



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 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;
- (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.

(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 Orders¹ 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 ~~him~~ 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 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:

¹ 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.

(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 ~~him~~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 ~~him~~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.

* * *

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"); 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 either (1) CNS Securities, or (2) Balance Order 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 guarantee 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 guarantee of such Participating Member's E&A/Delivery Transactions become effective (such Participating Member, a "Defaulting Participating Member"), ~~then unless OCC has made an election pursuant to Section 6(b)(i) of the Accord,~~ none of the E&A/Delivery Transactions involving such defaulting Participating Member for which the Corporation's guarantee 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 or the Balance Order Accounting Operation, as applicable. ~~In such a case, unless otherwise agreed between OCC and the Corporation. The 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 Balance Order Accounting Operation or 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 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 two days 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 or a Balance Order Security, such transaction shall be treated as a trade-for-trade transaction and

the Corporation's guarantee 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.

* * *

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.¹ 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 T+2. If the contra party to a same day or one day 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.

¹ The ~~trade-Corporation's~~ guaranty of obligations arising out of the exercise or assignment of ~~options-an option contract issued by The Options Clearing Corporation ("OCC")~~ that ~~are-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 ~~The Options Clearing Corporation~~OCC, as referred to in Procedure III of the Rules and Procedures, and is not addressed in these Rules and Procedures.

PAGE REDACTED IN ITS ENTIRETY

PAGE REDACTED IN ITS ENTIRETY