



**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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AIP Settling Bank

The term “AIP Settling Bank” means

(1) an AIP Member which is a bank or trust company which would otherwise qualify under Section 2. (ii)(i) of Rule 2, and Rule 2A and which is a party to an effective ~~Appointment of AIP Settling Bank and AIP Settling Bank Agreement whereby the AIP Member undertakes to perform settlement services for the AIP Member or the AIP Non-Member Fund which is a party thereto~~, or

(2) an AIP Settling Bank Only Member which has qualified under Section 2. (ii)(i) of Rule 2, Rule 2A and Addendum B and which is a party to an effective ~~Appointment of AIP Settling Bank and AIP Settling Bank Agreement whereby the AIP Settling Bank Only Member undertakes to perform settlement services for the AIP Member or the AIP Non-Member Fund which is a party thereto~~.

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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 ~~Appointment of Settling Bank and Settling Bank Agreement whereby the Member undertakes to perform settlement services for a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member which is a party thereto~~, or

(2) a Settling Bank Only Member which has qualified under Section 2.(ii)(f) of Rule 2, Rule 2A and ~~Section 8 of~~ Addendum B and which is a party to an effective ~~Appointment of Settling Bank and Settling Bank Agreement whereby the Member undertakes to perform settlement services for a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member which is a party thereto~~.

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.

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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.

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E. Membership and Other Agreements

Each ~~applicant to become a~~ 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 ~~shall sign and deliver to the Corporation an instrument in writing whereby the applicant shall~~ agree, 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~~ se Rules ~~of the Corporation~~ shall be a part of the terms and conditions of every contract or transaction which the participant may ~~make~~ make or have with or through the Corporation;
- (c) Not to submit, clear or settle through the Corporation any contract or transaction unless ~~these~~ se Rules ~~of the Corporation~~ are part of the terms and conditions of such contract or transaction;
- (d) That it has reviewed ~~these~~ se Rules ~~of the Corporation~~ 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~~ se Rules ~~of the Corporation~~ and be bound by all the provisions thereof, and that the Corporation shall have all the rights and remedies contemplated by ~~said these~~ se Rules. Notwithstanding that the participant may have ceased to be a participant, the participant shall continue to be bound by ~~these~~ se Rules ~~of the Corporation~~ as to all matters and transactions occurring while a participant;

- (f) To be bound by any amendment to ~~these~~ se Rules ~~of the Corporation~~ 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~~ se Rules ~~of the Corporation~~; 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~~ se Rules ~~of the Corporation~~ for services rendered to the participant, while a participant²;
- (i) To pay such fines while a participant as may be imposed in accordance with ~~these~~ se Rules ~~of the Corporation~~ 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 records³ shall at all times be open to the inspection of the duly authorized representatives of the Corporation, and that the Corporation

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

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

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;⁴ and

(l) That to the extent the participant authorizes an agent (if permitted pursuant to ~~these Corporation's~~ 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 Corporation's~~ Rules.

In addition to the above:

1. Members:

~~Members that are Municipal Securities Brokers' Brokers-sponsored account applicants shall sign and deliver to the Corporation an agreement in writing whereby the applicant shall~~ 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 ~~applicant Member~~ is required to pay for the securities received or the ~~applicant's 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 ~~applicant Member~~ is obligated to pay for the receipt of the securities or the ~~applicant's 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:

~~Applicants for~~ 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 ~~of the Corporation~~ for the processing of transactions through the Mutual Fund Services and (ii) a duly completed ~~C~~consent ~~A~~and ~~A~~authorization ~~F~~form, designating the Member(s)/Mutual Fund/Insurance

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.

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

Services Member(s) who will be responsible for the settlement of orders initiated by the ~~applicant~~ participant.

Each ~~applicant to become a~~ 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.

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RULE 5. GENERAL PROVISIONS

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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 designate** 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**. ~~If the representative of the participant is not a general partner or officer of the participant's firm, such representative shall, in the case of a firm, be authorized to act by written power of attorney, or in the case of a corporation, by resolution by the board of directors of such corporation. Such power of attorney or resolution, as the case may be, shall be in such form as approved by the Corporation.~~

~~Members, Mutual Fund/Insurance Services Members, Settling Bank Only 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 shall file with the Corporation the signatures of the members of their firms or the officers of their corporations and of the representatives of such firms or corporations who are authorized to sign checks, agreements, receipts, orders and other papers necessary for conducting business with the Corporation together with the powers of attorney or other instruments giving such authority.~~

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.

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RULE 32. SIGNATURES

With respect to any and all agreements and other documents entered into between a Member and Limited Member and Tthe Corporation, or otherwise delivered to or by the Corporation pursuant to these Rules and Procedures, the use of may, at its option, in lieu of relying on an original signature, rely on an electronic signature as if it were (and the signature shall be considered and have the same validity and effect as) a valid and binding original the use of a signature affixed by hand in the following circumstances:

~~If such signature is transmitted, recorded or stored by any electronic, optical, or similar means (including but not limited to telecopy, imaging, xeroxing, electronic mail, electronic data interchange, telegram, or telex) deemed acceptable by the Corporation.~~

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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 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 **there** under ~~the Rules and Procedures~~, 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.

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RULE 53. ALTERNATIVE INVESTMENT PRODUCT SERVICES AND MEMBERS

SEC. 1. General

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(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:

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(v) ~~Documentation and/or agreements in such form as required by the Corporation from time to time reflecting the AIP Non-Member Fund's appointment of an AIP Settling Bank, and such AIP Settling Bank's agreement to act as AIP Settling Bank~~ An effective Settling Bank Agreement for such AIP Non-Member Fund.

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SEC. 7. Settlement of AIP Payments

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(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 ~~an AIP 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.

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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 an AIP Settling Bank Only Member. Each Settling Bank ~~shall agree~~s to abide ~~to~~by these Rules and Procedures and shall enter into ~~an Appointment of Settling Bank and~~ 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 ~~shall agree~~s to abide ~~to~~by these Rules and Procedures and shall enter into ~~an Appointment of AIP Settling Bank and AIP~~ 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.

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