

NATIONAL SECURITIES CLEARING CORPORATION RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

Bold and double underlined text indicates proposed added language for Phase 2 changes.

~~Bold and double strikethrough~~ text indicates proposed deleted language for Phase 2 changes.

NATIONAL SECURITIES CLEARING CORPORATION RULES

* * *

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"), subject to the Corporation's guaranty; 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 guaranty 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 guaranty of such Participating Member's E&A/Delivery Transactions become effective (such Participating Member, a "Defaulting Participating Member"), unless OCC has made the commitments and guaranty substitution payments required under the Accord, none of the E&A/Delivery Transactions involving such defaulting Participating Member for which the Corporation's guaranty 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, 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 fact that E&A/Delivery Transactions are indicated in a report or Consolidated Trade Summary shall have no force and effect with respect to the Corporation's guaranty pursuant to Addendum K or a Member's ultimate obligation to deliver or pay for the receipt of such securities unless and until such transactions have satisfied all requirements for the Corporation's guaranty under Addendum K and the Accord or the Corporation notifies Members to the contrary. E&A/Delivery Transactions indicated in a report or Consolidated Trade Summary for which the Corporation's guaranty does become effective shall be canceled and thereafter shall be null and void and such cancelation shall be reflected in the next available report or Consolidated Trade Summary.**

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 one business day~~ 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 guaranty 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.

* * *