving Fund Members and Delivering Fund Members arising out of transfer requests submitted through Fund/SERV shall be made in accordance with Rule 12 and other provisions of these Rules.

(i) Credits and debits arising after the settlement of a transfer of the value of Fund/SERV Eligible Fund shares will be processed in accordance with Section 9 of this Rule.

SEC. 17. Notwithstanding the foregoing, the submission of a transaction or instruction through Fund/SERV and settlement, deletion, rejection and exit of such transaction or instruction from or through Fund/SERV shall not otherwise relinquish, extinguish or affect any legal rights, remedies or obligations of the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member, Mutual Fund Processor or Fund Member arising out of such transaction or instruction.

SEC. 18. Each Business Day, the Corporation will make data available to Members, Mutual Fund/Insurance Services Member, Investment Manager/Agent Members, TPP Members, TPA Members, TPP/TPA/IMA Settling Entities, Mutual Fund Processors and Fund Members, indicating the status of all Fund/SERV transactions and instructions submitted to the Corporation. On a daily basis, Members, Mutual

Fund/Insurance Services Members, Investment Manager/Agent Members, TPP Members, TPA Members, TPP/TPA/IMA Settling Entities, Mutual Fund Processors and Fund Members must compare the data against their records and any discrepancies must be immediately reported to the Corporation. To the extent necessary or appropriate, the Corporation may cause an adjustment to be made to the data within such time as the Corporation determines to be necessary.

SEC. 19. At any time, the Corporation may prohibit one or more orders, money only related charges or transfer requests from settling through Fund/SERV if the Corporation, in its discretion, determines that such action is necessary for the protection of the Corporation, Members, Mutual Fund/Insurance Services Members, Fund Members, creditors or investors.

SEC. 20. (a) The Corporation may delete from Fund/SERV any incompleated Fund/SERV items, with the exception of incompleated ACAT-Fund/SERV items, upon the withdrawal of a Member or Mutual Fund/Insurance Services Member from participation in Fund/SERV, but not earlier than five Business Days following notification to Members and Mutual Fund/Insurance Services Members of such Member's or Mutual Fund/Insurance Services Member's intention to withdraw from Fund/SERV, where such Member or Mutual Fund/Insurance Services Member continues as such or is merged into or acquired by another Member or Mutual Fund/Insurance Services Member which is not a participant in Fund/SERV.

(b) The Corporation may delete from Fund/SERV any incompleated Fund/SERV items upon the withdrawal of a TPP Member, TPA Member or Investment Manager/Agent Member from participation in Fund/SERV, but not earlier than five Business Days following notification to the TPP/TPA/IMA Settling Entity of such TPP Member's, TPA Member's or Investment Manager/Agent Member's intention to withdraw from Fund/SERV.

#### B. Networking

SEC. 1. The Corporation may provide a service to enable Members, Mutual Fund/Insurance Services Members, Investment Manager/Agent Members, TPA Members, TPP Members, Mutual Fund Processors and Fund Members to transmit Fund/SERV Eligible Fund customer account data and/or settle Fund/SERV Eligible Fund payments, as the case may be, (hereinafter referred to as "Networking Payments") between themselves, which service shall be known as NETWORKING. Networking Payments shall consist of payments other than payments processed thru Fund/SERV and DTCC Payment aXis. The Corporation may also permit Data Services Only Members to utilize the Networking service only to request and transmit Fund/SERV Eligible Fund customer account data.

SEC. 2. Such customer account data if submitted must be transmitted in such formats and by such times as established by the Corporation from time to time. Submission of such customer account data to the Corporation, or provided to a Data Services Only Member shall not relinquish, extinguish or affect any legal or regulatory

rights or obligations of the Member, Mutual Fund/Insurance Services Member, Mutual Fund Processor, Fund Member, Data Services Only Member, Investment Manager/Agent Member, TPP Member or TPA Member pertaining to the customer accounts.

SEC. 3. Settlement of Networking Payments shall occur as follows:

(a) Dividend Payments. Each Fund Member and Mutual Fund Processor must submit to the Corporation by the time specified by the Corporation, the payable date in respect of dividend data submitted to the Corporation. If the payable date is a Business Day on which banks in New York are open for business (hereinafter referred to as a "Dividend Payable Date") settlement will occur on the payable date. If the payable date is not a Dividend Payable Date, settlement will occur on the next Dividend Payable Date after the payable date. Each day the Corporation will produce a report indicating the dividend amounts which will be required to be paid that day and the following day (hereinafter referred to as the "Dividend Payable Amount"). On a daily basis, the Fund Members and Mutual Fund Processors must compare the Dividend Payable Amount against their records and any errors must be reported to the Corporation in such form and by such time as established by the Corporation from time to time. The Corporation will report any corrections submitted by the Fund Member and Mutual Fund Processor to the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member and corresponding TPP/TPA/IMA Settling Entity, Fund Member and Mutual Fund Processor, as the case may be, on the next issued report after receipt by the Corporation of the correction.

(b) Other Networking Payments. On the Business Day prior to the day the Fund Member and Mutual Fund Processor intends to be debited (hereinafter referred to as "Debit Day") the Fund Member and Mutual Fund Processor must submit to the Corporation, within the time specified by the Corporation, the dollar value of amounts to be debited against the Fund Member and Mutual Fund Processor (hereinafter referred to as "Other Payable Amounts"). If the Debit Day is not a Business Day on which banks in New York are open for business the Debit Day will be the next Business Day the banks in New York are open for business. Each day the Corporation will produce a report or reports indicating the Other Payable Amounts which will be required to be paid that day and the following day.

SEC. 4. On Dividend Payable Date or Debit Day, the Fund Member or Mutual Fund Processor must pay to the Corporation the Dividend Payable Amount or Other Payable Amounts as indicated on the applicable report in accordance with Rule 12 and other provisions of these rules.

On Dividend Payable Date or Debit Day, the Corporation shall credit the appropriate Member's, Mutual Fund/Insurance Services Member's or TPP/TPA/IMA Settling Entity's account with the Dividend Payable Amount or Other Payable Amounts indicated on the applicable report.

SEC. 5. Each Business Day a Fund Member and Mutual Fund Processor may submit correction data to the Corporation in order to correct a previously submitted incorrect payment. A Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member or TPP/TPA/IMA Settling Entity who disagrees with a correction which results in a debit to the Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member or TPP/TPA/IMA Settling Entity must notify the Corporation within such time as specified by the Corporation. Upon timely receipt of such notice the Corporation will delete the correction and such amount must be settled directly between the Member or Mutual Fund/Insurance Services Member and the Fund Member or Mutual Fund Processor. If the correction results in a credit to a Fund Member or Mutual Fund Processor, payment of such amount shall be made in accordance with Rule 12 and other provisions of these rules.

SEC. 6. The Corporation will not be responsible for the completeness or accuracy of any customer account or payment data received from or transmitted to a Member, Mutual Fund/Insurance Services Member, Fund Member, Data Services Only Member, Investment Manager/Agent Member, TPP Member or a TPA Member nor for any errors, omissions or delays which may occur in the absence of gross negligence on the Corporation's part, in the transmission of such customer account or payment data to or from a Member, Mutual Fund/Insurance Services Member, Fund Member, Data Services Only Member, Investment Manager/Agent Member, TPP Member or a TPA Member.

### C. DTCC Payment aXis

SEC. 1. The Corporation may provide a service to enable Members, Mutual Fund/Insurance Services Members, Fund Members and Mutual Fund Processors to transmit commission and fee related data (herein collectively referred to as "Payment aXis Fee Data"), including with regard to investor accounts held at the Fund Member or Mutual Fund Processor on an omnibus account basis ("Omnibus"), and to settle such payments between themselves, which service shall be known as the DTCC Payment aXis service.

SEC. 2. (a) Payment aXis Fee Data, if submitted, must be transmitted in such formats and by such times as established by the Corporation from time to time. Submission of Payment aXis Fee Data to the Corporation shall not relinquish, extinguish or affect any legal or regulatory rights or obligations of the Member, Mutual Fund/Insurance Services Member, Fund Members or Mutual Fund Processors pertaining to the commissions or fee payments.

(b) Payment aXis Fee Data instructing for the settlement of certain commission and other fee type payments must be initiated and submitted to the Corporation by the Member, Mutual Fund/Insurance Services Member, Fund Member or Mutual Fund Processor seeking payment thereof (such commission and other fee types are collectively referred to as "Payee Initiated Fee Types"). Payee Initiated Fee Types may include commissions and fees with regard to investor accounts held in Omnibus.

The Corporation will transmit such Payee Initiated Fee Type settlement instructions to the applicable Member, Mutual Fund/Insurance Services Member, Fund Member or Mutual Fund Processor from whom payment is being sought (the "Paying Participant") in such form and by such times as established by the Corporation from time to time. The Paying Participant may (i) confirm or reject such Payee Initiated Fee Type settlement instruction by transmitting a confirmation or rejection to the Corporation in such form and by such time as established by the Corporation from time to time or (ii) release settlement as set forth in Section 3 below (either with or without a confirmation). If the Paying Participant confirms or rejects such Payee Initiated Fee Type settlement instruction, the Corporation will transmit such confirmation or rejection to the Member, Mutual Fund/Insurance Services Member, Fund Member or Mutual Fund Processor that initiated the Payee Initiated Fee Type settlement instruction. Designation of Payee Initiated Fee Types shall be made by the Corporation from time to time, and the Corporation shall provide notice to Members, Mutual Fund/Insurance Services Members, Fund Members and Mutual Fund Processors from time to time of such designation.

SEC. 3. Except as otherwise described with regard to Payee Initiated Fee Types, settlement of commission and fee payments, including settlement of commission and fee payments with regard to investor accounts held in Omnibus, shall occur as follows: On the Business Day prior to the day the amount is intended to be debited (hereinafter referred to as "Debit Day") the entity submitting the amount must submit to the Corporation, within the time specified by the Corporation, the dollar value and the appropriate accounts to which such amount is to be credited and debited. If the Debit Day is not a Business Day on which banks in New York are open for business the Debit Day will be the next Business Day the banks in New York are open for business. On Debit Day, the Corporation will credit and debit the appropriate accounts in accordance with the instructions of the Member, Mutual Fund/Insurance Services Member, Fund Member or Mutual Fund Processor. Settlement of payments arising out of such instructions shall be made in accordance with Rule 12 and other provisions of these Rules.

SEC. 4. The Corporation will not be responsible for the completeness or accuracy of any Payment aXis Fee Data, including Payment aXis Fee Data with regard to investor accounts held in Omnibus, received from or transmitted to a Member, Mutual Fund/Insurance Services Member, Fund Member or Mutual Fund Processor nor for any errors, omissions or delays which may occur in the absence of gross negligence on the Corporation's part, in the transmission of such Payment aXis Fee Data to or from a Member, Mutual Fund/Insurance Services Member, Fund Member or Mutual Fund Processor.

#### D. Mutual Fund Profile Service

SEC. 1. The Corporation may offer a service to provide Members, Mutual Fund/Insurance Services Members, Investment Manager/Agent Member, TPP Members, TPA Members, Data Services Only Members and Fund Members with Fund/SERV Eligible Fund information (the "MFPS Data") as the Corporation may

determine from time to time. Such service shall be known as the Mutual Fund Profile Service (“MFPS”) and will be accomplished in accordance with the provisions of this Rule.

SEC. 2. Each Member, Mutual Fund/Insurance Services Member, Investment Manager/Agent Member, TPP Member, TPA Member, Data Services Only Member or Fund Member that desires access to MFPS must complete and deliver to the Corporation such agreements as the Corporation may from time to time require.

SEC. 3. The MFPS Data must be submitted to the Corporation in such formats and by such times as established by the Corporation from time to time. The submission of such information to the Corporation shall not relinquish, extinguish or affect any regulatory or legal rights, remedies or obligations, if any, of Members, Mutual Fund/Insurance Services Members, Investment Manager/Agent Member, TPP Members, TPA Members, Data Services Only Members or Fund Members participating in the MFPS.

SEC. 4. Each Fund member agrees with the Corporation that the Fund Member will take reasonable steps to validate the accuracy of the MFPS data that it submits to the Corporation. The Corporation shall not be responsible for the completeness or accuracy of any MFPS Data nor for any errors, omissions or delays which may occur relating to the MFPS Data.

SEC. 5. On a regularly scheduled basis, as the Corporation may determine from time to time, the Corporation may produce scorecards as part of MFPS. Scorecards will set forth the individual, numerical score issued to each MFPS Data provider and the combined average numerical score of all MFPS Data providers. The number of identified Discrepancies (as defined below) within each Discrepancy category, and each applicable MFPS Data provider’s action or in action with respect to each such Discrepancy, shall form the basis for the calculation of each score.

As used in this Section, “Discrepancy” means an identified variance between MFPS Data and the applicable MFPS Data provider’s public filings and/or other potential MFPS Data discrepancies identified by the Corporation from time to time.

Each MFPS Data provider’s scorecard will contain (i) the individual, numerical score issued to it, (ii) the number of identified Discrepancies within each Discrepancy category attributable to such MFPS Data provider and (iii) the combined average numerical score of all MFPS Data providers. MFPS Data providers will not see the individual, numerical scores issued to other MFPS Data providers nor the identified Discrepancies of other MFPS Data providers.

Scorecards distributed to MFPS Data receivers will contain (i) the individual, numerical score issued to each MFPS Data provider, (ii) the number of identified Discrepancies within each Discrepancy category attributable to each MFPS Data provider and (iii) the combined average numerical score of all MFPS Data providers.

The Corporation makes no representation or warranty with respect to the value or usefulness of any score or scorecard, nor will the Corporation be subject to any damages or liabilities whatsoever with respect to any Person's use of or reliance upon any score or scorecard. In addition, all information contained in the scorecards is copyrighted and any form of copying, other than for each Member's, Mutual Fund/Insurance Services Member's, Investment Manager/Agent Member's, TPP Member's, TPA Member's, Data Services Only Member's or Fund Member's personal reference, without the express written permission of the Corporation, is prohibited, and further distribution or redistribution of the scorecard or any information contained therein by any means or in any manner is strictly prohibited.

#### E. MF Info Xchange

The Corporation shall provide a service ("MF Info Xchange") to enable Members, Mutual Fund/Insurance Services Members, Investment Manager/Agent Members, TPP Members, TPA Members, Data Services Only Members and Fund Members ("data providers") to transmit event notifications relating to mutual funds or other pooled investment entities to other Members or Limited Members and to other third parties identified by the data providers to receive the event notifications, or to otherwise supply and provide access to event notification data directly to or from the Corporation through a data repository. The Corporation may determine from time to time, and shall announce by Important Notice, which types of event notifications may be transmitted using MF Info Xchange. The Corporation shall not be responsible for the completeness or accuracy of any event notifications transmitted using MF Info Xchange nor for any errors, omissions or delays that may occur relating to the event notifications.



## RULE 53. ALTERNATIVE INVESTMENT PRODUCT SERVICES AND MEMBERS

### SEC. 1. General

(a) The Corporation may provide a service to enable entities meeting the relevant qualifications of Rule 2A ("AIP Members") to transmit such data and information related to alternative investment products ("AIP Data") between themselves and to settle payments relating to such products ("AIP Payments") between themselves or as otherwise provided in this Rule. Such service shall be known as the "AIP Service," or "AIP," and shall be accomplished in accordance with this Rule.

The rights, liabilities and obligations of AIP Members (including AIP Fund Administrators, defined below) in their capacity as such and in the capacity as a Limited Member shall be governed by this Rule 53 and relevant provisions of such other Rules as expressly reference AIP Members or Limited Members. References to a Member, Mutual Fund/Insurance Services Member, Non-Clearing Member, Municipal Comparison Only Member, Fund Member, Insurance Carrier/Retirement Services Member, Investment Manager/Agent Member, TPP Member, TPA Member or Data Services Only Member shall not apply to an AIP Member in its capacity as such unless specifically noted in this Rule or in such other Rule as applicable to an AIP Member or Limited Member.

An AIP Member that participates in the Corporation in another capacity pursuant to another Rule of this Corporation, or which has entered into an agreement with the Corporation independent from this Rule, shall continue to have all the rights, liabilities and obligations set forth in such other Rule or pursuant to such agreement, and such rights, liabilities and obligations shall be separate from its rights, liabilities and obligations as an AIP Member. As such, with respect to Members, Mutual Fund/Insurance Services Members, Non-Clearing Members, Municipal Comparison Only Members, Fund Members, Insurance Carrier/Retirement Services Members, Investment Manager/Agent Members, TPP Members, TPA Members or Data Services Only Members who qualify as AIP Members, this Rule only applies to their activities in connection with transactions in Eligible AIP Products (as defined in Section 4 of this Rule).

(b) The only service offered by the Corporation that is available to an AIP Member in its capacity as such shall be the AIP Service, and such other services or features thereof that the Corporation may from time to time designate as eligible for access by an AIP Member.

(c) An AIP Member acting on behalf of, or under authority of, the sponsor, general partner or any other party responsible for the creation or manufacturing of an Eligible AIP Product (as defined in Section 4 of this Rule) shall be known as an "AIP Manufacturer". An AIP Manufacturer that specifically (i) identifies itself to the Corporation as an entity engaged under contract to provide administrative services with respect to one or more Eligible AIP Products and (ii) wishes to be so recognized by the

Corporation, shall be known as an “AIP Fund Administrator”. In all events, AIP Fund Administrators are AIP Manufacturers with respect to the AIP Service.

An AIP Member acting on behalf of, or under authority of, a customer or other investor in an Eligible AIP Product, or otherwise as the contra-side to an AIP Manufacturer in a transaction (including information processing) with an AIP Manufacturer, shall be known as an “AIP Distributor”.

(d) In the Corporation’s sole and absolute discretion, and in accordance with such procedures as the Corporation may establish as it deems necessary or appropriate from time to time, the Corporation may permit AIP Fund Administrators to create one or more sub-accounts approved by the Corporation to settle AIP Payments at the sub-account level (“AIP Settling Sub-Accounts”). All matters, activities, liabilities and obligations under these Rules with respect to any AIP Settling Sub-Account, except for settlement of AIP Payments, shall be the responsibility of the respective AIP Fund Administrator.

Prior to approval of any such AIP Settling Sub-Account, the applicable AIP Fund Administrator shall provide the Corporation:

- (i) Documentation and/or agreements in such form as required by the Corporation from time to time for the creation of each such AIP Settling Sub-Account, which shall include (A) the AIP Fund Administrator’s acknowledgement and agreement that it shall be responsible for all matters, activities, liabilities and obligations applicable to AIP Members under these Rules with respect to each such AIP Settling Sub-Account, except for settlement of AIP Payments, and (B) the AIP Fund Administrator’s agreement to indemnify the Corporation for any loss, liability or expense sustained by the Corporation in connection with, arising from or related to each such AIP Settling Sub-Account, including with respect to FATCA.
- (ii) An agreement, in such form as required by the Corporation from time to time, stating that the AIP Fund Administrator shall be responsible for (A) all charges incurred and payments due under Rule 26 for the processing of AIP Settling Sub-Account transactions through AIP and (B) any other charges that may be incurred with respect to each such AIP Settling Sub-Account under Rule 24.
- (iii) Documentation and/or agreements in such form as required by the Corporation from time to time (A) designating the AIP Non-Member Fund with responsibility for making AIP Payments with respect to each such AIP Settling Sub-Account, (B) reflecting such AIP Non-Member Fund’s consent and approval thereof, (C) agreeing that it is the AIP Fund Administrator’s obligation to notify the AIP Non-Member Fund of such AIP Non-Member Fund’s daily AIP Payment balance and (D) identifying that it is the AIP Fund Administrator’s obligation to notify the Corporation

of any changes in condition to the AIP Non-Member Fund that would otherwise require notice to the Corporation under Rule 2B (Ongoing Membership Requirements and Monitoring) or Rule 20 (Insolvency).

- (iv) Tax documentation from the applicable AIP Non-Member Fund in such form as required by the Corporation from time to time. With respect to any AIP Non-Member Fund that is treated as a non-U.S. entity for U.S. federal income tax purposes, the AIP Fund Administrator shall provide the Corporation with an executed Tax Certification from such AIP Non-Member Fund.
- (v) An effective Settling Bank Agreement for such AIP Non-Member Fund.

## SEC. 2. Qualifications of AIP Members

- (a) An AIP Member or applicant to become such must meet the qualifications set for in Rule 2A and Addendum B of these Rules.

## SEC. 3. Application and Admission

- (a) Each applicant to become an AIP Member shall complete and deliver to the Corporation such documents and information as set forth in Rule 2A of these Rules.

The Corporation shall approve an application to become an AIP Member as set forth in Rule 2A of these Rules.

## SEC. 4. Eligible Alternative Investment Products

- (a) Upon application by one or more AIP Members, the Corporation may designate an alternative investment product as eligible for processing through the AIP Service (an "Eligible AIP Product"). The Corporation shall maintain a list of all Eligible AIP Products processed through the Corporation. Alternative investment products that may be designated as Eligible AIP Products include the following: securities issued by private pooled investment vehicles (including hedge funds and private equity funds, among others), interests in commodity pools, securities issued by funds of funds, real estate investment trust securities, managed futures, managed currency products and such other alternative investment products as shall be approved by the Corporation from time to time. An Eligible AIP Product may be a security registered under the Securities Act of 1933, as amended, or a security exempt from registration thereunder

- (b) The Corporation may elect to decline to designate an alternative investment product as an Eligible AIP Product, or may withdraw an alternative investment product's designation as an Eligible AIP Product, at any time it deems it to be in the interests of the Corporation and its participants.

- (c) By submitting an Eligible AIP Product for processing through the Corporation, an AIP Manufacturer is representing to the Corporation that the offer and sale of such Eligible AIP Product complies with all applicable requirements under

federal securities law and such other laws as may apply, whether state, federal or those of a jurisdiction outside the United States, for so long as such Eligible AIP Product is processed through the Corporation.

SEC. 5. Obligations and Rights applicable to AIP Member

(a) The rights and obligations applicable to an AIP Member shall be as set forth in these Rules as applicable to an AIP Member or Limited Member.

(b) An AIP Member shall not be required to pay a Clearing Fund contribution to the Corporation in respect of its use of AIP Services.

(c) An AIP Member shall not be responsible for loss allocations or other loss or liability to the Corporation pursuant to the Rules or Procedure of the Corporation, except for such losses or liabilities as are set forth expressly in this Rule.

(d) The Corporation shall not be a party to a transaction (whether the communication of data or payments of money) processed through the AIP Service and shall not assume any obligations or liability in connection therewith, other than the obligation to pay AIP Credit Balances and AIP Adjusted Credit Balances in accordance with this Rule.

(e) Tax Considerations – AIP Settling Sub-Accounts

(i) AIP Fund Administrators with AIP Settling Sub-Accounts shall be responsible for obtaining such tax documentation from their applicable AIP Non-Member Funds as requested by the Corporation from time to time. With respect to AIP Non-Member Funds that are treated as non-U.S. entities for U.S. federal income tax purposes, the applicable AIP Fund Administrator shall be responsible for obtaining the necessary Tax Certifications as requested by the Corporation from time to time. Notwithstanding any other provision of these Rules, failure to provide such tax documentation, including Tax Certifications to the extent applicable, in the manner and timeframes set forth by the Corporation from time to time will result in revocation of the Corporation's approval, in the Corporation's sole and absolute discretion, for such AIP Non-Member Fund to settle AIP Payments through AIP.

(ii) AIP Fund Administrators with AIP Settling Sub-Accounts shall indemnify the Corporation for any loss, liability or expense sustained by the Corporation in connection with, arising from or related to FATCA in respect of such AIP Settling Sub-Accounts.

## SEC. 6. Transmission of AIP Data

(a) AIP Data transmitted through the AIP Service may include data relating to subscriptions and purchases; redemptions, withdrawals and tender offers; commissions and other fees; distributions; exchange transactions; transfers; position reporting; product information; account maintenance, valuation, and activity and such other data as may be established by the Corporation from time to time.

(b) AIP Data must be submitted to the Corporation in such formats and by such times as established by the Corporation from time to time, and, depending upon the type of AIP Data submitted, may require a response from the receiver of AIP Data.

The Corporation will review AIP Data received from AIP Members for such information as the Corporation determines from time to time to be necessary. If the AIP Data does not contain the information required by the Corporation, the Corporation will reject the AIP Data and will advise the appropriate AIP Member in such form and by such time as established by the Corporation from time to time.

If the AIP Data appears to contain the information required by the Corporation, the Corporation will transmit the AIP Data to the appropriate AIP Member in such form and by such time as established by the Corporation from time to time, subject to any rights the Corporation may have under any applicable Rules and Procedures of the Corporation.

Pursuant to the procedures established by the Corporation from time to time, the Corporation will notify, in such form and at such times as established by the Corporation from time to time, the AIP Member in respect of certain AIP Data which requires a response, if no such response has been received by the Corporation.

Submission of certain AIP Data may require a confirming instruction from the contra side AIP Member.

(c) Pursuant to the procedures established by the Corporation from time to time, an AIP Member submitting AIP Data can withdraw certain submitted AIP Data by submitting a withdrawal instruction to the Corporation, in such form and by such time as established by the Corporation from time to time. Withdrawal of certain AIP Data may require a confirming instruction from the contra side AIP Member. Upon receipt of a properly submitted withdrawal instruction, the Corporation will (i) delete the withdrawn AIP Data and (ii) notify the appropriate party of the withdrawn AIP Data in such form and by such time as established by the Corporation from time to time.

(d) Notwithstanding the foregoing, nothing prohibits an AIP Member from requiring data or information in connection with transactions in Eligible AIP Products in addition to AIP Data that has been transmitted through the Corporation.

(e) Submission of AIP Data to, or alteration or withdrawal of AIP Data from, the Corporation shall not relinquish, extinguish or affect any legal or regulatory right or obligation of the AIP Member existing outside of this Rule.

(f) The Corporation will not be responsible for the completeness or accuracy of the AIP Data received from or transmitted to any AIP Member through the AIP Service, nor shall the Corporation, absent gross negligence on the Corporation's part, be responsible for any errors, omissions or delays that may occur in the transmission of AIP Data to or from any AIP Member.

#### SEC. 7. Settlement of AIP Payments

(a) The Corporation may provide a facility for the settlement of AIP Payments pursuant to such settlement procedures as the Corporation shall adopt. AIP Payments may include amounts to be transmitted in respect of subscriptions and purchases; redemptions, withdrawals and tender offers; commissions and other transaction fees; distributions; exchange transactions; transfers; and such other transactions in connection with the processing and settlement of transactions in Eligible AIP Products as the Corporation may determine from time to time. Settlement of AIP Payments through the Corporation shall be in same day funds, effected in accordance with the provisions of this Rule, Rule 55 and such procedures as the Corporation may establish from time to time. The Corporation shall not guarantee the payment of AIP Payments to any AIP Member (including to any AIP Fund Administrator's AIP Settling Sub-Account). For the avoidance of doubt, the Corporation shall not guarantee the payment of AIP Payments to any AIP Non-Member Fund. Settlement of all payments and transactions in respect of Eligible AIP Products which do not settle through the facilities of the Corporation are the responsibility of the parties thereto and are not subject to the provisions of this Rule.

(b) An AIP Member (including an AIP Fund Administrator with respect to any AIP Settling Sub-Account thereof) may initiate an instruction for the settlement of AIP Payments on a certain date by submitting AIP Data that indicates settlement of AIP Payments is to take place through the Corporation pursuant to the AIP Service, in accordance with procedures established by the Corporation from time to time. Unless otherwise stated in such procedures, settlement of AIP Payments shall require a concurring instruction from the contra side AIP Member (including the AIP Fund Administrator with respect to any contra side AIP Settling Sub-Account thereof).

Unless otherwise stated in procedures established by the Corporation, AIP Payments submitted for settlement through the Corporation on a Business Day designated by the AIP Member (including the AIP Fund Administrator with respect to any AIP Settling Sub-Account thereof) (the "Settlement Date") shall be submitted (and, if applicable, agreed by the contra side AIP Member (including the AIP Fund Administrator with respect to any contra side AIP Settling Sub-Account thereof)), no later than the times established by the Corporation for this purpose on the Business Day prior to Settlement Date ("Settlement Date minus 1"). The references to Settlement Date in this Rule refer to settlement of AIP Payments through the settlement facilities of the Corporation and do not define the settlement date of payment or delivery obligations between the parties for purposes outside of the AIP Service.

(c) The Corporation shall maintain both a credit balance and a debit balance for each AIP Member's AIP account (including each AIP Settling Sub-Account). All AIP Payment amounts made through the AIP Service shall be credited and debited, as applicable, to the respective credit and debit balances of the AIP Member's AIP account involved in the AIP transaction (including AIP Settling Sub-Accounts), for settlement on Settlement Date. Posting of a credit to an AIP Member's account's (or AIP Settling Sub-Account's) credit balance shall always be accompanied by a corresponding debit posted to the debit balance of the contra side AIP Member's AIP account (or AIP Settling Sub-Account). Credit balances and debit balances posted to any AIP Member's respective account (or AIP Settling Sub-Account) will not be netted or offset against one another, but will be maintained on a gross credit and gross debit basis. AIP Payments will not be netted or offset against any other type of transaction settled through the facilities of the Corporation.

(d) An AIP Member submitting or receiving instructions for an AIP Payment (including an AIP Fund Administrator with respect to any AIP Settling Sub-Account thereof) may delete such instruction for AIP Payment from settling through the Corporation by submitting a deletion instruction to the Corporation in accordance with such procedures as are established by the Corporation from time to time. Unless otherwise stated in the procedures established by the Corporation, a deletion instruction will require a concurring instruction from the contra side AIP Member. To be effective, such deletion instruction must be submitted (and, if applicable, agreed by the contra side AIP Member) no later than Settlement Date minus 1. Upon receipt of a properly submitted deletion instruction, the Corporation will delete the appropriate credit and debit amounts from the respective balances of the AIP Members' accounts and AIP Settling Sub-Accounts involved in the transaction.

- (e) (i) In general, on Settlement Date minus 1, at the time established by the Corporation for this purpose, the Corporation shall notify each AIP Member and its AIP Settling Bank of such respective aggregate gross credit balance and aggregate gross debit balance amounts that are anticipated for settlement of its AIP Payment amounts on Settlement Date, together with details on the credits and debits comprising such aggregate balances (the "Preliminary Settlement Report").
- (ii) With respect to AIP Settling Sub-Accounts, on Settlement Date minus 1, at the time established by the Corporation for this purpose, the Corporation shall notify (A) each applicable AIP Fund Administrator and (B) each applicable AIP Settling Bank, in each case, of the respective aggregate gross credit balance and aggregate gross debit balance amounts that are anticipated for settlement on Settlement Date, together with a Preliminary Settlement Report. The Corporation shall not notify, and shall not be responsible for notifying, any AIP Non-Member Fund of any aggregate gross credit balance or aggregate gross debit balance amounts with respect to any AIP Settling Sub-Account. It is the AIP

Fund Administrator's obligation to notify each applicable AIP Non-Member Fund of its respective aggregate gross credit balance and aggregate gross debit balance amounts that are anticipated for settlement on Settlement Date.

(f) The Corporation shall establish a modification period after the Preliminary Settlement Report is issued, during which an AIP Member (including an AIP Fund Administrator with respect to any AIP Settling Sub-Account thereof) may send instructions to delete any particular AIP Payment in accordance with procedures established by the Corporation. Certain deletion instructions may require submission of an agreement instruction by the contra side AIP Member (including the AIP Fund Administrator with respect to any contra side AIP Settling Sub-Account thereof). At the conclusion of the modification period, at the time established by the Corporation for this purpose, the Corporation shall notify each AIP Member, including each AIP Fund Administrator with respect to any AIP Settling Sub-Account, of its respective aggregate gross debit and aggregate gross credit balances for settlement ("AIP Debit Balance" and "AIP Credit Balance", respectively), together with details on the credits and debits comprising such aggregate balances ("Final Settlement Reports"). The Corporation shall not notify, and shall not be responsible for notifying, any AIP Non-Member Fund of any AIP Debit Balance or any AIP Credit Balance with respect to any AIP Settling Sub-Account. It is the AIP Fund Administrator's obligation to notify each applicable AIP Non-Member Fund of its respective AIP Debit Balance and AIP Credit Balance.

(g) Settlement shall take place in same day funds in accordance with the Corporation's procedures applicable to AIP settlement. Unless otherwise approved by the Corporation, settlement payments shall be transmitted through AIP Settling Banks.

AIP Debit Balances shall be payable on Settlement Date, at the time established by the Corporation for this purpose. On Settlement Date, subsequent to the time at which AIP Debit Balances are payable, the Corporation shall pay AIP Credit Balances to the applicable contra side AIP Members' accounts and contra side AIP Settling Sub-Accounts for which AIP Debit Balances were received by the Corporation, and shall pay AIP Adjusted Credit Balances if and to the extent applicable under the following paragraph.

At any time that the Corporation fails to receive payment in the amount of an AIP Member's or AIP Settling Sub-Account's AIP Debit Balance, the Corporation will reverse the corresponding amounts previously credited to the AIP Credit Balances of the contra side AIP Members and contra side AIP Settling Sub-Accounts. The Corporation shall notify the contra side AIP Members (including AIP Fund Administrators with respect to contra side AIP Settling Sub Accounts) of the amounts and details of such credit reversals and shall issue a revised settlement report in respect of the AIP Credit Balances as so reduced ("AIP Adjusted Credit Balances").

A failure in payment of an AIP Settlement Debit Balance shall not be deemed a default in payment to the Corporation under the Rules of the Corporation or otherwise. The Corporation may establish fees for such late payment or nonpayment and may



establish procedures for limiting or excluding an AIP Member, including an AIP Fund Administrator with respect to any AIP Settling Sub-Account thereof, from using the Corporation's AIP Services in the event of a pre-established number of instances of late payment or nonpayment, pursuant to procedures established by the Corporation on a nondiscriminatory basis and communicated to AIP Members in advance of effectiveness.

(h) Unless otherwise permitted by the Corporation, each AIP Member (and each AIP Non-Member Fund with respect to AIP Settling Sub-Accounts) shall appoint an AIP Settling Bank for the purpose of settling with the Corporation on behalf of the AIP Member or the AIP Settling Sub-Account pursuant to a Settling Bank Agreement. Settlement shall occur in same-day funds, in accordance with the procedures established by the Corporation. An AIP Settling Bank may settle for one or more AIP Members, and for one or more AIP Non-Member Funds, and may settle for itself. An AIP Settling Bank may refuse to settle for an AIP Member or an AIP Non-Member Fund by notifying the Corporation in the manner and prior to the time on Settlement Date set forth in the AIP settlement procedures.

(i) At any time, the Corporation may prohibit any payment from settling through the Corporation if the Corporation, in its discretion, determines that such action is necessary for the protection of the Corporation and its Members. The Corporation shall not be liable for delays in settlement due to operational factors or otherwise.

#### SEC. 8. Document Transmission

(a) The Corporation may provide a service to enable AIP Members to electronically transmit imaged documents, signatures and forms relating to alternative investment products, including without limitation documents relating to customers of an AIP Member ("AIP Attachments"). AIP Members may, by agreements among themselves, establish parameters regarding AIP Attachments such as requirements, obligations and the legal effect of the transmission of AIP Attachments as between themselves. The Corporation shall not review AIP Attachments, shall not be a party to any applicable agreements between AIP Members relating to AIP Attachments, and shall not provide repository services for AIP Attachments.

#### SEC. 9. Designation of "Broker-Controlled" and "Customer-Controlled" Accounts

(a) AIP Data includes the designation of a specified AIP Distributor's customer account as "broker-controlled" or "customer-controlled" in respect of an AIP Manufacturer's Eligible AIP Product.

(b) For so long as any specified customer account is designated as "broker-controlled" by the applicable AIP Manufacturer, such AIP Manufacturer shall be making continual and ongoing representations and assurances to the controlling AIP Distributor with respect to such customer account that:

- (i) the Eligible AIP Product securities held (or to be held) in such customer account are not subject to any right, charge, security interest, lien or claim of any kind in favor of such AIP Manufacturer or any person claiming through such AIP Manufacturer;
- (ii) to the knowledge of such AIP Manufacturer, there are no substantial problems of an operational nature which such AIP Manufacturer is experiencing or which may endanger the interest of investors in the Eligible AIP Product;
- (iii) the Eligible AIP Product securities held (or to be held) in such customer account are registered with the SEC pursuant to the Securities Act of 1933, as amended, are exempt from such registration, or are not required to be registered;
- (iv) the Eligible AIP Product securities held in such customer account (or to be held in such account) are registered on the books and records of such AIP Manufacturer, or its designee, in the name of the controlling AIP Distributor, on behalf of its customer;
- (v) in the case of Eligible AIP Product securities issued outside of the United States, such AIP Manufacturer does not require the controlling AIP Distributor, or any of its customers, to pay any fees other than for safe custody or administration as a condition for the transfer of the Eligible AIP Product securities; and
- (vi) such AIP Manufacturer understands and acknowledges that the controlling AIP Distributor may be relying on the above representations in order to establish custody in accordance with Rule 15c3-3 of the Exchange Act, and that failure to comply with the above representations may require that the controlling AIP Distributor remove the Eligible AIP Product securities from the applicable customer's brokerage account.

The above AIP Manufacturer representations and assurances are collectively referred to in this Rule as the "AIP Manufacturer Representations and Assurances".

(c) Each AIP Distributor that is a Registered-Broker Dealer and that is relying on a specified AIP Manufacturer's Representations and Assurances with respect to a customer's account, shall, for so long as the applicable "broker-controlled" designation remains in place, be continually stating that:

- (i) such AIP Distributor carries those Eligible AIP Product securities "long" in such customer's account;
- (ii) such AIP Distributor reflects all share positions of the applicable Eligible AIP Product separately in such AIP Distributor's securities

records or ledgers maintained pursuant to Rule 17a-3 of the Exchange Act;

- (iii) such AIP Distributor maintains in a separate file a current list of all AIP Manufacturers of which Eligible AIP Product securities are carried on such AIP Distributor's books and records, including the name, telephone number and address of a contact person at each AIP Manufacturer; and
- (iv) such AIP Distributor is not aware of any substantial problems of an operational nature which the AIP Service or the applicable AIP Manufacturer or issuer (if different) may be experiencing and which may endanger the interests of the customer.

The above AIP Distributor statements are collectively referred to in this Rule as the "AIP Distributor Statements".

(d) If an account designation within the AIP Service is changed from "broker-controlled" to "customer-controlled," the above AIP Manufacturer Representations and Assurances and AIP Distributor Statements shall no longer apply to the relevant AIP Members.

(e) Each AIP Distributor and each AIP Manufacturer agrees that any dispute arising between them under this Section shall be resolved directly between them, and that the Corporation shall not be made a party to any such dispute and shall have no responsibility with respect to the resolution thereof.

#### SEC. 10. Limitations on Liability

(a) Notwithstanding any other provision in the Rules of the Corporation: The Corporation will not be liable for any action taken, or any delay or failure to take any action, hereunder or otherwise to fulfill the Corporation's obligations to its AIP Members, other than for losses caused directly by the Corporation's gross negligence, willful misconduct, or violation of federal securities laws for which there is a private right of action. Under no circumstances will the Corporation be liable for the acts, delays, omissions, bankruptcy, or insolvency, of any third party, including, without limitation, any depository, custodian, sub-custodian, AIP Settling Bank, data communication service, AIP Non-Member Fund or delivery service ("Third Party"), unless the Corporation was grossly negligent, engaged in willful misconduct, or in violation of federal securities laws for which there is a private right of action in selecting such Third Party.

(b) Under no circumstances will the Corporation be liable for any indirect, consequential, incidental, special, punitive or exemplary loss or damage (including, but not limited to, loss of business, loss of profits, trading losses, loss of opportunity and loss of use) howsoever suffered or incurred, regardless of whether the Corporation has been advised of the possibility of such damages or whether such damages otherwise could have been foreseen or prevented.

RULE 54. (RULE NUMBER RESERVED FOR FUTURE USE)

## RULE 55. SETTLING BANKS AND AIP SETTLING BANKS

SEC. 1. A Settling Bank shall be a Member or a Settling Bank Only Member. An AIP Settling Bank shall be a Member or a Settling Bank Only Member. Each Settling Bank agrees to abide by these Rules and Procedures and shall enter into a Settling Bank Agreement with the Corporation and each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member and Fund Member which the Settling Bank represents. Each AIP Settling Bank agrees to abide by these Rules and Procedures and shall enter into a Settling Bank Agreement with the Corporation and each AIP Member and AIP Non-Member Fund (with respect to AIP Settling Sub-Accounts) which the AIP Settling Bank represents.

SEC. 2. Each Settling Bank shall settle with the Corporation on a net-net basis on each Business Day: the Net Credit Balance of each participant that settles through such Settling Bank and has a Net Credit Balance on that Business Day and the Net Debit Balance of each participant that settles through the same Settling Bank and has a Net Debit Balance on that Business Day will be aggregated with the Net Debit Balance or Net Credit Balance on that Business Day of the Settling Bank itself, if any, and all such balances will be netted to a single net-net debit balance or net-net credit balance for the Settling Bank for that business day. Throughout each Business Day the Corporation will provide each Settling Bank with reports of the Net Debit Balance or Net Credit Balance in the Settlement account of each participant which the Settling Bank represents and the arithmetic sum of these amounts. The Settling Bank will be responsible for collecting the Net Debit Balances from, and paying the Net Credit Balances to, participants represented by the Settling Bank.

SEC. 3. A Settling Bank may refuse to settle for one or more of its participants (but not for less than all of a given participant's accounts) in the manner and at the time specified in the Procedures (a "Refusal"). The Settling Bank shall, if it has a net-net debit after any Refusal, pay the amount thereof to the Corporation's account at the bank specified by the Corporation and in the manner provided in the Procedures, by the time specified in the Procedures and the participant for whom the Settling Bank has refused to settle shall pay the Corporation, by Fedwire, the amount of its Net Debit Balance.

SEC. 4. A Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member will be deemed to have failed to settle when the Corporation receives a Refusal from such participant's Settling Bank and the participant has failed to pay its Net Debit Balance (or has so failed to pay its Net Debit Balance if permitted by the Corporation to settle otherwise than through a Settling Bank), or when its Settling Bank has failed to pay its net-net debit balance by the time specified in the Procedures.

SEC. 5. If a Settling Bank or, the participant in the case of a Refusal, fails to settle in the manner and at the time prescribed in the Procedures, the Settling Bank or, the participant in the case of a Refusal, will be charged interest on the amount of the required payment calculated in the manner specified in the Procedures and the charge shall be made to the Settling Bank's, or in the case of a Refusal the participant's,

account with the Corporation. In the event of the insolvency of a Settling Bank the charge shall be made against the Settling Bank's member account to the extent sufficient collateral exists in the account; any remaining charge will be made pro rata against the other Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members or Fund Members represented by that Settling Bank. The Corporation may also assess penalties against a Settling Bank or, in the case of a Refusal, the participant as specified in the Procedures, in the event the Settling Bank or, in the case of a Refusal, the participant, fails to settle.

SEC. 6. A Settling Bank shall not terminate its status as a Settling Bank and shall not terminate its representation of a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member without having given 10 Business Days advance written notice thereof to the Corporation. No Settling Bank shall commence representation of any such participant without having given 5 Business Days advance written notice thereof to the Corporation.

SEC. 7. In the event the Settling Bank fails to settle in the manner and at the time prescribed in the Procedures, due to the insolvency or other cause, each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member and Fund Member represented by that Settling Bank shall be obligated to the Corporation for its Net Debit Balance, and the Corporation shall pay to such participant the amount of its Net Credit Balance; provided, however, if the Corporation has made payment to the failed Settling Bank the Corporation shall have no obligation to any such participant for a Net Credit Balance.

SEC. 8. Based on its judgment that adequate cause exists to do so, the Corporation may at any time terminate a Member's right to act as a Settling Bank.

SEC. 9. (a) Each AIP Settling Bank shall settle with the Corporation on a gross basis on each Business Day: the AIP Debit Balance and AIP Credit Balance (or, if applicable, the AIP Adjusted Credit Balance) of each AIP Member and AIP Non-Member Fund which settles through such AIP Settling Bank. Each AIP Debit Balance of each AIP Member and each AIP Non-Member Fund which settles through the same AIP Settling Bank and has a AIP Debit Balance on that Business Day will be aggregated with the AIP Debit Balance on that Business Day of the AIP Settling Bank itself, if any, and all such balances will be aggregated to a single gross debit balance for the AIP Settling Bank for that Business Day. Each AIP Credit Balance (or if applicable, AIP Adjusted Credit Balance) of each AIP Member and each AIP Non-Member Fund which settles through the same AIP Settling Bank and has an AIP Credit Balance (or, if applicable AIP Adjusted Credit Balance) on that Business Day will be aggregated with the AIP Credit Balance (or AIP Adjusted Credit Balance, as applicable) on that Business Day of the AIP Settling Bank itself, if any, and all such balances shall be aggregated to a single gross credit balance for the AIP Settling Bank for that Business Day. Throughout each Business Day the Corporation will provide each AIP Settling Bank with reports of the debit balance or credit balance in the AIP settlement account of each AIP Member (including AIP Settling Sub-Account) which the AIP Settling Bank represents and the arithmetic sum of these amounts. The AIP Settling Bank will be responsible for

collecting the AIP Debit Balances from, and paying the AIP Credit Balances (or, if applicable, the AIP Adjusted Credit Balances) to AIP Members and AIP Non-Member Funds represented by the AIP Settling Bank.

(b) DTC will act as “Settlement Agent” (as that term is used in the Federal Reserve Board’s Operating Circular 12 and in the Corporation’s Rules & Procedures) for the Corporation and the AIP Settling Banks. By the AIP Acknowledgment Cutoff Time, AIP Settling Banks, without exception, must acknowledge to the Settlement Agent via the terminal system their AIP Debit Balance and their AIP Credit Balance and (1) their intention to settle with the Corporation their AIP Debit Balance and their AIP Credit Balance by the settlement deadlines, or (2) their refusal to settle for particular AIP Members or AIP Non-Member Funds.

(c) If an AIP Settling Bank does not, by the AIP Acknowledgement Cutoff Time, either: (i) affirmatively acknowledge its AIP Debit Balance and AIP Credit Balance or (ii) notify the Settlement Agent that it refuses to settle for one or more AIP Members or AIP Non-Member Funds for which it is the designated AIP Settling Bank, then, at the AIP Acknowledgement Cutoff Time, the AIP Settling Bank is deemed to have acknowledged its AIP Debit Balance and AIP Credit Balance. If the AIP Settling Bank has an AIP Debit Balance, then the AIP Settling Bank’s account at the FRB will be debited; if the AIP Settling Bank has an AIP Credit Balance, then the AIP Settling Bank’s FRB account will be credited.

(d) If the AIP Settling Bank sends refusal messages for one or more AIP Members or AIP Non-Member Funds for which it is the designated AIP Settling Bank, the Settlement Agent shall remove from the AIP Debit Balance and AIP Credit Balance the settlement balance(s) of the AIP Member(s) or AIP Non-Member Fund(s) for which the Settling Bank has refused to settle, and will provide the AIP Settling Bank with a new AIP Credit Balance and AIP Debit Balance. The AIP Settling Bank must acknowledge to the Settlement Agent by the AIP Acknowledgement Cutoff Time via the terminal system its new AIP Debit Balance and AIP Credit Balance and its intention to settle such amounts with the Corporation by the settlement deadlines. This new AIP Debit Balance and AIP Credit Balance shall be subject to subsection (c) above.

(e) The Settlement Agent will attempt to contact the AIP Settling Bank if no acknowledgment or notice of a refusal to settle is received by the AIP Acknowledgement Cutoff Time. If (x) the Settlement Agent is able to contact the AIP Settling Bank, and (y) the AIP Settling Bank notifies the Settlement Agent that it cannot, at that time, acknowledge or refuse its AIP Debit Balance and AIP Credit Balance, then the Settling Bank will not be deemed to have acknowledged its AIP Debit Balance and AIP Credit Balance. If the AIP Settling Bank cannot be reached, the AIP Settling Bank will be deemed to have acknowledged its AIP Debit Balance and AIP Credit Balance.

The Corporation may exclude an AIP Settling Bank’s AIP Debit Balance and AIP Credit Balance from the FRB’s National Settlement Service (“NSS”) file if the AIP Settling Bank (A) does not acknowledge its AIP Debit Balance and AIP Credit Balance by the AIP Acknowledgement Cutoff Time or does not acknowledge its new AIP Debit

Balance and AIP Credit Balance pursuant to subsection (d) above by the AIP Acknowledgement Cutoff Time and (B) is not deemed to have acknowledged its AIP Debit Balance and AIP Credit Balance or its new AIP Debit Balance and AIP Credit Balance pursuant to subsection (d) above because the AIP Settling Bank has notified the Settlement Agent that it is unable to affirmatively acknowledge its AIP Debit Balance and AIP Credit Balance or that it refuses to settle on behalf of an AIP Members or AIP Non-Member Funds.

(f) An AIP Settling Bank that cannot send an acknowledgment or refusal message to the Settlement Agent may contact the Settlement Agent and instruct the Settlement Agent to act on its behalf.

(g) The Settlement Agent uses the most recent contact information provided by the AIP Settling Bank to the Settlement Agent. Each AIP Settling Bank must ensure that it maintains up-to-date and accurate contact details with the Settlement Agent on an ongoing basis when previously provided contact details are no longer accurate, to facilitate the Settlement Agent's ability to contact an AIP Settling Bank regarding this settlement process and any settlement issues.

SEC. 10. An AIP Settling Bank may refuse to settle for one or more of its AIP Members and/or AIP Non-Member Funds (but not for less than all of a given AIP Member's or AIP Non-Member Fund's accounts) in the manner and at the time specified in Section 9 above (an "AIP Refusal"). The AIP Settling Bank shall, if it has an AIP Debit Balance remaining after any AIP Refusal, pay the amount thereof to the Corporation's account at the bank specified by the Corporation or the Settlement Agent and in the manner and by the time specified in accordance with settlement procedures adopted by the Corporation or the Settlement Agent and the AIP Member or AIP Non-Member Fund for whom the AIP Settling Bank has refused to settle may pay the Corporation, by Fedwire, the amount of its remaining AIP Debit Balance in accordance with settlement procedures adopted by the Corporation or the Settlement Agent.

SEC. 11. An AIP Member (including an AIP Fund Administrator with respect to its AIP Settling Sub-Accounts) will be deemed to have failed to settle an AIP Debit Balance when the Corporation receives an AIP Refusal from the applicable AIP Settling Bank and the AIP Member (including the applicable AIP Fund Administrator with respect to its AIP Settling Sub-Accounts or the AIP Non-Member Fund in respect thereof) has failed to pay the AIP Debit Balance (or has so failed to pay its AIP Debit Balance if permitted by the Corporation to settle otherwise than through an AIP Settling Bank) or when its AIP Settling Bank has failed to pay its debit balance by the time specified in the Procedures.

SEC. 12. If an AIP Settling Bank or the AIP Member (including the AIP Fund Administrator with respect to its AIP Settling Sub-Accounts) in the case of an AIP Refusal, fails to settle in the manner and at the time prescribed in the Procedures, the Corporation shall reduce the AIP Credit Balances of all contra side AIP Members' accounts (including contra side AIP Settling Sub-Accounts) having an AIP Credit Balance on that Business Day as a result of transactions with the AIP Member(s) and/or



AIP Settling Sub-Account(s) which AIP Debit Balance failed to settle, in accordance with Rule 53 and the Procedures of the Corporation. The AIP Settling Bank or AIP Member (including an AIP Fund Administrator with respect to its AIP Settling Sub-Accounts) will not be deemed to have defaulted in a payment obligation to the Corporation. The Corporation may assess penalties against an AIP Settling Bank or, the AIP Member (including the AIP Fund Administrator with respect to its AIP Settling Sub-Accounts) as specified in the Procedures, in the event the AIP Settling Bank or, in the case of an AIP Refusal, the AIP Member (including AIP Fund Administrators with respect to AIP Settling Sub-Accounts) fails to settle.

SEC. 13. An AIP Settling Bank shall not terminate its status as an AIP Settling Bank and shall not terminate its representation of a AIP Member or AIP Non-Member Fund without having given 10 Business Days advance written notice thereof to the Corporation. No AIP Settling Bank shall commence representation of a AIP Member or AIP Non-Member Fund without having given 5 Business Days advance written notice thereof to the Corporation.

SEC. 14. In the event the AIP Settling Bank fails to settle in the manner and at the time prescribed in the Procedures, due to the insolvency or other cause, the Corporation in its discretion may permit an AIP Member or an AIP Non-Member Fund represented by that AIP Settling Bank to pay the Corporation for its AIP Debit Balance, and the Corporation shall pay the contra side AIP Member's account (including any contra side AIP Settling Sub-Account) the amount of its AIP Credit Balance (or AIP Adjusted Credit Balances, if applicable) to the extent such funds have been received by such AIP Member or AIP Non-Member Fund; provided, however, if the Corporation has made payment to the failed AIP Settling Bank the Corporation shall have no obligation to any AIP Member (including any AIP Fund Administrator with respect to any AIP Settling Sub-Account) or to any AIP Non-Member Fund for an AIP Credit Balance or AIP Adjusted Credit Balance, as applicable.

SEC. 15. Based on its judgment that adequate cause exists to do so, the Corporation may at any time terminate an AIP Member's right to act as a AIP Settling Bank.

## RULE 56. SECURITIES FINANCING TRANSACTION CLEARING SERVICE

### SEC. 1. General.

(a) The Corporation may accept for novation Securities Financing Transactions (SFTs) entered into between (i) a Member and another Member, (ii) a Sponsoring Member and its Sponsored Member, or (iii) an Agent Clearing Member acting on behalf of a Customer and either (x) a Member or (y) the same or another Agent Clearing Member acting on behalf of a Customer.

(b) Any SFT that is submitted to the Corporation for novation, and any Member and Sponsored Member that enters into an SFT (and any Customer on behalf of whom an Agent Clearing Member enters into an SFT) shall be subject to the provisions of this Rule 56; provided that Sections 15 and 16 of this Rule shall only apply to Sponsoring Members, Agent Clearing Members, Sponsored Members and Customers, as applicable.

(c) Any amount of cash described in this Rule 56 may be rounded up to the nearest one cent, five cents, 10 cents, 25 cents or dollar according to the rounding convention requested by the SFT Member parties to the relevant SFT as conveyed to the Corporation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose.

### SEC. 2. Eligibility for SFT Clearing Service: SFT Member.

The Corporation may permit any Member acting in its principal capacity, Sponsored Member acting in its principal capacity or Agent Clearing Member acting on behalf of a Customer to be an SFT Member and participate in the SFT Clearing Service.

The rights, liabilities and obligations of SFT Members in their capacity as such shall be governed by this Rule 56. References to a Member in other Rules and Procedures shall not apply to an SFT Member in its capacity as such, unless specifically noted in this Rule or in such other Rules and Procedures as applicable to an SFT Member.

An SFT Member that participates in the Corporation in another capacity pursuant to another Rule or Procedure of this Corporation, or which has entered into an agreement with the Corporation independent from this Rule, shall continue to have all the rights, liabilities and obligations set forth in such other Rule or Procedure or pursuant to such agreement, and such rights, liabilities and obligations shall be separate from its rights, liabilities and obligations as an SFT Member, except as contemplated under Sections 15 and 16 of this Rule.

### SEC. 3. Membership Documents.

To become an SFT Member, each applicant shall complete and deliver to the Corporation documents in such forms as may be prescribed by the Corporation from time to time and any other information requested by the Corporation.

SEC. 4. Securities Financing Transaction Data Submission.

(a) In order for an SFT to be submitted to the Corporation, the transaction data for the SFT must be submitted to the Corporation by an Approved SFT Submitter in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. Any such transaction data shall be submitted to the Corporation on a locked-in basis. In determining whether to accept transaction data from an Approved SFT Submitter, the Corporation may require the Approved SFT Submitter to provide a Cybersecurity Confirmation, as described in Rule 2B, Section 2.A.

(b) The Corporation will not act upon any instruction received from an Approved SFT Submitter in respect of an SFT unless each SFT Member (other than an SFT Member that is a Sponsored Member) designated by the Approved SFT Submitter as a party to such SFT has consented, in a writing delivered to the Corporation, to the Approved SFT Submitter acting on behalf of the SFT Member in respect of SFTs.

(c) The obligations reflected in the transaction data on an SFT shall be deemed to have been confirmed and acknowledged by each SFT Member designated by the Approved SFT Submitter as a party thereto and to have been adopted by such SFT Member and, for the purposes of determining the rights and obligations between the Corporation and such SFT Member under this Rule and such other Rules or Procedures applicable to SFTs, shall be valid and binding upon such SFT Member. An SFT Member which has been so designated by an Approved SFT Submitter shall resolve any differences or claims regarding the rights and obligations reflected in the transaction data submitted by the Approved SFT Submitter with the Approved SFT Submitter, and the Corporation shall have no responsibility in respect thereof or to adjust its records or the accounts of the SFT Member in any way, other than pursuant to the instructions of the Approved SFT Submitter. Any such adjustment shall be in the sole discretion of the Corporation.

(d) The Corporation makes no representation, whether expressed or implied, as to the complete and timely performance of an Approved SFT Submitter's duties and obligations. The Corporation assumes no liability to any SFT Member for any act or failure to act by an Approved SFT Submitter in connection with any information received by the Corporation or given to the SFT Member by the Corporation via the Approved SFT Submitter, as the case may be.

(e) The submission of each SFT to the Corporation and the performance of any obligation under such SFT shall constitute a representation to the Corporation and covenant by the Transferor and the Transferee, any Sponsoring Member that is acting on behalf of the Transferor or Transferee and any Agent Clearing Member that is acting on behalf of a Customer in connection with such SFT that its participation in such SFT is in compliance, and will continue to comply, with all applicable laws and regulations, including without limitation Rule 15c3-3 and all other applicable rules and regulations of the SEC, any applicable provisions of Regulation T, Regulation U and Regulation X of the Board of Governors of the Federal Reserve System, and the rules of FINRA and

any other regulatory or self-regulatory organization to which the Transferor, the Transferee, any Sponsoring Member that is acting on behalf of the Transferor or Transferee or any Agent Clearing Member that is acting on behalf of a Customer is subject.

(f) The submission of each SFT to the Corporation shall constitute an authorization to the Corporation by the Transferor, the Transferee and any Agent Clearing Member that is acting on behalf of a Customer for the Corporation to give instructions regarding the SFT to DTC in respect of the relevant accounts of the Transferor, Transferee and Agent Clearing Member at DTC.

#### SEC. 5. Novation of Securities Financing Transactions.

(a) The Corporation will only novate an SFT if, at the time of novation, the Final Settlement of such transaction is scheduled to occur one Business Day following the Initial Settlement and the SFT Cash is no less than 100% of the Contract Price of the SFT.

(b) Each SFT that is a Bilaterally Initiated SFT, including any Sponsored Member Transaction, and validated pursuant to these Rules and Procedures shall be novated to the Corporation as of the time the Corporation provides the Approved SFT Submitter for such SFT a report confirming such novation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. Each SFT that is neither a Bilaterally Initiated SFT nor a Sponsored Member Transaction and that is validated pursuant to these Rules and Procedures shall be novated to the Corporation as of the time (x) the Initial Settlement of such SFT has completed by (i) the Transferor instructing DTC to deliver from the relevant DTC account of the Transferor to the Corporation's account at DTC the subject SFT Securities versus payment of the amount of the SFT Cash, (ii) the Corporation instructing DTC to deliver from the Corporation's account at DTC to the relevant DTC account of the Transferee the subject SFT Securities versus payment of the amount of SFT Cash and (iii) DTC processes the deliveries in accordance with the rules and procedures of DTC, or (y) the Initial Settlement obligations of such SFT have been discharged in accordance with Section 8 of this Rule. If the Initial Settlement obligations of an SFT that is neither a Bilaterally Initiated SFT nor a Sponsored Member Transaction are not discharged in accordance with clause (x) or (y), then such SFT shall be deemed void *ab initio*.

(c) Subject to subsections (d) and (e) below of this Section 5, the novation of SFTs shall consist of the termination of the Final Settlement, Rate Payment and Distribution Payment obligations and entitlements between the parties to the SFT with respect to such SFT and their replacement with obligations and entitlements to and from the Corporation to perform, in accordance with these Rules and Procedures, the Final Settlement, Rate Payment, and Distribution Payment obligations and entitlements under the SFT.

(d) Novation in Respect of SFTs Having Incremental Additional Independent Amount SFT Cash

(i) If an SFT has Incremental Additional Independent Amount SFT Cash, then, unless the SFT is a Sponsored Member Transaction and the Sponsoring Member is the Transferee, the obligation of the Transferor to return the Incremental Additional Independent Amount SFT Cash to the Transferee shall not be terminated and novated to the Corporation (nor shall the Corporation otherwise be required to return such Incremental Additional Independent Amount SFT Cash), except to the extent that the Transferor, Sponsoring Member or Agent Clearing Member, as applicable, has satisfied the associated Independent Amount SFT Cash Deposit Requirement.

(ii) To the extent the Transferor, Sponsoring Member or Agent Clearing Member has not satisfied the associated Independent Amount SFT Cash Deposit Requirement, the Transferor's (or in the case of a Non-Returned SFT, the Corporation's) obligation to return the Incremental Additional Independent Amount SFT Cash shall:

1. If the SFT is an Agent Clearing Member Transaction for which the Agent Clearing Member, acting on behalf of the Customer, is the Transferor, be terminated and replaced with an obligation of the Agent Clearing Member, in its capacity as principal, to return the Incremental Additional Independent Amount SFT Cash to the Transferee; or
2. Otherwise, remain (or in the context of a Non-Returned SFT, be terminated and replaced with) a bilateral obligation of the Transferor to the Transferee.

(iii) Each SFT Member agrees that any obligation to return Incremental Additional Independent Amount SFT Cash that is novated to an Agent Clearing Member or that remains (or becomes) a bilateral obligation of the Transferor to the Transferee in accordance with (ii) above is a binding and enforceable obligation of the Agent Clearing Member or Transferor, as applicable, regardless of whether the Transferee has entered into an Existing Master Agreement with the Agent Clearing Member or Transferor. Each SFT Member further agrees that any such obligation shall only be due and payable to the Transferee upon the final discharge of the Corporation's Final Settlement obligations to the Transferor under the portion of the SFT that has been novated to the Corporation in accordance with Section 5(b) of this Rule.

(iv) Until the Transferor, Sponsoring Member or Agent Clearing Member has satisfied in full its Independent Amount SFT Cash Deposit Requirement, the SFT Cash of the SFT shall, for purposes of determining the obligations owing to and from the Corporation under such SFT, equal the SFT Cash of the SFT less the Incremental Additional Independent Amount SFT Cash.

(v) Once the Transferor, Sponsoring Member or Agent Clearing Member, as applicable, has satisfied in full its Independent Amount SFT Cash Deposit Requirement, the obligation of the Transferor to return the Incremental Additional Independent Amount SFT Cash to the Transferee (or, in the case of an SFT that is an Agent Clearing Member Transaction, any obligation of the Agent Clearing Member to return the Incremental Additional Independent Amount SFT Cash to the Transferee) shall be novated to the Corporation, and the SFT Cash of the SFT shall, for purposes of determining the obligations owing to and from the Corporation under the SFT, include the full amount of the SFT Cash of such SFT.

(e) Novation in Respect of Certain Corporate Actions

(i) Regardless of anything to the contrary in any Existing Master Agreement (including a provision addressing when an issuer pays different amounts to different security holders due to withholding tax or other reasons), the Distribution Payment obligations and entitlements between the Corporation and each party to an SFT that has been novated to the Corporation shall be the obligation of the Corporation to pay to the Transferor and the obligation of the Transferee to pay to the Corporation the Distribution Amount in respect of each Distribution and the corresponding entitlements of the Transferor and the Corporation, in each case, in accordance with these Rules and Procedures.

(ii) The Corporation shall maintain a list of corporate actions and distributions that the Corporation does not support with respect to SFTs. No Final Settlement, Rate Payment, Distribution Payment or other obligation resulting from a corporate action or distribution that is not supported by the Corporation shall be novated to the Corporation. Nor shall any such corporate action modify the Final Settlement, Rate Payment, Distribution Payment or other obligations of the Corporation, Transferor and Transferee under an SFT that has been novated to the Corporation. Each SFT Member agrees that any obligation under an SFT resulting from a corporate action or distribution not supported by the Corporation shall remain a binding and enforceable bilateral obligation between the Transferor and the Transferee, regardless of whether the Transferor and Transferee have entered into an Existing Master Agreement.

(f) The novation of SFTs shall not affect the fundamental substance of the SFT as a transfer of securities by one party in exchange for a transfer of cash by the other party and an agreement by each party to return the property it received and shall not affect the economic obligations or entitlements of the parties under the SFT except that following novation, the Final Settlement, Rate Payment and Distribution Payment obligations and entitlements shall be owed to and by the Corporation rather than the original counterparty under the SFT.

(g) The representations and warranties made by each of the parties to an SFT that has been novated to the Corporation under the parties' Existing Master Agreement, if any, shall (x) to the extent that they are inconsistent with the Rules and

Procedures of the Corporation, be eliminated and replaced with the Rules and Procedures of the Corporation and (y) to the extent that they are not inconsistent with the Rules and Procedures of the Corporation, remain in effect as between the parties to the original SFT, but shall not impose any additional obligations on the Corporation.

#### SEC. 6. Rate and Distributions.

(a) The Corporation shall debit and credit the Rate Payment from and to the SFT Accounts of the SFT Member parties to an SFT that has been novated to the Corporation as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII on the scheduled Final Settlement Date for the SFT, irrespective of whether Final Settlement of such SFT occurs on such date.

(b) If (x) a cash dividend is made on or in respect of an SFT Security that is the subject of an SFT that has been novated to the Corporation or (y) cash is exchanged, in whole or in part, for such an SFT Security in a merger, consolidation or similar transaction, and the Transferor under the SFT would have been entitled to a cash payment related to the event described in clause (x) or (y) had it not transferred the SFT Securities that are the subject of the SFT to the Transferee in the Initial Settlement, then the Corporation shall, within the time period determined by the Corporation from time to time, credit the Distribution Amount to the Transferor's SFT Account and debit the Distribution Amount from the Transferee's SFT Account as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If cash is exchanged in whole for such an SFT Security, then the completion of the actions described in the preceding sentence shall discharge the Corporation's Final Settlement obligations to the relevant Transferor and the Transferee's Final Settlement obligations to the Corporation.

#### SEC. 7. Final Settlement of Securities Financing Transactions.

Subject to the provisions of Section 11 of this Rule, the Final Settlement of an SFT that has been novated to the Corporation shall be scheduled to occur on the Business Day immediately following the date the SFT was novated to the Corporation. Unless the Final Settlement obligations under such an SFT are discharged in accordance with Section 8 of this Rule, Final Settlement of the SFT shall occur by (x) the Corporation instructing DTC to (i) deliver from the relevant DTC account of the Transferee to the Corporation's account at DTC the subject SFT Securities versus payment of the amount of SFT Cash and (ii) deliver from the Corporation's account at DTC to the relevant DTC account of the Transferor the subject SFT Securities versus payment of the amount of SFT Cash, and (y) the processing of such deliveries by DTC in accordance to the rules and procedures of DTC; provided that if such transfers do not occur and a Buy-In does not occur in respect of the SFT, then the Final Settlement Date shall be rescheduled for the following Business Day as described in Section 9 of this Rule. The obligation of a Transferor (or a Sponsoring Member that guarantees to the Corporation the obligation of a Transferor or an Agent Clearing Member that is responsible for the performance of the obligation under an SFT that is an Agent Clearing Member Transaction to return SFT Cash to the Corporation) in respect of the

Final Settlement of an SFT that has been novated to the Corporation shall be to pay the SFT Cash and, if applicable, the Rate Payment to the Corporation against the transfer of the relevant SFT Securities by the Corporation. The obligation of a Transferee (or a Sponsoring Member that guarantees to the Corporation the obligation of a Transferee or an Agent Clearing Member that is responsible for the performance of the obligation under an SFT that is an Agent Clearing Member Transaction to return SFT Securities to the Corporation) in respect of the Final Settlement of an SFT that has been novated to the Corporation shall be to transfer the SFT Securities and, if applicable, the Rate Payment to the Corporation against the transfer of SFT Cash by the Corporation.

An SFT, or a portion thereof, shall be deemed complete and final upon Final Settlement of the SFT, or such portion, whether pursuant to this Section 7, Section 8, Section 9(d) or Section 13(c). From and after the Final Settlement of an SFT, or a portion thereof, pursuant to any such section, the Corporation shall be discharged from its obligations to the Transferor and the Transferee, and the Corporation shall have no further obligation in respect of the SFT, or such portion.

#### SEC. 8. Discharge of Offsetting Final Settlement and Initial Settlement Obligations.

(a) Subject to the provisions of Section 13(c) of this Rule, if, on any Business Day, the pre-novation SFT Member parties to a Settling SFT enter into a Linked SFT and the Approved SFT Submitter provides an appropriate instruction to the Corporation in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose, the Final Settlement obligations of the parties to the Settling SFT and the Initial Settlement obligations of the parties to the Linked SFT shall be discharged once the Corporation has instructed DTC to debit and credit the relevant DTC accounts, of the SFT Member parties, as described in subsection (b) of this Section 8 and DTC processes such debits and credits in accordance with the rules and procedures of DTC. To the extent the Price Differential is not processed by DTC in accordance with the rules and procedures of DTC, the Corporation shall debit and credit the Price Differential from and to the SFT Accounts of the SFT Member parties as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If the Price Differential is positive, the Corporation shall (x) credit an amount equal to the Price Differential to the Transferee's SFT Account and (y) debit an amount equal to the Price Differential from the Transferor's SFT Account. If the Price Differential is negative, the Corporation shall (x) credit an amount equal to the absolute value of the Price Differential to the Transferor's SFT Account and (y) debit an amount equal to the absolute value of the Price Differential from the Transferee's SFT Account. However, if the Linked SFT has as its subject fewer SFT Securities than the Settling SFT, then only the following Final Settlement obligations under the Settling SFT shall be discharged in accordance with this Section 8: (i) the Transferee's and Corporation's Final Settlement obligations in respect of a quantity of SFT Securities equal to the quantity of SFT Securities that are the subject of the Linked SFT and (ii) the Transferor's and Corporation's Final Settlement obligations in respect of the Corresponding SFT Cash.



(b) If the Price Differential is positive, the Corporation shall (x) instruct DTC to debit an amount equal to the Price Differential from the Corporation's account at DTC and credit such amount to the relevant DTC account of the Transferee and (y) instruct DTC to debit an amount equal to the Price Differential from the relevant DTC account of the Transferor and credit such amount to the Corporation's account at DTC. If the Price Differential is negative, the Corporation shall (x) instruct DTC to debit an amount equal to the absolute value of the Price Differential from the Corporation's account at DTC and credit such amount to the relevant DTC account of the Transferor and (y) instruct DTC to debit an amount equal to the absolute value of the Price Differential from the relevant DTC account of the Transferee and credit such amount to the Corporation's account at DTC.

#### SEC. 9. Non-Returned Securities Financing Transactions and Recalls.

(a) If (x) the Transferee does not satisfy its Final Settlement obligations in respect of an SFT that has been novated to the Corporation on the Final Settlement Date, (y) such Final Settlement obligations have not been discharged in accordance with the provisions of Section 8 of this Rule, and (z) a Buy-In has not occurred in respect of such SFT or a portion thereof (such SFT, a "Non-Returned SFT"), the Final Settlement Date of the Non-Returned SFT shall be rescheduled for the following Business Day, and the Corporation shall instruct DTC to debit and credit the relevant DTC accounts of the SFT Member parties, as described in subsection (b) of Section 8. To the extent the Price Differential is not processed by DTC in accordance with the rules and procedures of DTC, the Corporation shall debit and credit the Price Differential from and to the SFT Accounts of the SFT Member parties to the Non-Returned SFT as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If the Price Differential is positive, the Corporation shall (x) credit an amount equal to the Price Differential to the Transferee's SFT Account and (y) debit an amount equal to the Price Differential from the Transferor's SFT Account. If the Price Differential is negative, the Corporation shall (x) credit an amount equal to the absolute value of the Price Differential to the Transferor's SFT Account and (y) debit an amount equal to the absolute value of the Price Differential from the Transferee's SFT Account.

(b) If the Corporation receives a Recall Notice in respect of an SFT that has been novated to the Corporation and the Transferee does not satisfy its Final Settlement obligations by the Recall Date for the Recall Notice, the Transferor may, in a commercially reasonable manner, purchase some or all of the SFT Securities that are the subject of the SFT or elect to be deemed to have purchased the SFT Securities, in each case in accordance with such timeframes and deadlines as established by the Corporation for such purpose (a "Buy-In"); provided that in the case of a Default-Related SFT, the commercial reasonableness of a Buy-In shall be determined by the Corporation based on whether, in the opinion of the Corporation, such Buy-In would create a disorderly market in the relevant SFT Security. Following such purchase or deemed purchase, the Transferor shall (x) give written notice to the Corporation of the Transferor's costs to purchase the relevant SFT Securities (including the price paid by the Transferor and any broker's fees and commissions and reasonable out-of-pocket

transaction costs, fees or interest expenses incurred in connection with such purchase) (such costs, the “Buy-In Costs”) or, if the Transferor elects to be deemed to have purchased the SFT Securities, the Deemed Buy-In Costs, and (y) indemnify the Corporation, and its employees, officers, directors, shareholders, agents and Members (collectively the “Buy-In Indemnified Parties”), for any and all losses, liability or expenses of a Buy-In Indemnified Party arising from any claim disputing the calculation of the Buy-In Costs, the Deemed Buy-In Costs or the method or manner of effecting the Buy-In. Each SFT Member acknowledges and agrees that each SFT Security is of a type traded in a recognized market and that, in the absence of a generally recognized source for prices or bid or offer quotations for any SFT Security, the Transferor may, for purposes of a Buy-In, establish the source therefor in its commercially reasonable discretion. Each SFT Member further acknowledges and agrees that the Corporation will not calculate any Buy-In Costs or Deemed Buy-In Costs and shall have no liability for any such calculation. The Corporation hereby assigns to any Transferee whose SFT is subject to a Buy-In any rights it may have against the Transferor to dispute the Transferor’s calculation of the Buy-In Costs or Deemed Buy-In Costs.

(c) On the Business Day following the Corporation’s receipt of written notice of the Transferor’s Buy-In Costs, the Corporation shall debit and credit the Buy-In Amount from and to the SFT Accounts of the SFT Member parties to the SFT as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If the Buy-In Amount is positive, the Corporation will (x) credit the value of the Buy-In Amount to the Transferor’s SFT Account and (y) debit the value of the Buy-In Amount from the Transferee’s SFT Account. If the Buy-In Amount is negative, the Corporation will (x) credit the value of the Buy-In Amount to the Transferee’s SFT Account and (y) debit the value of the Buy-In Amount from the Transferor’s SFT Account.

(d) Following the application of such Buy-In Amount, the Final Settlement obligations under the SFT shall be discharged; provided that if the Transferor effected a Buy-In in respect of some but not all of the SFT Securities that are the subject of an SFT, then only the following obligations shall be discharged: (i) the Transferee’s and Corporation’s Final Settlement obligations in respect of the SFT Securities for which the Transferor effected the Buy-In and (ii) the Transferor’s and Corporation’s Final Settlement obligations in respect of the Corresponding SFT Cash.

(e) A Recalled SFT shall be treated as a Non-Returned SFT by the Corporation until the earlier of the time that the SFT settles or a Buy-In is processed by the Corporation in accordance with this Section 9, except that the additional SFT Deposit required for Non-Returned SFTs under Section 12(c) of this Rule shall not apply. If the Transferor effects the Buy-In in respect of some, but not all, of the SFT Securities that are the subject of a Recalled SFT, the Final Settlement obligations of the Recalled SFT that are not discharged in accordance with subsection (d) of this Section 9 shall be treated as a Non-Returned SFT until the SFT settles or a Buy-In is processed by the Corporation in accordance with this Section 9, and the additional SFT Deposit required under Section 12(c) of this Rule for Non-Returned SFTs shall apply.

SEC. 10. Cancellation, Modification and Termination of Securities Financing Transactions.

(a) Transaction data on an SFT that has not been novated to the Corporation may be cancelled upon receipt by the Corporation of appropriate instructions from the Approved SFT Submitter with respect to such SFT on behalf of both SFT Member parties thereto, submitted in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. An SFT that is so cancelled by the Corporation will be deemed to be void *ab initio*.

(b) The Rate Payment on an SFT that has been novated to the Corporation may be modified upon receipt by the Corporation of appropriate instructions from the Approved SFT Submitter with respect to such SFT, submitted in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. Any instructions submitted by an Approved SFT Submitter to modify the Rate Payment of an SFT must be submitted on behalf of both SFT Member parties to the SFT.

(c) An SFT that has been novated to the Corporation in accordance with Section 5 of this Rule may be terminated upon receipt by the Corporation of appropriate instructions from the Approved SFT Submitter with respect to such SFT on behalf of both SFT Member parties thereto, submitted in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purposes. Following any such termination, no amounts or further obligations shall be owing in respect of the SFT between the Corporation and Transferor or the Corporation and the Transferee.

SEC. 11. Accelerated Final Settlement.

The Transferee may accelerate the scheduled Final Settlement of an SFT that has been novated to the Corporation upon receipt by the Corporation of appropriate instruction from the Approved SFT Submitter with respect to such SFT, submitted in accordance with the communication links, formats, timeframes and deadlines established by the Corporation for such purpose. Such accelerated Final Settlement shall be effected by the Corporation in accordance with the provisions of Section 7 of this Rule.

SEC. 12. Clearing Fund Obligations.

(a) Each SFT Member, other than an SFT Member that is a Sponsored Member, shall make and maintain on an ongoing basis a deposit to the Clearing Fund with respect to its SFT Positions (the "SFT Deposit"). For the avoidance of doubt, the SFT Positions for an SFT Member that is a Sponsoring Member shall include all SFT Positions held in its Sponsored Member Sub-Account(s) in addition to its proprietary account(s).

(b) The SFT Deposit shall be held by the Corporation or its designated agents as part of the Clearing Fund, to be applied as provided in Sections 1 through 12 of Rule 4.

(c) The Corporation shall calculate the amount of each such SFT Member's required deposit for SFT Positions, subject to a \$250,000 minimum (excluding the minimum contribution to the Clearing Fund as required by Procedure XV, Section II.(A)), by applying the Clearing Fund formula for CNS Transactions in Sections I.(A)(1) (a), (b), (c), (e), (f), (g)<sup>1</sup> of Procedure XV as well as the additional Clearing Fund formula in Section I.(B)(5) (Intraday Mark-to-Market Charge) and (6) (Intraday Volatility Charge) of Procedure XV, except as noted otherwise, in the same manner as such sections apply to CNS Transactions submitted to the Corporation for regular way settlement, plus, with respect to any Non-Returned SFT, an additional charge that is calculated by (x) multiplying the Current Market Price of the SFT Securities that are the subject of such Non-Returned SFTs by the number of such SFT Securities that are the subject of the SFT and (y) multiplying such product by (i) 5% for SFT Members rated 1 through 4 on the Credit Risk Rating Matrix, (ii) 10% for SFT Members rated 5 or 6 on the Credit Risk Rating Matrix, or (iii) 20% for SFT Members rated 7 on the Credit Risk Rating Matrix shall be applied to each SFT Member that is a party thereto (collectively, the "Required SFT Deposit"); provided, however, notwithstanding anything to the contrary, (x) a minimum of 40% of an SFT Member's Required SFT Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities and (y) the lesser of \$5,000,000 or 10% of an SFT Member's Required SFT Deposit, with a minimum of \$250,000, must be made and maintained in cash; provided, further, the additional Clearing Fund formula in Sections I.(B) (1) (Additional Deposits for Members on the Watch List), (2) (Excess Capital Premium), (3) (Backtesting Charge), and (4) (Bank Holiday Charge) of Procedure XV, as well as the Minimum Clearing Fund and Additional Deposit Requirements in Sections II.(A), II.(B), II.(C), and II.(D) of Procedure XV, shall apply to SFT Members in the same manner as such sections apply to Members.

(d) The Corporation shall have the discretion to require an SFT Member to post its Required SFT Deposit in proportion of cash higher than as required under subsection (c) of this Section 12, as determined by the Corporation from time to time in view of market conditions and other financial and operational capabilities of the SFT Member. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time.

(e) If an SFT has Incremental Additional Independent Amount SFT Cash, the Transferor shall make an additional deposit to the Clearing Fund that equals the amount

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<sup>1</sup> For the purpose of applying Section I.(A)(1)(g) of Procedure XV (Margin Liquidity Adjustment (MLA) charge), SFT Positions shall be categorized in the same asset groups or subgroups as the underlying SFT Securities in such SFT Positions. In the event a Member's portfolio contains both (x) SFT Positions and (y) Net Unsettled Positions or Net Balance Order Unsettled Positions, the Corporation shall calculate the MLA charge as the greater of (a) the sum of (1) MLA charges separately calculated for SFT Positions and (2) MLA charges separately calculated for Net Unsettled Positions and Net Balance Order Unsettled Positions and (b) the MLA charge calculated from combining the SFT Positions, Net Unsettled Positions and Net Balance Order Unsettled Positions.

of the Incremental Additional Independent Amount SFT Cash for such SFT ("Independent Amount SFT Cash Deposit", and such requirement the "Independent Amount SFT Cash Deposit Requirement"). The Independent Amount SFT Cash Deposit Requirement must be satisfied in cash and may, at the discretion of the Corporation, be satisfied using Independent Amount SFT Cash Deposits that have previously been made by the Transferor in respect of SFTs with the same Transferee that have since settled. The Transferor shall satisfy any Independent Amount SFT Cash Deposit Requirement in respect of an SFT on the date that the SFT is novated to the Corporation pursuant to the timeframes and deadlines established by the Corporation for such purpose. If, on a given day, the Transferor satisfies its Independent Amount SFT Cash Deposit Requirement for some, but not all, SFTs novated to the Corporation on that day, the Corporation will consider the Transferor to have satisfied its Independent Amount SFT Cash Deposit Requirement for none of the SFTs that were novated to the Corporation on that day.

(f) Each SFT Member, other than an SFT Member that is a Sponsored Member, so long as such Member is an SFT Member, shall also provide Supplemental Liquidity Deposits to the Clearing Fund, as may be required pursuant to Rule 4A. References to Clearing Fund in the other Rules and Procedures shall include and apply to SFT Deposit, and references to Required Fund Deposit shall include and apply to Required SFT Deposit, unless specifically noted otherwise in this Rule 56 or in such other Rules and Procedures.

### SEC. 13. Ineligible SFT Securities and Supported Corporate Actions.

(a) The Corporation will remove an Ineligible SFT Security from the list maintained by the Corporation as set forth in Rule 3; provided that the Corporation may not be able to identify that an SFT Security is an Ineligible SFT Security and remove such SFT Security from the list maintained by the Corporation if the reason for the ineligibility is that the SFT Security is undergoing a corporate action or distribution not supported by the Corporation and the Corporation is not in receipt of reasonably advanced notice of such corporate action or distribution.

(b) Notwithstanding Section 12 of this Rule, if an SFT Security becomes an Ineligible SFT Security because the Current Market Price of the SFT Security falls below the threshold established by the Corporation from time to time, the Required SFT Deposit of each SFT Member party to an SFT which has such Ineligible SFT Security as its subject shall include an additional amount equal to the product of 100% of the Current Market Price of such Ineligible SFT Security and the number of such Ineligible SFT Securities that the SFT has as its subject.

(c) If the Corporation declares that an SFT Security has or will become an Ineligible SFT Security because the security is or will become ineligible for processing or is or will be undergoing a corporate action or distribution that is not supported by the Corporation, the Final Settlement of all SFTs that have been novated to the Corporation and have such SFT Security as their subject must occur before the Ineligibility Date. If following such declaration the Transferee does not satisfy its Final Settlement

obligations in respect of any such SFT as provided in Section 7 of this Rule by the Ineligibility Date, the Corporation shall, unless the Corporation has previously debited and credited the Price Differential from and to the SFT Accounts of the SFT Member parties to the SFT in accordance with Section 8 of this Rule on Ineligibility Date, debit and credit the Price Differential from and to the SFT Accounts of the SFT Member parties to the SFT as part of its end of day final money settlement process in accordance with Rule 12 and Procedure VIII. If the Price Differential is positive, the Corporation shall (x) credit an amount equal to the Price Differential to the Transferee's SFT Account and (y) debit an amount equal to the Price Differential from the Transferor's SFT Account. If the Price Differential is negative, the Corporation shall (x) credit an amount equal to the absolute value of the Price Differential to the Transferor's SFT Account and (y) debit an amount equal to the absolute value of the Price Differential from the Transferee's SFT Account. Following the application of Price Differential to an Ineligible SFT on or after the relevant Ineligibility Date, all rights and obligations as between the Corporation and the SFT Member parties thereto with respect to such SFT shall be discharged.

(d) If a corporate action supported by the Corporation in respect of the SFT Securities that are the subject of an SFT is scheduled to occur, the Corporation may cease to permit the discharge of the SFT's Final Settlement obligations, whether pursuant to Section 8 of this Rule or otherwise, and treat the SFT as a Non-Returned SFT for such period of time determined by the Corporation as necessary to process the corporate action, except that the additional SFT Deposit required for Non-Returned SFTs under Section 12(c) of this Rule shall not apply. Notwithstanding the foregoing, the Corporation shall not limit the ability of a Member to accelerate the Final Settlement of an SFT in accordance with Section 11 of this Rule, provided that any Price Differential for the SFT has settled in accordance with Section 9(a) of this Rule and that such accelerated Final Settlement is permitted in accordance with the rules and procedures of DTC.

#### SEC. 14. Cease to Act Procedures for SFT Members with Open Securities Financing Transactions.

(a) The provisions of Rule 18 shall not apply to the SFTs, with the exception of Sections 1 and 8 thereof.

(b) If the Corporation has ceased to act for an SFT Member and subject to Section 14 of Rule 2C:

(i) Except as otherwise may be determined by the Board of Directors, any SFT entered into by the SFT Member that, at the time the Corporation ceased to act for such SFT Member, has not been novated to the Corporation pursuant to this Rule shall be excluded from all operations of the Corporation applicable to such SFT.

(ii) The Corporation may decline to act upon any instructions, transaction data or notices submitted by such SFT Member or an Approved SFT Submitter on behalf of such SFT Member.

(iii) The Corporation shall close-out such SFT Member's proprietary SFT Positions as well as any SFT Positions established in the SFT Member's Agent Clearing Member Customer Omnibus Account by (x) buying in or selling out, as applicable, some or all of the SFT Securities that are the subject of each SFT of the SFT Member that has been novated to the Corporation but for which the Final Settlement has not occurred, (y) deeming the Corporation to have bought in or sold out some or all such SFT Securities at the bid or ask price therefor, respectively, from a generally recognized source or at such price or prices as the Corporation is able to purchase or sell, respectively, some such SFT Securities, or (z) otherwise liquidating such SFT Member's SFT Positions.

(iv) Any Sponsored Member Transactions for which a Defaulting SFT Member is the Sponsoring Member and which have been novated to the Corporation shall continue to be processed by the Corporation. The Corporation, in its sole discretion, will determine whether to close-out the SFT Positions established in a Defaulting SFT Member's Sponsored Member Sub-Accounts (if any), which close-out shall be effected in accordance with the provisions of subsection (b)(iii) above, or instead permit the relevant Sponsored Members to complete settlement of the relevant Sponsored Member Transactions.

(v) If, in the aggregate, the close-out of a Defaulting SFT Member's proprietary SFT Positions results in a profit to the Corporation, such profit shall be applied to any loss to the Corporation arising from the closing out of such Defaulting SFT Member (including losses arising from closing out the SFT Positions established in any of the Defaulting SFT Member's Agent Clearing Member Customer Omnibus Accounts or Sponsored Member Sub-Accounts or losses arising from closing out any Net Close Out Positions of the Defaulting SFT Member). If, in the aggregate, the close-out of a Defaulting SFT Member's proprietary SFT Positions results in a loss to the Corporation, such loss shall be netted against, or otherwise applied to, any amounts owed by the Corporation to such SFT Member in its proprietary capacity and thereafter debited from such Defaulting SFT Member's Clearing Fund deposit at the Corporation.

(vi) If, in the aggregate, the close-out of the SFT Positions established in the Agent Clearing Member Customer Omnibus Accounts of a Defaulting SFT Member results in a profit to the Corporation, such profit shall be credited to the Agent Clearing Member Customer Omnibus Accounts. If, in the aggregate, the close-out of the SFT Positions established in the Agent Clearing Member Customer Omnibus Accounts of a Defaulting SFT Member results in a loss to the Corporation, such loss shall be netted against, or otherwise applied to, any amounts owed by the Corporation to such SFT Member in its proprietary capacity and thereafter debited from the Defaulting SFT Member's Clearing Fund deposit at the Corporation.

(vii) If, in the aggregate, the close-out of the SFT Positions established in a Defaulting SFT Member's Sponsored Member Sub-Accounts results in a profit to the Corporation, such profit shall be credited to the Sponsored Member Sub-Accounts. If, in the aggregate, the closing out of the SFT Positions established in a Defaulting SFT Member's Sponsored Member Sub-Accounts results in a loss to the Corporation, such loss shall be netted against, or otherwise applied to, any amounts owed by the Corporation to such SFT Member in its proprietary capacity and thereafter debited from such Defaulting SFT Member's Clearing Fund deposit at the Corporation.

(viii) The Final Settlement Date of each SFT that has been novated to the Corporation and that, prior to novation, was with a Defaulting SFT Member (each, a "Default-Related SFT") shall be the Business Day following the day on which the Corporation ceased to act for the Defaulting SFT Member.

(ix) Until Final Settlement, each Default-Related SFT shall be treated as a Non-Returned SFT, and the Corporation will pay and collect the Price Differential amounts described in Section 9(a) of this Rule. The Corporation shall have all of the rights of a Transferor in relation to any Default-Related SFT in respect of which the Defaulting SFT Member was the Transferor, including the ability to deliver a Recall Notice in relation to such Default-Related SFT and to effect a Buy-In, and all of the rights of a Transferee in relation to any Default-Related SFT in respect of which the Defaulting SFT Member was the Transferee, including the ability to accelerate the scheduled Final Settlement Date of the Default-Related SFT. However, no additional SFT Deposit required for Non-Returned SFTs under Section 12(c) of this Rule shall apply to any Default-Related SFT, and no Rate Payments shall accrue on Default-Related SFTs after the date on which the Corporation ceases to act for the Defaulting SFT Member.

#### SEC. 15. Sponsored Member SFT Clearing.

(a) A Sponsoring Member shall be permitted to submit, either directly as an Approved SFT Submitter or via another Approved SFT Submitter, to the Corporation Sponsored Member Transactions between itself and its Sponsored Member in accordance with the provisions of this Rule and Rule 2C.

(b) The Corporation shall maintain for the Sponsoring Member one or more Sponsored Member Sub-Accounts. The SFT Deposits for each Sponsored Member Sub-Account shall be calculated separately based on the SFT Positions in such Sponsored Member Sub-Account, and the Sponsoring Member, as principal, shall be required to satisfy the SFT Deposits for each of the Sponsoring Member's Sponsored Member Sub-Accounts.

(c) Settlement of the Final Settlement, Rate Payment, Price Differential, Distribution Payment and other obligations of a Sponsored Member Transaction that have been novated to the Corporation shall be effected by the Sponsoring Member, as settlement agent for the relevant Sponsored Member, crediting and debiting the account



the Sponsoring Member maintains for the Sponsored Member on the Sponsoring Member's books and records.

SEC. 16. Customer SFT Clearing.

(a) An Agent Clearing Member shall be permitted to submit, either directly as an Approved SFT Submitter or via another Approved SFT Submitter, to the Corporation for novation SFTs that are Agent Clearing Member Transactions. Any such submission shall be in accordance with this Rule and Rule 2D.

(b) With respect to an Agent Clearing Member that submits SFTs to the Corporation for novation on behalf of its Customers, the Corporation shall maintain one or more Agent Clearing Member Customer Omnibus Accounts in the name of the Agent Clearing Member for the benefit of its Customers in which all SFT Positions and SFT Cash carried by the Agent Clearing Member on behalf of its Customers are reflected; provided, that each Agent Clearing Member Customer Omnibus Account may only contain activity where the Agent Clearing Member is acting as Transferor on behalf of its Customers, or as Transferee on behalf of its Customers, but not both.

(c) With respect to SFTs entered into on behalf of its Customers and maintained in the Agent Clearing Member Customer Omnibus Account, the Agent Clearing Member shall act solely as agent of its Customers in connection with the clearing of such SFTs; provided, that the Agent Clearing Member shall remain fully liable for the performance of all obligations to the Corporation arising in connection with such SFTs; and provided further, that the liabilities and obligations of the Corporation with respect to such SFTs entered into by the Agent Clearing Member on behalf of its Customers shall extend only to the Agent Clearing Member. Without limiting the generality of the foregoing, the Corporation shall not have any liability or obligation arising out of or with respect to any SFT to any Customer of an Agent Clearing Member.

(d) The SFT Deposits for each Agent Clearing Member Customer Omnibus Account shall be calculated separately based on the SFT Positions in such Agent Clearing Member Customer Omnibus Account, and the Agent Clearing Member shall, as principal, be required to satisfy the SFT Deposit for each of the Agent Clearing Member's Agent Clearing Member Customer Omnibus Accounts.

SEC. 17. Corporation Default.

(a) If a "Corporation Default" occurs pursuant to Section 2 of Rule 41, all SFTs that have been novated to the Corporation but not yet settled, and all obligations and rights arising thereunder which have been assumed by the Corporation pursuant to this Rule, shall be immediately terminated, and the Board of Directors shall determine the Aggregate Net SFT Close-out Value owed by or to each SFT Member with respect to each of its SFT Positions.

(b) For purposes of this Section 17, a Member shall be considered a different SFT Member in respect of each of (i) its proprietary SFT Positions; (ii) the SFT Positions

established in its Agent Clearing Member Customer Omnibus Accounts (if any); and (iii) the SFT Positions established in its Sponsored Member Sub-Accounts (if any).

(c) Each SFT Member's Aggregate Net SFT Close-out Value shall be netted and offset as described in Section 14(b)(v) through Section 14(b)(vii) of this Rule, as though the Corporation had ceased to act for each SFT Member.

(d) The Board of Directors shall notify each SFT Member of the Aggregate SFT Close-out Value, taking into account the netting and offsetting provided for above. SFT Members that have been notified that they owe an amount to the Corporation shall pay that amount on or prior to the date specified by the Board of Directors, subject to any applicable setoff rights. SFT Members who have a net claim against the Corporation shall be entitled to payment thereof along with other Members' and any other creditors' claims pursuant to the underlying contracts with respect thereto, these Rules and Procedures and applicable law. Nothing herein shall limit the rights of the Corporation upon an SFT Member default (including following a Corporation Default), including any rights under any Clearing Agency Cross-Guaranty Agreement or otherwise.

#### SEC. 18. Other Applicable Rules, Procedures, and Addendums.

In addition to this Rule 56, the Rules, Procedures, and Addendums referenced in this section shall also apply to SFTs and SFT Members, unless expressly stated otherwise.

Rule 1 (Definitions and Descriptions), Rule 2 (Members, Limited Members and Sponsored Members), Rule 5 (General Provisions), Rule 12 (Settlement), Rule 13 (Exception Processing), Rule 19 (Miscellaneous Rights of the Corporation), Rule 21 (Honest Broker), Rule 22 (Suspension of Rules), Rule 23 (Action by the Corporation), Rule 24 (Charges for Services Rendered), Rule 26 (Bills Rendered), Rule 27 (Admission to Premises of the Corporation - Powers of Attorney, Etc.), Rule 28 (Forms), Rule 29 (Qualified Securities Depositories), Rule 32 (Signatures), Rule 33 (Procedures), Rule 34 (Insurance), Rule 35 (Financial Reports), Rule 36 (Rule Changes), Rule 37 (Hearing Procedures), Rule 38 (Governing Law and Captions), Rule 39 (Reliance on Instructions), Rule 40 (Wind-Down of a Member, Fund Member or Insurance Carrier/Retirement Services Member), Rule 41 (Corporation Default), Rule 42 (Wind-down of the Corporation), Rule 45 (Notice), Rule 47 (Interpretation of Rules), Rule 48 (Disciplinary Proceedings), Rule 49 (Release of Clearing Data and Clearing Fund Data), Rule 55 (Settling Banks and AIP Settling Banks), Rule 58 (Limitations on Liability), Rule 60 (Market Disruption and Force Majeure), Rule 60A (Systems Disconnect: Threat of Significant Impact to the Corporation's Systems), Rule 63 (SRO Regulatory Reporting), Procedure I (Introduction), Procedure VIII (Money Settlement Service), Procedure XII (Time Schedule), Procedure XIII (Definitions), Procedure XIV (Forms, Media and Technical Specifications), Procedure XV (Clearing Fund Formula and Other Matters), Addendum B (Qualifications and Standards of Financial Responsibility, Operational Capability and Business History), Addendum H (Interpretation of the Board of Directors Release of Clearing Data), Addendum L (Statement of Policy Pertaining to Information

Sharing), and Addendum P (Fine Schedule) shall apply to SFTs and SFT Members, unless the context otherwise requires.

## RULE 57. INSURANCE & RETIREMENT SERVICES

SEC. 1. (a) The Corporation may provide a service to enable Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members and Data Services Only Members (collectively, "I&RS Members") to transmit such data and information relating to I&RS Eligible Products (the "I&RS Data") and, with respect to Members, Mutual Fund/Insurance Services Members and Insurance Carrier/Retirement Services Members, to settle payments relating to I&RS Eligible Products ("I&RS Payments") between themselves. Such services shall be known as the Insurance & Retirement Services ("I&RS") and will be accomplished in accordance with the provisions of this Rule.

(b) Each I&RS Member that desires access to I&RS must complete and deliver to the Corporation such agreements as the Corporation may from time to time require.

(c) I&RS Data must be submitted to the Corporation in such formats and by such times as established by the Corporation from time to time, and, depending upon the type of I&RS Data submitted, may require a response from the receiver of I&RS Data.

(d) The Corporation will review I&RS Data received from I&RS Members for such information as the Corporation determines from time to time to be necessary. If the I&RS Data does not contain the information required by the Corporation, the Corporation will reject the I&RS Data and will advise the appropriate I&RS Member in such form and by such time as established by the Corporation from time to time.

(e) If the I&RS Data appears to contain the information required by the Corporation, subject to any rights the Corporation may have as provided in the Rules generally, the Corporation will transmit the I&RS Data to the appropriate I&RS Member in such form and by such time as established by the Corporation from time to time.

(f) Pursuant to the policies established by the Corporation from time to time, the Corporation will notify, in such form and at such times as established by the Corporation from time to time, an I&RS Member, in respect of certain I&RS Data which requires a response, if no such response has been received by the Corporation.

(g) Pursuant to the policies established by the Corporation from time to time, a submitter of I&RS Data can withdraw certain I&RS Data submitted by submitting an instruction to the Corporation in such form and by such time as established by the Corporation from time to time. Upon receipt of a withdrawal instruction, the Corporation will (i) delete from I&RS the I&RS Data withdrawn and (ii) notify the appropriate party of the withdrawn I&RS Data in such form and by such time as established by the Corporation from time to time. Unless I&RS Data is rejected, withdrawn or deleted from I&RS as provided herein, the Corporation will store and maintain all I&RS Data submitted to it for transmission between and among I&RS Members and be permitted to evaluate the usefulness of such I&RS Data, including by providing such I&RS Data to

third parties under appropriate agreements of confidentiality and to prohibit such third parties from using such I&RS Data other than for evaluation purposes.

(h) Notwithstanding the foregoing, nothing prohibits an I&RS Member from requiring data or information in addition to any I&RS Data that has been transmitted through the Corporation.

(i) Submission of I&RS Data to, or alteration or withdrawal of I&RS Data from, the Corporation shall not relinquish, extinguish or affect any legal or regulatory right or obligation of the I&RS Member.

(j) The Corporation will not be responsible for the completeness or accuracy of the I&RS Data received from or transmitted to an I&RS Member transmitted through I&RS nor for any errors, omissions or delays which may occur in the absence of gross negligence on the Corporation's part, in the transmission of such I&RS Data to or from an I&RS Member.

### **ACAT/TRANSFERS**

SEC. 2. (a) The Corporation may provide a service to enable Members to transmit I&RS Eligible Product customer account transfer data between Members.

(b) Within the time frame established by the Corporation, the Corporation may transmit, to an Insurance Carrier/Retirement Services Member, I&RS Eligible Product customer account transfer data in such form and by such time as established by the Corporation from time to time. The Insurance Carrier/Retirement Services Member must confirm, reject, or request a modification with respect to the transfer in such format and by such time as established by the Corporation. Transfers that are not confirmed or rejected within such time frame and in such manner as established from time to time by the Corporation will be deleted from the I&RS system by the Corporation.

### **ACTIVITY STATUS TRACKING (ACT)**

SEC. 3. The Corporation may provide a service to enable I&RS Members to transmit status information to other I&RS Members relating to transactions involving I&RS Eligible Products.

### **APPLICATIONS AND PREMIUMS (APP)**

SEC. 4. (a) The Corporation may provide a service to enable Members, Mutual Fund/Insurance Services Members and Data Services Only Members to transmit I&RS Data regarding applications and premiums ("Applications and Premiums") to Insurance Carrier/Retirement Services Members and, with respect to Members, Mutual Fund/Insurance Services Members and Insurance Carrier/Retirement Services Members, to settle payments in respect thereof.

(b) Applications and Premiums transactions submitted for settlement through the Corporation prior to the time established by the Corporation for this purpose will

settle in the settlement cycle occurring immediately following the submission of data relating to such payment.

### **ASSET PRICING (AAP)**

SEC. 5. The Corporation may provide a service to enable Insurance Carrier/Retirement Services Members to transmit I&RS Data to Members, Mutual Fund/Insurance Services Members and Data Services Only Members regarding the pricing of units and other values in respect of funds or other assets within annuities and other insurance products.

### **ATTACHMENTS (ATT)**

SEC. 6. The Corporation may provide a service to enable I&RS Members to electronically transmit imaged documents, signatures, forms and other types of unstructured data relating to I&RS Data, including without limitation documents relating to customers of I&RS Members.

### **COMMISSIONS AND COMPENSATION (COM)**

SEC. 7. (a) The Corporation may provide a service to enable Insurance Carrier/Retirement Services Members to transmit I&RS Data regarding commissions, charge backs and other compensation ("Commissions") to Members, Mutual Fund/Insurance Services Members and Data Services Only Members and, with respect to Members and Mutual Fund/Insurance Services Members, to settle payments in respect of thereof.

(b) An Insurance Carrier/Retirement Services Member may initiate a Commission transaction by submitting to the Corporation a payment instruction, in such form and by such time as established by the Corporation from time to time.

(c) Commission transactions received for settlement through the Corporation prior to the time established by the Corporation for this purpose will settle in the settlement cycle occurring immediately following the completion of the processing of data relating to such payment, unless the Insurance Carrier/Retirement Services Member's initiation instruction indicated that such transaction will settle on a date thereafter; provided, however, that no transaction shall settle more than five Business Days after the day on which the transaction was submitted to the Corporation.

### **FINANCIAL ACTIVITY FOR ASSET MANAGERS (FAM)**

SEC. 8. The Corporation may transmit and provide access to transaction-specific subaccount data ("Subaccount Data") received through the Financial Activity Reporting service relating to funds or other assets within variable annuity and variable life insurance products to asset managers that manage such funds or assets and to service providers on behalf of such asset managers. Examples of Subaccount Data with respect to variable annuity and variable life insurance product transactions include, but shall not be limited to, the name of the insurance carrier, the date of the transaction,

the broker-dealer named on the transaction, the individual advisor listed on the transaction, the type of transaction (e.g., new purchase, death claim, rebalance, subaccount transfer to or from the subaccount, etc.) and the amount of the transaction.

Asset managers which are not Members or Limited Members will be required to enter into such agreements with the Corporation as determined by the Corporation to gain access to the Subaccount Data, which agreements will include an agreement to pay the fees set forth in the Rules to receive such Subaccount Data and to set up any system requirements necessary to access the data. Service providers receiving the Subaccount Data on behalf of asset managers will also be required to enter into such agreements as determined by the Corporation in order to gain access to such Subaccount Data on behalf of such asset managers to ensure the data is being used as contemplated herein and that there are proper safeguards by the service provider to ensure data security.

### **FINANCIAL ACTIVITY REPORTING (FAR)**

SEC. 9. The Corporation may provide a service to enable Insurance Carrier/Retirement Services Members to transmit to Members, Mutual Fund/Insurance Services Members and Data Services Only Members I&RS Data regarding financial transactions and related activity specific to an I&RS Eligible Product.

### **IN FORCE TRANSACTIONS (IFT)**

SEC. 10. (a) The Corporation may provide a service to enable I&RS Members to transmit I&RS Data relating to an existing and effective insurance contract ("In Force Contract") among themselves and, with respect to Insurance Carrier/Retirement Services Members, Members and Mutual Fund/Insurance Services Members, to settle payments in respect thereof.

(b) An I&RS Member may initiate a request relating to an In Force Contract by submitting to the Corporation instructions ("In Force Transaction Request") in such form and by such time as established by the Corporation from time to time. The contra-side I&RS Member's response to such In Force Transaction Request ("In Force Transaction Request Response") shall be submitted to the Corporation in such form and by such time as established by the Corporation from time to time. In Force Transaction Requests and In Force Transaction Request Responses shall be treated and processed by the Corporation as other I&RS Data is treated and processed by the Corporation, and shall be subject to the terms, set forth in Section 1 of this Rule 57.

(c) The Corporation may provide a service to enable Members, Insurance Carrier/Retirement Services Members and Mutual Fund/Insurance Services Members to settle money-only payment transactions between themselves in respect of In Force Contracts. A Member, Insurance Carrier/Retirement Services Member or Mutual Fund/Insurance Services Member shall initiate a money-only settlement transaction (hereinafter, the "Initiating I&RS Member") by submitting to the Corporation instructions to debit such Initiating I&RS Member's account in such form and by such time as

established by the Corporation from time to time. In no event shall the Initiating I&RS Member be the Member, Insurance Carrier/Retirement Services Member or Mutual Fund/Insurance Services Member to be credited as part of the money-only settlement transaction. Settlement of money-only payments in respect of In Force Contracts shall be subject to Section 17 of this Rule 57.

### **INSURANCE INFORMATION EXCHANGE (IIEX)**

SEC 11. The Corporation may provide a service to enable I&RS Members, and their respective service providers, to transmit, view and retrieve I&RS Data using a centralized data repository ("IIEX"). Service providers will gain access to IIEX only by authorization from I&RS Members and will be required to enter into such agreements as determined by the Corporation, which agreements will include an agreement to pay the fees set forth in the Rules for product data for which service providers are required to pay a fee as set forth in the Rules.

### **LICENSING AND APPOINTMENTS (LNA)**

SEC. 12. The Corporation may provide a service to enable I&RS Members to transmit I&RS Data regarding licensing and appointment authorizations and activity (including, but not limited to, licensing and appointment authorizations and activity relating to licensee or appointee training) ("Licensing and Appointments") among themselves or to otherwise supply and access I&RS Data regarding Licensing and Appointments directly to or from NSCC, as the case may be.

### **PAPERLESS REPLACEMENTS PROCESSING (RPL)**

SEC. 13. (a) The Corporation may provide a service to enable Insurance Carrier/Retirement Services Members to transmit I&RS Data regarding a transfer, exchange or replacement of an existing contract relating to an I&RS Eligible Product ("Replacements") to Insurance Carrier/Retirement Services Members and to settle payments with respect thereof.

(b) Replacements transactions submitted for settlement through the Corporation prior to the time established by the Corporation for this purpose will settle in the settlement cycle occurring immediately following the submission of data relating to such payment.

### **POSITIONS AND VALUATIONS (POV)**

SEC. 14. The Corporation may provide a service to enable Insurance Carrier/Retirement Services Members to transmit I&RS Data to Members, Mutual Fund/Insurance Services Members and Data Services Only Members regarding positions and valuations specific to an I&RS Eligible Product.



### **PRODUCER AUTHORIZATION (PAR)**

SEC. 15. The Corporation may provide a service to enable I&RS Members to transmit I&RS Data to other I&RS Members regarding insurance producers specific to I&RS Eligible Products.

### **PRODUCER MANAGEMENT PORTAL (PMP)**

SEC. 16. The Corporation may provide a service to enable I&RS Members, to transmit, view and retrieve I&RS Data using a centralized data repository relating to insurance producer training information.

### **SETTLEMENT PROCESSING FOR INSURANCE (STL)**

SEC. 17. (a) The Corporation may provide a service to enable Members, Mutual Fund/Insurance Services Members, or Insurance Carrier/Retirement Services Members, to settle I&RS Payments through the Corporation effected in accordance with the provisions of this Rule, Rule 12, Rule 55, other provisions of these Rules. At any time, the Corporation may prohibit any payment from settling through I&RS if the Corporation, in its discretion, determines that such action is necessary for the protection of the Corporation, creditors or investors.

(b) If at any time the Corporation fails to receive payment from an I&RS Member, which payment was to be used to make payment to the contra side of the I&RS transaction, the Corporation, in its discretion, may reverse in whole or in part any credit previously given to the I&RS Member who is the contra side to the I&RS transaction, within such time frame as determined by the Corporation from time to time.

(c) The Corporation shall not guarantee the payment of I&RS Payments. Settlement of all payments and transactions in respect of I&RS Eligible Products which do not settle through the facilities of the Corporation are the responsibility of the parties thereto and are not subject to the provisions of this Rule.

### **SUBSEQUENT PREMIUMS (SUB)**

SEC. 18. (a) The Corporation may provide a service to enable Members, Mutual Fund/Insurance Services Members and Data Services Only Members to transmit I&RS Data regarding subsequent premiums ("Subsequent Premiums") to Insurance Carrier/Retirement Services Members and, with respect to Members, Mutual Fund/Insurance Services Members and Insurance Carrier/Retirement Services Members, to settle payments in respect thereof.

(b) Subsequent Premiums transactions submitted for settlement through the Corporation prior to the time established by the Corporation for this purpose will settle in the settlement cycle occurring immediately following the submission of data relating to such payment.

## RULE 58. LIMITATIONS ON LIABILITY

SEC. 1. Notwithstanding any affiliation between the Corporation and any other entity, including another clearing agency, except as otherwise expressly provided by written agreement between the Corporation and such other entity:

(a) the Corporation shall not be liable for any obligations of such other entity nor shall the Clearing Fund or other assets of the Corporation be available to such other entity (or any person claiming through such other entity) for any purpose, and no Member shall assert against the Corporation any claim based upon any obligations of any other entity to such Member; and

(b) such other entity shall not be liable for any obligations of the Corporation, nor shall the Participants Fund or any other assets of such other entity be available to the Corporation (or any person claiming through the Corporation) for any purpose, and no Member shall assert against such other entity any claim based upon any obligations of the Corporation to such Member.

SEC. 2. Notwithstanding any other provision in the Rules:

(a) The Corporation will not be liable for any action taken, or any delay or failure to take any action, hereunder or otherwise to fulfill the Corporation's obligations to its Members, Mutual Fund/Insurance Services Members, Settling Bank Only Members, Municipal Comparison Only Members, Insurance Carrier/Retirement Services Members, Investment Manager/Agent Members, TPP Members, TPA Members, Mutual Fund/Insurance Services Members, Fund Members, Data Services Only Members, and AIP Members (each hereinafter referred to as a "participant" for purposes of this Rule 58), other than for losses caused directly by the Corporation's gross negligence, willful misconduct, or violation of Federal securities laws for which there is a private right of action. Under no circumstances will the Corporation be liable for the acts, delays, omissions, bankruptcy, or insolvency, of any third party, including, without limitation, any depository, custodian, sub-custodian, clearing or settlement system, transfer agent, registrar, data communication service, AIP Non-Member Fund or delivery service ("Third Party"), unless the Corporation was grossly negligent, engaged in willful misconduct, or in violation of Federal securities laws for which there is a private right of action in selecting such Third Party.

(b) Under no circumstances will the Corporation be liable for any indirect, consequential, incidental, special, punitive or exemplary loss or damage (including, but not limited to, loss of business, loss of profits, trading losses, loss of opportunity and loss of use) howsoever suffered or incurred, regardless of whether the Corporation has been advised of the possibility of such damages or whether such damages otherwise could have been foreseen or prevented.

(c) With respect to instructions given to the Corporation by a Special Representative/Index Recipient Agent, the Corporation shall have no responsibility or liability for any errors which may occur in the course of transmissions or recording of

any transmissions or which may exist in any magnetic tape, document or other media so delivered to the Corporation.

(d) With respect to the Corporation's distribution facilities, the Corporation assumes no responsibility whatever for the form or content of any tickets, checks, papers, documents or other material (other than items prepared by it) placed in the boxes in its distribution facilities assigned to each participant, or AIP Member, or otherwise handled by the Corporation; nor does the Corporation assume any responsibility for any improper or unauthorized removal from such boxes or from the Corporation's facilities of any such tickets, checks, papers, documents or other material, including items prepared by the Corporation.

(e) With respect to Fund/SERV transactions, the Corporation will not be responsible for the completeness or accuracy of any transaction or instruction received from or transmitted to a participant through Fund/SERV, nor for any errors, omissions or delays which may occur in the transmission of a transaction or instruction to or from a participant.

(f) The Corporation will not be responsible for the completeness or accuracy of any I&RS Data received from or transmitted to a participant through I&RS nor for any errors, omissions or delays which may occur in the transmission of such I&RS Data to or from a participant.

(g) The Corporation will not be responsible for the completeness or accuracy of any AIT Data received from or transmitted to a Member through the AIT service, nor for any errors, omissions or delays which may occur in the transmission of such AIT Data to or from a Member.

(h) The Corporation will not be responsible for the completeness or accuracy of any AIP Data received from or transmitted to an AIP Member (including an AIP Fund Administrator with respect to any AIP Settling Sub-Account thereof) through the Corporation nor for any errors, omissions or delays which may occur in the transmission of such AIP Data to or from an AIP Member (including an AIP Fund Administrator with respect to any AIP Settling Sub-Account thereof).

(i) The Corporation will not be responsible for the completeness or accuracy of the transaction data received from the Approved SFT Submitters, nor shall the Corporation, absent gross negligence on the Corporation's part, be responsible for any errors, omissions or delays that may occur in the transmission of transaction data from any Approved SFT Submitter.

## RULE 59. ACCOUNT INFORMATION TRANSMISSION SERVICE

The Corporation may provide a service to Members that enables Members to transmit account related information between themselves on an automated basis in respect of the movement of correspondent accounts between Members, or other material events that result in the bulk movement of accounts between Members. Members who desire to use this service must notify the Corporation in such form and by such time as the Corporation may determine from time to time. Information transmitted pursuant to this rule (referred to as “AIT Data”) must be submitted to the Corporation in such form and within such time frame as established by the Corporation from time to time.

## RULE 60. MARKET DISRUPTION AND FORCE MAJEURE

### SEC. 1. Market Disruption Events

On the happening of any one or more of the events or circumstances set out below (each a “Market Disruption Event”) which, in any case, is likely to materially affect or has materially affected the business, operations, safeguarding of securities or funds, or physical functions of the Corporation, including performance by the Corporation of any obligations under these Rules & Procedures, the Corporation shall be entitled to take such action as is set out in this Rule 60:

(a) a general suspension or limitation of trading on the New York Stock Exchange, NASDAQ, or any other exchange or market relevant to the pricing or trading of securities cleared and settled through the Corporation;

(b) the declaration of a trading or banking moratorium in the United States or New York State;

(c) any international organization, the government of any nation, state, or territory, or any institution or agency thereof, or any self-regulatory organization taking action of a nature likely to affect the normal course of business, including performance by the Corporation of obligations under these Rules & Procedures;

(d) the unavailability, failure, malfunction, overload, or restriction (whether partial or total) of any payment, bank transfer or wire, or securities settlement system;

(e) the unavailability, failure, malfunction, overload, or restriction (whether partial or total) of any cash or securities depository, custodian or clearing bank, or any material variation of such depository’s, custodian’s or clearing bank’s processing or turnaround times, whether or not occasioned by action of such depository, custodian or clearing bank; or

(f) any Force Majeure, which shall include (without limitation) any terrorist or other criminal action, war or hostilities between any nations, national emergency, riot, civil unrest, acts of God or the public enemy, fire or other casualty, flood, accident, disaster (including any nuclear, atomic, environmental, or natural disaster), sabotage, bomb threat, labor dispute, embargo, the unavailability, failure, malfunction, or restriction of communication, computer, or data processing systems or facilities, or of software or technology, cyber attack, lack of transportation facilities, interruption (whether partial or total) of power supplies or other utility or service, or any event, situation, or circumstance beyond the reasonable control of the parties (whether or not similar to any of the foregoing), including those imminent or threatened.

### SEC. 2. Powers of the Corporation

If the Board of Directors or any officer of the Corporation listed below determines, in its, his, or her judgment that there is a Market Disruption Event, the Corporation shall be entitled to act (or refrain from acting) as prescribed in Section 3 of this Rule 60. To

the extent practicable, the determination of the existence of a Market Disruption Event, and the actions to be taken in response thereto, shall be made by the Board of Directors at a meeting where a quorum is present and acting. However, if the Corporation is unable to convene a Board meeting promptly and timely in such event, then such determination may be made by either the Chief Executive Officer, the Chief Financial Officer, the Group Chief Risk Officer, the Chief Information Officer, the Head of Clearing Agency Services, or the General Counsel, or by any management committee on which all of the foregoing officers serve (an "Officer Market Disruption Event Action"), provided that the Corporation shall convene a Board meeting as soon as practicable thereafter (and in any event within 5 Business Days following such determination) to ratify, modify or rescind such Officer Market Disruption Event Action.

### SEC. 3. Authority to take Actions

Upon the determination that there is a Market Disruption Event, the Corporation shall be entitled, during the pendency of such Market Disruption Event, to:

- (a) suspend the provision of any or all services of the Corporation; and
- (b) take, or refrain from taking, or require Members and/or Limited Members (whether or not they are affected by the Market Disruption Event) to take or refrain from taking, any and all action which the Corporation considers appropriate to prevent, address, correct, mitigate or alleviate the event and facilitate the continuation of services as may be practicable, and, in that context, issue instructions to Members and/or Limited Members.

### SEC. 4. Notifications

- (a) Each Member and Limited Member shall notify the Corporation immediately upon becoming aware of any Market Disruption Event.
- (b) The Corporation shall promptly notify Members and Limited Members of any action the Corporation takes or intends to take pursuant to Section 3 of this Rule 60.
- (c) The Corporation shall attempt to consult with officials of the SEC prior to the Corporation taking any action pursuant to Section 3 of this Rule 60; provided, however, that the authority contained herein shall not be conditioned by such consultation.

The Corporation shall advise the SEC as soon as practicable by telephone, and confirmed in writing, of any action taken by the Corporation pursuant to Section 3 of this Rule 60, and a record of such writing shall be promptly made and filed with the Corporation's records and shall be available for inspection by any Member or Limited Member during regular business hours on Business Days.

The Corporation shall also advise the SEC as soon as practicable by telephone, and confirmed in writing, at such time it determines that there is no longer a Market

Disruption Event and the Corporation terminates the actions taken by the Corporation pursuant to Section 3 of this Rule 60. A record of such writing shall be promptly made and filed with the Corporation's records and shall be available for inspection by any Member or Limited Member during regular business hours on Business Days.

SEC. 5. Certain Miscellaneous Matters

(a) Without limiting any other provisions in these Rules & Procedures concerning limitations on liability, none of the Corporation, its directors, officers, employees, agents, or contractors shall be liable to a Member, Limited Member or any other person (including any customer or client thereof) for:

- (i) any failure, hindrance, interruption or delay in performance in whole or in part of the obligations of the Corporation under the Rules or Procedures, if that failure, hindrance, interruption or delay arises out of or relates to a Market Disruption Event; or
- (ii) any loss, liability, damage, cost or expense arising from or relating in any way to any actions taken, or omitted to be taken, pursuant to this Rule 60.

(b) The power of the Corporation to take any action pursuant to this Rule 60 also includes the power to repeal, rescind, revoke, amend, or vary any such action.

(c) The powers of the Corporation pursuant to this Rule 60 shall be in addition to, and not in derogation of, authority granted elsewhere in these Rules & Procedures to take action as specified therein.

(d) In the event of any conflict between the provisions of this Rule 60 and any other Rules or Procedures, the provisions of this Rule 60 shall prevail.

RULE 60A. SYSTEMS DISCONNECT: THREAT OF  
SIGNIFICANT IMPACT TO THE CORPORATION'S SYSTEMS

SEC. 1. Major Event

For purposes of this Rule, the following terms shall have the following meanings:

"DTCC Systems" means the systems, equipment and technology networks of DTCC, the Corporation and/or their Affiliates, whether owned, leased, or licensed, software, devices, IP addresses, or other addresses or accounts used in connection with providing the services set forth in the Rules, or used to transact business or to manage the connection with the Corporation.

"DTCC Systems Participant" shall mean a Member, Limited Member, or third party service provider, or service bureau that is connecting with the DTCC Systems.

"Major Event" shall mean the happening of one or more Systems Disruption(s) that is reasonably likely to have a significant impact on the Corporation's operations, including the DTCC Systems, that affect the business, operations, safeguarding of securities or funds, or physical functions of the Corporation, Members, Limited Members, and/or other market participants.

"Systems Disruption" shall mean the unavailability, failure, malfunction, overload, or restriction (whether partial or total) of a DTCC Systems Participant's systems that disrupts or degrades the normal operation of such DTCC Systems Participant's systems; or anything that impacts or alters the normal communication, or the files that are received, or information transmitted, to or from the DTCC Systems.

SEC. 2. Powers of the Corporation

The determination that the Corporation has a reasonable basis to conclude that there has been a Major Event and shall be entitled to act (or refrain from acting) as prescribed in Section 3 of this Rule 60A may be made by either the Chief Executive Officer, the Chief Financial Officer, the Group Chief Risk Officer, the Chief Information Officer, the Head of Clearing Agency Services or the General Counsel (an "Officer Major Event Action"). As soon as practical following such a decision, any management committee on which all of the foregoing officers serve shall convene, and the Corporation shall convene a Board of Directors meeting as soon as practicable thereafter (and in any event within 5 Business Days following such determination), in each case, to ratify, modify or rescind such Officer Major Event Action.

SEC. 3. Authority to take Actions

Upon the determination that there is a Major Event, the Corporation shall be entitled, during the pendency of such Major Event, to:

(a) disconnect the DTCC Systems Participant's system from the DTCC Systems;



(b) suspend the receipt and/or transmission of files or communications to/from the DTCC Systems Participant to the DTCC Systems; or

(c) take, or refrain from taking, or require the DTCC Systems Participant to take or refrain from taking, any and all action that the Corporation considers appropriate to prevent, address, correct, mitigate or alleviate the Major Event and facilitate the continuation of services as may be practicable, and, in that context, issue instructions to the DTCC Systems Participant.

#### SEC. 4. Notifications

(a) Each Member or Limited Member shall notify the Corporation immediately upon becoming aware of any Major Event and cooperate with the Corporation to identify the root cause and resolution.

(b) The Corporation shall promptly notify the DTCC Systems Participant(s) of any action the Corporation takes or intends to take with respect to such DTCC Systems Participant(s) pursuant to Section 3 of this Rule 60A.

#### SEC. 5. Certain Miscellaneous Matters

(a) Without limiting any other provisions in these Rules & Procedures concerning limitations on liability, none of the Corporation or its Affiliates, its or their directors, officers, employees, agents, or contractors shall be liable to a Member, Limited Member or any other person (including any third party provider or service bureau acting on behalf of the Member, Limited Member, or any customer or client thereof) for:

- (i) any failure, hindrance, interruption or delay in performance in whole or in part of the obligations of the Corporation under the Rules or Procedures, if that failure, hindrance, interruption or delay arises out of or relates to a Major Event; or
- (ii) any loss, liability, damage, cost or expense arising from or relating in any way to any actions taken, or omitted to be taken, pursuant to this Rule 60A.

(b) The power of the Corporation to take any action pursuant to this Rule 60A also includes the power to repeal, rescind, revoke, amend, or vary any such action.

(c) The powers of the Corporation pursuant to this Rule 60A shall be in addition to, and not in derogation of, authority granted elsewhere in these Rules & Procedures to take action as specified therein.

(d) The Members(s) and Limited Member(s) shall, in accordance with the Rules & Procedures, maintain the confidentiality of any DTCC Confidential Information provided to them by the Corporation and/or DTCC in connection with a Major Event.

(e) In the event of any conflict between the provisions of this Rule 60A and any other Rules or Procedures, the provisions of this Rule 60A shall prevail.

## RULE 61. INTERNATIONAL LINKS

The Corporation may establish links with one or more Foreign Financial Institutions and may make available to such Foreign Financial Institutions for the benefit or on behalf of the Foreign Financial Institution's participants and members such services of the Corporation which the Corporation in its sole discretion shall determine to provide. The Corporation may enter into such agreements as it may deem appropriate with any such Foreign Financial Institution which agreement and the Rules of the Corporation, as well as the rules, procedures and other documents of the Foreign Financial Institution shall govern link transactions between participants and members of such Foreign Financial Institutions and the Members of the Corporation. The Corporation may from time to time establish procedures which shall be applicable to the operation of such links which procedure may be amended from time to time and such procedures shall be a part of the Rules and Procedures of the Corporation.

RULE 62. (RULE NUMBER RESERVED FOR FUTURE USE)

### RULE 63. SRO REGULATORY REPORTING

The Corporation may provide one or more data transmission services to permit Members and others to meet regulatory reporting requirements imposed by self-regulatory organizations, as defined in the Exchange Act. To the extent that Members or others use any such service they shall be bound by the terms of any agreement between the Corporation and any self-regulatory organization with respect to each such service. Entities which are not Members shall be required to enter into such agreements as determined by the Corporation in order to be permitted to use such services.

## RULE 64. DTCC SHAREHOLDERS AGREEMENT

SEC. 1. For purposes of this Rule 64:

“DTCC” means The Depository Trust & Clearing Corporation, the holder of all of the capital stock of the Corporation.

“Shareholders Agreement” means the Shareholders Agreement of DTCC, dated as of November 4, 1999, as heretofore or hereafter amended and restated.

“Common Shares” has the meaning given to such term in the Shareholders Agreement.

“Mandatory Purchaser Participant” has the meaning given to such term in the Shareholders Agreement.

“Voluntary Purchaser Participant” has the meaning given to such term in the Shareholders Agreement.

SEC. 2. As a condition to its use of the services and facilities of the Corporation, a Member (other than a Member that is a central securities depository, Federal Reserve bank, or central counterparty) shall be required to purchase and own Common Shares in accordance with the terms of the Shareholders Agreement and be a party to the Shareholders Agreement. For purposes of the Shareholders Agreement, a Member (other than a Member that is a central securities depository, Federal Reserve bank, or central counterparty) shall be a Mandatory Purchaser Participant.

SEC. 3. A Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member or Mutual Fund/Insurance Services Member (other than any central securities depositories, Federal Reserve banks, and central counterparties) shall be permitted (but not required) to purchase and own Common Shares in accordance with the terms of the Shareholders Agreement and be a party to the Shareholders Agreement. For purposes of the Shareholders Agreement, a Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member or Mutual Fund/Insurance Services Member shall be a Voluntary Purchaser Participant.

SEC. 4. This Rule 64 shall have no application to a Sponsored Member, Data Services Only Member, Settling Bank Only Member, Investment Manager/Agent Member, TPP Member, TPA Member or AIP Member.<sup>1</sup>

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<sup>1</sup> Note that, if a Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member or Mutual Fund/Insurance Services Member is also a member or participant of another clearing agency subsidiary of DTCC, such Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member or Mutual Fund/Insurance Services Member may be a Mandatory Purchaser Participant pursuant to the terms of the Shareholders Agreement and the rules and procedures of such other subsidiary. If a Sponsored Member, Data Services Only Member,

SEC. 5. The Corporation shall execute and deliver the Shareholders Agreement as attorney in fact for a Person that purchases Common Shares pursuant to Section 2 or Section 3 of this Rule 64 if such Person is not already a party to the Shareholders Agreement. In addition, the Corporation may on behalf of DTCC pursuant to the Shareholders Agreement, without duplication of payment, (A) debit a Person for any amount payable by the Person to DTCC for Common Shares purchased by the Member and (B) credit a Person for any amount payable by DTCC to the Person for Common Shares sold by the Person.

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Settling Bank Only Member, Investment Manager/Agent Member, TPP Member, TPA Member or AIP Member is also a member or participant of another clearing agency subsidiary of DTCC, such as Sponsored Member, Data Services Only Member, Settling Bank Only Member, Investment Manager/Agent Member, TPP Member, TPA Member or AIP Member may be a Mandatory Purchaser Participant or a Voluntary Purchaser Participant pursuant to the terms of the Shareholders Agreement and the rules and procedures of such other subsidiary.

RULE 65. (RULE NUMBER RESERVED FOR FUTURE USE)



## NATIONAL SECURITIES CLEARING CORPORATION PROCEDURES

### PROCEDURE I. INTRODUCTION

These Procedures have been adopted under the Rules of National Securities Clearing Corporation (the Corporation) with respect to services offered by the Corporation. Each term used in these Procedures shall have the same definition as it has in the Rules unless it is defined in Procedure XIII of these Procedures, in which case it shall have the definition specified in said Procedure XIII.

The Corporation establishes data submission thresholds for data files transmitted for processing. The purpose of these thresholds is to alert the Corporation to the possibility of either missing (for a submission below the low threshold) or duplicate (for a submission above the high threshold) data files. It is incumbent upon participants to review these thresholds and make such adjustments as they deem necessary. Failure to do so may result in the transmission being rejected, or not being processed to the extent it exceeds, or is below, the established thresholds.

In addition, the Corporation may establish from time to time, such data field requirements for transaction and instructional input, including mandatory identifying details, as it determines are necessary or appropriate for the processing of activity under the services it provides. The Corporation may reject any such input that does not contain all mandatory data details.

A reference in any form, document or ticket referred to herein to NYSE, ASE, NASD, Stock Clearing Corporation, SCC, American Stock Exchange Clearing Corporation, ASECC, National Clearing Corporation, NCC, SCC Division, ASECC Division or NCC Division, creates a contractual relationship solely between the participant and the Corporation subject to the Rules or these Procedures. A reference in any form, document or ticket to the By-Laws of any entity other than the Corporation shall be deemed to have been deleted therefrom and shall not bind the Corporation or a participant in any way.

All references to a "day", "yesterday", "today" and similar references herein refer to settlement days, unless specified as "Business Days" or "calendar days", or the context otherwise requires. Terms used in any form, document, or ticket referred to herein shall have the same definition as they have in the Rules and these Procedures.

## PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

### A. Introduction

Trade Comparison is the first step in the clearance and settlement of securities transactions. It consists of reporting, validating and matching the buy and sell sides of a securities transaction and results in a compared trade. Except with respect to certain transactions eligible and submitted for processing through the Obligation Warehouse service and provided under these Rules & Procedures, Trade Comparison for transactions in equity securities occurs outside of the Corporation through the facilities of relevant Self-Regulatory Organizations and/or Qualified Special Representatives. The Corporation may provide Comparison services with respect to transactions in debt securities. Trade data submitted by Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members as permitted in this Procedure II is submitted on a locked-in basis for Trade Recording, and is converted (if necessary), validated, recorded and reported to Members. Except as specified below, compared and recorded trades are then entered into the CNS Accounting Operation, the Foreign Security Accounting Operation, or the Balance Order Accounting Operation.

All trade data submitted to the Corporation by Self-Regulatory Organizations, Qualified Special Representatives and Special Representatives for recording pursuant to this Procedure II must be submitted in Real-time, as that term is defined in Procedure XIII and on a trade-by-trade basis, in the form executed without any form of pre-netting of such trades prior to their submission. Trades submitted by Special Representatives for which the counterparties are Affiliates, trades that facilitate Client Custody Movements, and trades that represent aggregated transactions of fractional shares, as defined in Section 7 of Rule 7, are not subject to the requirements of this paragraph.

Compared and recorded trades are routed to either the CNS Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation.

Separate Trade Recording is provided for regular way and when-issued and when distributed transactions in equity securities (a) executed on securities exchanges, and (b) traded in the Over-the-Counter (OTC) market. Separate Trade Comparison and Recording is also provided for debt securities, including when issued and when-distributed transactions, for transactions in all marketplaces.

### B. Equity and Listed Debt Securities -- Locked-In Trade Input

#### (i) Recording of Regular-Way Transactions

Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members (as applicable) may submit to the Corporation trade data relating to regular way transactions in securities executed on securities exchanges or OTC marketplaces. Regular-way trade data may be submitted throughout T ("trade date") until the time specified by the Corporation (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of the marketplace of execution,

contra-broker, trade value and other identifying details as the Corporation may require or permit.

Regular-way trade data as submitted by Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members (“Locked-in Trade Data”) is converted, if necessary, and validated. Results of this process are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time. Such reports are available to Members on a real-time and/or intra-day basis as determined by the Corporation from time to time.

Regular Way as-of trades received on Settlement Date prior to the Corporation’s designated cutoff time will settle on that date; otherwise, the trade will be assigned a new Settlement Date which will be the next settlement day following the date the trade is recorded by the Corporation.

(ii) Recording of Cash and Seller’s Option Transactions

Qualified Special Representatives and Self-Regulatory Organizations on behalf of Members may submit to the Corporation data relating to cash and seller’s option transactions on securities other than securities processed under Procedure VI. Such trade data may be submitted during the timeframes specified by the Corporation from time to time and shall include such trade details as the Corporation may specify (including, if the transaction is a seller’s option, the settlement date, which may be no greater than 180 days beyond the trade date). Results of this input are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time, and if the securities covered by such trades are CNS-eligible, the recorded trades will be entered into the CNS Accounting Operation (unless otherwise provided in these Procedures). Cash trades received after such cutoff time as the Corporation designates will be recorded and reported, but may only be settled directly between the parties. Trades that are either (i) designated as Special Trades, (ii) in a security which is not CNS-eligible, or (iii) in a CNS Security that is undergoing a corporate action, or where the trade date and Settlement Date (which is a cash trade) are the same date as a dividend ex-date and record date, will be processed on a trade-for-trade basis.

C. Debt Securities

1. Trade Input and Comparison

The Corporation provides the following procedures for trade input and comparison of transactions in Regular Way debt securities, including unit investments trusts, in any par value (excluding fractions and decimals), other than securities submitted through the correspondent clearing service and by regional exchanges/marketplaces or Qualified Securities Depositories:

(a) Trade data as submitted by Members and Municipal Comparison Only Members for comparison processing is converted, if necessary, validated and matched

by the Corporation to ensure that the details of each trade are in agreement between the purchaser and the seller.

(b) Trade data may be submitted during the timeframes specified by the Corporation from time to time, and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value, settlement date (which may be no greater than 50 Business Days beyond the trade date), trade date, unique reference number (x-ref), MPID (the market participant identifier issued by the Financial Industry Regulatory Authority, Inc., or "FINRA"), and other identifying details as the Corporation may require or permit and shall be in such formats as specified by the Corporation relative to the method utilized for trade submission.

(c) If the purchaser and seller have submitted trade data that matches in all required respects other than for trade value, the trades shall be deemed compared if one of the following tolerances apply:

- (1) Trades that are submitted prior to the cut-off time for intraday comparison established by the Corporation from time to time shall be deemed compared using (a), for bilateral trades, the seller's contract amount if the contract amounts are within (i) a net \$2 difference for trades of \$1 million or less and (ii) \$2 per million for trades greater than \$1 million, and (b), for Qualified Special Representatives and syndicate trades, the Qualified Special Representative's or syndicate manager's contract amount.
- (2) Trades that remain un-compared after the intraday comparison process shall be deemed compared during the end-of-day enhanced comparison process using (a), for bilateral trades, the seller's contract amount if the contract amounts are within (i) a net \$10.00 difference for trades of \$250,000 or less and (ii) \$.04 per \$1,000 for trades greater than \$250,000, and (b), for Qualified Special Representatives and syndicate trades, the Qualified Special Representative's or syndicate manager's contract amount.

(d) For trades that are submitted prior to the cut-off time for intraday comparison established by the Corporation from time to time, when the purchaser and seller have submitted trade data that matches in all required respects, including contract amounts which were deemed matched pursuant to the money tolerances in subsection (c), except for the trade date, the trades shall be deemed compared if trade dates submitted by the purchaser and seller are within 20 Business Days of each other and the earlier of the two trade dates is used. If the trade dates submitted by the purchaser and seller are not within 20 Business Days of each other, the trade will remain un-compared.

(e) Trades deemed compared pursuant to subsections (c) and/or (d) shall be identified on output made available by the Corporation in such format as determined by the Corporation from time to time. Trades that remain un-compared after any end-of-day

enhanced comparison process shall be treated as if they were submitted prior to the cut-off time for the next available comparison processing cycle.

(f) Trade input must indicate one of the following: corporate bond security transactions, municipal security transactions or unit investment trust transactions.

(g) Corporate bond and municipal bond trades in quantities other than multiples of a thousand (round-lots) must be divided into separate trade submissions of the round lot quantity and the odd-lot quantity (multiples of less than one thousand). All compared corporate bond and municipal bond trades in odd-lot quantities are processed on a trade-for-trade basis.

(h) Results of the comparison process shall be provided on intraday or end-of-day output, as applicable, which shall categorize trade data as:

- (1) Compared/Matched - Items identified either as compared or matched on applicable output are those for which both a purchaser and a seller submitted mandatory trade details that were either identical or were compared pursuant to subsections (c) and/or (d) above and for which a comparison has been effected.
- (2) Uncompared/Unmatched - Items identified as uncompared or unmatched on applicable output reflect trades submitted by the Member or the Municipal Comparison Only Member for which the opposite side either did not submit data or did not submit data which agreed in all required respects including the use of tolerances set forth in subsections (c) and (d) above.
- (3) Advisory/Match Request – Items identified as advisory or match request on applicable output represent trades submitted by another party against the Member or Municipal Comparison Only Member, but which did not match any trade the Member or Municipal Comparison Only Member submitted.

Information made available to Members and Municipal Comparison Only Members shall identify each trade as being CNS-eligible (to be processed through the CNS Accounting System), non-CNS-eligible (to be processed through the Balance Order Accounting System), or Special Trade (to be designated for either trade-for-trade processing outside of the Corporation's facilities or comparison-only processing) through such designation as the Corporation shall determine from time to time.

Information made available to Members and Municipal Comparison Only Members may reflect such other details as the Corporation may determine from time to time.

- (i) (i) The Corporation provides Members with the ability to clear and settle any compared trade on a trade-for-trade basis. Such transaction is referred to as a trade-for-trade Special Trade and

may be classified as such, whether or not the security is a CNS security. In order for a transaction that is submitted for comparison processing to be classified as a trade-for-trade Special Trade, each of the purchaser and seller must indicate the appropriate trade-for-trade indicator ("Trade-for-Trade Indicator") on its trade input and such Trade-for-Trade Indicator shall be part of the terms and conditions of the applicable contract. Unless both parties submit the identical Trade-for-Trade Indicator, the trade will not compare. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

- (ii) The Corporation provides Members and Municipal Comparison Only Members with the ability to submit Special Trades for comparison-only processing. Trade input must indicate that the trade is being submitted for comparison-only processing and such trade will not be reflected on a Consolidated Trade Summary. Trades submitted for comparison-only processing are subject to the rules of the Municipal Securities Rulemaking Board ("MSRB"). Information made available with respect to such trades will not designate such trades as being CNS-eligible, non-CNS-eligible, or trade-for-trade Special Trades.
- (j)
  - (i) All compared trades between Members in municipal securities which are not eligible for deposit in a Qualified Securities Depository are processed on a trade-for-trade basis.
  - (ii) All compared trades in municipal securities between Members and Municipal Comparison Only Members and between two Municipal Comparison Only Members, whether or not eligible for deposit in a Qualified Securities Depository, are processed on a trade-for-trade basis.
- (k)
  - (i) All compared trades in municipal securities which have been processed on a trade-for-trade basis are listed on the applicable Consolidated Trade Summaries at the original contract amount. Each such individual listing (including any such listing pursuant to Section D.2(A)(2)(a) below) constitutes a security order for all purposes of these Rules and Procedures, including the Fee Schedule. The Corporation may make additional information regarding such trades available to Members and Municipal Comparison Only Members by such means as the Corporation determines from time to time.
  - (ii) Compared trades between Members in municipal securities which are eligible for deposit in a Qualified Securities Depository are entered into the CNS Accounting System, the Balance Order Accounting System, or processed on a trade-for-trade basis,

depending upon the Member's standing instructions to the Corporation; provided, however, that if a Member has a CNS standing instruction and the contra side has a trade-for-trade standing instruction, the transaction is processed on a trade-for-trade basis notwithstanding the CNS standing instruction, provided, further, that Members may override a CNS standing instruction by submitting trade input for comparison as a Special Trade.

(l) When the Corporation processes municipal securities transactions as Special Trades, the resultant compared trades, as indicated on the applicable Consolidated Trade Summaries, are subject to the rules of the MSRB, including but not limited to such rules' close-out provisions and delivery requirements, and the transactions are not included in the Balance Order Accounting Operation. Settlement of the resultant compared trades is the responsibility of the parties to the trades.

(m) The Corporation may accept locked-in trade data reported by Self-Regulatory Organizations, Qualified Special Representatives and Service Bureaus on behalf of Members and Municipal Comparison Only Members. Such trade data is reflected on appropriate output as determined by the Corporation. Receipt of a locked-in trade that satisfies the Corporation's trade input requirements shall result in a compared trade. The status of such transaction as a compared trade shall not be affected by output indicating a status of "match request" or "unmatched".

Submission of any input or instruction by a Member or Municipal Comparison Only Member on behalf of whom locked-in trade data is being submitted shall have no legal effect notwithstanding output made available by the Corporation as a result of such submission.

Data submitted by a Qualified Special Representative which identifies a trade as a syndicate takedown shall be rejected.

Member submission of a bilateral trade that matches a Qualified Special Representative's trade submission in all respects (other than its designation as a bilateral trade) is converted into a Qualified Special Representative target trade at the end of the day on which it is submitted.

(n) If a trade, other than a trade which the parties have identified as being submitted for comparison-only processing, is submitted with a settlement date of or prior to the date of submission after such cutoff time as the Corporation may designate, the Corporation shall assign a delivery date of the next Settlement Date.

(o) The Corporation shall accept cash transactions (where trade date is the same date as settlement date) for comparison-only processing. Results of the comparison-only process for these items are reported by the Corporation as specified from time to time. Settlement of the resultant compared trades is the responsibility of the parties to the trades.

## 2. Resolution of Uncompared Trades in Regular Way Debt Securities

The Corporation provides the following procedures for resolution of uncompared trades in Regular Way Debt Securities:

(a) In order to accept a trade that is reported as advisory or match request, a Member or Municipal Comparison Only Member must submit the appropriate instruction within the timeframes specified by the Corporation from time to time.

(b) A Member or a Municipal Comparison Only Member with an advisory or match request that does not agree with the terms of the trade may respond with the appropriate instruction indicating the reason, if any, that it disagrees with the terms of the trade. Such instruction must be submitted within the timeframes specified by the Corporation from time to time and causes the trade to be deleted from processing. The Member or Municipal Comparison Only Member may submit a subsequent instruction on the same day to return the trade to processing.

(c) Members and Municipal Comparison Only Members may delete uncompared trades by forwarding the appropriate instruction by the time specified by the Corporation from time to time.

(d) Partial deletions for transactions in debt securities are not permitted.

(e) Previously compared trades may be reversed through the submission of offsetting trade details by both parties to the transaction. The purchaser and the seller must each submit the trade details within the timeframes specified by the Corporation from time to time and such trade details must match in all respects or pursuant to the tolerances set forth in subsections (c) and/or (d) of Section C.1 above.

(f) Transactions which are deleted or reversed, and offsetting submissions which are matched appear on the appropriate output. Unless otherwise specified herein, deletion or reversal of a trade pursuant to the procedures set forth above does not extinguish the rights and obligations of either party with respect to such trade.

(g) The Corporation may permit uncompared trade details to be modified by the submitter through the use of the appropriate instruction within the timeframes specified by the Corporation from time to time. Syndicate takedown submissions may only be modified on the submission date. After a trade is matched, only such fields as determined by the Corporation from time to time may be modified by the submitter.

(h) Transactions which compare after such cutoff time as the Corporation may designate on the date on which they were scheduled to settle or later are assigned a Settlement Date of the next Business Day following the date the trade is compared. The assignment of a new Settlement Date applies to trades designated for CNS-eligible processing and trade-for-trade Special Trades (*i.e.*, trades other than those submitted for comparison-only processing).



(i) Trade input which is not compared by such timeframes as determined by the Corporation from time to time shall be deleted from processing.

(j) The Corporation shall have no responsibility for determining whether any trade submission is duplicative of an earlier trade submission. Any such input shall be treated as a separate submission for all purposes of these Rules and Procedures.

(k) Only the submitter of a locked-in trade may submit subsequent processing instructions with respect to such trade and any action in this respect taken by the Member or Municipal Comparison Only Member on behalf of whom such trade has been submitted shall have no legal effect notwithstanding output made available by the Corporation as a result of such action.

#### D. When-Issued and When-Distributed Securities

The Corporation provides Members with the ability to compare transactions in debt when-issued securities. Trade Comparison for transactions in equity when-issued securities occurs outside of the Corporation through the facilities of relevant Self-Regulatory Organizations and/or Qualified Special Representatives.

##### 1. Equity

###### (a) Input

Trade data for when-issued and when-distributed equity transactions must be submitted and is recorded in the same manner as specified in subsection B of this Procedure II.

###### (b) Settlement

The Settlement Date for issues traded on a when-issued and when-distributed basis is established by the appropriate regulatory authority. When-issued and when-distributed compared trades are netted and allotted with regular way trades for the same Settlement Date as the when-issued and when-distributed trades.

When-issued and when-distributed trading activity may enter either the Balance Order Accounting Operation, the Foreign Security Accounting Operation, or the CNS Accounting Operation for settlement at the appropriate time. Determination of eligibility for CNS is at the discretion of the Corporation.

##### 2. Debt

###### (A) The following provisions apply to municipal debt securities:

- (1) (a) Municipal securities transactions that are submitted at least one day prior to the initial Settlement Date for the issue are processed in accordance with this subsection 2(A) if they specify (i) a final settlement amount and a settlement date that is the initial

Settlement Date for the issue, (ii) a final settlement amount, a settlement date and a specified number of days after the Initial Settlement Date for the issue, (iii) a dollar price or a dollar price and a specified number of days after the initial Settlement Date for the issue, or (iv) a price-to-yield and concession (if any) or a price-to-yield concession and a specified number of days after the initial Settlement Date for the issue.

- (b) Municipal securities transactions that are submitted one day prior to the initial Settlement Date for the issue or later, and contain a settlement date which is after the initial Settlement Date for the issue, but do not meet the above criteria are treated as regular way transactions.
  - (c) All other transactions that are not submitted as specified in subsections (1)(a) and (b) above are rejected.
- (2) Trade input, comparison/trade recording, resolution of uncompleted trades and settlement for transactions accepted by the Corporation pursuant to subsection (1)(a) of this subsection 2(A) above function in the same manner as with respect to regular way transactions, except for the following:
- (a) When the initial Settlement Date and all required pricing information for an issue has been submitted to the Corporation (and, if deemed necessary by the Corporation, confirmed in a manner satisfactory to the Corporation), the Corporation shall calculate the final settlement amount for all transactions that do not have a final settlement amount, and trades are deemed compared if either (i) the final settlement amounts are identical or (ii) the final settlement amounts fall within the money tolerances set forth in subsection (c) of Section C.1 of this Procedure II. In addition, when the initial Settlement Date has been changed and the Corporation is notified of a new initial Settlement Date least 2 days prior to such date (and, if deemed necessary by the Corporation, confirmed in a manner satisfactory to the Corporation), the Corporation recalculates the final settlement amounts for all affected transactions (whether or not the original final settlement amount was calculated by the Corporation), and the new final settlement amounts are set forth on the applicable contract lists or other applicable output made available by the Corporation.

If a submission contains a settlement date and a final settlement amount, but the Corporation does not have confirmation satisfactory to it of the initial Settlement Date for the issue, then the Corporation shall report the transaction as a memo item on the output it makes available to Members. If the Corporation obtains,

within 2 days of the submission, confirmation satisfactory to it of the initial Settlement Date for the issue which matches the settlement date submitted or matches the settlement date submitted by taking into account the specified number of extended settlement days submitted, the memo items are changed to compared or uncomparing/advisory, as appropriate. If no such confirmation is obtained within 2 days of submission, the items are deleted.

- (b) Any when-issued compared trade which is to be entered into the CNS Accounting Operation shall be netted with any regular-way compared trades for the same Settlement Date.
- (c) The initial Settlement Date for municipal issues is established by the issuer or underwriter, but may be extended by agreement of the submitting parties similar to regular way municipal trades. The Settlement Date for syndicate takedown trades may not be extended.
- (d) If the Corporation is notified that the initial Settlement Date is postponed after the applicable Consolidated Trade Summary has been made available, the fact that trades in such issue are indicated in such Consolidated Trade Summary shall have no force and effect for purposes of the Corporation's Rules and Procedures unless the Corporation notifies Members to the contrary. In such case, the Corporation may adjust accrued interest as determined by the Corporation from time to time. The provisions of this paragraph also apply to transactions that are treated as regular way transactions pursuant to subsection (1)(b) of this subsection 2(A) above.
- (e) If the Corporation receives notice that an entire issue has been canceled prior to its initial Settlement Date, trades in such issue are deleted by the Corporation from the comparison process and, if the applicable Consolidated Trade Summary has been made available, trades in such issue that are indicated in such Consolidated Trade Summary are considered null and void by the Corporation. To the extent that any trades in such issue have been entered into the CNS Accounting Operation, such trades shall be journalled out of CNS. The provisions of this paragraph also apply to transactions that are treated as regular way transactions pursuant to subsection (1)(b) of this subsection 2(A) above.
- (f) Transactions that remain uncomparing at the close of business on the day prior to the initial Settlement Date for the issue shall be deleted from processing.

- (g) (i) Syndicate takedown trades may be submitted for comparison by both the syndicate manager and the syndicate member, and, in both cases, such trade input must be identified as a syndicate takedown trade. A syndicate manager or a syndicate member that does not agree with the terms of a takedown trade as reported on the contract sheet may delete the trade by submitting the appropriate instruction to the Corporation by the time specified by the Corporation. Submissions of a syndicate takedown trade by a syndicate manager that are not deleted result in a compared trade; submissions of a syndicate takedown trade by a syndicate member that are not deleted result in a compared trade only after submission by the syndicate manager on that trade. Compared trades are reported to the syndicate manager and the syndicate member on output made available by the Corporation. The status of such transaction as a compared trade shall not be affected by output indicating a status of “match request” or “unmatched”.
- (ii) Syndicate takedown submissions against Members and Municipal Comparison Only Members designated as brokers’ brokers by the Corporation will be rejected. The Corporation shall maintain a list of such brokers’ brokers which shall be available to Members upon request.
- (iii) Syndicate takedown reversals shall be submitted by both a syndicate manager and the syndicate member, and, in both cases, such trade input must be identified as a syndicate takedown trade. A syndicate manager or a syndicate member that does not agree with the terms of a reversal takedown trade as reported on the contract sheet may delete that reversal trade by submitting an appropriate instruction to the Corporation by such time specified by the Corporation.

Submissions of a syndicate takedown reversal by a syndicate manager that are not deleted result in a compared reversal trade; submissions of a syndicate takedown reversal by a syndicate member that are not deleted result in a compared reversal trade only after submission by the syndicate manager on that reversal trade. Compared reversal trades are reported to the syndicate manager and syndicate member on output made available by the Corporation.
- (iv) Submission of any instruction by the syndicate member not otherwise provided for under these Rules and Procedures

shall have no legal effect notwithstanding output made available by the Corporation as a result of such submission.

- (v) All syndicate takedown trades settle on a trade-for-trade basis. Extended settlement date is not available for syndicate takedown trades.
- (vi) Member submission of a bilateral trade that matches a syndicate manager's submission on a syndicate takedown trade or a syndicate takedown reversal in all respects (other than its designation as a bilateral trade) will be converted into a syndicate takedown trade or syndicate takedown reversal, as appropriate, at the end of the day on which it is submitted.

(B) If the Corporation has received a transaction in a security for which the Corporation does not have information with respect to its coming to market that satisfies subsection (A)(1)(a) of this subsection 2 above, the Corporation shall pend the transaction. If the Corporation does not receive information that the security is coming to market by the cut-off time on the submission date, the transactions shall be deleted.

#### E. Special Trades

The Corporation provides (i) Members with the ability to clear and settle any compared trade on a trade-for-trade basis, and (ii) SRO's with the ability to submit trades for processing on a trade-for-trade basis. Such transactions are referred to as Special Trades and may be classified as such, whether or not the security is a CNS Security. With respect to transactions submitted by Members, both the purchaser and seller must agree to settle on a trade-for-trade basis and must identify the transaction in its trade input as a "Special Trade". If only one party identifies a transaction as a Special Trade, it will not be compared by the Corporation. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

#### F. Index Receipts

##### 1. Composition and Preliminary Financial Data

Each day, by such time as required by the Corporation from time to time, the Index Receipt Agent shall report to the Corporation (a) the composition of index receipts for creations and redemptions occurring on the next Business Day ("T"), i.e., the shares and their associated quantities; (b) the cash value of the portfolio for creates and redeems made solely for cash, and, if applicable; (c) the estimated cash amount, representing accrued dividend, cash-in-lieu of securities<sup>1</sup>, if applicable, and balancing

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<sup>1</sup> The "cash-in-lieu-of securities" portion of the cash amount represents cash substituted for a partial quantity of the components underlying a creation or redemption rather than acting as the sole underlying component.

amount data (hereinafter referred to as the “Dividend/Balancing Cash Amount”); and (d) such other financial data as the Corporation may require or permit from time to time.

Each day, by such time as determined by the Corporation from time to time, the Index Receipt Agent may also report to the Corporation the composition of index receipts for purposes other than creations and redemptions.

Each evening, by such time as determined by the Corporation from time to time, the Corporation will make available to Members a report detailing, if applicable, the estimated Dividend/Balancing Cash Amount, other financial data and the composition of the next Business Day’s index receipts (“Portfolio Report”). The composition data within the Portfolio Report may be used by the Corporation to process index receipt creations and redemptions on the next Business Day. The Portfolio Report will also include, if available, portfolio holdings of the index receipts.

## 2. Creation/Redemption Input

On each Business Day, the Corporation will perform reasonability checks of transaction data submitted by an Index Receipt Agent to the Corporation. The Corporation will pend any transaction data that exceeds thresholds established by the Corporation. The Corporation will notify the Index Receipt Agent of any transaction data that the Corporation has pended. The Index Receipt Agent must provide confirmation, in the form and within the timeframe required by the Corporation, that such pended transaction data should be accepted by the Corporation. If the Index Receipt Agent fails to provide such confirmation, such pended transaction data will be rejected. The Corporation may, in its sole discretion, adjust thresholds from time to time and the Corporation may consider feedback from its Members or market conditions.

From time to time, the Corporation shall inform Members of the time periods for each cycle (the intraday cycle, the primary cycle, and the supplemental cycle) applicable to creation/redemption input. On T, during any of the cycles, by such time as established by the Corporation from time to time, an Index Receipt Agent may submit to the Corporation on behalf of Members, index receipt creation and redemption instructions and their scheduled settlement date, the final Dividend/Balancing Cash Amount relative to such instructions and a transaction amount representing the Index Receipt Agent’s fee for the processing of the index receipt. The Index Receipt Agent may elect same day, Regular Way or extended settlement for the index receipts and the component securities or cash. For same-day settling index receipts, the Index Receipt Agent may include an additional cash collateral amount (“Index Receipt Cash Collateral Amount”) as may be required by the Index Receipt Agent to process the index receipt, subject to limits established by the Corporation from time to time. The Corporation will announce changes to Index Receipt Cash Collateral Amount limits by Important Notice. The Corporation will report any necessary adjustments to the Index Receipt Cash Collateral Amount based on end of day values (“Collateral Cash Adjustments”) for non-guaranteed money settlement on the next business day. The Index Receipt Agent may submit as-of or same day settling index creation and redemption instructions, but only if such as-of data is received by the cut-off time as designated by the Corporation from

time to time, with same-day settling creates and redeems required to be received by such cut-off time on Settlement Date.

Any as-of index or same day settling creation and redemption instructions received after the cut-off time, designated by the Corporation from time to time, will be rejected. Any creation and redemption instructions for same-day settling index receipts that exceed the Index Receipt Cash Collateral Amount limitations established by the Corporation from time to time will be rejected. On T, the Corporation will report to Members on the Index Receipt Detail Report the details of the creations and redemptions submitted, the gross quantity of underlying security components of creation and redemption instructions and the quantity of index receipt shares associated with particular creation and redemption activity. The report will also indicate the final Dividend/Balancing Cash Amount that must be paid or received and the transaction amount that must be paid on Settlement Date.

### 3. Settlement

Index receipts and the underlying component securities which are eligible for CNS or cash, if applicable, will be reported on the next available Consolidated Trade Summary. The applicable Consolidated Trade Summary will also separately indicate the other component securities, or cash component, if applicable, due to settle. Component securities will be netted with all other CNS and Non-CNS securities and entered into the CNS Accounting Operation or Balance Order Accounting Operation for trade-for-trade settlement (as applicable).

### G. Reports and Output

Reports and output may be made available to Members on a real-time and/or on an intra-day basis as determined by the Corporation from time to time.

Reports identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system. Depending upon the format of the report, separate totals may be provided for each of these categories. If designated as a Special Trade, such designation will be reflected upon the report/output.

With regard to Locked-in Trade Data reported on T by Self-Regulatory Organizations and Qualified Special Representatives, the Corporation may report back such data to Members on separate reports. If data received from a Self-Regulatory Organization is the result of a trade executed on a system which provides trading anonymity (i.e., the contra side is not revealed at the time of the trade) the report may list, in lieu of the actual contra side for the trade, an acronym designated by such Self-Regulatory Organization. In this case, the contra side shall, for all purposes, be

deemed to be one of the entities which the Self-Regulatory Organization includes as an eligible entity which may participate in the anonymous trading system.<sup>2</sup>

Reports are produced at such intervals and in such formats as determined by the Corporation showing all compared trade data resulting from T and older adjustments processed by a Self-Regulatory Organization, as well as step out transactions processed that day. Designations for CNS Securities and Balance Order securities are shown in the same manner as on the reports issued as a result of T input. If trades are listed on reports which include totals, the new data is added to or subtracted from such totals, to arrive at new totals. The new totals represent the combined input for T through such cutoff time on T+1 as the Corporation may designate. Trades received after such cutoff time as established on T+1 are not included in the normal settlement cycle. Such trades will be assigned a new settlement date which will be the next settlement day following the date the trade is received by the Corporation. Notwithstanding the previous sentence, with respect to Index Receipts, if Index Receipts for same-day settlement are received by the Corporation after the applicable cut-off time, such Index Receipts will not be assigned a new settlement date and will be rejected.

The Reports for trade data other than Locked-in Trade Data will categorize the trade data as compared, uncomparing and advisory, and may display such other data relevant to such trades as the Corporation shall determine from time to time.

- (a) Compared – Items identified as compared are those for which both a purchaser and a seller submitted identical trade data and for which a comparison has been effected.
- (b) Uncomparing – Items identified as uncomparing reflect trades submitted by the Member for which the opposite side either did not submit data or did not submit data which agreed in all respects.
- (c) Advisory – Advisory data represents trades submitted by another party against the Member, but which did not match any trade the Member submitted. Advisory reports may be generated by the Corporation for items listed as advisory data. The use of Advisory reports is explained below.

As with listed equity reports, reports for OTC and other exchange trades will identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system and depending on the format of the report may provide separate totals for each of these categories.

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<sup>2</sup> In the event that the Corporation ceases to act for a Member which is the unidentified contra side of any such trade and the Corporation determines that such trade is to be exited from trade processing, the Self Regulatory Organization shall have the responsibility to identify to Members the trades included in reports produced by the Corporation which are with the affected Member.



In order to maximize the number of compared trades, if the major and minor side executing broker information, when used as a criteria in the trade comparison process, results in an uncomparing trade, the Corporation will recycle the trade data without the major and/or minor side executing broker information originally submitted. Reports/output will indicate when a resulting compared or uncomparing trade has been processed without the use of the major and/or minor side executing broker information.

#### H. Consolidated Trade Summaries

The Corporation produces a Consolidated Trade Summary distributed three times daily for the reporting of CNS and Balance Order transactions. With respect to Balance Order transactions, each Consolidated Trade Summary includes Receive and Deliver instructions provided to each Member to settle directly with its counterparties. To facilitate settlement of Balance Order transactions that are trade-for-trade items, the Corporation may aggregate and net Receive and Deliver instructions for trade-for-trade items between counterparties such that a Member may have only one net buy obligation or sell obligation, where applicable, in a particular security on a given day with a given counterparty. When Members have an equal number of shares bought and sold between counterparties for such Special Trades, NSCC will not issue a receive or deliver obligation and will record any cash difference in the NSCC money settlement system. Where issuing of a net buy or sell instruction would result in a money settlement that is directionally opposite what it would be for a typical money settlement in relation to a securities movement (i.e., a Member receives an instruction to: (i) receive securities with a corresponding receipt of money settlement payment, or (ii) deliver securities with a corresponding delivery of a money payment) or if the associated money settlement is flat in relation to a securities movement (i.e., a Member receives an instruction to receive or deliver securities without a corresponding money settlement amount) then the Corporation may, in lieu of netting, separately aggregate the receive and deliver instructions so that a Member would have only one aggregate buy obligation and one aggregate sell obligation in the given security with the given counterparty.

## PROCEDURE II.A OBLIGATION WAREHOUSE

## A. Introduction

The Obligation Warehouse (the “OW”) is a service available to Members for (i) comparison of transactions that are not otherwise submitted by Members, Self-Regulatory Organizations, or Qualified Special Representatives on behalf of Members for trade comparison or recording through other services of the Corporation, (ii) tracking, storage and maintenance of obligations either compared through the service or forwarded to it from other services of the Corporation in accordance with the Rules and Procedures, and (iii) the repricing and updating of fail obligations.<sup>1</sup>

*Other than Balance Order Contracts and obligations that have been forwarded to CNS from the OW, which shall continue to be subject to the Rules, all Buy-Ins; deliveries, receives and reclamations; adjustments for corporate actions, whether mandatory or voluntary; and transactions of a Member that have been DK’ed, shall be remain subject to the rules of the appropriate marketplace.*

Members may submit to the Corporation trade data relating to securities eligible for OW processing as provided in this Procedure. Obligations eligible for submission must have a valid CUSIP or ISIN and be denominated in U.S. Dollars or such other currencies as the Corporation determines from time to time. NSCC will designate certain security or transaction types as eligible for the OW process from time to time.<sup>2</sup> Comparison of items submitted directly by Members to the OW shall occur daily on a real-time basis in accordance with the OW Comparison process set forth below. Each OW Obligation shall be assigned a unique “OW Control Number” to facilitate tracking the obligation through its settlement, cancellation or closure. OW Obligations (as defined in Rule 51) will be tracked, stored, and maintained until settled or otherwise cancelled by Members or otherwise removed by the Corporation in accordance with the Rules and Procedures. In addition, for those Members participating in the OW Service, transactions exited from CNS, ACATS Receive and Deliver transactions (e.g., either ACATs deliveries that were never eligible for the ACATS Settlement Accounting Operation or those exited from the ACATS Settlement Accounting Operation) Balance Orders, and Special Trades shall automatically be entered by the Corporation into the OW for storage and for Reconfirmation and Pricing Service (“RECAPS”) processing, as set forth below. Additionally, pursuant to Procedure XVIII, uncompleted transactions in the ACATS Settlement Accounting Operation at the end of day whereby the Corporation has issued ACATS Receive and Deliver transactions shall also be automatically entered by the Corporation into the OW Service (if eligible). In addition, the Corporation will

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<sup>1</sup> Members should note that in accordance with MSRB rules, NSCC reports transactions in municipal securities matched through its Real-Time Trade Matching (“RTTM”) service to the MSRB on behalf of Members. Transactions submitted through the OW will not be reported to the MSRB. In order to remain compliant with MSRB reporting requirements, transactions subject to MSRB rules should continue to be submitted by Members to NSCC’s RTTM service.

<sup>2</sup> The Corporation may determine from time to time, and shall announce by Important Notice, which items are eligible for the Obligation Warehouse service.

cause CNS-eligible OW Obligations to be entered into the CNS Accounting Operation on a regular basis.

B. OW Comparison

The following steps will apply with respect to transactions submitted to the Obligation Warehouse for comparison:

1. Transaction data as submitted by Members for processing in the Obligation Warehouse is compared by the Corporation to ensure that the matching criteria of each obligation are in agreement between the purchaser and the seller.
2. Data may be submitted during the timeframes and in such form as may be specified by the Corporation from time to time. Data required for a valid submission will include quantity, which party is deliverer or receiver, security identification, contra-broker, deliverer's final money, settlement date, unique reference number ("x-ref"), market participant identification (MPID), where applicable, whether a transaction should be excluded from CNS processing and other identifying details as NSCC may require or permit, and shall be in such formats as specified by the Corporation relative to the method utilized for submission. Criteria which must match between contra-parties to effect a comparison of transaction details includes quantity, an indication as to which party is deliverer or receiver, security identification, contra-broker, deliverer's final money, settlement date, whether a transaction should be excluded from CNS processing and other identifying details as NSCC may require or permit (collectively referred to herein as the "Required Matching Fields").
3. Upon receipt and validation by the Corporation of obligation information from the initiating party, the contra side will receive an Advisory, to which they must respond by submitting like details to facilitate a compared obligation or they can DK the obligation entry. Any submission of a DK must include the applicable reason code pertaining to the Member's disagreement with the transaction.
4. A Member against which a DK is submitted may respond with modifying details of the applicable transaction within the timeframes specified by the Corporation from time to time, otherwise the item will be deleted from processing in accordance with timeframes specified by the Corporation from time to time. If a Member submits modifying details in response to a DK from a contraparty, the item will be treated as a new submission pursuant to Section B(1) of this Procedure.
5. A Member may modify trade details of, or cancel, a transaction, that it has submitted and is designated by the Corporation as uncomparing by forwarding the appropriate instruction to the Obligation Warehouse by the

time specified by the Corporation from time to time, so long as notification of settlement of the uncompleted transaction has not been received by the Obligation Warehouse prior thereto. If a Member submits modifying details, the item will be treated as a new submission pursuant to Section B(1) of this Procedure.

6. If the deliverer and receiver submit trade data that matches in all required respects, the trades will be deemed compared if it meets money tolerances as announced by the Corporation from time to time, and deemed an OW Obligation.
7. The Corporation may delete trade input which is not matched by such timeframes as determined by the Corporation from time to time.
8. The Corporation shall have no responsibility for determining whether any trade submission is duplicative of an earlier trade submission. Any such input shall be treated as a separate submission for all purposes of these Rules and Procedures.

C. Obligation Warehouse Storage, Tracking, Maintenance and Settlement

1. The Corporation will track, store and maintain each OW Obligation until settled or otherwise cancelled by the Members party to the obligation or otherwise closed by the Corporation.
2. The Corporation may adjust compared OW Obligations with respect to the following mandatory reorganization events: forward stock splits, name changes, mergers (both cash and stock) and full calls with respect to bonds.<sup>3</sup> In the case of such an event, at such time on or after the effective date of the event as the Corporation shall determine it has all relevant information, the affected OW Obligation will be adjusted in accordance with the terms of the reorganization event.<sup>4</sup> With respect to name changes and forward stock splits, OW positions in the subject security shall be converted into the equivalent positions of the new securities and/or cash and a new obligation will be created automatically as part of the processing for OW. Any cash adjustment associated with a mandatory reorganization will be included as part of the Member's daily money settlement with the Corporation and will appear on reports generated in the OW.
3. On a regular basis, the Corporation will review all OW Obligations for CNS eligibility. Unless otherwise excluded by a Member through its submission

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<sup>3</sup> Please note that the processing of dividends and interest will not be done for OW transactions and remain the responsibility of the parties outside the facilities of the Corporation.

<sup>4</sup> If the Corporation determines that it does not have the relevant information, Members may adjust OW Obligations subject to such events by cancelling and resubmitting them.

of an appropriate instruction, the Corporation will cause all CNS-eligible OW Obligations: (i) that have not reached their scheduled settlement date to be reported on the CNS Miscellaneous Activity Report the night prior to Settlement Date (SD-1) and entered into the CNS Accounting Operation for the night cycle on SD (i.e., the evening of SD-1), and (ii) that have reached or passed their scheduled settlement date to be reported on the Miscellaneous Activity Report on the evening of the date they become CNS-eligible and entered into the CNS Accounting Operation for settlement on the next Settlement Day (i.e., the night cycle which runs on the same evening of the Miscellaneous Activity reports covering the obligations is issued). Such items shall be subject to Rule 11 and other provisions of these Rules and Procedures; provided, however, that subject to any rights the Corporation may have as provided in these Rules generally, the Corporation will guarantee the settlement of any such OW Obligation only to the extent that the Member pays the Corporation its full settlement obligation on the date the obligation is scheduled to settle in the CNS Accounting Operation. To the extent that such Member fails to pay in full its settlement obligation, in the sole discretion of the Corporation, OW Obligations which have been sent to the CNS Accounting Operation may, in whole or in part, be removed from the CNS Accounting Operation by reversing all credits and debits for the Member relating to OW Obligations that have entered the CNS Accounting Operation. Settlement of such item shall be effected between the Receiving and Delivering Member and not through the facilities of the Corporation.

4. The Corporation will update OW Obligations for which deliveries have been made through a Qualified Securities Depository to reflect their status as settled, in accordance with instructions received from the Qualified Securities Depository.<sup>5</sup> The Qualified Securities Depository's instructions shall use the OW Control Number and contain such other information as the Corporation determines from time to time. In the event of a partial delivery through a Qualified Securities Depository, the Corporation, in accordance with proper instructions from the Qualified Securities Depository, will update the records of the respective OW Obligation accordingly.
5. In order to reflect the settlement of a transaction effected otherwise than through a Qualified Securities Depository, one party must submit the relevant obligation details, similar to the data required for OW comparison (including the actual settlement date, quantity and amount settled), as specified by the Corporation. At that point, the counterparty will receive an advisory, to which they must respond by submitting like details, or by notification that it does not accept the submitted settlement details. If the

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<sup>5</sup> In order to effect such an update, Members must provide the Qualified Securities Depository with instructions in accordance with the Procedures of the Qualified Securities Depository.

parties submit settlement data that matches in all required respects, the obligation will be updated to reflect the amount so settled, if it meets money tolerances as announced by the Corporation from time to time. If the counterparty responds to an advisory that it does not accept the submitted settlement details, however, the initiating party may submit modifying details to the applicable transaction, in which case the item will be treated as a new update of the settlement details.

6. Obligations that have been reflected in the OW as settled in accordance with these Procedures may be re-opened (either partially or fully), as a result of a delivery reclaim message sent by either party to the obligation to OW. Updates to reflect reclaims of settled transactions will be made once one party enters details of the original transaction, and the original transaction's OW Control Number. Once these details are submitted, an advisory of the reclaim will be sent to the counterparty, who must either submit identical transaction details to facilitate the reclaim and re-open the obligation in OW, or submit notification that it does not accept the reclaim details entered by the initiating party. Updates for reclaims may only be submitted to the OW for a period of two Business Days following the actual settlement date of the relevant obligation. If the reclaim message is not accepted by the counterparty, it will be deleted from the OW, and the parties will need to generate a new reclaim message in OW. If the original obligation has been settled for longer than two Business Days, any reclaim message will be rejected.

#### D. Reconfirmation and Pricing

##### 1. Introduction

The OW system includes a reconfirmation and pricing service ("RECAPS") which will be run from time-to-time as established by the Corporation for such securities in the OW system as the Corporation shall determine. The system provides an opportunity to reconfirm and reprice transactions that already have been compared.<sup>6</sup> The time on the day that the Corporation determines to commence a cycle of the RECAPS process shall be referred to as "R".

##### 2. RECAPS Processing

###### (a) Eligibility

OW Obligations (i.e., items that have either: (i) been matched pursuant to this Procedure, or (ii) forwarded to the OW from other NSCC systems or services as provided in this Procedure) and have a settlement date of at least two days

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<sup>6</sup> Obligations initially compared through the OW service, or forwarded to the OW from other NSCC systems or services will not be reconfirmed; however, pre-existing fail obligations submitted by Members will be reconfirmed upon their submission to the OW subject to the matching process outlined in subsections A, B, and C above.

prior to the date of R will be considered for the RECAPS process; however, such OW Obligations can be excluded from the RECAPS process if so designated by the Member or the Corporation. Fail items not already in the OW but which are eligible for RECAPS processing must have been submitted to, and matched in, OW prior to R. Any such submission is subject to the eligibility and matching provisions of subsections A and B of this Procedure.

(b) RECAPS Processing

On R, except as provided below, each eligible OW Obligation will be re-priced, if appropriate, netted and allotted, if appropriate, the settlement date updated to the next business date and opened as a new obligation. Certain securities, including securities that are not CNS-eligible, securities that are designated to settle on a trade-for-trade basis, municipal securities and securities for which the current market price is not available, may not be netted and allotted.

In the event that the current market price for a security is not available, the fail obligation will be priced at the amount at which the obligation previously was compared and assigned a new settlement date; and such items may not be netted and allotted.

(c) Cash Adjustment

The difference between the aggregate value of a Member's original fails and the aggregate value of the Repriced RECAPS positions (i.e., the current market price of the reconfirmed trades) is known as the net cash adjustment. The net cash adjustment will settle on the Business Day following the date on which the RECAPS process is run and will be included as part of the Member's daily settlement with the Corporation.<sup>7</sup>

(d) Adjustment of Settlement Date

For the purposes of the Corporation's Buy-In Rules and Procedures the RECAPS Settlement Date shall be considered to be the original RECAPS Settlement Date for transactions processed through RECAPS.

E. Pair Off

(a) Eligibility

Members may designate OW Obligations to which they are a party that are in the "Open" status as eligible for pair off. NSCC may, in its discretion, exclude certain obligations from pair off, and will announce such exclusions by Important Notice.

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<sup>7</sup> Such net cash adjustments will be separately identified on Members' money settlement statements.

(b) Pair Off Processing

On a regular basis, the OW system will apply a pair off methodology to all eligible OW Obligations based on the quantity of underlying securities, the final money amount, and the settlement dates of the underlying obligations.

Only OW Obligations that have been designated as eligible for pair off by both Members that are party thereto, and that are in the same CUSIP and have the same counterparties, where the counterparties have offsetting long and short obligations, will be paired-off. A pair off will never occur if it would result in (1) a negative quantity of underlying securities in either of the original obligations, (2) a negative final money amount, or (3) at least one of the obligations subject to the pair off to remain open, with a reduced quantity of underlying securities and have a final money amount of zero or less than zero.

(c) Closed Out or Cash Adjustment

If a pair off is successful, the underlying OW Obligations will either be closed out of the OW or, where the quantities of underlying securities are not exactly matched between obligations being paired off, the pair off will result in one or more of the obligations being reduced by the quantity of securities that were paired off with another OW Obligation. OW Obligations that are not closed out as a result of a pair off will remain in "Open" status in OW, and will be adjusted to reflect the reduced quantity of underlying securities.

Where the underlying final money amounts are not exactly matched between obligations being paired off, the pair off will result in a cash adjustment, which will be reflected in the Members' money settlement with the Corporation on the following Business Day.

F. Notifications and Reports

Members will be informed in real-time of status changes with respect to obligations submitted to the OW.

The Corporation shall make available to each Member a report which reflects the end-of-day status of OW activity which took place for such Member during each Business Day.

Activity relating to RECAPS processing will be separately identified on such reports.

Each Member participating in the OW service shall have an affirmative obligation to monitor status updates and reports issued by the Corporation with respect to its OW activity, and immediately inform the Corporation of any discrepancies between its OW activity and the contents of such updates and reports.



G. Non-Guaranteed Service

The Obligation Warehouse shall not be a guaranteed service of the Corporation. If the Corporation Ceases to Act for a Member pursuant to Rule 18 it may: (i) close all open activity relating to that Member from the OW, (ii) reverse all credits and debits for the Member relating to OW Obligations that have entered the CNS Accounting Operation, and (iii) reverse any cash adjustments forwarded to settlement pursuant to this Procedure.

H. Applicability of Marketplace Rules

It is intended that Buy-In executions, good delivery requirements for physical deliveries, reclamation rights and transactions of a Member that have been DK'ed shall be remain subject to the rules of the appropriate marketplace, notwithstanding that such requirements would not otherwise apply to a transaction processed in the OW, unless the relevant process is otherwise specifically provided for in these Rules & Procedures (e.g., such as the buy-in process for CNS transactions).

### PROCEDURE III. TRADE RECORDING SERVICE (INTERFACE WITH QUALIFIED CLEARING AGENCIES)

#### A. Introduction

Through arrangements with Qualified Clearing Agencies, the Corporation allows trades from different marketplaces to be cleared and settled through the Corporation.

#### B. Settlement of Option Exercises and Assignments and Settlement of Stock Futures Reaching Maturity

Through an arrangement (the “Accord”) with The Options Clearing Corporation (“OCC”), Participating Members (defined below) may settle regular way through the facilities of the Corporation security and money obligations arising out of (i) the exercise or assignment of an option, and (ii) the maturity of a stock futures contract (collectively, “E&A/Delivery Transaction”), subject to the Corporation’s guaranty; provided that (x) the E&A/Delivery Transaction is between two Participating Members, and (y) securities to be delivered or received in such settlement are CNS Securities.

A “Participating Member” is (i) a Member that is also a member firm of OCC, as separately defined by the rules of that entity (“OCC Member”); (ii) a Member that has been appointed by an OCC Member to effect settlement of E&A/Delivery Transactions through the Corporation on the appointing OCC Member’s behalf; (iii) an OCC Member that has appointed a Member to effect settlement of E&A/Delivery Transactions through the Corporation on its behalf; (iv) the Canadian Depository for Securities Limited (“CDS”); or (v) a Canadian clearing firm that is an OCC Member and settles activity at the Corporation through an identifiable subaccount in the account at the Corporation of CDS in which CDS effects settlement on behalf of such firm. Only Participating Members that are Members identified in (i), (ii), and (iv) above shall be named as counterparties on E&A/Delivery Transactions delivered to the Corporation pursuant to the Accord.

A Participating Member that wishes to utilize this service must execute an agreement with OCC in the form acceptable to OCC. OCC shall notify the Corporation of all Participating Members that have executed such agreements.

Unless otherwise agreed between OCC and the Corporation, E&A/Delivery Transactions are received by the Corporation from OCC each day on which both the Corporation and OCC are open for accepting trades for clearance. Subject to the paragraph below, the Corporation’s guaranty pursuant to Addendum K shall become effective for each E&A/Delivery Transaction when the Required Fund Deposits to the Clearing Fund and any Supplemental Liquidity Deposits pursuant to Rule 4A, after taking into account that E&A/Delivery Transaction, are received by the Corporation from all Participating Members.

If (i) a Participating Member has failed to satisfy its Clearing Fund obligations to the Corporation pursuant to Procedure XV or any Supplemental Liquidity Obligation pursuant to Rule 4A, or (ii) the Corporation has ceased to act for a Participating Member

pursuant to these Rules and Procedures prior to the time that the Corporation's guaranty of such Participating Member's E&A/Delivery Transactions become effective (such Participating Member, a "Defaulting Participating Member"), unless OCC has made the commitments and guaranty substitution payments required under the Accord, none of the E&A/Delivery Transactions involving such defaulting Participating Member for which the Corporation's guaranty pursuant to Addendum K has not yet become effective shall be guaranteed by the Corporation, and all such E&A/Delivery Transactions shall be exited out of the CNS Accounting Operation. In such a case, the Corporation shall have no further obligation regarding the settlement of the exited E&A/Delivery Transactions, other than such obligations as the Corporation may have pursuant to its arrangement with OCC, and the non-defaulting Participating Members' Required Fund Deposit to the Clearing Fund and Supplemental Liquidity Obligation will be recalculated excluding the exited E&A/Delivery Transactions.

E&A/Delivery Transactions are routed to the CNS Accounting Operation and are reported to Members on such reports and in such formats as determined by the Corporation from time to time.

Exercised calls and assigned puts appear as purchases. Exercised puts and assigned calls appear as sells. Physical delivery of matured futures appear as purchases or sells. The fact that E&A/Delivery Transactions are indicated in a report or Consolidated Trade Summary shall have no force and effect with respect to the Corporation's guaranty pursuant to Addendum K or a Member's ultimate obligation to deliver or pay for the receipt of such securities unless and until such transactions have satisfied all requirements for the Corporation's guaranty under Addendum K and the Accord or the Corporation notifies Members to the contrary. E&A/Delivery Transactions indicated in a report or Consolidated Trade Summary for which the Corporation's guaranty does become effective shall be canceled and thereafter shall be null and void and such cancellation shall be reflected in the next available report or Consolidated Trade Summary.

The date of the maturity or exercise/assignment at OCC is recorded as the trade date for the maturity or exercise/assignment. The Settlement Date for such transactions is one business day later. If the exercise occurs on a Saturday during exercise weekend, the preceding OCC business day is the trade date.

Regarding any E&A/Delivery Transaction submitted to the Corporation by OCC,

(1) if and to the extent that a security to be delivered and received in settlement of such E&A/Delivery Transaction is not a CNS Security, such transaction shall be treated as a trade-for-trade transaction and the Corporation's guaranty pursuant to Addendum K shall not apply to these transactions; or

(2) if and to the extent that such E&A/Delivery Transaction is not submitted to the Corporation for regular way settlement, such transaction shall be processed in accordance with these Rules, as applicable.

## PROCEDURE IV. SPECIAL REPRESENTATIVE SERVICE

### A. Introduction

A Special Representative which has been authorized by one or more other persons to act on their behalf, may submit transactions in securities to the Corporation.

The Special Representative submits a transaction which is treated by the Corporation in the same manner as if both parties had agreed to the details of the transactions. Transactions entered by Special Representatives may enter the Accounting Operation.

As provided in Rule 7 hereof, all trade data submitted to the Corporation pursuant to Sections C and D of this Procedure IV, other than trades excluded pursuant to Section 7 of Rule 7, must be submitted in Real-time, as that term is defined in Procedure XIII, and on a trade-by-trade basis, in the form executed without any form of pre-netting of such trades prior to their submission.

### B. Institutional Clearing Service

The Institutional Clearing Service is a means by which a broker/dealer Member can clear its customer-side activity through the accounting systems offered by the Corporation when the customer is a Member or institutional participant of a Qualified Clearing Agency.<sup>1</sup>

The Institutional Clearing Service utilizes the institutional clearing and delivery services operated by various Qualified Clearing Agencies for input and affirmation purposes. Transactions which are affirmed through these systems and which are between a broker/dealer Member and customer Member or institutional participant of a Qualified Clearing Agency, as principal or agent, are then entered to the Accounting Operation for purposes of delivery and settlement. The Qualified Clearing Agency is the Special Representative in the Institutional Clearing Service.

The broker/dealer Member submits input to the institutional system in accordance with the rules and/or procedures of the Qualifying Clearing Agency. After the agent bank or institutional participant affirms the transaction, the transaction is removed from the institutional system and entered as a compared trade into the CNS Accounting Operation or Balance Order Accounting Operation as a transaction between (a) the broker/dealer and (b) the customer Member.

If the customer is not a Member or elects not to clear transactions through this Service, the broker/dealer-side of the transaction is removed from the institutional system and entered into the CNS Accounting Operation or the Balance Order Accounting Operation. The customer clears the transaction through the institutional

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<sup>1</sup> For the purposes of this procedure, a Qualified Clearing Agency shall include an entity that performs institutional trade matching and confirmation services that has received an exemption under the Exchange Act to register as a clearing agency.

system according to the rules and/or procedures of the Qualified Clearing Agency involved.

C. Correspondent Clearing Service

The Correspondent Clearing Service permits Members to clear and settle transactions executed for them by other Members acting as their Special Representative in the following situations: first, to accommodate a Member with multiple affiliate accounts who wishes to move a position resulting from an “original trade” in the process of clearance from one affiliate account to another, and second, to accommodate a Member that relies on its Special Representative to execute a trade in any market on its behalf to enable the resulting position to be moved from the Special Representative to that Member.

Through the Correspondent Clearing Service, the Special Representative offsets trades that it has executed on behalf of the Member, which are in the process of clearance and settlement (“original trades”)<sup>2</sup> by inputting transaction data as described below.

The Member functioning as a Special Representative submits transaction data to the Corporation. For example, if the original trade is a purchase order, the Special Representative inputs a transaction where it is the seller, and the Member is the purchaser. The Member agrees to be bound by the details of all transactions submitted on its behalf by the Special Representative. Any errors or omissions must be resolved directly between the Member and the Special Representative. Corrective input may be submitted to the Corporation by the Special Representative on a subsequent day.

The Corporation produces reports for both the Special Representative and the Member. These reports identify the details of each transaction as submitted by the Special Representative and identifies any transactions which have not been accepted by the Corporation.

The Correspondent Clearing Service is not intended, and therefore may not be utilized, by Special Representatives for the purpose of submitting original locked-in trade input, as all such input shall be submitted pursuant to Procedure II hereof. This prohibition shall apply to any Member, including any Special Representative or Qualified Special Representative that, directly or indirectly, engages in such activity.

D. Qualified Special Representatives

A Qualified Special Representative is a Special Representative who meets the requirements set forth in Rule 7. As such, and subject to the requirements of Rule 7 and as otherwise set forth in these Rules, a Qualified Special Representative may

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<sup>2</sup> The term “original trade” is used solely to distinguish between trades executed in the marketplace, and trades booked for accounting purposes to accommodate the movement of positions between Members as permitted in this Procedure.

submit locked-in trades (pursuant to Procedure II above) for other Members and/or their correspondent.

E. Automated Special Representative Facility

The Corporation may determine, in its discretion, to provide an automated facility through which Members may establish and ultimately retire their Special Representative relationships. A Member may appoint another Member as its Special Representative through the automated facility, and that Member must then consent to via the automated facility to acting in such capacity (or *vice versa*).

The establishment of such relationships through the automated facility shall meet the written notice requirements for such services as otherwise set forth within these Rules and Procedures. Members agree to be bound by the details of all transactions submitted on their behalf by the Special Representative, and any errors or omissions or disputes relating to such relationships and related transactions must be resolved directly between the parties.

## PROCEDURE V. BALANCE ORDER ACCOUNTING OPERATION

### A. Introduction

The Balance Order Accounting Operation includes transactions in all Balance Order Securities and transactions which have been identified as Special Trades including Special Trades in CNS Securities. The Balance Order Accounting Operation processes trades compared or recorded under the provisions of Procedure II, trades recorded under the provisions of Procedure III and transactions entered by Special Representatives under the provisions of Procedure IV. The Balance Order Accounting Operation produces Balance Orders which identify the receive and deliver obligations of Members. Balance Orders may be issued on a trade-for-trade basis or a net basis. The Corporation will make available to participants information detailing their receive or deliver obligations, on a trade-for-trade or net basis, as applicable, in respect of Balance Order transactions.

### B. Trade-for-Trade Balance Orders

All transactions either: (i) identified as Special Trades, (ii) compared or otherwise entered to the Balance Order Accounting Operation on Settlement Date, (iii) in securities which are subject to a voluntary corporate reorganization which have a trade date on or before the expiration of the voluntary corporate reorganization and which are compared or received on SD-1, after the cutoff time established by the Corporation, and at least one day prior to the end of the protect period, or (iv) identified as cash or seller's option transactions in Balance Order Securities, or in securities which are subject to any corporate action, whether mandatory or voluntary, are processed on a trade-for-trade basis. Receive and Deliver Orders are produced instructing Members to deliver or receive a quantity of securities to or from the contra-Member involved in that transaction.

### C. Net Balance Orders

Trades in Balance Order Securities (except for Special Trades) which are compared on T, and transactions entered through the Trade Recording or Special Representative procedures on T, are netted so that the Member becomes a net purchaser or net seller in each security issue in which it had activity. An allotting procedure matches these net quantities and produces Net Balance Orders. Net Balance Orders are instructions to a Member to deliver or receive a quantity of securities to or from another Member. Net Balance Orders have the same status under the Rules and these Procedures as Balance Orders.

In order to net trades executed at different prices, a uniform Settlement Price is used. The uniform Settlement Price shall be established as the Settlement Price that is the current market price of the applicable Balance Order Security.

A mechanism is required to adjust the differences between Contract Money (i.e., the price at which the trade was executed) and Settlement Money. To avoid calculating an adjustment for each Balance Order, the Corporation computes a single adjustment

amount for each Member. This amount is called the Clearance Cash Adjustment. The Clearance Cash Adjustment amount for all Balance Orders, both bond and equity, plus the net amount of both figures will appear on the applicable Consolidated Trade Summary.

Since Special Trades produce Balance Orders at the Contract Price, Settlement Money is the same as Contract Money and requires no Clearance Cash Adjustment.

D. Balance Order Contracts

Balance Orders issued under subsections B and C above are Balance Order Contracts as defined in Rule 5.

E. Consolidated Trade Summaries

Any Balance Order transactions that are generated by the Corporation will be included on Consolidated Trade Summaries made available to participants.

F. Obligation Warehouse

Balance Order transactions will be forwarded to the Obligation Warehouse for processing in accordance with the Obligation Warehouse Procedure.



## PROCEDURE VI. FOREIGN SECURITY ACCOUNTING OPERATION

### A. Introduction

The Foreign Security Accounting Operation includes transactions in all Foreign Securities. The Foreign Security Accounting Operation processes trades compared and recorded under the provisions of Procedure II and transactions entered by Special Representatives under the provisions of Procedure IV. The Foreign Security Accounting Operation produces Foreign Security receive and deliver instructions which identify the receive and deliver obligations of Members. Foreign Securities may be netted on a Member-to-Member basis or processed on a trade-for-trade basis.

### B. Trade-for-Trade Foreign Security Receive and Deliver Instructions

Transactions submitted as Special Trades entered to the Foreign Security Accounting Operation are processed on a trade-for-trade basis. Receive and deliver instructions are produced instructing Members to deliver or receive a quantity of securities to or from the contra-Member involved in that transaction.

### C. Netted Member-to-Member Receive and Deliver Instructions

Transactions in Foreign Securities that are designated by the Corporation to be Special Trades may net only on a Member-to-Member basis. Netted Member-to-Member receive and deliver instructions are reported on the next available Consolidated Trade Summary representing the netted positions of each Member with respect to its transactions with another Member, and the related Foreign Security Clearance Cash Adjustment, in each Foreign Security issue in which it had activity. Both the settlement of the underlying transaction and payment of the Foreign Security Clearance Cash Adjustment will not be guaranteed by the Corporation. In the event a Member fails to make payment of the Foreign Security Clearance Cash Adjustment with the Corporation, the Corporation will reverse all Foreign Security Clearance Cash Adjustment debits and credits with respect to that Member, and the netted Member-to-Member Foreign Securities receive and deliver instructions issued that day with respect to that Member will be null and void.

## PROCEDURE VII. CNS ACCOUNTING OPERATION

### A. Introduction

The CNS Accounting Operation processes transactions in CNS 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 (as defined in Section C of this Procedure, below) positions and available securities are allocated by book-entry. This allocation of securities is accomplished through a night cycle followed by a day cycle. Positions which remain open after the night cycle may be changed as a result of trades accepted for settlement that day. Members may influence 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 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. Interest is credited or charged to the Member's account according to the security position that exists on the day prior to the payable date; and stock splits are credited or charged on the Member's account according to the security position that exists on due bill redemption date, as described in Section G of this Procedure.

### 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 Procedure II, recorded under the provisions of Procedure III, or entered by Special Representatives under Procedure IV. Purchases and sales due for settlement on a given day are summarized on the Consolidated Trade Summaries that are issued three times daily and contain, with respect to CNS Securities:

- (i) those trades compared or recorded through the Corporation's cutoff time on that day which are due to settle on the following settlement day, and

- (ii) those trades compared or recorded through the Corporation's cutoff time with respect to trades due to settle on the same settlement day .

**Note:** any T+1 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. Notwithstanding the previous sentence, with respect to Index Receipts, if Index Receipts for same-day settlement are received by the Corporation after the applicable cut-off time, such Index Receipts will not be assigned a new settlement date and will be rejected.

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.

Each Consolidated Trade Summary shows all equity and debt transactions and can be subdivided or totaled 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.

#### 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. Night 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 night 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 night 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. Subject to the differences in the allocation algorithm for receipts from CNS (see subsection E of this Procedure VII), the daytime recycle functions essentially the same as the night allocation except that the process is continual.

In order to notify Members of settlement activity as quickly as possible, Settlement Activity output is issued throughout the day. This output is produced by the Designated Depository which actually made the entry to the Member's account, and is 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 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. Members are required to provide standing instructions to exempt from delivery any transactions compared or received on Settlement Date, which are processed for same day settlement and which create or

increase a short position. This exemption shall hereinafter be referred to as the "Same Day Settling Exemption".

1. 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.

(a) Types of Exemption

The CNS system provides for two levels of Exemption. By proper use of position reporting made available by the Corporation 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 three 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.

(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 specific daily Exemption instructions are (i) not submitted to the Corporation, (ii) not received by the Corporation, or (iii) unable to be processed by the Corporation.

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 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 Same 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 Same 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. Influencing 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 designed so as not to benefit any one Member. Members may change their relative rank by submitting Priority Requests. The submission of a Buy-In Intent 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 night cycle only, the day cycle only, or both the night 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 night cycle only, the day cycle only, or for both the night and day cycles.

3. Buy-In Intent Notices

A Member which submits a Buy-In Intent in accordance with the provisions of subsection J of this Procedure VII is assigned to a higher relative rank in the allocation algorithm for the quantity of securities specified on the Buy-In Intent 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 initial allocation of CNS long positions is based on the following priority groups in descending order ("Priority Groups").

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

- (b) long positions against which Buy-In Intent notices are due to expire that day but which were not filled the previous day;
- (c) long positions against which Buy-In Intent notices are due to expire the following day;
- (d) 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.

The results of the initial allocation based on the Priority Groups may be subject to further allocations depending on whether results are processed in the night or day delivery cycles. The allocation algorithms for the night and day delivery cycles are computed separately to allow for different allocation factors that may be used in the cycles as well as Standing Priority Requests and Priority Overrides, which may specify different levels of allocation priority. The night and day delivery cycles are further described below.

(a) Night Cycle Allocations

During the night cycle, long positions are first allocated by the Priority Groups set forth above. Long positions may then be further allocated through processes used by the Designated Depository, which may include processes designed to optimize the number of transactions processed for settlement.

In the event that the Designated Depository does not run an optimization process during the night cycle, long positions will be allocated using the same allocation algorithm used during the day cycle, as described below.

(b) Day Cycle Allocations

During the day cycle, long positions are allocated based on the Priority Groups set forth above and may be further allocated based upon the age of position within a Priority Group.

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.



## 5. Fully-Paid-For Account

### (Procedures for Movements to the Long Free Account)

The Corporation's processing day is divided into two parts. It begins with a night 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 Exchange Act), as a result of the allocation process during the night 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 night or following day cycle, the Member may, in order to meet the "customer segregation" requirements of Rule 15c3-3 of the Exchange Act, 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.

## 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

The Accounting Summary constitutes the official record of all CNS activity, positions and settlements. 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 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

Members are also provided with a separate report known as the Cash Reconciliation Statement. 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. In the case of a non-U.S. sourced dividend or other income distribution, such debit or credit may be adjusted for any applicable non-U.S. withholding taxes at a rate to be determined by the Corporation in its sole discretion.

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 one Settlement Date 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 on 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 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.

#### 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 or money balances 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.

#### 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 the CNS Reorganization Processing System, reorganizations are divided into two categories: “mandatory” reorganizations, which may include, for example, mergers, full redemptions, liquidations, reverse splits and name changes; and “voluntary” reorganizations, which may include, for example, mergers with elections, and either tender offers or exchange offers (collectively “voluntary offers”).

All CNS Securities subject to a reorganization (hereinafter referred to as “the subject security”) may be included in the CNS Reorganization Processing System other than: (i) securities subject to a conversion event; (ii) securities subject to a reorganization where baby bonds are issued; (iii) securities made ineligible for processing at a Qualified Securities Depository during a corporate reorganization; and (iv) in circumstances when the Corporation determines that operational difficulties prevent the processing of the security in the CNS Reorganization Processing System, in which case the security shall be removed from the CNS System, and Receive and Deliver Instructions for such security are issued as explained in paragraph 1 of this subsection H, above. For example, in general, the Corporation will not process a reorganization event where the protect period for such event is greater than one Business Day.

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 provide Members with 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 a voluntary reorganization (“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. If the Corporation does not receive sufficient notification of a pending reorganization to provide to Members on the dates prior to E specified above, the Corporation will provide such information 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 is not responsible for the completeness and accuracy of the information.

Processing within the CNS Reorganization Processing System is handled in the following manner:

(a) Mandatory Reorganizations

At such time on or after E as the Corporation shall determine, positions in the subject security are updated into 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 updates appear on Members' CNS Miscellaneous Activity Reports and the type of mandatory reorganization is identified.

(b) Voluntary Reorganizations

The Rules below assume the processing of subject securities with a protect period of one day. The processing of subject securities with a protect period of one day or less shall be in accordance with the time frames set forth in the table below.

On E, prior to the night cycle commencing for E+1, by such times and in such manner as established by the Corporation from time to time, (i) the Corporation shall advise 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 of their potential liability based on their short positions as of that time in such subject security and (ii) a Member with a long position in a subject security (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 who seeks to have the Corporation provide the protection described below for such long position, must instruct the Corporation to move such 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.

**Note:** Any same day settling trade in such subject security that is received for processing after the night cycle completes on E+1 will be designated a Special Trade and will be cleared and settled on a Member-to-Member basis between the parties directly.

On E+1 (CNS End Date/Protect Expiration Date)

The regular CNS allocation process takes place through the day cycle on the last day of the protect period. A long position in a subject security for which an instruction has been received by the Corporation to establish a position in the CNS Reorganization Sub-Account, as described above, has the highest priority for CNS allocation, as provided for in Section E, 4(a) of this Procedure VII.

By such time and in such manner as established by the Corporation from time to time, the Corporation shall inform Members who have given the Corporation instructions to move a long position in a subject security into a CNS Reorganization Sub-Account of the expected move of that position to a CNS Reorganization Sub-Account. On E+1, until such time as established by the Corporation from time to time, Members may add, adjust, or delete long positions which will be moved to the CNS Reorganization Sub-Account in whole or in part by submitting an instruction to the Corporation in such form and until such time on E+1 as established by the Corporation from time to time.

Members are prohibited from moving positions in subject securities between the CNS General Account and that Member's Fully-Paid-For Subaccount.

After Day Cycle – E+1

At the time established by the Corporation after the day cycle completes on E+1, long positions for which proper instructions have been received are moved to a CNS Reorganization Sub-Account. Simultaneously, the Corporation shall move into the CNS Reorganization Sub-Account a corresponding number of short positions in the subject security held by those Members with the oldest such short positions. If more than one short position in the subject security is of the same age, the Corporation may utilize a random allocation procedure to select short positions to be moved into the CNS Reorganization Sub-Account. On E+1, when the long and short positions in the subject security are moved into the CNS Reorganization Sub-Account, the Corporation provides Members with long positions in the subject security notification of their final protection, and provides Members with short positions in the subject security notification of their final liability.

The Corporation may, following a request by a Member and an approval of that request by the Member with the corresponding long or short position in a subject security, move their respective positions from a CNS Reorganization Sub-Account back to the CNS General Account.

The Corporation may establish a minimum of two separate CNS Reorganization Sub-Accounts for each security subject to multiple voluntary offers; provided, however, that if applicable, and provided it has the operational capabilities to do so, the Corporation may establish additional CNS Reorganization Sub-Accounts in order to process affected securities.

On and Following E+2

Short positions in the CNS Reorganization Sub-Account are marked from the Current Market Price to the voluntary offer price on E+2 and on each subsequent day; funds received as a result of such mark payments are retained by the Corporation until the conclusion of the voluntary offer. The Corporation



freezes the positions in the CNS Reorganization Sub-Account; corresponding long and short positions in the CNS Reorganization Sub-Account only will be moved out of the CNS Reorganization Sub-Account (i) upon the request of both the Members with a long and short positions, as described above, (ii) upon conclusion of the voluntary offer, (iii) when the voluntary offer is canceled, or (iv) when the expiration date of the voluntary offer is extended. In such cases, positions in the CNS Reorganization Sub-Account are automatically returned to the Members' CNS General Account, and the mark to the voluntary offer price returned to Members with short positions.

The table below sets forth the time frames for the processing of subject securities subject to a voluntary reorganization with a protect period of one day and voluntary reorganizations with no protect period.

	Date long position member must instruct NSCC to move position to Reorg. Sub-Acct. (Standard Date)	Date short Member notified of potential Liability	Date long Member notified of potential Protection	Date long Members are prohibited from moving positions in subject securities between CNS General Account and Fully-Paid-For Subaccount	Last date long members may submit Delete instructions	Last date long Members may submit Protect Add or Adjust Instructions (protect add or adjust submitted on CNS end date)*	Date long positions moved to Reorg. Sub-Account	Date long Member notified of Final Protection and short Member notified of Final Liability	Short position marked to voluntary offer price
<b>1 Day Protect</b>	E	E	E+1	E+1	E+1	E+1	E+1	E+1	E+2 or thereafter
<b>No Protect</b>	E-1	E-1	E	E	E	E	E	E	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.

### On Conclusion of Voluntary Offers

Upon conclusion of the voluntary offer, at a time determined by the Corporation, the Corporation shall make journal entries to unwind positions in the CNS Reorganization Sub-Account and established positions representing the terms of the voluntary offer in the CNS General Account by:

- (i) crediting a long Member's CNS General Account for the securities distributed under the terms of the voluntary offer and/or crediting a long Member's settlement account for the cash or securities distributed under the terms of the voluntary offer;
- (ii) debiting a short Member's CNS General Account for the securities distributed under the terms of the voluntary offer and/or debiting a short Member's settlement account for the cash or securities distributed under the terms of the voluntary offer; and
- (iii) crediting the settlement account of short Members with the mark to the voluntary offer price being retained by the Corporation.

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

The Corporation shall provide protection to the long Member for a position in the CNS Reorganization Sub-Account upon completion of the voluntary offer only to the extent of the monetary difference between the Current Market Price and the voluntary offer price, and only to the extent of the pro rata acceptance ratio of the voluntary offer as discussed above.

#### 5. Obligation Warehouse

Pursuant to Rule 51 and Procedure II.A, OW Obligations submitted for processing through the Obligation Warehouse service that are CNS-eligible may be entered into the CNS Accounting Operation. Unless otherwise excluded by the Member pursuant to Procedure II.A, CNS-eligible OW Obligations are 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 Procedure II.A. All OW CNS activity is reflected on the Miscellaneous Activity Report.

#### 6. Asset Servicing and Other Events; Revealing Counterparties

The Corporation may support asset servicing or other events or payments and the Corporation may, in its sole discretion, determine that such event or payment be processed outside the Corporation's facilities for any reason, including, for example, operational difficulties in processing the payment or event or because the payment or event is not processed by a Qualified Securities Depository.

Examples of payments or other events that the Corporation may determine shall be processed outside its facilities include payments pursuant to litigation or other disputes, distributions on class actions, bankruptcy payments, consent solicitations, other distributions, claims, fees, or events with respect to which a Member has notified the Corporation that it either has incurred or anticipates it will incur liabilities greater than the terms of the reorganization event.

In order to assist Members in processing a payment or other event that is not applied by the Corporation, or to assist Members to address claims, disputes or information requests related to an event that the Corporation has processed and that requires the Member to work directly with the counterparty, the Corporation may utilize a random allocation procedure (as described in this Procedure VII, Section H(1)) to

match Members with long positions with Members with short positions over the critical event date, and identify such counterparties to each other.

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. Equity Securities and Corporate Debt Securities

Defined Terms

For the purpose of this Section J,

The day the Buy-In Intent is transmitted is referred to as N; and N+1 and N+2 refer to the succeeding Business Days. As noted in Section A of this Procedure VII, each day commences in the evening and includes a night allocation of securities and a day allocation of securities.

An "originator" shall mean the Member with a Long Position who submits a Buy-In Intent to the Corporation pursuant to this Procedure.

"Buy-In Position" shall mean the quantity of securities the originator intends to buy-in as identified on its Buy-In Intent.

"Original Buy-In Intent" shall mean a Buy-In Intent transmitted by a Member with a Long Position for which such Member is the original submitter.

“Buy-In Retransmittal Notice” shall mean a Buy-In Intent submitted by a Member with a Long Position with respect to a Buy-In Position for which the Member has a corresponding obligation as to which it has received a Buy-In Intent initiated outside of the CNS System.

Unless the context otherwise requires, where these Procedures refer to a “Buy-In Intent” without distinction, such reference refers to both an Original Buy-In Intent and a Buy-In Retransmittal Notice.

“Buy-In Liability” shall mean the quantity specified on each CNS Retransmittal Notice.

#### Buy-In Intent

Except with respect to securities subject to a voluntary corporate reorganization (as described in Section H.4. of this Procedure VII), 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, to the Corporation a Buy-In Intent specifying its Buy-In Position, which shall not exceed the long positions which it intends to buy-in.

With respect to securities subject to a voluntary corporate reorganization, a Member may not transmit a Buy-In Intent after the expiration date of the reorganization event until the end of the protection period for the reorganization event; provided, however, that at no time may a Member submit a Buy-In Intent for a Long Position in a CNS Reorganization Sub-Account.

A Buy-In Intent may be submitted to the Corporation by a Member on successive days, provided the succeeding Buy-In Intent does not specify a quantity of securities covered by the prior Buy-In Intent and the quantity of securities representing the sum of the Buy-In Intent notices does not exceed the Member’s total Long Position.

If, at any time after a Buy-In Intent is submitted and processed, until the completion of CNS allocation processing on the day the Buy-In expires, the originator has settling trades or miscellaneous activity that reduce their Long Position such that the originator becomes either short or flat in a security covered by the Buy-In Intent, or such that the originator’s Long Position in CNS is less than its Buy-In Position, NSCC will consider that Buy-In Position (or portion thereof) satisfied, and will either reduce its Buy-In Position accordingly or the Buy-In Intent will be removed from the system, as applicable.

#### CNS Allocation Priority and CNS Retransmittal Notices

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

A Buy-In Position on an Original Buy-In Intent is given high priority for CNS allocation from N+1 through the daytime allocation on N+2. If a Buy-in Position remains unfilled after the night 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. Such CNS Retransmittal Notices shall specify the originator and the remaining portion of the Buy-In Position not yet received and demand delivery from each such Member of a specified quantity of securities. 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 Intent 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. Buy-In Retransmittal Notices shall be submitted in such form and within such times as determined by the Corporation and include 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 CNS allocation from N through the daytime allocation on N+1.

Upon receipt of the Buy-In Retransmittal Notice on N, the Corporation issues CNS Retransmittal Notices to a sufficient number of Members with Short Positions. Such CNS Retransmittal Notices shall specify the originator and the remaining portion of the Buy-In Position not yet received and demand delivery from each such Member of a specified quantity of securities. 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.

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 Intent). 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 Intent 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.

Prior to the execution of a Buy-In, the originator must accept and pay for any portion or all the remaining securities delivered to the originator.

Buy-In Execution

If the Buy-In Position is not satisfied by the completion of the CNS allocation process in the day cycle on the expiration date of the Buy-In Intent, the Buy-In may be executed, as provided for under Procedure X.

2. Municipal Securities

Notwithstanding the foregoing, a Member that has transmitted a Buy-In Intent 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 Member(s) with the oldest Short 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.

## PROCEDURE VIII. MONEY SETTLEMENT SERVICE

The Money Settlement Service is the end product of a number of other Services. Individual sections of these Procedures and the Rules specify the method of calculation for determining the total net amounts owed to the Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member or owed by the Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member for each service. The function of the Money Settlement Service is to record these individual totals or net amounts on the Settlement Statement, together with amounts due to or from Members (and, if applicable, Mutual Fund/Insurance Services Members) as a result of Clearing Agency Cross-Guaranty Agreements, and determine a single net amount owed to or owed by each such participant.

### A. Settlement Statement

Each Business Day at such time as determined by Corporation, the Corporation produces a Settlement Statement for each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member and Fund Member. The Settlement Statement reflects each credit or debit which has been entered to such participant's account for each service in which it had activity that day together with amounts due to or from Members (and, if applicable, Mutual Fund/Insurance Services Members) as a result of Clearing Agency Cross-Guaranty Agreements. All credit and debit amounts are totaled and the net of the two is calculated. This net amount represents the amount owed to the participant or owed by the participant.

### B. Money Settlement

If the net settlement for the day is a debit, the Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member and/or Fund Member must settle such amount in accordance with Rule 12. If the net settlement for the day is a credit, the Corporation must settle such amount in accordance with Rule 12.

### C. Final Settlement Statement

Each Business Day at such time as determined by the Corporation, a Final Settlement Statement is produced for each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member which contains the credit and debit amounts shown on the prior Settlement Statement, any adjustments to those amounts and the status of the settlement of these amounts. Any resulting debit or credit amount reflected on such statement is recorded as "Suspense". Suspense amounts are settled between such participant, and the Corporation, in accordance with the procedures established by the Corporation. Participants must verify all figures on all Settlement Statements and immediately bring any discrepancies to the attention of the Corporation.

## D. Settling Bank Procedures

### 1. Settling Bank Obligations

(a) Each day at such time as determined by the Corporation, NSCC will make available to Settling Banks the final net-debit or net-credit figure for the account of each Member, Mutual Fund/Insurance Service Member, Insurance Carrier/Retirement Service Member or Fund Member (each, a “Settlement Member”) for which it is the designated Settling Bank and the Settling Bank’s net-net debit or net-net credit figure. This action initiates the settlement process. If the Settling Bank’s final settlement balance (“Settlement Balance”) is a net-net debit, it should pay that amount in the manner provided in Sections 3 and 4 below to NSCC’s Settlement Agent by such time as established by the Corporation.

(b) By the Acknowledgment Cutoff Time, Settling Banks, without exception, must acknowledge to the Settlement Agent via the terminal system their Settlement Balances and (1) their intention to settle with NSCC their net-net settlement amount by the settlement deadline, or (2) their refusal to settle for particular Settlement Members. Notwithstanding the foregoing, a Settling Bank that is a Member and settles solely for its own accounts may opt, pursuant to such procedures as the Corporation may, from time to time, establish, to not acknowledge its Settlement Balance;<sup>1</sup> if such Settling Bank opts to not acknowledge its Settlement Balance, it shall not be subject to subsections (c) and (e) below.<sup>2</sup> A Settling Bank that is a Member may not refuse to settle for itself.

(c) If a Settling Bank does not, by the Acknowledgement Cutoff Time, either: (i) affirmatively acknowledge its Settlement Balance or (ii) notify the Settlement Agent that it refuses to settle for one or more for Settlement Members, then, at the Acknowledgement Cutoff Time, the Settling Bank is deemed to have acknowledged its Settlement Balance.

(d) If the Settling Bank sends refusal messages for one or more Settlement Members but not all Settlement Members for which it is the designated Settling Bank, the Settlement Agent shall remove from the Settlement Balance the net settlement balance(s) of the Settlement Member(s) for which the Settling Bank has refused to settle, and will provide the Settling Bank with a new Settlement Balance. The Settling Bank must acknowledge to the Settlement Agent by the Acknowledgment Cutoff Time its new Settlement Balance and its intention to settle by the settlement deadline. This new Settlement Balance shall be subject to subsection (c) above.

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<sup>1</sup> If the Settling Bank is also a settling bank at DTC, then to be eligible for such “opt out”, it must also settle at DTC solely for its own accounts, and any such “opt out” must apply to both its NSCC and DTC settlement balances.

<sup>2</sup> If the Settling Bank is also a settling bank at DTC, then to be eligible for such “opt out”, it must also settle at DTC solely for its own accounts, and any such “opt out” must apply to both its NSCC and DTC settlement balances.



(e) The Settlement Agent will attempt to contact the Settling Bank if no acknowledgment or notice of a refusal to settle is received by the Acknowledgement Cutoff Time. If (x) the Settlement Agent is able to contact the Settling Bank, and (y) the Settling Bank notifies the Settlement Agent that it cannot, at that time, acknowledge or refuse its Settlement Balance, then the Settling Bank will not be deemed to have acknowledged its Settlement Balance. If the Settling Bank cannot be reached, the Settling Bank will be deemed to have acknowledged its Settlement Balance.

The Corporation may exclude a Settling Bank's balance from the NSS file if the Settling Bank (i) does not acknowledge its Settlement Balance by the Acknowledgement Cutoff Time or does not acknowledge its new Settlement Balance pursuant to subsection (d) above by the Acknowledgement Cutoff Time and (ii) is not deemed to have acknowledged its Settlement Balance or its new Settlement Balance pursuant to subsection (d) above because the Settling Bank has notified the Settlement Agent that it is unable to affirmatively acknowledge its Settlement Balance or that it refuses to settle on behalf of a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member.

(f) **Note:** A Settling Bank that cannot send an acknowledgment or refusal message to the Settlement Agent may contact the Settlement Agent and instruct the Settlement Agent to act on its behalf.

(g) The Settlement Agent uses the most recent contact information provided by the Settling Bank to the Settlement Agent. Each Settling Bank must ensure that it maintains up-to-date and accurate contact details with the Settlement Agent on an ongoing basis when previously provided contact details are no longer accurate, to facilitate the Settlement Agent's ability to contact a Settling Bank regarding this settlement process and any settlement issues.

(h) A Settling Bank with a net-net debit that has sent an acknowledgment message to the Settlement Agent must settle by the settlement deadline. (See the payment procedure below.) If the Settling Bank has acknowledged its net-net settlement debit and the Settlement Agent has not received funds from the Settling Bank by the settlement deadline, NSCC begins failure-to-settle procedures in respect to the Settling Bank at this time.

(i) **Note:** A refusal to settle for a Settlement Member is a refusal to settle all accounts of that participant. The Settling Bank cannot refuse to settle only some of the accounts of a participant with multiple accounts. A Settling Bank that has sent a refusal message must send an acknowledgment of its new net-net settlement amount.

(j) At such time as the Settlement Agent has received sufficient funds it will initiate payments to Settling Banks with net-net credits.

## 2. Settlement Agent

DTC provides NSCC with services with respect to NSCC's money settlement operations as described in, and in accordance with, these procedures. DTC will act as

“Settlement Agent” (as that term is used in the Federal Reserve Board’s Operating Circular 12 and in these Rules and Procedures) for NSCC and Settling Banks, for purposes of (i) receiving and paying, as NSCC’s settling bank and for the account of NSCC, end-of-day money settlement payments from or to, as applicable, Settling Banks and participants, (ii) with respect to the NSS, as the means of effecting money settlement for NSCC, and (iii) aggregating and netting the Settlement Balance of those Settling Banks that act as such for both DTC and NSCC participants, and crediting or debiting the account of either NSCC, or DTC, as the appropriate clearing agency, with the settlement amounts determined in accordance with this procedure, as described in item 4 below.

### 3. Settlement Payment By Net-Net Debit Settling Bank

The Settling Bank with a final net-net debit must settle its net-net debit balance via the FRB’s NSS. Note: Any bank or trust company applying to act as a Settling Bank must execute such agreements authorizing the Corporation’s Settlement Agent to utilize NSS for end of day money settlement as the FRB may, from time to time require. Those Settling Banks that also act as Settling Bank for DTC participants are required to sign a Settler Agreement with the FRB designating DTC as their NSS Settlement Agent for purposes of DTC settlement. Accordingly, those banks will not be required to sign new Settler Agreements to separately cover NSCC’s NSS settlement. Rather the Settler Agreements they provide to DTC for delivery to the FRB are hereby deemed to include, as covered in the NSS settlement arrangements, the Settling Bank’s NSCC settlement obligations as well as their DTC settlement obligations.

After receiving an acknowledgment (if applicable) from the Settling Bank, NSS will allow the Corporation’s Settlement Agent to instruct the FRB to debit the Settling Bank’s account at the FRB by the amount of its net-net debit balance. The Settlement Agent will send a “pre advice” to each Settling Bank, notifying it that the Settlement Agent is about to send its NSS transmission to the FRB.

Any Settling Bank that settles for both participants of NSCC and for participants of DTC will have its net-net credit or debit balances at each corporation aggregated and netted to one consolidated sum (see Section 4 below). At the end of each day, after receiving the applicable acknowledgments from the Settling Bank, DTC, as Settlement Agent will then instruct the FRB to debit the FRB account of each such Settling Bank which has a Consolidated Settlement Debit Amount (as defined in Section 4 below) by the amount determined in accordance with Section 4 below. If the Settling Bank settles only for NSCC participants, then DTC will instruct the FRB to debit such bank’s FRB account by the amount of its net-net debit owed to NSCC. If the Settling Bank’s account at the FRB has sufficient funds, it will be debited. Upon confirmation from the FRB, the Settling Bank will be credited to reflect payment to NSCC of its net-net debit amount. If the Settling Bank’s account has insufficient funds, DTC will receive notification from the FRB that the account was not debited. If this occurs, DTC will notify the Settling Bank of the deficiency. Any Settling Bank with a deficiency must then wire the funds to the Settlement Agent.

**Note** – Settling Banks must monitor their Settling Bank Account Statement to ensure that funds have been credited to their account and that no balance exists. The Settling Bank must be prepared to wire payment to the Settlement Agent if funds are not available or if the NSS is unavailable or inoperable. NSCC requires that a bank representative authorized to wire funds be available at the Settling Bank until settlement is complete. If a Settling Bank is experiencing extenuating circumstances and, as a result, needs to opt out of NSS for one Business Day and send its wire directly to DTC's FRBNY account for its debit balance, that Settling Bank must notify the settlement operations department prior to acknowledging its Settlement Balance.

If funds need to be wired to the Settlement Agent's account at the FRBNY for any reason the following guidelines for sending settlement wires should be used. The format of the instructions conforms to Fedwire standards for funds transfers. Other formats are acceptable as well. NSCC expects to receive settlement payments by the settlement deadline.

<b>Fedwire Message Entry Instructions</b>	
Receiving Bank ABA Number:	Enter Settlement Agent's ABA Number
Receiving Bank Name:	Enter the name of the Settlement Agent
Originator to Beneficiary Information (OBI):	SET (indicating Settlement as the purpose of the wire)
Type Code:	Settling Banks should use type code 1600 for Settlement wires. Type code wires may be wired to the Settlement Agent after the Interdistrict Fedwire cutoff, whereas the type code 1000 wires cannot. In the event a Settling Bank experiences system problems which delay its outgoing wires, use of type code 1600, the Fedwire code for settlement wires, will prevent the bank's wire to the Settlement Agent from being rejected by the Fed due to the Interdistrict cutoff.
Other Information:	The bank will complete other required fields in the Fedwire structured format according to the bank's standard procedures.

The Settlement Agent will advise as to the receipt of any wires.

#### 4. DTC/NSCC Settling Bank Netting Arrangements

Any Settling Bank that settles for both participants of the Corporation and for participants of DTC will have its net-net credit or debit balances at each clearing corporation aggregated and netted, and shall pay, or be paid, as follows:

- (i) For purposes of this item 4, the following terms have the meanings specified:
  - (a) “Common Settling Bank” means any entity that has qualified and acts as a Settling Bank for both DTC and NSCC in accordance with their respective rules and procedures.
  - (b) “DTC Credit Amount” or “NSCC Credit Amount” means, as applicable, any net-net credit settlement payment due from the relevant clearing agency to a Common Settling Bank, as determined in accordance with the Rules and Procedures of the relevant clearing agency.
  - (c) “DTC Debit Amount” or “NSCC Debit Amount” means, as applicable, any net-net debit settlement payment due to the relevant clearing agency from a Common Settling Bank, as determined in accordance with the respective Rules and Procedures of the relevant clearing agency.
  - (d) “Consolidated Settlement Debit Amount” means on any settlement day the net sum, if a negative number (i.e. debits being deemed negative numbers, and credits being deemed positive numbers) of a Common Settling Bank’s applicable DTC Debit or Credit Amount, plus its applicable NSCC Debit or Credit Amount.
- (ii). For each Common Settling Bank on each settlement day, DTC, as Settlement Agent, shall aggregate and net the DTC Credit and/or Debit Amount of the Common Settling Bank with the applicable NSCC Credit or Debit Amount of such Common Settling Bank and:
  - (a) If the Common Settling Bank has both a DTC Debit Amount and an NSCC Debit Amount, then following the acknowledgment of those respective balances by such bank in accordance with DTC’s procedures and NSCC’s procedures, DTC shall (i) advise the Common Settling Bank of its intention to transmit debit instructions to the FRB, and (ii) instruct the FRB via NSS to debit the FRB account of such Common Settling Bank by the aggregate sum of such debit balances. DTC, upon receipt of such monies, shall credit NSCC with the amount of the NSCC Debit Amount, and credit DTC with the amount of the DTC Debit Amount, from such Common Settling Bank.
  - (b) If the Common Settling Bank has both a DTC Credit Amount and an NSCC Credit Amount, then at the time established in DTC’s and NSCC’s

procedures, DTC shall credit payment to the FRB account of the Common Settling Bank with the aggregate sum of such credit balances, and shall debit NSCC with the amount of the NSCC Credit Amount, and debit DTC with the amount of the DTC Credit Amount, for such Common Settling Bank.

- (c) If the Common Settling Bank has a Debit Amount at one clearing agency and a Credit Amount at the other, then:

-- if the sum of such DTC Credit Amount and NSCC Debit Amount (or DTC Debit Amount and NSCC Credit Amount, as the case may be) is a positive number, that excess amount (i.e. equal to the positive number) shall be paid by the Settlement Agent for the account of the clearing agency with the Credit Amount to the Common Settling Bank, and the clearing agency with the Credit Amount shall pay the other clearing agency an amount equal to the Common Settling Bank's Debit Amount owed to the other clearing agency. Payments made as so provided shall be in full satisfaction of the settlement obligation of (i) the clearing agency that owes the Credit Amount to the Common Settling Bank and (ii) the Common Settling Bank to the other clearing agency.

-- if the sum of such DTC Credit Amount and NSCC Debit Amount (or DTC Debit Amount and NSCC Credit Amount, as the case may be) is a negative number, then the absolute value of that amount shall be paid by the Common Settling Bank to the Settlement Agent for the account of the clearing agency to which the Common Settling Bank has a Debit Amount, via NSS in the manner provided above in full satisfaction of the settlement obligation of the Common Settling Bank to such clearing agency, and the clearing agency with the Credit Amount shall pay the other clearing agency an amount equal to the Credit Amount, in full satisfaction of the settlement obligation of the clearing agency from whom such Credit Amount was owed to the Common Settling Bank.

-- if the sum of such amounts equals zero (i.e. the Credit Amount due from one clearing agency equals the Debit Amount owed to the other clearing agency), then the clearing agency that owes the Credit Amount to the Common Settling Bank shall pay the amount of such Credit Amount to the other clearing agency in full satisfaction of both the settlement obligation of the Common Settling Bank to the clearing agency owed the Debit Amount and the settlement obligation of the clearing agency that owes the Credit Amount to such Common Settling Bank. In that instance, no payment shall be due to or from such Common Settling Bank to or from either DTC or NSCC.

- (iii) Notwithstanding the foregoing, if any Common Settling Bank fails to pay its Consolidated Settlement Debit Amount in full by the time specified in DTC and NSCC's procedures, then (i) if that bank has an NSCC Debit Amount, NSCC shall

implement its failure to settle procedures, and (ii) if that bank has a DTC Debit Amount, DTC shall implement its failure to settle procedures.

(iv) Under FRB Operating Circular No. 12, DTC, as Settlement Agent, has certain responsibilities in allocating an indemnity claim made by an FRB as a result of NSS. In making such an allocation, NSCC and DTC will first apportion any such liability between them (and their respective participants) in proportion to the amount of the net-net debit due to each clearing agency by the Settling Bank to which the indemnity claim relates. If that Settling Bank owed a debit to one and had a credit due from the other clearing agency, then the entire indemnity amount will be allocated to the clearing agency to which the Settling Bank owed the debit amount (and for which, via NSS, its FRB account was debited) relating to the indemnity claim. NSCC and DTC will then further allocate the FRB claim among their participants for whom the Settling Bank was then acting. If for any reason such allocation is not sufficient to fully satisfy the FRB indemnity claim, then the remaining loss will be allocated pro rata among all the applicable clearing agency's participants in the same manner as provided in NSCC's and DTC's Rules with respect to a general (i.e., non-system related) loss.

#### 5. Settlement Payment To Net-Net Credit Settling Bank

As soon as NSCC is advised by its Settlement Agent that settlement payments made by Settling Banks with net-net debits have been received, and it has sufficient available funds the Settlement Agent will begin to credit funds to Settling Banks with net-net credits.

PROCEDURE IX. (RESERVED FOR FUTURE USE)

## PROCEDURE X. EXECUTION OF BUY-INS

### Equity Securities and Corporate Debt Securities

A Member who has transmitted a Buy-In Intent under Section J of Procedure VII (as defined in Section 7 of Rule 11 as “the originator”) and has not received either all or a portion of the Buy-In Position shown on its Buy-In Intent, may submit a Buy-In Order to the Corporation on the expiration date of the Buy-In Intent (N+2 for an Original Buy-In Intent, and N+1 on a Buy-In Retransmittal Notice), in such form and by such time as determined by the Corporation.

An originator that does not submit a Buy-In Order by this time, may not submit a Buy-In Execution pursuant to this Procedure, and it will be necessary for the originator to recommence the buy-in process by submitting another Buy-In Intent to the Corporation, as described in Section J of Procedure VII.

If an originator submits a Buy-In Order as provided for above, but does not submit a Buy-In Execution pursuant to this Procedure, such that the Buy-In Order is not executed on its expiration date, the Buy-In Order shall not be executed thereafter, and it will be necessary for the originator to recommence the Buy-In process by submitting another Buy-In Intent to the Corporation in order to have its Long Position bought-in.

An originator who has submitted a Buy-In Order as described above, and has still not been allocated its Buy-In Position by the completion of the CNS allocation process in the day cycle on that day, or has only been allocated a portion of such Buy-In Position by that time, may execute the buy-in, as described below.

The Buy-In Order is executed by the originator in such marketplace and through such agents as the originator shall elect, and such execution shall be subject to the relevant rules of such marketplace. Upon completion of the buy-in execution, the originator shall submit to the Corporation a Buy-In Execution, which shall include the position and price of the buy-in execution in such form and within such time as determined by the Corporation from time to time.

The Corporation does not validate the terms of the buy-in execution provided to it by the originator. Any disputes between the originator and the Members with Buy-In Liability shall be addressed between such parties away from the Corporation.

Members with Short Positions who receive CNS Retransmittal Notices and do not satisfy them assume liability for the loss, if any, which occurs as a result of the buy-in execution.<sup>1</sup>

The execution of a buy-in is reported in the Miscellaneous Activity Report on the next Business Day following the day such execution is reported to the Corporation.

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<sup>1</sup> If the originator transmits does not timely rescind a Buy-In Order, notwithstanding any agreements that may have been entered into with Member(s) with Short Positions away from the Corporation, such Member(s) with Short Positions shall remain liable for the executed buy-in.



PROCEDURE XI. FEES – SEE ADDENDUM A

## PROCEDURE XII. TIME SCHEDULE

These Procedures state that the Corporation will receive and deliver information, data and other items at specified times. The specified times may change from time to time.

Members may, upon request to the Corporation, obtain the time schedule then in effect. The Corporation will notify Members of any change in the time schedule ten (10) days in advance of the change.

## PROCEDURE XIII. DEFINITIONS

CNS Stock Record - The CNS System accounting of all CNS Securities owed to and by the Corporation which operates on a perpetual inventory basis providing each Member a single long or short position per CNS Security.

Contract - A Balance Order Contract or CNS Contract.

Contract List – Reports and/or output prepared by the Corporation showing compared trades, uncompared trades and advisory data.

Contract Money - The unit price of the securities traded multiplied by the quantity of securities traded or the stated value agreed to by both parties to the trade.

Current Market Value - The number of units of a security multiplied by the Current Market Price per unit.

Current Position - The long or short position of a Member in the CNS Stock Record at any time or, when the term is used in a report or statement to a Member, at the time the report or statement is prepared.

Designated Depository - The Qualified Securities Depository designated by a Member.

ESS - The Envelope Settlement Service provided for under Section 1 of Rule 9.

IESS - The Intercity Envelope Settlement Service provided for under Section 2 of Rule 9.

Non-Participant - A participant in a Qualified Clearing Agency who is not a Member.

NYSE - New York Stock Exchange LLC.

NYSE Alternext – NYSE Alternext US LLC.

OCC - The Options Clearing Corporation.

OTC - The over-the-counter securities market.

Qualified Clearing Agency - A Registered Clearing Agency which has entered into an agreement or agreements with the Corporation pursuant to which transactions submitted to the Corporation or the Registered Clearing Agency may be transferred to the other for comparison and/or settlement.

Real-time – The term “Real-time”, with respect to the submission of trade data to the Corporation, means the submission of trade data on a trade-by-trade basis promptly after trade execution, in any format and by any communication method acceptable to the Corporation.

Security - A cleared security.

SIAC - Securities Industry Automation Corporation

T - T denotes the day on which the trade occurred. T+1 is normally the Settlement Date.

when-issued transaction - Typically, a transaction in a security which has occurred prior to the issuance of such security and is determined to be a when-issued transaction by the marketplace or exchange on which it trades.

when-distributed transaction - Typically, a transaction in a security which has occurred prior to the initial distribution of such security and is determined to be a when-distributed transaction by the marketplace or exchange on which it trades.

PROCEDURE XIV. FORMS, MEDIA AND TECHNICAL SPECIFICATIONS

From time to time the Corporation may specify various forms which participants must use to submit instructions and data to the Corporation and which the Corporation uses to report transactions and information to participants. The information called for by such forms may be submitted or received by use of a hard copy paper form or by such other media as the Corporation shall from time to time permit. Submission of such information on other media shall be made in accordance with specifications determined from time to time by the Corporation.

The Corporation will notify participants of any change in such forms, media or specifications ten (10) days in advance of the effective date of the change.

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

I.(A) Clearing Fund Formula for Members

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

(1) For CNS Transactions

(a) (i) The volatility of such Member's Net Unsettled Positions, which shall be the sum of (1) the highest resultant value among I and II below, and (2) the resultant value of III below:

I. an estimation of volatility calculated 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 Exchange Act, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing (1) 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; and (2) each of the following estimations:

- A. an exponentially-weighted moving average volatility estimation using a decay factor of less than 1, and
- B. an evenly-weighted volatility estimation using a look-back period of not less than 253 days.

The higher of the two estimations described in (A) and (B) above, shall be the "Core Parametric Estimation".

In calculating these estimations of volatility, the Corporation shall include an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually and shall be based on the following groups: (i) large and medium capitalization equities, (ii) small capitalization equities, (iii) micro-capitalization equities, and (iv) exchange traded products ("ETPs").

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

- II. the sum of:
  - A. the net directional market value of the portfolio, which shall be the absolute difference between the market value of the long positions and the short positions in the portfolio, multiplied by a percentage; such percentage shall be determined by the Corporation based on a percentile of the annual historical volatility levels of relevant equity indices (which shall be no less than the historical minimum volatility of the indices), as determined by the Corporation from time to time; and
  - B. the balanced market value of the portfolio, which shall be the lowest corresponding market value of long positions and short positions in the portfolio, multiplied by a percentage; such percentage shall be a fraction of the percentage used in (A) above, determined by the Corporation from time to time by considering the model backtesting performance of the applicable balanced portfolios.
- III. if the sum of the gross market values of the two largest non-diversified Net Unsettled Positions<sup>2</sup> in the portfolio represents a percentage designated by the Corporation from time to time of the gross market value of the entire portfolio (the “concentration threshold”), an amount determined by adding the sum of:
  - A. the product of (1) the gross market value of the largest non-diversified Net Unsettled Position and (2) a percentage designated by the Corporation (the “gap risk haircut”), which percentage shall be not less than 5 percent; and
  - B. the product of (1) the gross market value of the second largest non-diversified Net Unsettled Position and (2) a gap risk haircut, which shall be no larger than the gap risk haircut applied to the largest Net Unsettled Position and which shall be not less than 2.5 percent.

The concentration threshold shall be no more than 30 percent. The concentration threshold and the gap risk haircuts shall be determined by the Corporation from time to time and calibrated based on backtesting and impact analysis during a time period of not less than the previous 12

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<sup>2</sup> The Corporation shall exclude exchange-traded fund positions from the calculation if the positions have characteristics that indicate that they are less prone to the effects of gap risk events, as determined by the Corporation from time to time. Such characteristics include whether the exchange-traded fund positions track to an index that is linked to a broad based market index, contain a diversified underlying basket, are unleveraged or track to an asset class that is less prone to gap risk.

months. The Corporation would announce updates of the concentration threshold and gap risk haircuts by Important Notice.

- (ii) (A) The Corporation shall have the discretion to exclude from the calculations in subsection (i) above Net Unsettled Positions in:
  - (I) securities that are not Illiquid Securities whose volatility is less amenable to statistical analysis, and shall instead calculate an amount by multiplying the absolute value of such positions by a percentage designated by the Corporation, which percentage shall not be less than 10%; and
  - (II) securities that are not unit investment trusts whose volatility is amenable to generally accepted statistical analysis only in a complex manner, and shall instead calculate an amount by multiplying the absolute value of such positions by a percentage designated by the Corporation, which percentage shall be not less than 2%.
- (B) The Corporation shall exclude from the calculations in subsection (i) above Net Unsettled Positions in:
  - (I) Illiquid Securities, and shall instead (A) group such securities by price level, and Illiquid Securities that are sub-penny securities shall be separately grouped by long or short positions, and (B) calculate an amount for each such grouping by multiplying the absolute value of the positions in each group by a percentage designated by the Corporation at least annually, which percentage shall be based on the security's Current Market Price,<sup>3</sup> and shall be the highest of (1) 10%, (2) a percent benchmarked to be sufficient to cover 99.5th percentile of the historical 3-day return of each group in each Member's portfolio using a look-back period of no less than 5 years, and (3) a percent benchmarked to be sufficient to cover 99th percentile of the historical 3-day return of each group in each Member's portfolio using a look-back period of no less than 5 years after incorporating a fixed transaction cost equal to one-half of the estimated bid-ask spread; and
  - (II) unit investment trusts, and shall instead calculate an amount by multiplying the absolute value of such positions by a percentage designated by the Corporation at least annually, which percentage shall be based on the security's Current Market Price, and shall be the highest of (1) 2% and (2) a percent benchmarked to be sufficient to cover 99.5th percentile of the historical 3-day return of

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<sup>3</sup> The Current Market Price of each sub-penny security is deemed to be one cent.



unit investment trusts in each Member's portfolio using a look-back period of no less than 5 years.

The Corporation shall exclude from the calculations in subsection (i) above and this subsection (ii), (A) Net Unsettled Positions in municipal and corporate bonds, which are addressed in subsection (iii) below, and (B) long Net Unsettled Positions in Family-Issued Securities, which are addressed in subsection (iv) below.

(iii) The Corporation shall exclude from the calculations in subsections (i) and (ii) above Net Unsettled Positions in corporate and municipal bonds. The amount of Clearing Fund required with respect to Net Unsettled Positions in corporate and municipal bonds shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation, which shall be not less than 2%, calculated as follows:

(A) Corporate bonds shall be categorized into groups according to the bonds' "remaining time to maturity" and credit rating. From time to time, but not less frequently than annually, the Corporation shall establish for each category of corporate bonds a percentage calculated using historical market price volatility of a benchmark index. Such percentage shall be based on (1) the historical returns of the applicable benchmark index; (2) a pre-determined look-back period, which shall not be shorter than 10 years; and (3) a pre-determined calibration percentile, which shall not be less than 99%.

(B) Municipal bonds shall be grouped by "remaining time to maturity" and credit rating, and municipal bonds that are rated BBB+ or lower, or that are not rated, shall also be separately categorized by municipal sector. From time to time, but not less frequently than annually, the Corporation shall establish a percentage applicable to each grouping. Such percentage shall be based on (1) the historical returns of applicable benchmark indices, such as tenor-based indices (i.e., based on time to maturity), municipal bond sector-based indices, and high-yield indices; (2) a pre-determined look-back period, which shall not be shorter than 10 years; and (3) a pre-determined calibration percentile, which shall not be less than 99%. In extraordinary circumstances where the Corporation determines that a certain municipality or issuer of municipal bonds presents unique risks that are not captured by the grouping set forth herein, NSCC may, in its discretion, apply the highest percentage being applied to any municipal bond group pursuant to this subsection (B) to municipal bonds issued by such municipality or issuer.

(iv) The Corporation shall exclude from the calculations in subsections (i) and (ii) above long Net Unsettled Positions in Family-Issued Securities. The amount of Clearing Fund required with respect to long Net Unsettled Positions in Family-Issued Securities shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation; such percentage shall be (A) no less than 80% for long Net Unsettled Positions in fixed income securities that are Family-Issued Securities, and (B) 100% for long Net Unsettled Positions in equity securities that are Family-Issued Securities;

plus

(b) The net debit of each day's difference between (x) the contract price of such Member's Regular Way, When-Issued and When-Distributed net positions and its fail positions, and (y) the Current Market Price for such positions<sup>4</sup> (such difference to be known as the "Mark-to-Market"); provided that 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;

plus

(c) 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

(d) An amount that is calculated by multiplying the Current Market Value for such Member's aggregate CNS Fails Positions by (i) 5% for Members rated 1 through 4 on the Credit Risk Rating Matrix, (ii) 10% for Members rated 5 or 6 on the Credit Risk Rating Matrix, or (iii) 20% for Members rated 7 on the Credit Risk Rating Matrix;

plus

(e) a margin requirement differential component charge calculated as the sum of the exponentially weighted moving average ("EWMA") of the daily positive changes over a 100-day look back period in the Member's (i) Mark-to-Market component and (ii) volatility component, times a multiplier calibrated based on backtesting results;

plus

(f) a coverage component charge calculated as the EWMA of the Member's daily backtesting coverage deficiency amount over a 100-day look back period; the Member's backtesting deficiency amount for each day is determined as the difference

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<sup>4</sup> For fail positions, the contract price used for this purpose is the prior day's Market Price.

between the simulated profit and loss on the Member's portfolio and the sum of the Member's (i) volatility component and (ii) margin requirement differential component.

plus

(g) A Margin Liquidity Adjustment ("MLA") charge shall apply to a Member's Net Unsettled Positions, other than long Net Unsettled Positions in Family-Issued Securities.

For purposes of calculating this charge, Net Unsettled Positions shall be categorized into the following asset groups: (1) equities (excluding Illiquid Securities), (2) Illiquid Securities (including ETPs that are deemed Illiquid Securities), (3) unit investment trusts ("UITs"), (4) municipal bonds, and (5) corporate bonds. The equities asset group shall be further segmented into the following subgroups: (i) micro-capitalization equities, (ii) small capitalization equities, (iii) medium capitalization equities, (iv) large capitalization equities, (v) treasury ETPs, (vi) corporate bond ETPs, (vii) municipal bond ETPs, and (viii) all other ETPs.<sup>5</sup>

#### Equities Asset Subgroup MLA Calculations

For each equities asset subgroup, the Corporation shall first calculate a measurement of market impact cost for each Net Unsettled Position at the security level as the product of the following three components:

1. an impact cost coefficient that is a multiple of the one-day market volatility of the subgroup in which the security is categorized,
2. the gross market value of the Net Unsettled Position in each security, and
3. the square root of the gross market value of the Net Unsettled Position in each security in the portfolio divided by an assumed percentage of the average daily trading volume of such security.

The impact cost for the equity asset group is the sum of the impact cost calculated at the security level, as described above, for all equity asset subgroups.

The impact cost for equity exchange traded funds ("ETFs") with in-kind baskets that are not Illiquid Securities will include calculations comparing the impact costs if such ETFs were being liquidated in the secondary market to the impact costs if such

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<sup>5</sup> ETPs with underlying securities separately categorized in an equities asset subgroup are categorized by the asset types and capitalizations of their underlying securities. ETPs that are deemed Illiquid Securities are categorized in the Illiquid Securities asset group.

ETFs were being liquidated in the primary market.<sup>6</sup> The Corporation will calculate impact costs in two scenarios: (1) a baseline calculation to simulate such ETFs being liquidated in the secondary market where the impact costs would be calculated at the security level (i.e., the ETF shares) utilizing the equities asset subgroup calculations (as discussed above) and (2) a create/redeem calculation to simulate an authorized participant using the primary market to liquidate such ETFs using the creation/redemption process. The impact costs for the create/redeem calculation would be calculated by decomposing the ETFs into their underlying securities and calculating impact costs of such underlying securities utilizing the equity asset subgroup calculations (as discussed above). An adjustment would be made in the create/redeem calculation to reflect the different portfolio risks of the original portfolio used in the baseline calculation and the decomposed portfolio used in the create/redeem calculation.

The Corporation will then use the smaller calculated impact costs of the baseline calculation and the create/redeem calculation for purposes of calculating the MLA charge for ETFs.

#### Other Asset Group Calculations

For asset groups other than the equities asset group, the Corporation shall first calculate a measurement of market impact cost for Net Unsettled Positions in each of the asset groups as the product of the following three components:

1. an impact cost coefficient that is a multiple of the one-day market volatility of that asset group,
2. the gross market value of the Net Unsettled Position in that asset group, and
3. the square root of the gross market value of the Net Unsettled Position in that asset group in the portfolio divided by an assumed percentage of the average daily trading volume of that asset group.

For each asset group, the calculated market impact cost shall be compared to a portion of the volatility charge applicable to Net Unsettled Positions (as determined by Section I.(A)(1)(a) of this Procedure XV). If the ratio of the calculated market impact cost to the portion of the volatility charge is greater than a threshold, to be determined by the Corporation from time to time, an MLA charge will be applicable to that asset group. If the ratio of these two amounts is equal to or less than the threshold, an MLA charge will not be applicable to that asset group.

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<sup>6</sup> Liquidation in the secondary market would involve selling the ETF shares in the market. Liquidation in the primary market would involve liquidating the ETFs based on the value of their underlying securities by an authorized participant using the creation/redemption process.

When applicable, an MLA charge for each asset group would be calculated as a proportion of the product of (1) the amount by which the ratio of the calculated market impact cost to the applicable 1-day volatility charge exceeds the threshold, and (2) the 1-day volatility charge allocated to that asset group.

For each Member, all MLA charges for each of the asset groups shall be added together to result in a total MLA charge.

The Corporation may apply a downward adjusting scaling factor to the total MLA charge based on the ratio of calculated market impact cost to a portion of the applicable volatility charge, where a higher ratio would trigger a larger downward adjustment of the MLA charge and a lower ratio would trigger no downward adjustment of the MLA charge.

If a Member's portfolio contains both (i) SFT Positions and (ii) Net Unsettled Positions or Net Balance Order Unsettled Positions, the MLA charge shall be calculated as set forth in Rule 56.

(2) For Balance Order Transactions

(a) (i) The volatility of such Member's Net Balance Order Unsettled Positions, which shall be the sum of (1) the highest resultant value among I and II below, and (2) the resultant value of III below:

I. an estimation of volatility calculated 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 Exchange Act, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing (1) 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; and (2) each of the following estimations:

- A. an exponentially-weighted moving average volatility estimation using a decay factor of less than 1, and
- B. an evenly-weighted volatility estimation using a look-back period of not less than 253 days.

The higher of the two estimations described in (A) and (B) above, shall be the "Core Parametric Estimation".

In calculating these estimations of volatility, the Corporation shall include an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Balance Order Unsettled Position by a

basis point charge, where the applicable basis point charge shall be reviewed at least annually and shall be based on the following risk groups: (i) large and medium capitalization equities, (ii) small capitalization equities, (iii) micro-capitalization equities, and (iv) ETPs.

II. the sum of:

- A. the net directional market value of the portfolio, which shall be the absolute difference between the market value of the long positions and the short positions in the portfolio, multiplied by a percentage; such percentage shall be determined by the Corporation based on a percentile of the annual historical volatility levels of relevant equity indices (which shall be no less than the historical minimum volatility of the indices), as determined by the Corporation from time to time; and
- B. the balanced market value of the portfolio, which shall be the lowest corresponding market value of long positions and short positions in the portfolio, multiplied by a percentage; such percentage shall be a fraction of the percentage used in (A) above, determined by the Corporation from time to time by considering the model backtesting performance of the applicable balanced portfolios.

III. if the sum of the gross market values of the two largest non-diversified Net Balance Order Unsettled Positions<sup>7</sup> in the portfolio represents more than a percentage designated by the Corporation from time to time of the gross market value of the entire portfolio (the “concentration threshold”), an amount determined by adding the sum of:

- A. the product of (1) the gross market value of the largest non-diversified Net Balance Order Unsettled Position and (2) the gap risk haircut which shall be not less than 5 percent; and
- B. the product of (1) the gross market value of the second largest non-diversified Net Balance Order Unsettled Position and (2) a gap risk haircut, which shall be no larger than the gap risk haircut applied to the largest Net Balance Order Unsettled Position and which shall be not less than 2.5 percent.

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<sup>7</sup> The Corporation shall exclude exchange-traded fund positions from the calculation if the positions have characteristics that indicate that they are less prone to the effects of gap risk events, as determined by the Corporation from time to time. Such characteristics include whether the exchange-traded fund positions track to an index that is linked to a broad based market index, contain a diversified underlying basket, are unleveraged or track to an asset class that is less prone to gap risk.

The concentration threshold shall be no more than 30 percent. The concentration threshold and the gap risk haircuts shall be determined by the Corporation from time to time and calibrated based on backtesting and impact analysis during a time period of not less than the previous 12 months. The Corporation would announce updates of the concentration threshold and gap risk haircuts by Important Notice.

- (ii) (A) The Corporation shall have the discretion to exclude from the calculations in subsection (i) above Net Balance Order Unsettled Positions in:
  - (I) securities that are not Illiquid Securities whose volatility is less amenable to statistical analysis, and shall instead calculate an amount by multiplying the absolute value of such positions by a percentage designated by the Corporation, which percentage shall not be less than 10%; and
  - (II) securities that are not unit investment trusts whose volatility is amenable to generally accepted statistical analysis only in a complex manner, and shall instead calculate an amount by multiplying the absolute value of such positions by a percentage designated by the Corporation, which percentage shall be not less than 2%.
- (B) The Corporation shall exclude from the calculations in subsection (i) above net Balance Order Unsettled Positions in:
  - (I) Illiquid Securities, and shall instead (A) group such securities by price level, and Illiquid Securities that are sub-penny securities shall be separately grouped by long or short positions, and (B) calculate an amount for each such grouping by multiplying the absolute value of the positions in each group by a percentage designated by the Corporation at least annually, which percentage shall be based on the security's Current Market Price,<sup>8</sup> and shall be the highest of (1) 10%, (2) a percent benchmarked to be sufficient to cover 99.5th percentile of the historical 3-day return of each group in each Member's portfolio using a look-back period of no less than 5 years, and (3) a percent benchmarked to be sufficient to cover 99th percentile of the historical 3-day return of each group in each Member's portfolio using a look-back period of no less than 5 years after incorporating a

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<sup>8</sup> The Current Market Price for each sub-penny security is deemed to be one cent.

fixed transaction cost equal to one half of the estimated bid-ask spread; and

- (II) unit investment trusts, and shall instead calculate an amount by multiplying the absolute value of such positions by a percentage designated by the Corporation at least annually, which percentage shall be based on the security's Current Market Price, and shall be the highest of (1) 2% and (2) a percent benchmarked to be sufficient to cover 99.5th percentile of the historical 3-day return of unit investment trusts in each Member's portfolio using a look-back period of no less than 5 years.

The Corporation shall exclude from the calculations in subsection (i) above and this subsection (ii), (A) Net Balance Order Unsettled Positions in municipal and corporate bonds, which are addressed in subsection (iii) below, and (B) long Net Balance Order Unsettled Positions in Family-Issued Securities, which are addressed in subsection (iv) below.

(iii) The Corporation shall exclude from the calculations in subsections (i) and (ii) above Net Balance Order Unsettled Positions in corporate and municipal bonds. The amount of Clearing Fund required with respect to Net Balance Order Unsettled Positions in corporate and municipal bonds shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation, which shall be not less than 2%, calculated as follows:

(A) Corporate bonds shall be categorized into groups according to the bonds' "remaining time to maturity" and credit rating. From time to time, but not less frequently than annually, the Corporation shall establish for each category of corporate bonds a percentage calculated using historical market price volatility of a benchmark index. Such percentage shall be based on (1) the historical returns of the applicable benchmark index; (2) a pre-determined look-back period, which shall not be shorter than 10 years; and (3) a pre-determined calibration percentile, which shall not be less than 99%.

(B) Municipal bonds shall be grouped by "remaining time to maturity" and credit rating, and municipal bonds that are rated BBB+ or lower, or that are not rated, shall be separately categorized by municipal sector. From time to time, but not less frequently than annually, the Corporation shall establish a percentage applicable to each grouping. Such percentage shall be based on (1) the historical returns of applicable benchmark indices, such as tenor-based indices (i.e., based on time to maturity), municipal bond sector-based indices, and high-yield indices; (2) a pre-determined look-back period, which shall not be shorter than 10



years; and (3) a pre-determined calibration percentile, which shall not be less than 99%. In extraordinary circumstances where the Corporation determines that a certain municipality or issuer of municipal bonds presents unique risks that are not captured by the grouping set forth herein, NSCC may, in its discretion, apply the highest percentage being applied to any municipal bond group pursuant to this subsection (B) to municipal bonds issued by such municipality or issuer.

(iv) The Corporation shall exclude from the calculations in subsections (i) and (ii) above long Net Balance Order Unsettled Positions in Family-Issued Securities. The amount of Clearing Fund required with respect to long Net Balance Order Unsettled Positions in Family-Issued Securities shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation; such percentage shall be (A) no less than 80% for long Net Balance Order Unsettled Positions in fixed income securities that are Family-Issued Securities, and (B) 100% for long Net Balance Order Unsettled Positions in equity securities that are Family-Issued Securities;

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;

plus

(c) 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

(d) a margin requirement differential component charge calculated as the sum of the EWMA of the daily positive changes over a 100-day look back period in the Member's (i) Mark-to-Market component and (ii) volatility component, times a multiplier calibrated based on backtesting results;

plus

(e) a coverage component charge calculated as the EWMA of the Member's daily backtesting coverage deficiency amount over a 100-day look back period; the Member's backtesting deficiency amount for each day is determined as the difference between the simulated profit and loss on the Member's portfolio and the sum of the Member's (i) volatility component, and (ii) margin requirement differential component.

plus

(f) An MLA charge shall apply to a Member's Net Balance Order Unsettled Positions, other than long Net Balance Order Unsettled Positions in Family-Issued Securities.

For purposes of calculating this charge, Net Balance Order Unsettled Positions shall be categorized into the following asset groups: (1) equities (excluding Illiquid Securities), (2) Illiquid Securities (including ETPs that are deemed Illiquid Securities), (3) UITs, (4) municipal bonds, and (5) corporate bonds. The equities asset group shall be further segmented into the following subgroups: (i) micro-capitalization equities, (ii) small capitalization equities, (iii) medium capitalization equities, (iv) large capitalization equities, (v) treasury ETPs, (vi) corporate bond ETPs, (vii) municipal bond ETPs, and (viii) all other ETPs.<sup>9</sup>

#### Equities Asset Subgroup MLA Calculations

For each equities asset subgroup, the Corporation shall first calculate a measurement of market impact cost for each Net Balance Order Unsettled Position at the security level as the product of the following three components:

1. an impact cost coefficient that is a multiple of the one-day market volatility of the subgroup in which the security is categorized,
2. the gross market value of the Net Balance Order Unsettled Position in each security, and
3. the square root of the gross market value of the Net Balance Order Unsettled Position in each security in each subgroup in the portfolio divided by an assumed percentage of the average daily trading volume of such security.

The impact cost for the equity asset group is the sum of the impact cost calculated at the security level, as described above, for all equity asset subgroups.

The impact cost for ETFs with in-kind baskets that are not Illiquid Securities will include calculations comparing the impact costs if such ETFs were being liquidated in the secondary market to the impact costs if such ETFs were being liquidated in the primary market.<sup>10</sup> The Corporation will calculate impact costs in two scenarios: (1) a baseline calculation to simulate such ETFs being liquidated in the secondary market where the impact costs would be calculated at the security level (i.e., the ETF shares) utilizing the equities asset subgroup calculations (as discussed above) and (2) a

<sup>9</sup> ETPs with underlying securities separately categorized in an equities asset subgroup are categorized by the asset types and capitalizations of their underlying securities. ETPs that are deemed Illiquid Securities are categorized in the Illiquid Securities asset group.

<sup>10</sup> Liquidation in the secondary market would involve selling the ETF shares in the market. Liquidation in the primary market would involve liquidating the ETFs based on the value of their underlying securities by an authorized participant using the creation/redemption process.

create/redeem calculation to simulate an authorized participant using the primary market to liquidate such ETFs using the creation/redemption process. The impact costs for the create/redeem calculation would be calculated by decomposing the ETFs into their underlying securities and calculating impact costs of such underlying securities utilizing the equity asset subgroup calculations (as discussed above). An adjustment would be made in the create/redeem calculation to reflect the different portfolio risks of the original portfolio used in the baseline calculation and the decomposed portfolio used in the create/redeem calculation.

The Corporation will then use the smaller calculated impact costs of the baseline calculation and the create/redeem calculation for purposes of calculating the MLA charge for ETFs.

#### Other Asset Group Calculations

For asset groups other than the equities asset group, the Corporation shall first calculate a measurement of market impact cost for Net Balance Order Unsettled Positions in each of the asset groups as the product of the following three components:

1. an impact cost coefficient that is a multiple of the one-day market volatility of that asset group,
2. the gross market value of the Net Balance Order Unsettled Position in that asset group, and
3. the square root of the gross market value of the Net Balance Order Unsettled Position in that asset group in the portfolio divided by an assumed percentage of the average daily trading volume of that asset group.

For each asset group, the calculated market impact cost shall be compared to a portion of the volatility charge applicable to Net Balance Order Unsettled Positions (as determined by Section I.(A)(2)(a) of this Procedure XV). If the ratio of the calculated market impact cost to the portion of the volatility charge is greater than a threshold, to be determined by the Corporation from time to time, an MLA charge will be applicable to that asset group. If the ratio of these two amounts is equal to or less than the threshold, an MLA charge will not be applicable to that asset group.

When applicable, an MLA charge for each asset group would be calculated as a proportion of the product of (1) the amount by which the ratio of the calculated market impact cost to the applicable 1-day volatility charge exceeds the threshold, and (2) the 1-day volatility charge allocated to that asset group.

For each Member, all MLA charges for each of the asset groups shall be added together to result in a total MLA charge.

The Corporation may apply a downward adjusting scaling factor to the total MLA charge based on the ratio of calculated market impact cost to a portion of the applicable volatility charge, where a higher ratio would trigger a larger downward adjustment of the MLA charge and a lower ratio would trigger no downward adjustment of the MLA charge.

If a Member's portfolio contains both (i) SFT Positions and (ii) Net Unsettled Positions or Net Balance Order Unsettled Positions, the MLA charge shall be calculated as set forth in Rule 56.

(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:

$$\frac{\text{Average Daily Settlement Debits As Determined by the Corporation}}{\text{Excess Net Capital}}$$

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

I.(B) Additional Clearing Fund Formula

(1) Additional Deposits for Members on the Watch List

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

(2) Excess Capital Premium

(a) The Corporation shall collect an additional payment ("Excess Capital Premium") if a Member's Volatility Charge, when divided by its Net Capital, for Members that are broker-dealers, or Equity Capital, for all other Members, is greater than 1.0 (the "Excess Capital Ratio").

(b) An Excess Capital Premium shall be calculated as the product of: (a) the amount by which the Member's Volatility Charge exceeds its Net Capital or Equity Capital, as applicable, multiplied by (b) its Excess Capital Ratio, which shall be no more than 2.0.

For purposes of calculating an Excess Capital Premium, the Corporation shall use, as applicable, the Net Capital amount reported by a Member on its most recent

Form X-17-A-5 (Financial and Operational Combined Uniform Single (“FOCUS”) Report), or the Equity Capital amount reported by a Member on its most recent Consolidated Report of Condition and Income (“Call Report”).<sup>11</sup> The Corporation may, in its sole discretion, accept an updated Net Capital or Equity Capital amount provided by a Member prior to the issuance of its next applicable financial report for purposes of calculating an Excess Capital Premium.

(c) The Corporation may waive the collection of an Excess Capital Premium of a Member in exigent circumstances when the Corporation, in its sole discretion, observes extreme market conditions or other unexpected changes in factors such as market volatility, trading volumes or other similar factors.

In determining whether it is appropriate to waive the collection of an Excess Capital Premium in such circumstances, the Corporation would review all relevant facts, circumstances and other information available to it at the time of such determination, including the degree to which a Member’s capital position and trading activity compare or correlate to the prevailing exigent circumstances and whether the Corporation can effectively address the risk exposure presented by a Member without the collection of the Excess Capital Premium from that Member.

The collection of an Excess Capital Premium may be waived by a Managing Director in the Group Chief Risk Office of the Corporation, and such waiver shall be documented in a written report that is made available upon request to the Member impacted by the waiver.

### (3) Backtesting Charge

The Corporation may require a Member to make an additional Clearing Fund deposit to mitigate exposures to the Corporation caused by settlement risks that may not be adequately captured by the Corporation’s portfolio volatility model (“Backtesting Charge”). The Corporation may assess this charge on the start of the day portfolio, as needed, to enable the Corporation to achieve its backtesting coverage target. The Backtesting Charge may apply to Members that have 12-month trailing backtesting coverage below the 99 percent backtesting coverage target. The Backtesting Charge shall generally be equal to the Member’s third largest deficiency that occurred during the previous 12 months. The Corporation may in its discretion adjust such charge if the Corporation determines that circumstances particular to a Member’s settlement activity and/or market price volatility warrant a different approach to determining or applying such charge in a manner consistent with achieving the Corporation’s backtesting coverage target.

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<sup>11</sup> If a Member is not required to file a FOCUS Report or a Call Report, the Corporation shall use the Net Capital or Equity Capital amount, as applicable, provided on the Member’s most recent financial statements or equivalent reporting delivered to the Corporation pursuant to Section 2.A of Rule 2B.

In calculating a Member's backtesting coverage for purposes of the Backtesting Charge and in calculating any applicable Backtesting Charge, the Corporation would not include amounts already collected as a Backtesting Charge from that Member.

(4) Bank Holiday Charge

For purposes of this section, "Holiday" means any day on which equities markets are open for trading, but the Board of Governors of the Federal Reserve System observes a holiday and banks are closed.

On the Business Day prior to any Holiday, the Corporation may require each Member to make an additional Clearing Fund deposit ("Bank Holiday Charge"). The Bank Holiday Charge approximates the exposure that a Member's trading activity on the applicable Holiday could pose to the Corporation. Since the Corporation cannot collect margin on the Holiday, the Bank Holiday Charge is due on the Business Day prior to the applicable Holiday.

The methodology for calculating a Bank Holiday Charge shall be determined by the Corporation in advance of each applicable Holiday. The Bank Holiday Charge approximates each Member's Required Fund Deposit to address the exposure that such Member's trading activity on the Holiday could pose to the Corporation. The Corporation shall have the discretion to calculate the Bank Holiday Charge based on its assessment of market conditions at the time the Bank Holiday Charge is calculated (such as, for example, significant market occurrences that could impact market price volatility). The Corporation shall inform Members of the methodology it will use to calculate the Bank Holiday Charge by an Important Notice issued no later than 10 Business Days prior to the day on which the applicable Bank Holiday Charge is applied. Examples of potential methodologies for the Bank Holiday Charge may include, but shall not be limited to, time scaling of the volatility charge or a stress scenario that reflects potential market price volatility on the Holiday.

(5) Intraday Mark-to-Market Charge

The Corporation may also collect a payment on an intra-day basis that is calculated as the difference between (x) the most recent mark-to-market price of a Member's net CNS and Balance Order positions (including its CNS failed positions) and (y) the most recently observed market price for such positions if such difference meets or exceeds 80 percent of the Member's volatility component. The Corporation may reduce such threshold during volatile market conditions if the Corporation determines that a reduction of the threshold is appropriate to mitigate risks to the Corporation by accelerating the collection of anticipated additional margin from Members whose portfolios may present relatively greater risks to the Corporation on an overnight basis.

(6) Intraday Volatility Charge

The Corporation may collect an additional payment ("intraday volatility charge") if (1) the difference between (i) a Member's volatility charge calculated with respect to its Net Unsettled Position, calculated pursuant to Section I.(A)(1)(a) of this Procedure, and

the Member's volatility charge calculated with respect to its Net Balance Order Unsettled Positions, calculated pursuant to Section I.(A)(2)(a) of this Procedure XV ("volatility charge") at the start of the day for a Member, and (ii) the volatility charge calculated for that Member intraday exceeds 100 percent; and (2) and the amount that would be collected, as calculated by the formula set forth below, would be greater than \$250,000.

The Corporation would not collect an intraday volatility charge if (a) trades submitted later in the day would offset trades submitted earlier in the day, such that the thresholds would not have been met if such activity had been submitted earlier in the day, or (b) the threshold was met due to the submission of an erroneous trade that can be corrected.

The amount of intraday volatility charge that may be collected shall be calculated as the difference between (1)(i) and (1)(ii) in the first paragraph of this section, reduced by the portion of the margin requirement differential charge that represents the volatility component calculated pursuant to Sections I.(A)(1)(e)(ii) and (2)(d)(ii) and collected at the start of that Business Day.

For purposes of calculating both (1)(i) and (1)(ii) in the first paragraph of this section, the Corporation would exclude the amount calculated for long positions in Family Issued Securities described in Sections I.(A)(1)(a)(iv) and (2)(a)(iv) of this Procedure XV. For purposes of calculating (1)(ii) in the first paragraph of this section, the Corporation would exclude from a Member's Net Unsettled Positions and Net Balance Order Unsettled Positions any shares delivered to or received by the Member to satisfy all or any portion of a short or long position.

The Corporation may reduce the 100 percent threshold, for example during volatile market conditions or market events that cause increases in trading volumes, if the Corporation determines that a reduction of the threshold is appropriate to mitigate risks to the Corporation by accelerating the collection of anticipated additional margin from those Members whose portfolios may present relatively larger risks to the Corporation on an overnight basis.

## II. Minimum Clearing Fund and Additional Deposit Requirements

(A) Each Member of the Corporation shall be required to contribute a minimum of \$250,000 (the "minimum contribution"), excluding Required SFT Deposit. The first 40% (but no less than \$250,000) of a Member's Required Fund Deposit (excluding Required SFT 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 a haircut schedule (described in subsection 1. below).

### 1. Special Provisions Related to Eligible Clearing Fund Securities:

All Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be subject to a haircut and may

be subject to a concentration limit. The Corporation shall determine the applicable haircuts and any concentration limits from time to time in accordance with its internal policy and governance process, based on factors determined to be relevant by the Corporation, which may include, for example, backtesting results and the Corporation's assessment of market conditions, in order to set appropriately conservative haircuts and/or concentration limits for the Eligible Clearing Fund Securities and minimize backtesting deficiency occurrences. The haircuts and any concentration limits prescribed by the Corporation shall be set forth in a haircut schedule that is published on the Corporation's website. It shall be the Member's responsibility to retrieve the haircut schedule. The Corporation will provide Members with at a minimum one Business Day's advance notice of any change in the haircut schedule.

(B) All Clearing Fund requirements and other deposit requirements shall be made by Members within one hour of demand unless otherwise determined by the Corporation; provided, however, that to the extent the 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 DTC. At the discretion of the Corporation, cash deposits may be included as part of the 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; provided that the affected Member is not on the Watch List.

(D) Where the amount of a 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.



PROCEDURE XVI. (RESERVED FOR FUTURE USE)

PROCEDURE XVII. (PROCEDURE NUMBER RESERVED FOR FUTURE USE)

## PROCEDURE XVIII. ACATS SETTLEMENT ACCOUNTING OPERATION

The ACATS Settlement Accounting Operation provides settlement efficiencies for eligible transactions as it may reduce the number of ACATS transactions a Member may be obligated to settle on a given day, as applicable.

Items shall be eligible for processing by the ACATS Settlement Accounting Operation that are: (i) staged for settlement processing in accordance with Rule 50 and are (ii): (a) CNS-eligible items, or (b) otherwise eligible for DTC settlement services, unless such a transaction is: (1) otherwise determined by the Corporation at its discretion to be ineligible for the ACATS Settlement Accounting Operation, or (2) subject to a corporate reorganization.

For items eligible for the ACATS Settlement Accounting Operation, the Corporation will aggregate the receive and deliver instructions so that a Member will have only one aggregate receive obligation and one aggregate deliver obligation on ACATS Settlement Date in the given security processed into separate subaccounts established with the Corporation for this purpose.

If on ACATS Settlement Date, a transaction within the ACATS Settlement Accounting Operation is no longer eligible for processing by the ACATS Settlement Accounting Operation, the transaction will be exited from the accounting system and instructions will be issued to the Members to the transaction to settle directly among themselves. The Corporation will debit and credit the Members' settlement accounts as appropriate for the value of the applicable items. The actual delivery and corresponding money settlement of the underlying assets, regardless of whether a Member's account has been debited or credited pursuant to this subsection, shall be the responsibility of the applicable Members and, to the extent applicable, shall be pursuant to the rules of the Member's DEA.

For transactions within the ACATS Settlement Accounting Operation on ACATS Settlement Date, the Corporation will send an Instruction File to the Qualified Securities Depository specifying the securities to be delivered and/or received, in each case pursuant to the standing instructions filed with the Corporation by the Delivering Member. Such deliveries and receives will be updated to the applicable subaccounts of the Member established with the Corporation for this purpose.

At end of day on Settlement Date, any uncompleted transaction that is CNS eligible will be entered into the CNS General Accounting process made pursuant to Rule 11.<sup>1</sup> For any uncompleted transaction that is not CNS eligible, the Corporation will issue instructions to the Members to the transaction to settle directly with one another and the transaction may be entered into the Obligation Warehouse in accordance with

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<sup>1</sup> Any such transaction will become guaranteed on settlement day after the Member has paid their final money settlement to NSCC and the transaction is entered into the CNS Accounting Operation. If the Member has not paid final money settlement, the transactions will be reversed in accordance with the provisions of Rule 18 and Rule 50.

Rule 51 and Procedure II.A. Additionally, the Corporation will debit and credit the Member's settlement account for the value of the applicable items. The actual delivery and corresponding money settlement of the underlying assets, regardless of whether a Member's account has been debited pursuant to this subsection, shall be the responsibility of the appropriate Member and, to the extent applicable, shall be pursuant to the rules of the Member's DEA. If a Member fails to make a delivery, such failure, to the extent applicable, shall be subject to the rules of the Member's DEA and not the Rules of the Corporation.

#### Exemptions and Exemption Overrides

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 establishing a "Level 1" Exemption. 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 this ACATS Settlement Accounting Operation 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.

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.

With respect to 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 same day exemption 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 8902.

The securities designated to be delivered on the DO are applied to any quantity covered by a Level 1 Exemption and the Same Day Settling Exemption. If there is still a remaining quantity, that quantity is not processed.

#### Allocation of ACATS Deliveries and Receives

After securities are received by the Corporation from Members with short ACATS positions, they are allocated to other Members which have long ACATS positions. The allocation of these securities is governed by an algorithm as formulated by the Corporation from time to time as to not to benefit any one Member.

Transfers of securities from a Member's account at the Member's Designated Depository to NSCC will be deemed by the Corporation to satisfy a Member's ACATS deliver obligation prior to any CNS-related obligation of the Member in the same

security. This information shall be provided to the Member's Designated Depository to facilitate processing in accordance with the Designated Depository's procedures.

Reporting

Final accounting reports in relation to the ACATS Settlement Accounting Operation shall be made in conjunction with the CNS Accounting Summary provided for under Procedure XVII. The inclusion of reporting of the accounting summary for the ACATS Settlement Accounting Operation in conjunction with the CNS Accounting Summary has no effect on the status of the reported ACATS transactions as non-guaranteed.

ADDENDUM A

NATIONAL SECURITIES CLEARING CORPORATION

FEE STRUCTURE

- I. TRADE COMPARISON AND RECORDING SERVICE FEES – represents the fees to enter and correct original trade data.
  - A. Trade Comparison:
    - 1. Each side of each bond trade submitted – \$0.85 per side.
  - B. Trade Correction Fees:<sup>1</sup>
    - 1. Listed Equity System Correction Fees:

Suggested Name Deletes submitted to the Corporation directly by participants on T+1 – \$0.40 to both sides.
    - 2. Bond Correction Fees:

All supplemental input after T (Advisory, As Of, Reversal): \$0.95 to the submitter
  - C. Trade recording fees will be charged as follows on those items originally compared by other parties, but cleared through the Corporation<sup>2</sup>:
    - 1. Each side of each bond item entered for settlement, but not compared by the Corporation – \$0.85 per side.
    - 2. Each side of a foreign security trade entered for settlement, but not compared by the Corporation – \$0.85 per side.
  - D. OBLIGATION WAREHOUSE
    - 1. Warehouse Fee for each compared item \$0.02
    - 2. Matching Fee for each submission \$0.85
    - 3. Fee for each pending comparison advisory aged 5 days or more \$5.50

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<sup>1</sup> Trade Submission Fees (see I.A. above) will be charged in addition to the Trade Correction Fees detailed in I.B. Trade Correction Fees will not be applied on OCS, IDC and ACT input.

<sup>2</sup> Trade recording fees for equities are incorporated into the Clearance Activity Fee set forth in II.A. below.

4. Fee to apply mandatory corporate action events to compared obligations warehoused in Obligation Warehouse \$2.50
5. Fee for OW delivery notification request advisories aged 2 days or older \$2.50
6. Fee for OW pending cancel request advisories aged 2 days or older \$2.50
7. Fee for each obligation closed due to Envelope Settlement Service (ESS) (charged per obligation side) \$0.35

E. Index Receipts

Index Creation and Redemption Units – each side of each Index Creation and Redemption instruction submitted – \$35 per side.

II. TRADE CLEARANCE FEES –

represents fees for trade recording, netting, issuance of instructions to receive or deliver, effecting book-entry deliveries, and related activity.

A. Clearance Activity Fees –

1. Non-SFT – The sum of: (a) a “value into the net” fee of \$0.46 per million of processed value (i.e. for CNS and Balance Order netting, the sum of the contract amount and any CNS fail value), plus (b) a “value out of the net” fee of \$2.16 per million of settling value (i.e. the absolute value of the CNS Long and Short Positions).
2. SFT –
  - a. \$1.00 per side of each new SFT submitted (excluding any Linked SFT and Sponsored Member Transactions).
  - b. \$0.14 per million of outstanding SFT notional balance.

B. Fails to Deliver to CNS (Short-In CNS) –

1. \$0.25 per item short in CNS for 1 to 30 days at close of business.
2. \$3.00 per item short in CNS for more than 30 days at close of business.

C. Security orders generated<sup>3</sup> – \$0.40 per item.

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<sup>3</sup> A security order, or non-CNS settling item, is an instruction to deliver or receive securities outside of the CNS system. These instructions will be generated when cleared securities are not eligible for

- D. CNS Buy-In (long Broker and short Broker) – \$5.00 per item.
- E. Clearing Interface Exemption or Inclusion Instruction to the Corporation – \$0.75 per item.
- F. Reorganizations
  - 1. Mandatory Reorganizations – \$2.50 each
  - 2. Voluntary Reorganizations –
    - a. Long Broker (per input submitted on the Business Day prior to the protect expiration date or, when there is no protect period, the Business Day prior to the expiration date) Automated Input \$15.00 each
    - b. Long Broker (per input or add submitted on the protect expiration date or, when there is no protect period, on the expiration date) \$500.00 each
    - c. Short Broker (per reorganization) \$35.00 each
- G. Dividends
  - CNS Stock Dividend, Cash Dividend, and Interest Payment (Long & Short) - \$1.85 per item
- III. DELIVERY SERVICE FEES
  - A. Envelope Settlement Service:
    - ESS Deliveries or Receives<sup>4</sup> \$10.00 per envelope
  - B. New York State Transfer Taxes \$175.00 per month
- IV. OTHER SERVICE FEES
  - A. Reorganizations \$10.00 per item
  - B. Non-CNS Buy-ins \$10.00 per item

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CNS or when both parties to a transaction wish to settle in this manner. Security orders may be issued on an item-by-item basis or netted through balance order procedures.

<sup>4</sup> This fee applies to all ESS deliveries and receives (including intercity).



- C. Check and Draft processing \$165.00 per month
- D. Reconciliation and Proof of Settlement \$100.00 per month
- E. Processing Daily Settlement activity entered on Settlement Statement  
\$1.00 per item (minimum \$25.00; maximum \$250.00 per month)
- F. Automated Customer Account Transfer Service
  - 1. Account Transfers \$0.50 per transfer initiation
  - 2. Recording
    - Asset Receives \$0.06 per asset which is received by the receiving firm
  - 3. Non-CNS Receive/Deliver Orders \$0.12 per order issued
- G. Mutual Fund Services
  - 1. Fund/SERV®
    - a. Membership Fee: \$50.00 per month  
for each participating Member, Mutual Fund/Insurance Services Member and Fund Member regardless of activity level
    - b. Transaction Fee: \$0.06 per side per order or transfer request settling through the Corporation
  - 2. Networking<sup>7</sup>
    - a. Membership Fee: \$200.00 per month  
for each participating Member, Mutual Fund/Insurance Services Member and Fund Member regardless of activity level
    - b. Activity Fee (all types except for Networking Omnibus Activity Position Files (Omni/SERV)) \$0.001 per record
    - c. Networking Omnibus Activity/Position Files (Omni/SERV) \$1,500.00 monthly file fee for omnibus file transmissions

3. DTCC Payment aXis<sup>7</sup>

## a. Commission &amp; Fee Settlement

- |      |  |  |
|------|--|--|
| (i)  | Membership Fee   | \$50.00 per month                        |
|      |  |  |
| (ii) | Transaction Fees   |  |
|      |  |  |
| A.   | For the first 500,000 records submitted each month                                     | \$0.30 per hundred records, \$50 minimum |
|      |  |  |
| B.   | For each record in excess of 500,000, but not exceeding 1,000,000 submitted each month | \$0.20 per hundred records               |
|      |  |  |
| C.   | For each record in excess of 1,000,000 submitted each month                            | \$0.10 per hundred records               |

## b. Invoicing &amp; Fee Settlement

- |       |  |                            |
|-------|--|----------------------------|
| (i)   | Membership Fee   | \$500.00 per month         |
|       |  |                            |
| (ii)  | Transaction Fees (excluding Detail Records):   |                            |
|       |  |                            |
| A.    | For the first 500,000 records submitted each month                                     | \$0.10 per record          |
|       |  |                            |
| B.    | For each record in excess of 500,000, but not exceeding 1,000,000 submitted each month | \$0.08 per record          |
|       |  |                            |
| C.    | For each record in excess of 1,000,000 submitted each month                            | \$0.06 per record          |
|       |  |                            |
| (iii) | Detail Record Fees   |                            |
|       |  |                            |
| A.    | For the first 500,000 records submitted each month                                     | \$0.30 per hundred records |
|       |  | \$0.20 per hundred records |
| B.    | For each record in excess of 500,000, but not exceeding 1,000,000 submitted each month | \$0.10 per hundred records |
|       |  |                            |
| C.    | For each record in excess of 1,000,000 submitted each month                            |                            |

4. Profile
  - a. Phase I (price and rate) only \$325.00 per month
  - b. Phases I and II \$1,250.00 per month<sup>5</sup>
5. MF Info Xchange
  - a. Tier 1 – Fund Members with greater than 25 Security Issue IDs on Fund/SERV and all users other than Fund Members \$1,500.00 per month
  - b. Tier 2 – Fund Members with 25 or fewer Security Issue IDs on Fund/SERV \$250.00 per month
- H. Insurance & Retirement Services<sup>6, 7</sup>
  1. Membership Fee \$250.00 per month (will be waived if aggregate Transaction and Other Service Fees in such month equal or exceed \$250.00)

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<sup>5</sup> Users of Profile II with 25 or fewer funds in their family will receive a \$1,000.00 credit per month against the base \$1,250.00 per month fee. Thus, the net fee for fund families which meet this criterion will be \$250.00 per month.

<sup>6</sup> Unless otherwise noted, all Insurance & Retirement Services transaction fees are per transaction, per side, and both sides are charged for each item. Volume is calculated on an aggregate basis among qualified carrier members or qualified distributor members, as applicable.

Multiple destination fees apply. Participants directing NSCC to deliver Insurance & Retirement Service files to more than two (2) destinations will be charged an additional monthly fee, per product, as follows: (i) Participants directing NSCC to deliver Insurance & Retirement Service files to three (3), four (4) or five (5) destinations will be charged an additional \$50 per month, per product; and (ii) Participants directing NSCC to deliver Insurance & Retirement Service files to more than five (5) destinations will be charged an additional \$100 per month, per product.

<sup>7</sup> Extraordinary Event Pricing: if arranged in advance with NSCC, a Participant may qualify for a credit on transaction fees incurred due to extraordinary events such as mergers or mass reconciliations that generate unusually high transaction volume for a limited duration. With respect to transaction types for which the participant has no history of prior usage, the credit is in the amount of 85% of the transaction fees chargeable in respect of the transaction type, with an additional credit in the amount of 5% if the participant continues use of the transaction type after the event. With respect to transaction types for which the participant has a history of prior usage, the credit is in an amount sufficient to produce an aggregate fee for the transaction type that is no more than 120% of the average amount charged to the participant in respect of such transactions in the prior three months.

## 2. Transaction Fees

### a. (i) Positions (Full (PVF), New (PNF) and Retirement Plans (PRP))

- From 0 to 500,000 items/month \$6.25 per 1,000 items
- From 500,001 to 2,000,000 items/month \$3.65 per 1,000 items
- From 2,000,001 to 4,000,000 items/month \$3.10 per 1,000 items
- For 4,000,001 or more items/month \$1.30 per 1,000 items

### (ii) Positions (Focused) (PFF)

- From 0 to 500,000 items/month \$3.25 per 1,000 items
- From 500,001 to 2,000,000 items/month \$1.65 per 1,000 items
- From 2,000,001 to 4,000,000 items/month \$1.10 per 1,000 items
- For 4,000,001 or more items/month \$0.55 per 1,000 items

### b. Asset Pricing (AAP)

- From 0 to 49,999 items/month \$0.75 per 1,000 items
- From 50,000 to 249,999 items/month \$0.65 per 1,000 items
- From 250,000 to 999,999 items/month \$0.55 per 1,000 items
- More than 999,999 items/month \$0.45 per 1,000 items

### c. Commissions and Compensation (COM)

- From 0 to 999 items/month \$40.00 per 1,000 items
- From 1,000 to 9,999 items/month \$35.00 per 1,000 items
- From 10,000 to 29,999 items/month \$30.00 per 1,000 items
- More than 29,999 items/month \$25.00 per 1,000 items

d.	Applications and Premiums (APP) <sup>8</sup>	
	• From 0 to 1,999 items/month	\$1.50 per item
	• From 2,000 to 3,499 items/month	\$1.00 per item
	• More than 3,499 items/month	\$0.50 per item
e.	Subsequent Premiums (SUB)	\$0.50 per item
f.	Paperless Replacements Processing (RPL)	\$1.85 per request (per submitter)
g.	Financial Activity Report (FAR)	\$0.05 per zero to 100,000 items
		\$0.04 per 100,001 to 150,000 items
		\$0.03 per 150,001 to 200,000 items
		\$0.02 per 200,001 or greater items
h.	Financial Activity for Asset Managers (FAM) (for each participating asset manager)	\$2,500.00 per month
i.	Settlement Processing for Insurance (STL)	
	• 0 to 20,000 items/month	\$0.65 (per item)
	• 20,001 to 30,000 items/month	\$0.35 (per item)
	• 30,001 to 40,000 items/month	\$0.25 (per item)
	• More than 40,000 items/month	\$0.15 (per item)
j.	Producer Management Portal (PMP)	
	1. Distributor Batch Service Fees	\$6,000 per month
	2. Distributor Subscription Fee	\$1.25 per inquiry, \$6,000 maximum per month

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<sup>8</sup> Each initial application with a new business attachment will be subject to a \$0.25 discount.

3. For Insurance Company providers of producer training completions

<u>Band</u>	<u>Number of Active Producers Managed</u>	<u>Monthly Fee</u>
1	0-999	\$0
2	1,000-9,999	\$1,000
3	10,000-49,999	\$3,000
4	50,000-99,999	\$4,000
5	100,000-249,999	\$5,000
6	250,000 +	\$5,000, plus \$0.018 per active producer managed

k. Producer Authorization (PAR) (per receiving carrier)

Total Messages Received	Monthly Fee
1-250	\$250
251-2,000	\$1,500
2,001-5,000	\$3,000
5,001 +	\$5,000

l. Insurance Information Exchange (IIEX)

**Policy Data**

IIEX Fees for Members and Limited Members

Monthly subscription fee based on the number of policies that the Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Data Services Only Member, as applicable, would be entitled to access from the IIEX data repository as follows:

<u>Number of Policies</u>	<u>Monthly Fee</u>
0 – 50,000	\$1,500
50,001 – 200,000	\$2,000
200,001 – 400,000	\$3,000
Greater than 400,000	\$5,000

**Product Data**

## (1) Insurance Carrier/Retirement Services Members

<u>Subscription</u>	<u>Monthly Fee</u>
Full Data Subscription	\$3,000
Limited Data Subscription	\$1,500

## (2) Members, Mutual Fund/Insurance Services Members, Data Services Only Members and Service Providers

<u>Subscription</u>	<u>Monthly Fee</u>
Full Data Subscription	\$3,000
Limited Data Subscription	\$1,500
Full Data Subscription (User Web Interface Only)	\$500, plus \$1.25 per CUSIP download transaction charge
Limited Data Subscription (User Web Interface Only)	\$250, plus \$1.25 per CUSIP download transaction charge

## 3. Other Transaction Fees

<u>PRICE TIER</u>	<u>FEE</u>	<u>PRODUCT/SERVICE</u>
TIER 1	\$0.05	All Attachments (per attachment)
TIER 2	\$0.15	Licensing and Appointments (LNA) Periodic Reconciliation

<u>PRICE TIER</u>	<u>FEE</u>	<u>PRODUCT/SERVICE</u>
TIER 3	\$0.35	Licensing and Appointments (LNA) Transaction
		Registered Representative (REP) Change Confirm
		Registered Representative (REP) Change Request
		Brokerage Identification Number (BIN) Change Request
		Brokerage Identification Number (BIN) Change Confirm
		Values Inquiry*
		Policy Administration inquiry*
		Activity Status Tracking (ACT)
TIER 4	\$0.65	Customer Account Transfer (CAT) Output (per transaction, charged to Insurance Carrier/Retirement Services Member only)
		Customer Account Transfer (CAT) Confirm
		Time Expired Transaction (TEX)
		Policy Administration Request*
		Death Notification Request*
		Fund Transfer*
		Withdrawals*
		Arrangements*

\* For the transactions identified above with an asterisk (\*) ("IFT Transactions"), entities must pay a minimum monthly fee based on the chosen threshold level as set forth in the \*IN FORCE TRANSACTIONS CHART below. For a participant that has chosen Level 2, Level 3 or Level 4 for a month, when the transaction fees for such month for IFT Transactions exceed the minimum monthly fee for such threshold level, the transaction fees above the minimum monthly fee amount will be discounted at the rate specified for such threshold level as reflected in the \*IN FORCE TRANSACTIONS CHART below.



**\*IN FORCE TRANSACTIONS CHART**

<b>THRESHOLD LEVEL</b>	<b>MINIMUM MONTHLY FEE</b>	<b>DISCOUNT FOR TRANSACTIONS AFTER FEES EXCEED MINIMUM MONTHLY FEE AMOUNT</b>
Level 1	\$250	No Discount (pay base price of \$0.65/\$0.35 for Requests/Inquiries)
Level 2	\$500	5%
Level 3	\$1,000	10%
Level 4	\$3,000	20%

I. (RESERVED FOR FUTURE USE)

J. (RESERVED FOR FUTURE USE)

K. Account Information Transmission Service \$200.00 per month  
for each Member participating in the service

L. Alternative Investment Products

1. Higher Volume<sup>9</sup> Eligible AIP Product Fees

a. Records

- (i) The first 2,999,999 records \$0.10 per record  
per calendar year
- (ii) The next 1,000,000 records \$0.09 per record  
per calendar year<sup>10</sup>

<sup>9</sup> Higher volume Eligible AIP Products are identified in subsection 3.

<sup>10</sup> i.e., the 3,000,000<sup>th</sup> to 3,999,999<sup>th</sup> records submitted in a calendar year.

	(iii)	The next 1,000,000 records per calendar year <sup>11</sup>	\$0.08 per record
	(iv)	All additional records <sup>12</sup>	\$0.07 per record
b.		Trades (other than capital calls)	
	(i)	The first 10,000 trades per calendar year	\$5.00 per trade
	(ii)	The next 10,000 trades per calendar year <sup>13</sup>	\$4.75 per trade
	(iii)	The next 10,000 trades per calendar year <sup>14</sup>	\$4.50 per trade
	(iv)	All additional trades <sup>15</sup>	\$4.00 per trade
c.		Capital calls	\$2.00 per trade
d.		Transfers	\$0.50 per transfer
2.		Lower Volume <sup>16</sup> Eligible AIP Product Fees	
a.		Records	
	(i)	AIP Manufacturers	\$2.00 per record
	(ii)	AIP Distributors	\$1.00 per record
b.		Trades (other than capital calls)	\$10.00 per trade
c.		Capital calls	\$2.00 per trade
d.		Transfers	\$2.00 per transfer

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<sup>11</sup> i.e., the 4,000,000<sup>th</sup> to 4,999,999<sup>th</sup> records submitted in a calendar year.

<sup>12</sup> i.e., the 5,000,000<sup>th</sup> and higher records submitted in a calendar year.

<sup>13</sup> i.e., the 10,001<sup>st</sup> to 20,000<sup>th</sup> trades submitted in a calendar year.

<sup>14</sup> i.e., the 20,001<sup>st</sup> to 30,000<sup>th</sup> trades submitted in a calendar year.

<sup>15</sup> i.e., the 30,001<sup>st</sup> and higher trades submitted in a calendar year.

<sup>16</sup> Lower volume Eligible AIP Products are identified in subsection 3.

3.	<b>Eligible AIP Product</b>	<b>HIGHER VOLUME</b>	<b>LOWER VOLUME</b>
	Hedge Fund		√
	Fund of Funds		√
	Private Equity Fund		√
	Managed Debt Fund		√
	Private Debt Fund		√
	Managed Currency Fund		√
	Commodity Pool Fund		√
	REIT	√	
	Managed Future Fund	√	
	Business Development Corporation (BDC)	√	
	Registered Hedge Fund <sup>17</sup>	√	
	Oil & Gas Public	√	
	Oil & Gas Private	√	
	Equipment Leasing Public	√	
	Equipment Leasing Private	√	
	Futures Public	√	
	Futures Private	√	
	Notes Public	√	
	Notes Private	√	
	Real Estate Public	√	
	Real Estate Private	√	
	Closed End Management Investment Company	√	
	All Other		√

4. Document Transfers \$1.00 per item, per side

<sup>17</sup> For purposes of the Alternative Investment Products fee structure, "Registered Hedge Fund" shall mean hedge funds that are registered under the Investment Company Act of 1940, as amended.

## V. PASS-THROUGH AND OTHER FEES

- A. Participant Fees - represents the monthly fee for each number assigned to a Member or Municipal Comparison Only Member for participation by each Member or Municipal Comparison Only Member under such number in one or more of the specified services provided by the Corporation. The services and their related base fees are:

## 1. Trade Processing System

For Members	\$300.00 per month, per account
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## B. Special Service Fees:

## 1. Output Fees

a. Machine Readable Output	\$10.00 per tape
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b. Service Bureau Tapes	\$2.50 per tape
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c. Magnetic Tape not returned	\$20.00 per tape
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## d. Printed Output Reports:

For Members with less than 20,000 lines per month	No charge
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For Members with 20,000 or more lines per month	\$4.00 per each 1000 lines
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2. Microfiche Reports	\$3.00 per fiche
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3. Special Research	\$25.00 per hour
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4. Domestic Portfolio Composition File	\$125.00 per month per file
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5. Foreign Portfolio Composition File	\$125.00 per month per file
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6.	Subscription-based Portfolio Composition File Reporting	<p>\$4.00 per unit per month for the first zero to 200 average daily units<sup>18</sup></p> <p>\$3.00 per unit per month for the next 300 average daily units (201st to 500th units)</p> <p>\$2.00 per unit per month for all average daily units above 500 (501<sup>st</sup> and above)</p> <p>\$800 minimum; \$1,800 maximum per month</p>
C.	Pass-Through Expenses:	
1.	Communications	
	a. Communications Access	Cost
	b. Telephone toll calls	Cost
	c. Failure to migrate from legacy networks to SMART and/or SFTI	Cost <sup>19</sup>
2.	Forms	
3.	<p>Miscellaneous Expenses:</p> <p>Any other expense not specified above, whether one-time or recurring, which the Corporation may incur on behalf of a Member at a Member's request</p>	Cost

<sup>18</sup> "Units" refers to the number of portfolio subscriptions for each billing month. Unit charges are calculated by applying the tiered fee structure to the average daily number of units subscribed for by the Member in the billing month.

<sup>19</sup> The entire cost of supporting the legacy network connections will be allocated among the remaining users pro rata.

D.	(1) Each item submitted in paper form (except Envelope Settlement Service, Funds Only Settlement Service, Dividend Settlement Service, Correspondent Delivery and Collection Service, and Automated Customer Account Transfer Service Transfer Initiation Form)	\$0.50 per item
	(2) Each ACAT Transfer Initiation Form submitted in paper form	\$1.00 per item
E.	Line of Credit Commitment Fee	Current month's cost -- pro rata monthly among Letter of Credit users based upon previous month's utilization
F.	Clearing Fund Maintenance Fee	A monthly fee calculated, in arrears, as the product of (A) 0.35% and (B) the average of each Member's cash deposit balance in the Clearing Fund (excluding cash deposit balances in any SFT Accounts), as of the end of each day, for the month, multiplied by the number of days for that month and divided by 360.

## VI. COLLECTION CHARGE

The Corporation may also bill Members and Mutual Fund/Insurance Services Members for, and include on Members' and Mutual Fund/Insurance Services Members' (referred to in this section collectively as "participants") settlement statements, fees and charges which may be imposed on such participants by third parties such as: (a) other subsidiaries of The Depository Trust & Clearing Corporation (b) self-regulatory organizations and other security industry organizations or entities, where such third party has represented to the Corporation that it has an agreement with the participant allowing the participant's payment of such fees and charges; and (c) other organizations and entities which provide services or equipment to participants which are integral to services provided by the Corporation. Any amounts so collected will be remitted to the appropriate organization or entity imposing such fee or charge.

Such fees and charges may include those of companies that identify themselves as being an affiliate of the participant. Participants should check their settlement statements, which shall reflect all such charges, and report any problems to the Corporation immediately.

## VII. APPLICATION OF FEES

With the exception of certain Registered Clearing Agencies, all fees will be charged uniformly to all participants and collected through the settlement system if possible. Fees for other standard services provided to Registered Clearing Agencies will be the same as those charged to other participants. Special services performed for Registered Clearing Agencies will be contracted on an individual basis.

## VIII. NSCC REBATE POLICY

The Corporation may, in its discretion, provide Members with a rebate of its excess net income, where “excess net income” shall mean either income of the Corporation or income related to one business line of the Corporation, after application of expenses, capitalization costs, and applicable regulatory requirements.

All rebates shall be approved by the Board of Directors. In determining whether a rebate is appropriate, the Board of Directors would consider one or more of the following, as appropriate: the Corporation’s regulatory capital requirements, anticipated expenses, investment needs, anticipated future expenses with respect to improvement or maintenance of the Corporation’s operations, cash balances, financial projections, and appropriate level of shareholders’ equity.

In the event the Board of Directors determines a rebate is appropriate, it shall determine a rebate period and a rebate payment date. Members maintaining membership during all or a portion of the applicable rebate period and on the rebate payment date shall be eligible for the rebate.

Rebates shall be applied to all eligible Members on a pro-rata basis based on such Members’ gross fees paid to the Corporation within the applicable rebate period, excluding pass-through fees and interest earned on Required Fund Deposits. Rebates shall be applied to eligible Members’ invoices on the rebate payment date as either a reduction in fees owed or, if fees owed are lower than the allocated rebate amount, a payment of such difference. Rebate amounts may be adjusted for miscellaneous charges and discounts.

## IX. SPONSORING MEMBERS

A Sponsoring Member shall be liable for fees and charges arising from Sponsored Member Transactions, the data on which it, or its Sponsored Member(s), has submitted to the Corporation.

## ADDENDUM B

### QUALIFICATIONS AND STANDARDS OF FINANCIAL RESPONSIBILITY, OPERATIONAL CAPABILITY AND BUSINESS HISTORY

MEMBERS (Section 1);

MUTUAL FUND/INSURANCE SERVICES MEMBERS (Section 2);

FUND MEMBERS (Section 3);

INSURANCE CARRIER/RETIREMENT SERVICES MEMBERS (Section 4);

MUNICIPAL COMPARISON ONLY MEMBERS (Section 5);

DATA SERVICES ONLY MEMBERS (Section 6);

SETTLING BANK ONLY MEMBERS (Section 7);

THIRD PARTY ADMINISTRATOR MEMBERS (Section 8);

INVESTMENT MANAGER/AGENT MEMBERS (Section 9);

AIP MEMBERS (Section 10); and

THIRD PARTY PROVIDER MEMBERS (Section 11)

SPONSORED MEMBERS (Section 12)

Each applicant for membership in the Corporation shall meet the qualifications, financial responsibility, operational capability and business history requirements as applicable to its membership type. Following an applicant's admission to membership in the Corporation, it shall be required to continue meeting the qualifications, financial responsibility, operational capability and business history requirements as applicable to its membership type.

An applicant must demonstrate (i) that it has sufficient financial ability to meet all of its anticipated obligations to the Corporation and, (ii) if applicable to its membership type, that it has sufficient financial ability to make anticipated contributions to the Clearing Fund.

In addition to the above, the following requirements apply:



## SEC. 1. MEMBERS

### A. Qualification

To qualify for membership as a Member, an applicant or Member shall be:

- (i) a Registered Broker-Dealer; or
- (ii) a bank or trust company, including a trust company having limited power, which is a member of the Federal Reserve System or is supervised and examined by state or federal authorities having supervision over banks; or
- (iii) a Registered Clearing Agency; or
- (iv) an Insurance Company or an Insurance Entity; or
- (v) an investment company registered under Section 8 of the Investment Company Act of 1940, as amended; or
- (vi) if it does not qualify under paragraphs (i) through (v) above, an entity that has demonstrated to the Board of Directors that its business and capabilities are such that it could reasonably expect material benefit from direct access to the Corporation's services.

### B. Financial Responsibility

#### 1. U.S. Broker-Dealers:

An applicant or Member that is a U.S. broker-dealer must have and maintain at all times minimum Excess Net Capital as follows:

Clearing Status	Value-at-Risk Tier ("VaR Tier")	Minimum Excess Net Capital
Self-Clearing	<\$100,000	\$1 million Excess Net Capital
	\$100,000-\$500,000	\$2.5 million Excess Net Capital
	>\$500,000	\$5 million Excess Net Capital
Clears for Others	<\$100,000	\$2.5 million Excess Net Capital
	\$100,000-\$500,000	\$5 million Excess Net Capital
	>\$500,000	\$10 million Excess Net Capital

The VaR Tier in the table above is based on the daily volatility component of a Member's Net Unsettled Positions calculated as of the start of each Business Day pursuant to Procedure XV as part of the Member's daily Required Fund Deposit.

As part of the tiered approach, a Member's daily volatility component may exceed its then-current VaR Tier four times over a rolling 12-month period. Upon the fifth instance of the Member's daily volatility component exceeding its then-current VaR Tier, the Member will be moved to the next-greatest VaR Tier, unless the Member's daily volatility component also exceeded such next-greatest VaR Tier five times during the preceding 12-month period, in which case the Member will be moved to the greatest VaR Tier. Upon moving to a greater VaR Tier, a Member will then have 60 calendar days from the date of the move to meet the higher required minimum Excess Net Capital for such VaR Tier.

If a Member fails to meet its higher required minimum Excess Net Capital within 60 calendar days and maintain it for so long as such higher required minimum Excess Net Capital applies, the Corporation may take any and all action against the Member pursuant to these Rules and Procedures.

Upon moving to a greater VaR Tier, a Member will remain in that greater VaR Tier for no less than one continuous year from the date of the move before being eligible to move to a lesser VaR Tier. This does not in any way preclude a Member from moving to an even greater VaR Tier (if any) in accordance with the requirements of this Section.

A Member will move to a lesser VaR Tier (if any) when (i) the Member has remained in its then-current VaR Tier for no less than one continuous year, (ii)

the Member's daily volatility component did not exceed such lesser VaR Tier on five instances or more over the preceding 12-month period and (iii) if at any time the Member's daily volatility component did exceed such lesser VaR Tier on five instances or more over a rolling 12-month period, the Member has remained in its then-current VaR Tier for no less than one continuous year from the date of each such instance.

For example, if a Member's daily volatility component exceeds the lesser VaR Tier for the fifth time over a rolling 12-month period on February 1, 2021, then the Member will remain in its then-current VaR Tier until at least January 31, 2022. If the same Member's daily volatility component then exceeds the lesser VaR Tier for the sixth time over a rolling 12-month period on February 15, 2021, then the Member will remain in its then-current VaR Tier until at least February 14, 2022. This does not in any way preclude a Member from moving to an even greater VaR Tier (if any) in accordance with the requirements of this Section.

Newly admitted Members will be placed into the middle VaR Tier in the table above, unless the Corporation determines, based on information provided by or concerning the Member, that the Member's anticipated VaR Tier for its anticipated trading activity would be the greatest VaR Tier, in which case the Member will be placed into the greatest VaR Tier. Any such determination will be promptly communicated to, and discussed with, the Member. A newly admitted Member will remain in its initial VaR Tier until it moves to a different VaR Tier in accordance with the requirements of this Section.

Notwithstanding the above requirements for a U.S. broker-dealer, if an applicant or Member is a Municipal Securities Brokers' Broker, it must have and maintain at all times minimum Excess Net Capital of \$100,000. Applicants or Members that are Municipal Securities Brokers' Broker sponsored account applicants shall be in compliance with Rule 15c3-1(a)(8) of the Exchange Act.

## 2. U.S. Banks and Trust Companies:

(a) an applicant or Member that is a U.S. bank or a U.S. trust company that is a bank must:

- (i) have and maintain at all times at least \$500 million in CET1 Capital and be Well Capitalized at all times; or
- (ii) have furnished to the Corporation a guarantee<sup>1</sup> of its parent bank holding company respecting the payment of any and all obligations of the applicant or Member, and such parent bank holding company shall have and maintain at all times

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<sup>1</sup> See also Rule 2B, Section 4 (Ongoing Monitoring).

CET1 Capital of at least \$500 million and be Well Capitalized at all times; and

(b) an applicant or Member that is a U.S. trust company that is not a bank, but that is a member of the Federal Reserve System or is supervised and examined by state or federal authorities having supervision over banks, must have and maintain at all times consolidated capital of at least \$10 million and that is adequate in the judgment of the Corporation to the scope and character of the business conducted by such trust company.

3. Non-U.S. Broker-Dealers and Banks:<sup>2</sup>

(a) an applicant or Member that is a non-U.S. broker-dealer must have and maintain at all times at least \$25 million in Equity Capital; and

(b) an applicant or Member that is a non-U.S. bank (including a U.S. branch or agency) must:

- (i) (A) have and maintain at all times at least \$500 million in CET1 Capital, (B) comply at all times with the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any domestic systemically important bank (D-SIB) or global systemically important bank (G-SIB) buffer, if applicable) and capital ratios required by its home country regulator, or, if greater, with such minimum capital requirements or capital ratios standards promulgated by the Basel Committee on Banking Supervision, (C) provide an attestation for itself, its parent bank and its parent bank holding company (as applicable) detailing the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by their home country regulator, (D) provide, no less than annually and upon request by the Corporation, an attestation for the Member, its parent bank and its parent bank holding company (as applicable) detailing the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by their home country regulator and (E) notify the Corporation: (1) within two Business Days of any of their capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) or capital ratios falling below any minimum required by their home country

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<sup>2</sup> See also Addendum O (Admission of Non-U.S. Entities as Members).

regulator; and (2) within 15 calendar days of any such minimum capital requirement or capital ratio changing; or

- (ii) (A) have furnished to the Corporation a guarantee<sup>3</sup> of its parent bank holding company respecting the payment of any and all obligations of the applicant or Member, (B) such parent bank holding company shall have and maintain at all times CET1 Capital of at least \$500 million and comply at all times with the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by its home country regulator, or, if greater, with such minimum capital requirements or capital ratios standards promulgated by the Basel Committee on Banking Supervision, (C) provide an attestation for itself, its parent bank and its parent bank holding company (as applicable) detailing the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by their home country regulator, (D) provide, no less than annually and upon request by the Corporation, an attestation for the Member, its parent bank and its parent bank holding company (as applicable) detailing the minimum capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) and capital ratios required by their home country regulator and (E) notify the Corporation: (1) within two Business Days of any of their capital requirements (including, but not limited to, any capital conservation buffer, countercyclical buffer, and any D-SIB or G-SIB buffer, if applicable) or capital ratios falling below any minimum required by their home country regulator; and (2) within 15 calendar days of any such minimum capital requirement or capital ratio changing.

#### 4. Securities Exchanges:

An applicant or Member that is (i) a national securities exchange registered under the Exchange Act and/or (ii) a non-U.S. securities exchange or multilateral trading facility, must have and maintain at all times at least \$100 million in Equity Capital.

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<sup>3</sup> See also Rule 2B, Section 4 (Ongoing Monitoring).

5. Index Receipt Agents:

An applicant or Member that is a broker-dealer that is acting as an Index Receipt Agent must have and maintain at all times minimum Excess Net Capital of \$100 million.

6. Others:

For an applicant or Member that is not otherwise addressed in this Section 1.B, (i) such applicant or Member must maintain compliance with its home country regulator's minimum financial requirements at all times and (ii) the Corporation may, based on information provided by or concerning an applicant or Member, also assign minimum financial requirements to such applicant or Member based on how closely it resembles another membership type and its risk profile. Any such assigned minimum financial requirements will be promptly communicated to, and discussed with, the applicant or Member.

Notwithstanding anything to the contrary in this Section 1.B, an applicant or Member must maintain compliance with its home country regulator's minimum financial requirements at all times.

C. Operational Capability<sup>4</sup>

An applicant or Member shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

D. Business History

An applicant or Member must have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business.

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<sup>4</sup> An applicant or Member must have the operational capability for membership or have an agreement, concerning the provision of operational support services to such applicant or Member, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.

## SEC. 2. MUTUAL FUND/INSURANCE SERVICES MEMBERS

### A. Qualification

To qualify for membership as a Mutual Fund/Insurance Services Member, an applicant or Mutual Fund/Insurance Services Member shall be:

- (i) a Registered Broker-Dealer; or
- (ii) a bank or trust company, including a trust company having limited power, which is a member of the Federal Reserve System or is supervised and examined by state or federal authorities having supervision over banks; or
- (iii) a Registered Clearing Agency; or
- (iv) an Insurance Company or an Insurance Entity; or
- (v) an investment company registered under Section 8 of the Investment Company Act of 1940, as amended; or
- (vi) if it does not qualify under paragraphs (i) through (v) above, an entity that has demonstrated to the Board of Directors that its business and capabilities are such that it could reasonably expect material benefit from direct access to the Corporation's services.

### B. Financial Responsibility

#### 1. Registered Broker-Dealers:

An applicant or Mutual Fund/Insurance Services Member that is a Registered Broker-Dealer must have and maintain at all times minimum Excess Net Capital of \$50,000.

#### 2. U.S. Banks and Trust Companies:

An applicant or Mutual Fund/Insurance Services Member that is a U.S. bank or trust company must have at all times a Tier 1 RBC Ratio equal to or greater than the Tier 1 RBC Ratio that would be required for such Mutual Fund/Insurance Services Member to be Well Capitalized.

Notwithstanding the preceding sentence, an applicant or Mutual Fund/Insurance Services Member that is a U.S. trust company that does not calculate a Tier 1 RBC Ratio must have at all times at least \$2 million in Equity Capital.

#### 3. Insurance Companies:

An applicant or Mutual Fund/Insurance Services Member that is an Insurance Company must have an RBC Ratio, as derived from annual statutory

financial statements filed by it with its supervisory or regulatory entity (or, between filings of such annual statutory financial statements, an RBC Ratio derived in a similar manner from then-current financial data), of 250% or greater.

4. Others:

For an applicant or Mutual Fund/Insurance Services Member that is not otherwise addressed in this Section 2.B, it will be required to satisfy such minimum standards of financial responsibility as determined by the Corporation. Any such assigned minimum standards of financial responsibility will be promptly communicated to, and discussed with, the applicant or Mutual Fund/Insurance Services Member.

Notwithstanding anything to the contrary in this Section 2.B, an applicant or Mutual Fund/Insurance Services Member must maintain compliance with its home country regulator's minimum financial requirements at all times.

C. Operational Capability<sup>5</sup>

An applicant or Mutual Fund/Insurance Services Member shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

D. Business History

An applicant or Mutual Fund/Insurance Services Member must have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business.

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<sup>5</sup> An applicant or Mutual Fund/Insurance Services Member must have the operational capability for membership or have an agreement, concerning the provision of operational support services to such applicant or Mutual Fund/Insurance Services Member, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.



## SEC. 3. FUND MEMBERS

### A. Qualification

To qualify for membership as a Fund Member, an applicant or Fund Member shall be:

(i) a principal underwriter as defined in Section 2(a)(29) of the Investment Company Act of 1940, as amended, or a co-distributor, sub-distributor, or is otherwise authorized to process transactions through the Corporation's Mutual Fund Services, and is a Registered Broker-Dealer; or

(ii) an investment company registered under Section 8 of the Investment Company Act of 1940, as amended; or

(iii) an investment adviser as defined in Section 202(a)(11) of the Investment Advisers Act of 1940, as amended; or

(iv) an Insurance Company; or

(v) a bank or trust company, including a trust company having limited power, which is a member of the Federal Reserve System or is supervised and examined by state or federal authorities having supervision over banks; or

(vi) if it does not qualify under paragraphs (i) through (v) above, it is an entity that has demonstrated to the Board of Directors that its business and capabilities are such that it could reasonably expect material benefit from direct access to the Corporation's services.

### B. Financial Responsibility

#### 1. Registered Broker-Dealers:

An applicant or Fund Member that is a Registered Broker-Dealer must have and maintain at all times minimum Excess Net Capital of \$50,000.

#### 2. U.S. Banks and Trust Companies:

An applicant or Fund Member that is a U.S. bank or trust company must have at all times a Tier 1 RBC Ratio equal to or greater than the Tier 1 RBC Ratio that would be required for such Fund Member to be Well Capitalized.

Notwithstanding the preceding sentence, an applicant or Fund Member that is a U.S. trust company that does not calculate a Tier 1 RBC Ratio must have at all times at least \$2 million in Equity Capital.

3. Investment Companies:

An applicant or Fund Member that is an investment company must have and maintain at all times a minimum of \$100,000 in assets under management.

4. Investment Advisers:

An applicant or Fund Member that is an investment adviser must have and maintain at all times a minimum of \$25,000,000 in assets under management and \$100,000 in total net worth.

5. Insurance Companies:

An applicant or Fund Member that is an Insurance Company must have an RBC Ratio, as derived from annual statutory financial statements filed by it with its supervisory or regulatory entity (or, between filings of such annual statutory financial statements, an RBC Ratio derived in a similar manner from then-current financial data), of 250% or greater.

6. Others:

For an applicant or Fund Member that is not otherwise addressed in this Section 3.B, it will be required to satisfy such minimum standards of financial responsibility as determined by the Corporation. Any such assigned minimum standards of financial responsibility will be promptly communicated to, and discussed with, the applicant or Fund Member.

Notwithstanding anything to the contrary in this Section 3.B, an applicant or Fund Member must maintain compliance with its home country regulator's minimum financial requirements at all times.

C. Operational Capability<sup>6</sup>

An applicant or Fund Member shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

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<sup>6</sup> An applicant or Fund Member must have the operational capability for membership or have an agreement, concerning the provision of operational support services to such applicant or Fund Member, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.

D. Business History

An applicant or Fund Member must have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business.

E. Other Considerations:

In addition to the above, the following shall apply:

Applicants or Fund Members –

- (i) if an Insurance Company, be in good standing in those states in which it is licensed as an insurance company and in its state of organization.

SEC. 4. INSURANCE CARRIER/RETIREMENT SERVICES MEMBERS

A. Qualification

To qualify for membership as an Insurance Carrier/Retirement Services Member, an applicant or Insurance Carrier/Retirement Services Member shall be:

- (i) an Insurance Company.

B. Financial Responsibility

An applicant or Insurance Carrier/Retirement Services Member must have an RBC Ratio, as derived from annual statutory financial statements filed by it with its supervisory or regulatory entity (or, between filings of such annual statutory financial statements, an RBC Ratio derived in a similar manner from then-current financial data), of 250% or greater.

C. Operational Capability<sup>7</sup>

An applicant or Insurance Carrier/Retirement Services Member shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

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<sup>7</sup> An applicant or Insurance Carrier/Retirement Services Member must have the operational capability for membership or have an agreement, concerning the provision of operational support services to such applicant or Insurance Carrier/Retirement Services Member, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.

D. Business History

An applicant or Insurance Carrier/Retirement Services Member must have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business.

E. Other Considerations:

In addition to the above, the following shall apply:

Applicants or Insurance Carrier/Retirement Services Members –

shall be in good standing in those states in which it is licensed as an insurance carrier and in its state of organization.

SEC. 5. MUNICIPAL COMPARISON ONLY MEMBERS

A. Qualification

To qualify for membership as a Municipal Comparison Only Member, an applicant or Municipal Comparison Only Member shall be:

- (i) a Registered Broker-Dealer; or
- (ii) a bank or trust company, including a trust company having limited power, which is a member of the Federal Reserve System or is supervised and examined by state or federal authorities having supervision over banks; or
- (iii) a Registered Clearing Agency; or
- (iv) an Insurance Company or an Insurance Entity; or
- (v) an investment company registered under Section 8 of the Investment Company Act of 1940, as amended; or
- (vi) if it does not qualify under paragraphs (i) through (v) above, an entity that has demonstrated to the Board of Directors that its business and capabilities are such that it could reasonably expect material benefit from direct access to the Corporation's services.

B. Financial Responsibility

The Corporation shall approve an application to become a Municipal Comparison Only Member only upon a determination by the Corporation that the applicant meets the standards of financial responsibility as the Corporation may promulgate. Any such assigned minimum standards of financial responsibility will be promptly communicated to, and discussed with, the applicant or Municipal Comparison Only Member.

## SEC. 6. DATA SERVICES ONLY MEMBERS

### A. Qualification

To qualify for membership as a Data Services Only Member, an applicant or Data Services Only Member shall be:

- (i) a Registered Broker-Dealer; or
- (ii) a bank or trust company, including a trust company having limited power, which is a member of the Federal Reserve System or is supervised and examined by state or federal authorities having supervision over banks; or
- (iii) a Registered Clearing Agency; or
- (iv) an Insurance Company or an Insurance Entity; or
- (v) an investment company registered under Section 8 of the Investment Company Act of 1940, as amended; or
- (vi) a principal underwriter as defined in Section 2(a)(29) of the Investment Company Act of 1940, as amended, or a co-distributor, sub-distributor, or is otherwise authorized to process mutual fund transactions; or
- (vii) an investment adviser as defined in Section 202(a)(11) of the Investment Advisers Act of 1940, as amended; or
- (viii) an organization or entity that acts as a third-party administrator on behalf of a retirement or other benefit plan; or
- (ix) an investment manager to a managed account or similar program or agent acting on behalf of such an investment manager; or
- (x) an organization or entity that acts as a routing platform that manages transactions on behalf of its customers; or
- (xi) if it does not qualify under paragraphs (i) through (x) above, an entity that has demonstrated to the Board of Directors that its business and capabilities are such that it could reasonably expect material benefit from direct access to the Corporation's services.

### B. Financial Responsibility

The Corporation shall approve an application to become a Data Services Only Member only upon a determination by the Corporation that the applicant meets the standards of financial responsibility as the Corporation may promulgate. Any such assigned minimum standards of financial responsibility will be promptly communicated to, and discussed with, the applicant or Data Services Only Member.

## SEC. 7. SETTLING BANK ONLY MEMBERS

### A. Qualification

To qualify for membership as a Settling Bank Only Member, an applicant or Settling Bank Only Member shall be a bank or trust company, including a trust company having limited power, which is a member of the Federal Reserve System or has direct access to the Federal Reserve System.

### B. Financial Responsibility

An applicant or Settling Bank Only Member that, in accordance with such entity's regulatory and/or statutory requirements, calculates a Tier 1 RBC Ratio must have at all times a Tier 1 RBC Ratio equal to or greater than the Tier 1 RBC Ratio that would be required for such Settling Bank Only Member to be Well Capitalized.

### C. Operational Capability

The Corporation shall approve an application to become a Settling Bank Only Member only upon a determination by the Corporation that the applicant meets the standards of operational capability as the Corporation may promulgate.

## SEC. 8. THIRD PARTY ADMINISTRATOR MEMBERS

### A. Qualification

To qualify for membership as a Third Party Administrator Member, an applicant or Third Party Administrator Member shall be an entity that demonstrates to the Corporation that its business and capabilities are such that it could reasonably expect material benefit from direct access to the Corporation's services.

### B. Operational Capability<sup>8</sup>

An applicant or Third Party Administrator Member shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

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<sup>8</sup> An applicant or Third Party Administrator Member must have the operational capability for membership or have an agreement, concerning the provision of operational support services to such applicant or Third Party Administrator Member, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.

C. Business History

An applicant or Third Party Administrator Member must have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business.

SEC. 9. INVESTMENT MANAGER/AGENT MEMBERS

A. Qualification

To qualify for membership as an Investment Manager/Agent Member, an applicant or Investment Manager/Agent Member shall be an entity that is or acts on behalf of one or more Investment Managers to a managed account or similar program.

B. Operational Capability<sup>9</sup>

An applicant or Investment Manager/Agent Member shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

C. Business History

An applicant or Investment Manager/Agent Member must have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business.

SEC. 10. AIP MEMBERS

A. Qualification

To qualify for membership as an AIP Member, an applicant or AIP Member shall be:

- (i) a Registered Broker-Dealer;
- (ii) a broker/dealer organized or established under the laws of a country other than the United States that is subject to the oversight of, and regulated by, the appropriate financial services regulator in its home jurisdiction;

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<sup>9</sup> An applicant or Investment Manager/Agent Member must have the operational capability for membership or have an agreement, concerning the provision of operational support services to such applicant or Investment Manager/Agent Member, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.

- (iii) a bank or trust company, including a trust company having limited power, which is a member of the Federal Reserve System or is supervised and examined by State or Federal authorities having supervision over banks;
- (iv) a bank organized or established under the laws of a country other than the United States that is subject to the oversight of, and regulated by, the appropriate financial services regulator in its home jurisdiction;
- (v) an investment company registered under section 8 of the Investment Company Act of 1940, as amended;
- (vi) an issuer (structured as a fund or other pooled investment vehicle) that is exempt from the definition of investment company under the Investment Company Act of 1940, as amended;
- (vii) an investment adviser as defined under the Investment Advisers Act of 1940, as amended ("Advisers Act"), regardless of whether such investment adviser is registered pursuant to the Advisers Act or is exempt from registration thereunder;
- (viii) a commodity pool operator or a commodity trading advisor as defined in the Commodity Exchange Act, as amended, regardless of whether such commodity pool operator or commodity trading advisor is registered pursuant to Commodity Exchange Act or is exempt from registration thereunder;
- (ix) an Insurance Company;
- (x) an insurance company organized or established under the laws of a country other than the United States that is subject to the oversight of, and regulated by, the appropriate insurance regulator in its home jurisdiction; or
- (xi) with respect to an AIP Manufacturer (as defined in Rule 53), an entity engaged under contract to provide administrative services with respect to one or more Eligible AIP Products (as defined in Rule 53), including but not limited to, fund administrators.

B. Operational Capability<sup>10</sup>

An applicant or AIP Member shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

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<sup>10</sup> An applicant or AIP Member must have the operational capability for membership or have an agreement, concerning the provision of operational support services to such applicant or AIP Member, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.



C. Business History

An applicant or AIP Member must have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business.

SEC. 11. THIRD PARTY PROVIDER MEMBERS

A. Qualification

To qualify for membership as a Third Party Provider Member, an applicant or Third Party Provider Member shall demonstrate to the Corporation that its business and capabilities are such that it could reasonably expect material benefit from direct access to the Corporation's services.

B. Operational Capability<sup>11</sup>

An applicant or Third Party Provider Member shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

C. Business History

An applicant or Third Party Provider Member must have an established business history of a minimum of six months or personnel with sufficient operational background and experience to ensure the ability of the firm to conduct such a business.

SEC. 12. SPONSORED MEMBERS

A. Qualification

To qualify for membership, a Sponsored Member (x) shall be sponsored into membership by a Sponsoring Member and (y)(1) is a "qualified institutional buyer" as defined by Rule 144A under the Securities Act of 1933, as amended, or (2) is a legal entity that, although not organized as an entity specifically listed in paragraph (a)(1)(i)(H) of Rule 144A under the Securities Act of 1933, as amended, satisfies the financial requirements necessary to be a "qualified institutional buyer" as specified in that paragraph.

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<sup>11</sup> An applicant or Third Party Provider Member must have the operational capability for membership or have an agreement, concerning the provision of operational support services to such applicant, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.

B. Operational Capability<sup>11</sup>

An applicant shall be qualified for membership if it is able to satisfactorily communicate with the Corporation and fulfill anticipated commitments to and meet the operational requirements of the Corporation with necessary promptness and accuracy and to conform to any condition and requirement that the Corporation reasonably deems necessary for its protection.

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<sup>11</sup> An applicant must have the operational capability for membership or have arrangement, concerning the provision of operational support services to such applicant, with an entity acceptable to the Corporation and which may not be replaced without prior approval by the Corporation.

ADDENDUM C

(ADDENDUM LETTER RESERVED FOR FUTURE USE)

## ADDENDUM D

### STATEMENT OF POLICY

#### ENVELOPE SETTLEMENT SERVICE, MUTUAL FUND SERVICES, INSURANCE & RETIREMENT SERVICES AND OTHER SERVICES OFFERED BY THE CORPORATION

As authorized by Rule 9, the Corporation provides at its facilities (at locations as it determines from time to time) an Envelope Settlement Service ("ESS") for the delivery and receipt between Members of envelopes containing securities, money- only settlement items and dividend and interest settlement items. As provided in Rule 9, ESS is not a guaranteed service of the Corporation and the Corporation does not and will not stand behind any credit of any payment amount appearing on any credit list attached to any envelope delivered by a Member under Rule 9.

Paragraph 2 of Section 1 of Rule 9 further provides that: An envelope delivered to the Corporation shall contain only such securities as permitted by the Corporation from time to time; tickets relating to such securities contained in the envelope; or such other items as the Corporation may from time to time permit, including but not limited to, documentation by a delivering Member necessary for the receiving Member to identify the reason for a money-only charge, and notices of intent and claim forms associated with claims for dividends and interest. Envelopes which contain items other than as permitted by the Corporation are subject to return by the Corporation to the delivering Member and the related payment amount debits and credits may be reversed in accordance with Section 4 of Rule 9.

Paragraph 3 of Section 1 provides that the credit list attached to an envelope shall show "the total money value, if any, of the items contained in that envelope". Since Paragraph 2 of Section 1 of Rule 9 authorizes the Corporation to permit Members to include "other items" (i.e., items relating to money-only settlement and settlement of dividends and interest) in envelopes, credit lists may also include charges other than for securities contained in the envelope. Pursuant to Paragraph 7 of Section 1, the Corporation credits the delivering Member's account with the payment amount shown on the credit list and debits the receiving Member's account. Under Paragraph 10 of Section 1, payment amounts so debited and credited are included in the settlement for that day pursuant to Rule 12, subject to the rights of the Corporation under Section 2 of Rule 12 and Section 4 of Rule 9.

The Corporation will not stand behind any charges appearing on a credit list attached to envelopes delivered by a Member pursuant to Rule 9. In the event of the default of a Member, the Corporation, within such time frame as determined by the Corporation from time to time, may reverse all ESS debits and credits of that Member due for settlement.

In the absence of a showing, satisfactory to the Corporation, that the charges appearing on the credit list are for permitted securities or pertain to other permitted items actually contained in such envelopes to which such credit lists are attached, the

Corporation in its discretion, may promptly reverse credits previously given to delivering Members. For the purpose of Rule 9 and this Addendum, it shall be presumed that charges appearing on a credit list attached to an envelope shall not be for permitted securities contained in such envelope if the charges are not approximately equal to either the current market price or contract price of the securities so included.

Furthermore, to the extent that the Corporation offers or will offer any other service not covered herein whether to Members or others (e.g., Mutual Fund/Insurance Services Members, Fund Members or Insurance Carrier/Retirement Services Members or AIP Members), through or pursuant to which the Corporation permits charges, unless the Corporation specifically provides otherwise, the Corporation shall also not stand behind such charges. The Corporation shall stand behind final Cash Amount charges submitted by an Index Receipt Agent pursuant to Rule 7 and the Procedures. (For the purposes of this Rule, the Corporation has determined that due bills are not securities.)

Specifically, but not in limitation of the foregoing, Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members and Fund Members are hereby advised that with respect to the Mutual Fund Services and Insurance & Retirement Services, if at any time the Corporation fails to receive payment from a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member which payment was to be used to make payment to the contra side of the Mutual Fund Services or Insurance & Retirement Services transaction, the Corporation, in its discretion, may reverse in whole or in part any credit previously given to any Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member who is the contra side to the Mutual Fund Services or Insurance & Retirement Services transaction within such time frame as determined by the Corporation from time to time.

Notwithstanding the foregoing, the Corporation may, in its discretion, apportion on a pro rata basis, to delivering Members or any other Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member whose credit positions have been reversed, any excess credit position remaining, after all liabilities to the Corporation are satisfied, of a receiving Member or other Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member for whom the Corporation has ceased to act.

With respect to the AIP Service, at any time the Corporation fails to receive payment from an AIP Member (including an AIP Fund Administrator with respect to its AIP Settling Sub-Accounts) which payment was to be used to make payment to the contra side AIP Member (including an AIP Fund Administrator with respect to a contra side AIP Settling Sub-Account), the Corporation will reverse any credit previously given to any AIP Member (including an AIP Fund Administrator with respect to its AIP Settling Sub-Accounts) who is the contra side to the AIP Member whose payment was not received by the Corporation.

This statement of policy is not inconsistent with the Corporation's policy on Member-to-Member adjustments which, while permitted by the Corporation generally, are subject to reversal in the Corporation's discretion.

ADDENDUM E

(ADDENDUM LETTER RESERVED FOR FUTURE USE)

## ADDENDUM F

### STATEMENT OF POLICY IN RELATION TO SAME DAY FUNDS SETTLEMENT

#### I. Liquidity Contingency Plans

The Corporation recognizes its responsibility to meet its same day funds settlement obligations. The Corporation fully expects that its short-term funding resources are adequate and that it has the capability to meet its short-term funding needs in the event of the insolvency of a major participant. Nevertheless, the Corporation has determined to adopt the liquidity contingency plans described herein to cover the extraordinary unlikely event that its short-term funding resources are inadequate to cover its funding needs in the event of a major member insolvency.

##### A. Non-Guaranteed Services

In the event that the Corporation has or believes that it will have a liquidity problem, the Corporation may:

1. Prior to the issuance of the settlement statement, reverse debits and credits for non-guaranteed services to the extent necessary to eliminate the liquidity problem, as determined by the Corporation and/or
2. Spread the Corporation's obligation to make payment or payments over such period of time as is necessary for the Corporation to eliminate the liquidity problem.

##### B. Guaranteed Services

To the extent that the Corporation has a liquidity problem as a result of CNS securities allocated to the account of an insolvent member and the Corporation has exhausted all of its liquidity resources, until such time as the Corporation has the resources to pay the delivering member for such securities, the Corporation may temporarily return such securities back to the delivering Member. At such time as the Corporation has the resources to pay for the delivery, the Corporation shall designate the date upon which such securities are to be redelivered to the Corporation. The Corporation shall reimburse Members whose securities have been returned for financing costs incurred as a result of such return during the intervening period.

#### II. Settling Bank Exceptions

Notwithstanding anything in the Rules to the contrary, the Corporation, in its sole discretion upon application by an Insurance Carrier/Retirement Services Member, a Mutual Fund/Insurance Services Member, a Fund Member or an AIP Member, may waive the requirement that it appoint a Settling Bank for such Insurance Carrier/Retirement Services Member, Mutual Fund/Insurance Services Member or Fund



Member, (or an AIP Settling Bank in the case of an AIP Member) if the Corporation determines that to require such use would create an undue burden on such Insurance Carrier/Retirement Services Member, Mutual Fund/Insurance Services Member, Fund Member or AIP Member, as determined by the Corporation in each instance.

## ADDENDUM G

### FULLY-PAID-FOR ACCOUNT

#### I. MOVEMENT OF SECURITIES INTO THE FULLY-PAID-FOR ACCOUNT

The expansion of the Fully-Paid-For application will be of benefit to Members making deliveries during DTC's evening and daytime processing on settlement date by permitting deliveries in anticipation of CNS allocation.

On the morning of settlement date and during the day cycle on settlement date, DTC will indicate to the Member what securities have been delivered out via DTC. Similarly the CNS Settlement Activity Report will be made available indicating what has been allocated in the night cycle, and information is also provided regarding allocations made in the day cycle.

Based on this information, the Member can determine what unallocated CNS long valued positions must be moved from the CNS General Account A to the CNS Fully-Paid-For sub account E to maintain compliance with Rule 15c3-3 of the Exchange Act.

The Corporation will accept instructions to make such movements through such time on each settlement date as it shall determine, and such instructions will be applied promptly thereafter during the day cycle through such cutoff time. The amount that will be moved from the A Account to the E Sub-account will be the lesser of: (i) the number of shares covered by the instruction that remain in the Member's A Account at the time the instruction is received and applied, and (ii) the number of shares subject to the instruction.

Members should be aware that shares allocated during the day cycle, after instructions have been received to move a position from the CNS General Account A to the Fully-Paid- For Account E, will result in a reduction of the amount of shares in the Fully-Paid-For Account by the amount of the allocation.

At the end of the day, the Corporation will charge the Member's settlement account the value of the positions residing in the Fully-Paid-For Account at the close of the CNS processing cycle.

The value charged to the Member's settlement account will appear on that day's settlement statement.

The following day, the amount debited the previous day (i.e., value of closing position Fully-Paid-For Account) will be credited to the Member's settlement. The credit will appear on the settlement statement.

The process will be repeated daily to the extent a Member has any positions in its Fully-Paid-For Account.

## II. MOVEMENTS OUT OF THE FULLY-PAID-FOR ACCOUNT

Positions that have been established in the Fully-Paid-For Account will be returned to the Member through normal allocation to the Member's E sub account.

However, in the event a Member which has previously given instructions to move a position into its Fully-Paid-For Account finds that the position no longer needs to be segregated, it may issue instructions to return the position to its General Account, thus reestablishing the position in the General Account and reducing the Fully-Paid-For Account.

## III. MOVEMENT INSTRUCTIONS

Instructions to move positions into or out of the Fully- Paid-For Account are to be submitted to the Corporation prior to such time as established by the Corporation from time to time.

## IV. FULLY-PAID-FOR ACTIVITY REPORTS

The Corporation will provide Members with the following reports detailing the movement of security positions between the CNS General Account (A) and the Fully-Paid-For Sub Account (E).

- Miscellaneous Activity Reports
- CNS Accounting Summary

## ADDENDUM H

### INTERPRETATION OF THE BOARD OF DIRECTORS RELEASE OF CLEARING DATA

Pursuant to Rule 33, the Board of Directors is authorized to prescribe Procedures and other regulations in respect of the business of the Corporation. The Board of Directors hereby adopts the following interpretation as a regulation of the Corporation:

#### **RELEASE OF CLEARING DATA TO REGULATORY AND SELF-REGULATORY ORGANIZATIONS**

The purpose of this interpretation is to limit the extent to which Clearing Data pertaining to municipal bond transactions may be obtained by regulatory or self-regulatory organizations and others pursuant to Rule 49.

Pursuant to Rule 49, the Corporation may release Clearing Data to regulatory and self-regulatory organizations and others. The Corporation has determined at this time that, due to the current nature of municipal data within the Corporation's possession and control, release without restriction could be susceptible to misunderstanding and/or misuse. In order to avoid problems that such release, in general, could cause to the municipal securities industry, the Corporation has determined that at this time Municipal Clearing Data in general shall only be released to regulatory organizations and self-regulatory organizations who have demonstrated to the Corporation the necessity for obtaining such data in furtherance of the regulatory purpose of such organization.

The Corporation, consistent with this interpretation, has determined to facilitate the provision of inter-dealer and customer (i.e., institutional and retail) municipal securities transaction data to the Municipal Securities Rulemaking Board (MSRB), who has advised the Corporation that the provision of this data serves regulatory purposes, namely to provide transparency in the municipal securities market and to assist compliance by participants with the MSRB's Rules.

The Corporation will also permit the release of Municipal Clearing Data to other responsible entities for non-regulatory purposes but only in the limited format as described below.

Regulatory and self-regulatory organizations to whom the Corporation has consented to release data may, in writing, request that Municipal Clearing Data be provided to a third party in addition to or in lieu of themselves, upon a demonstration satisfactory to the Corporation, that such release to a third party would further the regulatory purpose of the regulatory organization or the self-regulatory organization.

With respect to the release of Municipal Clearing Data other than for regulatory purposes, the Corporation will release only a ranking of a pre-selected group of municipal bonds compared by the Corporation during a predetermined period of time to responsible entities. Such ranking shall be based upon the aggregate total of the par

value of bonds compared by the Corporation during such period. The Corporation specifically reserves the right to deny any request where it has determined that with regard to providing data with respect to the pre-selected group of bonds, the provision of such data could disclose, whether patently or in easily discernible format, proprietary and/or confidential financial, operational or trading data of a particular participant.

The foregoing notwithstanding, this interpretation is not intended to, nor shall it be deemed to be in contravention, or a limitation, of the Corporation's obligations pursuant to its Shareholders Agreement.

ADDENDUM I

(ADDENDUM LETTER RESERVED FOR FUTURE USE)

## ADDENDUM J

### STATEMENT OF POLICY LOCKED-IN DATA FROM SERVICE BUREAUS

Rule 7, Section 6 permits the Corporation

to accept, from self-regulatory organizations (either directly or through a subsidiary or affiliated organizations) and/or service bureaus, initial or supplemental trade data on behalf of Members for input into the Corporation's Comparison Operation (with respect to debt securities) or compared trade data, which may reflect the netted results of other transactions, on behalf of Members for input into the Corporation's Accounting Operation provided that a Member is a party to the trade or transaction.

Pursuant to the provisions of this Rule, the Corporation presently accepts from such self-regulatory organizations ("SROs") as it may determine, in its discretion, locked-in trade data on a Member's behalf for input into the Corporation's trade capture system. The Corporation has received requests from Members to accept, in addition to locked-in trade data, two-sided trade data from service bureaus. Two-sided trade data would encompass the complete details of both sides of a trade.

SROs are regulated by the SEC. Consequently, they operate pursuant to recognized standards and therefore, the integrity of their operations is subject to periodic examination and review. Service bureaus, which are not SROs, are not subject to regulatory control.

Accordingly, in order to assure that the integrity of the Corporation's systems would not be jeopardized by the acceptance of two-sided trade data from service bureaus that are not SRO's, the Corporation has determined to adopt the following criteria which such a service bureau must meet in order to be approved to submit two-sided trade data pursuant to Rule 7, Section 6:

- (1) Service bureau would have to have an established business history of at least two years.
- (2) Service bureau would have to be able to submit the following data for each trade:
  - (a) buy or sell;
  - (b) parties to trade;
  - (c) quantity;
  - (d) CUSIP number;
  - (e) executing price;

- (f) net money;
- (g) trade date;

and any additional data the Corporation may be called upon to provide to a regulatory body in connection with the Corporation's regulatory responsibilities (e.g., additional data required by a SRO for audit trail purposes).

- (3) Service bureau would be required to have at least ten (10) of the Corporation's Members as its subscribers.
- (4) Service bureau would be required to furnish to the Corporation such information and make available such books and records as the Corporation, in its sole discretion, deems necessary to evaluate service bureau's financial responsibility and operational capability.

In addition to the foregoing, service bureau would be required to enter into an Agreement, in writing, with the Corporation whereby service bureau would agree:

- (1) To maintain the following insurance coverage in an appropriate amount, depending upon the size of the service bureau's operation: (a) Broker Blanket Bond or equivalent; (b) Errors and Omissions; and, (c) General Liability.
- (2) To submit detailed plans respecting its automated execution system which at a minimum would detail: a description of the system; the physical safeguards of the system; and, the integrity, backup, recovery ability, and contingency plans of the service bureau in the event of an emergency or disaster.
- (3)
  - (a) To obtain, on a yearly basis, an independent audit of its financial statements and an opinion prepared by its independent auditors as to service bureau's internal controls for its automated system and to submit such audit and opinion annually to the Corporation; and
  - (b) to perform internal interim six month reviews of the internal controls of the automated execution system, and to submit the results of this internal review to the service bureau's independent auditors.
- (4) To have the Member submit monthly financial statements to the Corporation.
- (5) To notify the Corporation upon any material change in any of the criteria required for acceptance as an approved service bureau or of the management or operation of the service bureau (e.g. cancellation of insurance, changes in the automated execution system, major change in stock ownership or management, outstanding law suits).



- (6) To indemnify and hold harmless the Corporation, its Clearing Fund, Shareholders, Directors, Officers, Employees, and Agents from and against any and all claims, losses, costs, damages, or liabilities, including reasonable attorney's fees, which may be asserted against, suffered, or incurred by the Corporation arising from entering into such Agreement and/or providing or failing to provide trade data to the Corporation, except that the foregoing indemnification shall not be required to cover any claims, losses, costs, damages, or liabilities which may be asserted against, suffered, or incurred by the Corporation arising from the Corporation's willful misconduct or gross negligence.
- (7) That in the event of a disagreement between subscribers of the service bureau and/or non-subscribers concerning the trade data submitted or failed to be submitted by the service bureau to the Corporation, the Member of the Corporation will interpose itself in the trade and take responsibility for the trade.
- (8) To pay to the Corporation the costs, if any, of the Corporation's changing any of its systems to be able to receive trade data from service bureau.
- (9) To submit to the Corporation, for each subscriber of the service bureau which is a Member of the Corporation on whose behalf the service bureau may submit trade data, evidence of the service bureau's authority to submit to the Corporation trade data on behalf of such subscriber.

The Corporation may waive one or more of the foregoing criteria if the Corporation determines that it is in the best interests of the Corporation and its Members to approve a service bureau so as to assure the prompt, accurate, and orderly processing and settlement of securities transactions or to otherwise carry out the functions of the Corporation.

## ADDENDUM K

## THE CORPORATION'S GUARANTY

The Corporation guarantees the completion of compared and locked-in CNS and balance order transactions from a fixed point in the clearance and settlement process.<sup>1</sup> CNS transactions are guaranteed as of the point they have: (i) for bilateral submissions by Members, been validated and compared by the Corporation pursuant to these Rules and Procedures, and (ii) for locked-in submissions, been validated by the Corporation pursuant to these Rules and Procedures. Balance order transactions are guaranteed as of the point they have: (i) for bilateral submissions by Members, been validated and compared by the Corporation pursuant to these Rules and Procedures, and (ii) for locked-in submissions, been validated by the Corporation pursuant to these Rules and Procedures, and, in either case, through the close of business on their contractual Settlement Date. If the contra party to a settling trade is a member of an interfacing clearing corporation, such guaranty shall not be applicable unless an agreement to guarantee such trade exists between the Corporation and the interfacing clearing corporation. The Corporation has also adopted a policy of guaranteeing the completion of when-issued and when-distributed trades, as of the point they have: (i) for bilateral submissions by Members, been validated and compared by the Corporation pursuant to these Rules and Procedures, and (ii) for locked-in submissions, been validated by the Corporation pursuant to these Rules and Procedures and will consider all when-issued and when-distributed trades of Members as if they were CNS transactions for surveillance purposes regardless of the accounting operation in which they ultimately settle.

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<sup>1</sup> The Corporation's guaranty of obligations arising out of the exercise or assignment of an option contract issued by The Options Clearing Corporation ("OCC") that is settled at the Corporation, or the maturity of a stock futures contract cleared by OCC, is addressed in a separate arrangement between the Corporation and OCC, as referred to in Procedure III of the Rules and Procedures, and is not addressed in these Rules and Procedures.

## ADDENDUM L

### STATEMENT OF POLICY PERTAINING TO INFORMATION SHARING

Rule 49 recognizes the obligation of the Corporation to share clearing data with other SEC regulated self-regulatory organizations for regulatory purposes. Rule 15 provides the Corporation with the authority to examine the financial and operational conditions of its participants, and to receive information relevant to such examination from any other SEC regulated self-regulatory organization. Rule 15 also requires the Corporation to hold information furnished to the Corporation pursuant to Rule 15 in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records. Section 17A(b)(3) of the Exchange Act, provides among other things, that rules of clearing agency self-regulatory organizations must be designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions and to protect investors and the public interest. Section 19(g)(1) of the Exchange Act requires clearing agencies to enforce compliance by their members with their rules.

In accordance with its responsibilities under its rules, and consistent with the requirements of a clearing agency under the Exchange Act, the Board of Directors has approved the entering into of an agreement by the Corporation with other Registered Clearing Agencies to share, for regulatory purposes, with such other Registered Clearing Agencies financial and operational information relating to participants who are also participants of such other Registered Clearing Agencies. The Board of Directors has also approved the filing of such agreement with the SEC, pursuant to Rule 19(b) of the Exchange Act. Such agreement is not intended to limit the ability under the Exchange Act of Registered Clearing Agencies, for regulatory purposes, to share data on dual or sole participants when such is deemed appropriate. It is, however, a first step in formalizing certain minimum levels of information sharing, with the intent to standardize such reporting.

ADDENDUM M

(ADDENDUM LETTER RESERVED FOR FUTURE USE)

ADDENDUM N

(ADDENDUM HEADER RESERVED FOR FUTURE USE)

## ADDENDUM O

ADMISSION OF NON-U.S. ENTITIES AS MEMBERS<sup>1</sup>

Policy Statement on the Admission of Non-U.S. Entities as Members, Mutual Fund/Insurance Services Members, Fund Members or Insurance Carrier/Retirement Services Members: The policy permits entities that are organized in a country other than the United States and that are not otherwise subject to U.S. federal or state regulation (“non-U.S. entities”) to be eligible to become Members, Mutual Fund/Insurance Services Members, Fund Members or Insurance Carrier/Retirement Services Members. Under the policy, NSCC will require that the non-U.S. entity execute the standard NSCC membership agreement and enter into an additional series of undertakings and agreements and provide additional certifications and other assurances that are designed to address jurisdictional and certain tax concerns, and to assure that NSCC is provided with audited financial information that is acceptable to NSCC.

Certain of these criteria may be waived where inappropriate to a particular applicant or class of applicants (e.g., a foreign government, international or national central securities depositories).

Requirements in addition to standard requirements for U.S. entities:

- Undertakings and Agreements –

At a minimum such non-U.S. entity would have to agree to:

- (a) in respect of any action brought by NSCC to enforce the entity’s obligations under the membership agreement:
  - (i) irrevocably waive all immunity from NSCC’s attachment of the entity’s own assets in the U.S.;
  - (ii) irrevocably submit to the jurisdiction of a court in the U.S.;
  - (iii) irrevocably waive any objection to the laying of venue in a court in the U.S.; and
  - (iv) state that any judgment obtained against the foreign entity by NSCC may be enforced in the courts of any jurisdiction where the foreign entity or its property may be located, and that the foreign entity will irrevocably submit to the jurisdiction of each such court.
- (b) designate a person in New York as its agent to receive service of process.

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<sup>1</sup> This policy statement excludes non-U.S. entities that are insurance companies.

- (c) provide to NSCC, for financial monitoring purposes, audited financial statements prepared in accordance with either U.S. generally accepted accounting principles or other generally accepted accounting principles that are satisfactory to NSCC.
  - (d) provide all financial reports or other information requested by NSCC in English, with monetary amounts stated in U.S. dollar equivalents indicating the conversion rate and date used.
  - (e) not conduct any transaction or activity through NSCC if the non-U.S. entity is not FATCA Compliant and/or is not a Section 1446(f) Withholding Agent, as applicable, unless such requirement has been explicitly waived in writing by NSCC with respect to the specific non-U.S. entity, provided, however, that no such waiver will be issued if it shall cause NSCC to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property.
  - (f) indemnify NSCC for any loss, liability or expense sustained by NSCC as a result of the non-U.S. entity failing to be FATCA Compliant or a Section 1446(f) Withholding Agent.
- FATCA Compliance, Section 1446(f) Withholding, and Tax Certification – The non-U.S. entity must be at all times FATCA Compliant and, beginning on the Section 1446(f) Withholding Compliance Date, be a Section 1446(f) Withholding Agent, if applicable, and must certify and periodically recertify to NSCC that it is FATCA Compliant and/or a Section 1446(f) Withholding Agent, as applicable, by providing to NSCC a Tax Certification, unless such requirements have been explicitly waived in writing by NSCC, provided, however, that no such waiver will be issued if it shall cause NSCC to be obligated to withhold under FATCA on gross proceeds from the sale or other disposition of any property.
  - Foreign Legal Opinion – obtain an opinion of reputable foreign counsel satisfactory to NSCC providing, among other things, that the agreements described above may be enforced against the foreign entity in the courts of its home country or other jurisdictions where the entity or its property may be found.<sup>2</sup>
  - Regulatory Status of Foreign Entity
    - (a) The non-U.S. entity would have to be subject to regulation in its home country and its home country regulator must have entered into a Bilateral

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<sup>2</sup> NSCC reserves the right to require the entity to deposit additional amounts to the Clearing Fund and to post an Eligible Letter of Credit in an instance where NSCC, in its sole discretion, believes the entity presents legal risk.

Information Sharing Arrangement or Memoranda of Understanding with the SEC regarding the sharing or exchange of information.

- (b) The non-U.S. entity must be in compliance with the financial reporting and responsibility standards of its home country regulator.
- Anti-Money Laundering (“AML”) Review – The non-U.S. entity must provide sufficient information to NSCC in order to evaluate AML risk, including whether the non-U.S. entity is subject to comparable AML requirements (to those imposed in the U.S.) in its home country jurisdiction.



## ADDENDUM P

## FINE SCHEDULE

## 1) SDFS Failure-to-Settle and Late Acknowledgment Fines

<b>NET DEBIT FOR APPLICABLE MEMBER, MUTUAL/FUND INSURANCE SERVICES MEMBER, FUND MEMBER OR SETTLING BANK ONLY MEMBER</b>	<b>FIRST OCCASION</b>	<b>SECOND OCCASION</b>	<b>THIRD OCCASION</b>	<b>FOURTH OCCASION</b>
\$0 – 100,000	\$ 100	\$ 200	\$ 500	\$ 1,000
Greater than \$100,000 – 900,000	300	600	1,500	3,000
Greater than \$900,000 – 1,700,000	600	1,200	3,000	6,000
Greater than \$1,700,000 – 2,500,000	900	1,800	4,500	9,000
Greater than \$2,500,000 – UP	1,000	2,000	5,000	10,000

**NOTES:**

- a) In addition to the fine, interest is charged to the Member, Mutual Fund/Insurance Services Member, Fund Member or the Settling Bank Only Member, that failed to settle for the cost of borrowing to complete settlement.
- b) The number of occasions will be determined over a moving three-month period.
- c) If the Corporation determines that it had significantly affected a Member's, Mutual Fund/Insurance Services Member, Fund Member or a Settling Bank Only Member's, ability to settle (because of a Corporation system delay, for example), the Corporation may determine to waive failure-to-settle fines for that occurrence.
- d) If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.
- e) A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the fine amount.

2) General Continuance Standards-Fine for failure to notify pursuant to Section 2(B)(a)(i) of Rule 2B, Section 2(i) of Rule 2C, Section 3(d) of Rule 2C, or Section 2(i) of Rule 2D: Each single offense, \$1,000 fine. If the Member's failure to notify applies to

more than one DTCC clearing agency subsidiary (DTC, NSCC and/or FICC), the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

3) Failure to notify and supply required data as provided for under these Rules & Procedures or to perform the upgrade to their network technology, or communications technology or protocols as required under these Rules in the time specified (other than as provided in items one, two, four, five and six of this addendum): Each single offense, \$5,000.00 fine. If the Member's failure to notify applies to more than one DTCC clearing agency subsidiary (DTC, NSCC and/or FICC), the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

4) Late Satisfaction of Clearing Fund Deficiency Call<sup>1</sup>

<b>Amount</b>	<b>First Occasion</b>	<b>Second Occasion</b>	<b>Third Occasion</b>	<b>Fourth Occasion (or greater)</b>
Up to \$100 M	*	\$100	\$200	\$500
Greater than \$100 M to \$900 M	*	300	600	1,500
Greater than \$900 M to \$1.7 MM	*	600	1,200	3,000
Greater than \$1.7 MM to \$2.5 MM	*	900	1,800	4,500
Greater than \$2.5 MM	*	1,000	2,000	5,000

\* First occasions result in a warning letter issued to the Member.

If the number of occasions within the rolling period exceeds four, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.

A lateness of more than one hour will result in a fine equal to the amount applicable to the next highest occasion for the specific deficiency amount. If a member is late for more than one hour and it is the member's fourth occasion, the Corporation shall obtain the concurrence of the Board of Directors as to the amount of the fine.

<sup>1</sup> The number of occasions is determined over a moving three-month period beginning with the first occasion.

## 5) Failure to Timely Provide Financial and Related Information

<b>Request For Information*</b>	<b>First Occasion</b>	<b>Second Occasion</b>	<b>Third Occasion</b>	<b>Fourth Occasion</b>
Reports/Information**	\$300	\$600	\$1,500	***

\* Fines to be levied for offenses within a moving twelve-month period beginning with the first occasion.

\*\* For purposes of this Fine Schedule, "Reports/Information" shall mean the financial, regulatory and other information required to be submitted within a specified deadline to the Corporation.

\*\*\* Fourth or more occasion fines will be determined by the Corporation with the concurrence of the Board of Directors.

If the Member's late submission applies to more than one DTCC clearing agency subsidiary (DTC, NSCC and/or FICC), the fine amount will be divided equally among the clearing agencies. Where the Member is a participant of DTC and is a common member of one or more of the other clearing agencies, the fine would be collected by DTC and allocated equally among other clearing agencies, as appropriate. If the member is not a DTC participant, but is a common member between NSCC and FICC, NSCC will collect the fine and allocate the appropriate portion to FICC.

## 6) Business Continuity Testing for Top Tier Firms – Fines for Failure to Test

Fine for failure to complete testing by December 31<sup>st</sup>: \$10,000

Fine for failure to complete testing for two successive years: \$20,000

NOTES: 1) Failure to complete testing for more than two successive years will result in disciplinary action taken by NSCC, up to and including termination of membership.

ADDENDUM Q

(ADDENDUM LETTER RESERVED FOR FUTURE USE)

ADDENDUM R

(ADDENDUM LETTER RESERVED FOR FUTURE USE)

ADDENDUM S

(ADDENDUM LETTER RESERVED FOR FUTURE USE)

ADDENDUM T

(ADDENDUM LETTER RESERVED FOR FUTURE USE)

ADDENDUM U

(ADDENDUM LETTER RESERVED FOR FUTURE USE)



ADDENDUM V

BY-LAWS AND CERTIFICATE OF INCORPORATION

The By-Laws of the Corporation and the Certificate of Incorporation of the Corporation are incorporated by reference.