



NATIONAL
SECURITIES
CLEARING
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

Underlined and boldface text indicates new text

~~Strikethrough and boldface~~ text indicates deleted text

RULE 4(A) – 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. The two principal sources of liquidity for the Corporation currently are deposits to the Clearing Fund and a committed line of credit. A substantial proportion of the liquidity needed by the Corporation is attributable to the exposure presented to the Corporation by its Members who would generate the largest settlement debits during options expiration activity periods in stressed market conditions. In order to ensure that the Corporation has sufficient liquidity to meet its payment obligations, it is appropriate that such Members provide additional liquidity to the Corporation in the form of supplemental liquidity deposits to the Clearing Fund, offset by (i) commitments under the line of credit and (ii) any other qualifying liquid resources the Corporation may secure to settle its payment obligations as a central counterparty. This Rule 4(A) describes how such additional liquidity in the form of supplemental liquidity deposits to the Clearing Fund shall be calculated and provided.

SEC. 2. Defined Terms. The following terms shall have the meanings specified:

“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.

“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.

“Commitment” means a commitment to lend to the Corporation under the Credit Facility.

“Credit Facility” means the committed line of credit maintained by the Corporation to enable the Corporation to satisfy losses and liabilities incident to the operation of its clearance and settlement business.

“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 third Settlement Day 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 third Settlement Day following such date.

“Other Qualifying Liquid Resources” means liquid resources, other than the Clearing Fund and Credit Facility, available to the Corporation to enable the Corporation to settle its payment obligations as a central counterparty in stressed market conditions.

“Special Activity Business Day” means a Business Day that is included in an Options Expiration Activity Period.

“Special Activity Calculation Date” has the meaning given to such term in Section 3 below.

“Special Activity Daily Liquidity Need” means, on any Special Activity Business Day, the amount of liquid resources, as calculated and determined by the Corporation, needed to effect the settlement of its payment obligations as a central counterparty over a four day settlement cycle, assuming the default on that Business Day of the Unaffiliated Member or Affiliated Family that would cause the largest liquidity exposure to the Corporation over that cycle in stressed market conditions.

“Special Activity Liquidity Call” has the meaning given to such term in Section 7 below.

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

“Special Activity Liquidity Provider” has the meaning given to such term in Section 4 below.

“Special Activity Lookback Period” means, with respect to the 24 month period (or longer period as determined by the Corporation in its discretion) ending on the applicable Special Activity Calculation Date, each Options Expiration Activity Period that falls within the same calendar month as the calendar month of the applicable Special Activity Calculation Date.

“Special Activity Peak Liquidity Exposure” means:

- a. with respect to an Unaffiliated Member, the amount by which the largest Special Activity Supplemental Liquidity Need that the Corporation would have in the event of the default of such Unaffiliated Member on any Special Activity Business Day during the applicable Special Activity Lookback Period exceeds, on the applicable Special Activity Calculation Date, the sum of (i) all Commitments under the Credit Facility and (ii) all Other Qualifying Liquid Resources;**
- b. with respect to a Member of an Affiliated Family, the amount by which the largest Special Activity Supplemental Liquidity Need that the Corporation would have in the event of the default of such Member on any Special Activity Business Day during the applicable Special Activity**

Lookback Period exceeds, on the applicable Special Activity Calculation Date, the sum of (i) all Commitments under the Credit Facility and (ii) all Other Qualifying Liquid Resources; and

- c. with respect to an Affiliated Family, the amount by which the largest Special Activity Supplemental Liquidity Need that the Corporation would have in the event of the simultaneous default of all Members of that Affiliated Family on any Special Activity Business Day during the applicable Special Activity Lookback Period exceeds, on the applicable Special Activity Calculation Date, the sum of (i) all Commitments under the Credit Facility and (ii) all Other Qualifying Liquid Resources.

“Special Activity Peak Liquidity Need” means, on any Special Activity Calculation Date, the amount by which the largest Special Activity Supplemental Liquidity Need observed at any time during any Options Expiration Activity Period exceeds, on such Special Activity Calculation Date, the sum of (i) all Commitments under the Credit Facility and (ii) all Other Qualifying Liquid Resources.

“Special Activity Peak Liquidity Need Date” means the date of the applicable Special Activity Peak Liquidity Need.

“Special Activity Prefund Deposit” means a cash deposit of a Member to the Clearing Fund made by wire transfer to an account designated by the Corporation:

- a. that is in excess of the Required Deposit of the Member;
- b. that the Member deposits to the Clearing Fund, not later than the time specified by the Corporation on the first Business Day of an Options Expiration Activity Period, if the Member anticipates that its Special Activity Peak Liquidity Exposure at any time during such Options Expiration Activity Period will be greater than the amount calculated by the Corporation pursuant to this Rule 4(A);
- c. that the Member undertakes to keep on deposit in the Clearing Fund for at least seven Business Days after the end of the applicable Options Expiration Activity Period; and
- d. that the Member designates as a “Special Activity Prefund Deposit” at the time of the deposit in a manner specified by the Corporation.

“Special Activity Supplemental 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 Special Activity Liquidity Obligation (pursuant to Section 6 below) or (ii) a Special Activity Liquidity Call (pursuant to Section 8 below). All Special Activity Supplemental Deposits shall be made in cash by wire transfer to an account designated by the Corporation.

“Special Activity Supplemental Liquidity Need” means, on any Special Activity Business Day, the amount by which the Special Activity Daily Liquidity Need of the Corporation exceeds the sum of all Required Deposits.

“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 4(A) shall have the meanings given to such terms elsewhere in these Rules.

Special Activity Liquidity Obligations

SEC. 3. Special Activity Calculation Date Determinations. On a day that is no later than the fifth Business Day preceding any Options Expiration Activity Period (the “Special Activity Calculation Date”), the Corporation shall determine:

- a. the Special Activity Daily Liquidity Need of the Corporation on each Special Activity Business Day of the applicable Special Activity Lookback Period;**
- b. the Special Activity Supplemental Liquidity Need of the Corporation on each Special Activity Business Day of the applicable Special Activity Lookback Period;**
- c. the Special Activity Peak Liquidity Need of the Corporation on the applicable Special Activity Calculation Date;**
- d. the Special Activity Peak Liquidity Exposure of each Unaffiliated Member or Affiliated Family during the applicable Special Activity Lookback Period; and**
- e. the 30 (or fewer) Unaffiliated Members or Affiliated Families with the largest Special Activity Peak Liquidity Exposures during the applicable Special Activity Lookback Period.**

SEC. 4. Special Activity Liquidity Obligations and Providers. The 30 (or fewer) Unaffiliated Members or Affiliated Families with the largest Special Activity Peak Liquidity Exposures during the applicable Special Activity Lookback Period (each, a “Special Activity Liquidity Provider”) shall have a supplemental liquidity obligation to the Corporation (a “Special Activity Liquidity Obligation”), determined for each Special Activity Liquidity Provider in accordance with the following formula:

A = B multiplied by (C divided by D), where --

A is the Special Activity Liquidity Obligation of such Special Activity Liquidity Provider;

B is the Special Activity Peak Liquidity Need of the Corporation on the applicable Special Activity Calculation Date;

C is the Special Activity Peak Liquidity Exposure of such Special Activity Liquidity Provider during the applicable Special Activity Lookback Period; and

D is the aggregate amount of the Special Activity Peak Liquidity Exposures of all Special Activity Liquidity Providers during the applicable Special Activity Lookback Period.

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

SEC. 6. Notice of Special Activity Liquidity Obligations and Payment of Special Activity Supplemental Deposits. Promptly after the Special Activity Calculation Date, the Corporation shall provide each Special Activity Liquidity Provider with the amount of its Special Activity Liquidity Obligation for that Options Expiration Activity Period. Not later than the close of business on the second Business Day preceding the applicable Options Expiration Activity Period, a Special Activity Liquidity Provider shall make its Special Activity Supplemental Deposit to the Clearing Fund.

Special Activity Liquidity Calls

SEC. 7. Determination of Special Activity Liquidity Calls. If, with respect to any Special Activity Business Day between Special Activity Calculation Dates, the Corporation observes an increase in its Special Activity Supplemental Liquidity Need in excess of such threshold as may be determined by the Corporation from time to time, the Corporation shall be entitled to call on the Member whose increase in activity levels caused (or was the primary cause of) such increase in the Special Activity Supplemental Liquidity Need of the Corporation to deposit to the Clearing Fund, as an addition to its Special Activity Supplemental Deposit, an amount equal to the difference between (i) the Special Activity Supplemental Liquidity Need of the Corporation on such Special Activity Business Day and (ii) the sum, on such Special Activity Business Day, of (w) all Special Activity Supplemental Deposits, (x) all Commitments under the Credit Facility, (y) all Other Qualifying Liquid Resources and (z) an amount of Special Activity Prefund Deposits up to such limit as may be determined by the Corporation from time to time (a “Special Activity Liquidity Call”).

SEC. 8. Satisfaction of Special Activity Liquidity Calls. On the first Business Day after receipt of a Special Activity Liquidity Call from the Corporation, or such later time as the Corporation may specify but not later than 10 a.m. on the second Business Day after receipt of a Special Activity Liquidity Call from the

Corporation, a Member shall make a Special Activity Supplemental Deposit to the Clearing Fund in the amount of the Special Activity Liquidity Call.

Returns of Special Activity Supplemental Deposits

SEC. 9. Deposits Made in Satisfaction of a Liquidity Obligation. A Special Activity Liquidity Provider shall be entitled to a return of the amount of its Special Activity Supplemental Deposit made in satisfaction of a Supplemental Activity Liquidity Obligation, payable seven Business Days after the end of the applicable Options Expiration Activity Period.

SEC. 10. Deposits Made in Satisfaction of a Liquidity Call. A Special Activity Liquidity Provider shall be entitled to a return of the amount of its Special Activity Liquidity Deposit made in satisfaction of a Special Activity Liquidity Call, payable 90 days after the date of such deposit.

SEC. 11. Ceasing to be a Participant. Special Activity Supplemental Deposits shall not be subject to the provisions of Section 6 of Rule 4 relating to the 90 day deferral of refunds of deposits to the Clearing Fund when a Member ceases to be a participant.

Miscellaneous Matters

SEC. 12. Obligations of Affiliated Families and Unaffiliated Members.

- a. The Special Activity 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 Special Activity Peak Liquidity Exposures.**
- b. In the event of any failure of an Unaffiliated Member to satisfy a Special Activity Liquidity Obligation in full when due, the Corporation may (i) debit the amount of any such deficiency to the account of such Unaffiliated Member, (ii) collect such amount in system wide settlement and (iii) credit such amount as a Special Activity Supplemental Deposit for the account of such Unaffiliated Member. The Corporation may also exercise any and all of its other default rights under these Rules.**
- c. In the event of any failure of a Member of an Affiliated Family to satisfy a Special Activity 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 Special Activity Supplemental Deposit for the account of such Member. The Corporation may also exercise any and all of its other default rights under these Rules.**

SEC. 13. Application of Special Activity Supplemental Deposits.

- a. A Special Activity Supplemental 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.**
- b. A Special Activity Supplemental 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 Deposit of the Member and (ii) any other deposit of the Member to the Clearing Fund.**
- c. A Special Activity Supplemental 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 Special Activity Supplemental 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. 14. Information. To enable Members to understand and manage their obligations to the Corporation:

- a. on each Business Day, the Corporation shall make available to each Member the amount of the liquidity need that the Corporation would have had in the event of the default of such Member on the preceding Business Day; and**
- b. promptly after each Special Activity Calculation Date, the Corporation shall provide each Special Activity Liquidity Provider with the amount of its Special Activity Liquidity Obligation for the following Options Expiration Activity Period.**