



NATIONAL  
SECURITIES  
CLEARING  
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

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

**~~Bold and strike through~~** text indicates proposed deleted language.

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.

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*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 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 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. Transactions submitted through the ID Net Service are excluded from Net Unsettled Positions.**

*NSCC Website*

The term “NSCC Website” means any URL (Uniform Resource Locator) designated by the Corporation from time to time.

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

SEC. 1. When the Corporation has declined or ceased to act for a Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, 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 declined or ceased to act shall be excluded from all operations of the Corporation applicable to such transactions:

- (i) any CNS trade which, at the time the Corporation declined or ceased to act for such Member, was not guaranteed by the Corporation pursuant to Addendum K;
- (ii) any Balance Order trade which, at the time the Corporation declined or ceased to act for such Member, was not guaranteed by the Corporation pursuant to Addendum K;
- (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; **and**
- (vii) any uncompleted transaction processed through the ID Net Service in accordance with Rule 65.**

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

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## RULE 65. ID NET SERVICE

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### SEC. 5. Obligations and Rights applicable to an ID Net Subscriber

(a) An ID Net Subscriber covenants to the Corporation as follows:

(i) to abide by the Rules of the Corporation applicable to an ID Net Subscriber and the use of the ID Net service, and to be bound by all the provisions thereof, and that the Corporation shall have all the rights and remedies contemplated by the applicable Rules of the Corporation;

(ii) that the applicable Rules of the Corporation shall be a part of the terms and conditions of every transaction which the ID Net Subscriber submits to the Corporation;

(iii) to pay to the Corporation such fees, charges and other amounts as may be established by the Corporation in connection with the ID Net Subscriber's use of ID Net Service or its status as an ID Net Subscriber, and to pay such fines or penalties as may be imposed in accordance with this Rule 65; and

(iv) to be bound by any amendment to the applicable Rules of the Corporation subsequent to the time such amendment takes effect as fully as though such amendment were now a part of the Rules of the Corporation, provided, however, that no such amendment shall affect its right to cease to be an ID Net Subscriber unless before such amendment becomes effective, it is given an opportunity to give written notice to the Corporation of its election to cease to be an ID Net Subscriber.

(b) The Corporation may determine to remove a Member's status as an ID Net Subscriber, or to suspend, limit or restrict its access to the ID Net Service, under the following circumstances:

(i) if the ID Net Subscriber is in such financial or operating difficulty that the Corporation has determined, in its discretion, that such action is necessary for the protection of the Corporation and its participants;

(ii) the ID Net Subscriber has failed to comply with any requirement of the Corporation, or if it no longer meets the qualifications for status as an ID Net Subscriber set forth in this Rule;

(iii) if the ID Net Subscriber is "insolvent" as defined in Rule 20 of these Rules; or

(iv) under any circumstances in which, in the reasonable discretion of the Corporation, adequate cause exists to do so.

Such action may be taken summarily if the Corporation determines in its reasonable discretion that such summary action is in the interests of the Corporation or its participants.

**(c) The ID Net Service shall not be a guaranteed service of the Corporation. If the Corporation ceases to act for a Member that is an ID Net Subscriber pursuant to Rule 18 it may post appropriate offsetting positions in order to exit any uncompleted transactions from the ID Net Service.**

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

\* \* \*

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 (excluding for transactions not submitted through the ID Net service) that have not yet passed Settlement Date and its fail positions, and (y) the Current Market Price for such positions<sup>2</sup> (such difference to be known as the "Regular Mark-to-Market"); provided that: ~~(i) the Corporation may, but shall not be required to, exclude from this calculation any shares delivered by the Member in the night cycle to satisfy all or any portion of a short position and (ii) that if the Member is an ID Net Subscriber and if the value of the Regular Mark-to-Market as computed above is a positive number, then the value of the Regular Mark-to-Market shall be zero;~~

plus

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

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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.

<sup>2</sup> For fail positions, the contract price used for this purpose is the prior day's Market Price.

**plus**

plus

**(dc)** 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

**(ed)** 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

**(fe)** 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) ~~Regular~~ Mark-to-Market component, ~~(ii) ID Net Mark-to-Market component~~ and (iii) volatility component, times a multiplier calibrated based on backtesting results;

plus

**(gf)** 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

**(ig)** 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.

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(2) For Balance Order Transactions

(a) (i) The volatility of such Member’s ~~net of unsettled Regular Way, When-Issued and When-Distributed positions that have not yet passed Settlement~~

~~Date, hereinafter collectively referred to as~~ Net Balance Order Unsettled Positions, which shall be the highest resultant value among the following:

\* \* \*

(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) ~~Regular~~ Mark-to-Market component and (ii) volatility component, times a multiplier calibrated based on backtesting results;

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#### I.(B) Additional Clearing Fund Formula

##### (1) Additional Deposits for Members on the Watch List

Any Member or Limited 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

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



Notwithstanding the foregoing, the Corporation may: (i) collect an amount less than the Excess Capital Premium (including no premium), and (ii) return all or a portion of the Excess Capital Premium if it believes that the imposition or maintenance of the Excess Capital Premium is not necessary or appropriate.<sup>3</sup>

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<sup>3</sup> The Corporation has identified the following guidelines or circumstances, which are intended to be illustrative, but not limited, where the premium will not be imposed: (a) where the premium results from charges applied with respect to municipal securities trades settling in CNS, where the member has offsetting compared trades settling on a trade-for-trade basis through DTC; and (b) management will look to see whether the premium results from an unusual or non-recurring circumstance where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison or trade recording that would otherwise reduce the margined position if timely submitted, or an unexpected haircut or capital charge that does not fundamentally change its risk profile.