



**NATIONAL  
SECURITIES  
CLEARING  
CORPORATION**

**RULES & PROCEDURES**

TEXT OF PROPOSED RULE CHANGE

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

**~~Bold and strikethrough text~~** indicates proposed deleted language

RULE 1. DEFINITIONS AND DESCRIPTIONS.

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**Family-Issued Security**

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

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## PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS<sup>1</sup>

### I.(A) Clearing Fund Formula for Members

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#### (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. Such calculation shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate.

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

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**(iv) The Corporation shall exclude from the calculations in subsection (i) 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**

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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.

**the absolute value of such positions by a percentage designated by the Corporation; such percentage shall be no less than 40% and up to 100%, and shall be determined, from time to time, in the sole discretion of the Corporation, within parameters described below, based on the Member's rating on the Credit Risk Rating Matrix and the type of Family-Issued Securities submitted to the Corporation:**

**(A) Fixed income securities that are Family-Issued Securities shall be charged a haircut rate of no less than 80% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 40% for firms that are rated 1 through 5 on the Credit Risk Rating Matrix.**

**(B) Equity securities that are Family-Issued Securities shall be charged a haircut rate of 100% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 50% for firms that are rated 1 through 5 on the Credit Risk Rating Matrix;**

plus

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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. Such calculation shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate.

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

positions covered by subsection y of this paragraph. The Corporation shall exclude from the calculations in subsection (i) above **(A) municipal and corporate bonds, which are addressed in subsection (iii) below, and (B) Family-Issued Securities, which are addressed in subsection (iv) below.**

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**(iv) The Corporation shall exclude from the calculations in subsection (i) 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 no less than 40% and up to 100%, and shall be determined, from time to time, in the sole discretion of the Corporation, within parameters described below, based on the Member's rating on the Credit Risk Rating Matrix and the type of Family-Issued Securities submitted to the Corporation:**

**(A) Fixed income securities that are Family-Issued Securities shall be charged a haircut rate of no less than 80% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 40% for firms that are rated 1 through 5 on the Credit Risk Rating Matrix.**

**(B) Equity securities that are Family-Issued Securities shall be charged a haircut rate of 100% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 50% for firms that are rated 1 through 5 on the Credit Risk Rating Matrix;**

plus

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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) Family-Issued Securities~~

~~The Corporation shall require Members who are rated 5, 6, or 7 on the Credit Risk Rating Matrix to contribute to the Clearing Fund an amount determined by multiplying the absolute value of any long Net Unsettled Positions in classes of "family-issued securities" (defined as securities that were issued by either that~~

~~Member or by an affiliate of that Member) by a percentage designated by the Corporation; such percentage, to be no less than 40% and up to 100%, shall be determined, from time to time, in the sole discretion of the Corporation, within the parameters described as follows, based on the Member's rating on the Credit Risk Rating Matrix and on the type of family-issued securities submitted to the Corporation.~~

~~Fixed income securities that are family-issued securities shall be charged a haircut rate of no less than 80% for firms that are rated 6 or 7 on the Credit Risk Rating Matrix, and no less than 40% for firms that are rated 5 on the Credit Risk Rating Matrix; and equity securities that are family-issued securities shall be charged a haircut rate of 100% for firms that are rated 6 or 7 on Credit Risk Rating Matrix, and no less than 50% for firms that are rated 5 on the Credit Risk Rating Matrix.~~

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

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