



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

***Bold, double-underlined and italicized text*** indicates additional language proposed by this Amendment No. 1

**~~*Bold, strikethrough and dotted underlined text*~~** indicates deleted language proposed by this Amendment No. 1

## RULE 1. DEFINITIONS AND DESCRIPTIONS

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules and Procedures, have the meanings herein specified.

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### Actual Deposit

The term "Actual Deposit" has the meaning specified in Rule 4.

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### Average RFD

The term "Average RFD" has the meaning specified in Rule 4.

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### Clearing Fund Cash

The term "Clearing Fund Cash" has the meaning specified in Rule 4.

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### Corporate Contribution

The term "Corporate Contribution" has the meaning specified in Rule 4.

### Corporation

The term "Corporation" means National Securities Clearing Corporation.

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### Declared Non-Default Loss Event

The term "Declared Non-Default Loss Event" has the meaning specified in Rule 4.

### Defaulting Member

The term "Defaulting Member" has the meaning specified in Rule 4.

### Defaulting Member Event

The term "Defaulting Member Event" has the meaning specified in Rule 4.

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### Eligible Letter of Credit

The term "Eligible Letter of Credit" has the meaning specified in Rule 4.

**Event Period**

**The term "Event Period" has the meaning specified in Rule 4.**

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**Insurance Deposit**

**The term "Insurance Deposit" has the meaning specified in Rule 4.**

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**Insurance Participant**

**The term "Insurance Participant" has the meaning specified in Rule 4.**

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**Issuer**

**The term "Issuer" has the meaning specified in Rule 4.**

**Lender**

**The term "Lender" has the meaning specified in Rule 4.**

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**Loss Allocation Cap**

**The term "Loss Allocation Cap" has the meaning specified in Rule 4.**

**Loss Allocation Notice**

**The term "Loss Allocation Notice" has the meaning specified in Rule 4.**

**Loss Allocation Withdrawal Notice**

**The term "Loss Allocation Withdrawal Notice" has the meaning specified in Rule 4.**

**Loss Allocation Withdrawal Notification Period**

**The term "Loss Allocation Withdrawal Notification Period" has the meaning specified in Rule 4.**

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**Mutual Fund Deposit**

**The term "Mutual Fund Deposit" has the meaning specified in Rule 4.**

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**Mutual Fund Participant**

**The term "Mutual Fund Participant" has the meaning specified in Rule 4.**

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**Required Fund Deposit**

**The term "Required Fund Deposit" has the meaning specified in Rule 4.**

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**Termination Date**

**The term "Termination Date" has the meaning specified in Rule 2B.**

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**The Corporation**

**The term "the Corporation" means the National Securities Clearing Corporation.**

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**Voluntary Termination Notice**

**The term "Voluntary Termination Notice" has the meaning specified in Rule 2B.**

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## RULE 2B. ONGOING MEMBERSHIP REQUIREMENTS AND MONITORING

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### SEC. 4. ONGOING MONITORING

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(e) The Corporation may require a Member or Limited Member that has been placed on the Watch List to make and maintain a deposit to the Clearing Fund over and above the amount determined in accordance with Procedure XV (which additional deposit shall constitute a portion of the Member's or Limited Member's Required **Fund** Deposit), or such higher amount as the Board may deem necessary for the protection of the Corporation or other Members, which higher amount may include, but is not limited to, additional payments or deposits in any form to offset potential risk to the Corporation and its Members arising from activity submitted by such Member or Limited Member. The Corporation may also retain any deposit in excess of the Required **Fund** Deposit of a Member or Limited Member that has been placed on the Watch List as provided in Section 9 of Rule 4.

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### SEC. 5. VOLUNTARY ~~RETIREMENT~~TERMINATION

A Member, Fund Member, Insurance Carrier/Retirement Services Member, Municipal Comparison Only Member, Mutual Fund/Insurance Services Member, Data Services Only Member, Investment Manager/Agent Member, AIP Member, Third Party Provider Member or Third Party Administrator Member each may elect to voluntarily ~~retire~~terminate such membership by providing the Corporation with a written notice of such termination (**“Voluntary Termination Notice”**). **The participant shall specify in the Voluntary Termination Notice an effective a desired date for its withdrawal from membership (the “Termination Date”); provided, however, such Termination Date date shall not be prior to the scheduled final settlement date of any remaining obligation owed by the participant to the Corporation as of the time such Voluntary Termination Notice is submitted to the Corporation, unless otherwise approved by the Corporation.**

Such termination will not be effective until accepted by the Corporation, **which shall be no later than ten (10) business days after the receipt of the Voluntary Termination Notice from such participant.** The Corporation's acceptance shall be evidenced by a notice to the Corporation's participants announcing the participant's ~~retirement~~termination and the **last trade date for the participant. The effective date of the retirement participant's termination shall be the final settlement date of all transactions of the participant (the “Retirement Termination Date”).** **After the close of business on As of the Termination Date, a participant that terminates its membership in the Corporation shall no longer be eligible or required to submit transactions to the Corporation for clearance and settlement, unless the Board determines otherwise in order to ensure an orderly liquidation of the**

**participant's open obligations. If any transaction is submitted to the Corporation by such participant that is scheduled to settle on or after the Termination Date, such participant's Voluntary Termination Notice will be deemed void, and the participant will remain subject to these Rules and Procedures as if it had not given such Voluntary Termination Notice.**

A participant's voluntary termination of membership shall not affect its obligations to the Corporation, or the rights of the Corporation, with respect to transactions submitted to the Corporation before the **Retirement Termination** Date (including, but not limited to, any pro-rata charge made by the Corporation pursuant to Section **84** of Rule 4). **The return of the participant's Clearing Fund deposit shall be governed by Sections 7, 13 and 14 of Rule 4, as applicable. If an Event Period were to occur after a participant has submitted its Voluntary Termination Notice but on or prior to the Termination Date, in order for such participant to benefit from its Loss Allocation Cap pursuant to Section 4 of Rule 4, the participant will need to comply with the provisions of Section 6 of Rule 4 and submit a Loss Allocation Withdrawal Notice, which notice, upon submission, shall supersede and void any pending Voluntary Termination Notice previously submitted by the participant.**

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#### RULE 4. CLEARING FUND

SEC. 1. **Required Fund Deposits.** Each Member ~~and Mutual Fund/Insurance Services Member shall, and each Fund Member and each Insurance Carrier/Retirement Services Member may be required to,~~ make and maintain on an ongoing basis a deposit to the Clearing Fund; ~~such deposits to the Clearing Fund shall be held by the Corporation to be applied as provided in this Rule.~~<sup>1</sup> The amount of each ~~such participant's~~ Member's required deposit shall be fixed determined by the Corporation in accordance with ~~one or more formulas specified by the Board of Directors and included in the Procedure XV and other applicable Rules and~~ Procedures (the "Required Fund Deposit"). ~~The basis of each formula shall be use of the Corporation's facilities.~~ The minimum Required Fund Deposit for each Member shall be \$10,000 ~~unless changed by the Board of Directors and shall be in cash unless changed by the Board of Directors.~~ The minimum Required Deposit for a ~~Mutual Fund/Insurance Services Member who uses the Mutual Fund Services shall be \$5,000 unless changed by the Board of Directors and shall be in cash unless changed by the Board of Directors.~~ The Corporation may require any such ~~participant~~ Member to deposit additional amounts to the Clearing Fund pursuant to Rule 15 ~~and such amounts shall be part of the participant's Required Deposit.~~ A Member may in its discretion maintain additional deposits at the Corporation, subject to any Procedures or other requirements the Corporation may establish for such excess amounts. For purposes of these Rules and Procedures, such additional deposits shall be deemed to be part of the Clearing Fund and the Member's Actual Deposit but shall not be deemed to be part of the Member's Required Fund Deposit.

The Corporation, ~~in its discretion,~~ may permit ~~part of a Member's, Insurance Carrier/Retirement Services Member's or Fund Member's deposit to be evidenced by an open account indebtedness secured by Members to satisfy their Required Fund Deposit obligations through a combination of cash and open account indebtedness secured by~~ Eligible Clearing Fund Securities, ~~provided that the percentage of such participant's Required Deposit that may be collateralized with Eligible Clearing Fund Securities and the collateral value of pledged Eligible Clearing Fund Securities shall be as set forth, as further described~~ in Procedure XV<sup>22</sup>. The aggregate of cash deposited, the collateral value of pledged Eligible

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<sup>1</sup> Clearing Fund deposits for Sponsored Accounts (as defined in Procedure IX.B.) relative to such Sponsored Accounts' DTC activity will be calculated and held by DTC in accordance with their procedures, and shall not be included in determining the Required Fund Deposit or the minimum cash requirement.

<sup>2</sup> In addition, the Corporation reserves the right to require participants to post a letter of credit in an instance where the Corporation, in its discretion, believes the participant presents legal risk. In such circumstances the Corporation may require part of a participant's deposit to be evidenced by an open account indebtedness ~~secured~~supported by one or more irrevocable ~~L~~C letters of ~~C~~Credit with a maturity of no more than one year issued on behalf of the participant in favor of the Corporation (i) under which a bank, trust company or United States branch or agency of a foreign bank (hereinafter, an "Issuer"), in each case approved by the Corporation for such purpose, is obligated to honor drafts

**Clearing Fund Securities determined in accordance with Section III of Procedure XV, and the face amount of any Eligible Letters of Credit shall not at any time be less than the Member's Required Fund Deposit.**

~~The collateral value of the Eligible Clearing Fund Securities and the face amount of Letters of Credit (if any Letters of Credit are required by the Corporation) shall not at any time be less in the aggregate than the amount of the participant's open account indebtedness. Each Member grants to the Corporation a first priority perfected security interest in its right, title and interest in and to any Eligible Clearing Fund Securities, funds and assets pledged to the Corporation to secure the Member's open account indebtedness or placed by a Member in the possession of the Corporation (or its agents acting on its behalf) (collectively with any Eligible Letters of Credit issued on behalf of a Member in favor of the Corporation, the Member's "Actual Deposit"), in each case to secure all such Member's obligations to the Corporation. The Corporation shall be entitled to exercise the rights of a pledgee under common law and a secured party under Articles 8 and 9 of the New York Uniform Commercial Code with respect to such assets. The Eligible Clearing Fund Securities shall be pledged to secure a Member's open account indebtedness shall be delivered to the Corporation's account at DTC, or on such other terms and conditions as the Corporation shall may require. The Corporation may in its discretion hold pledged Eligible Clearing Fund Securities in its account at a financial institution designated by the Corporation including, in the Corporation's discretion, the pledge by Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members or Fund Members to the Corporation's account at a Qualified Securities Depository designated by such participant. Eligible Clearing Fund Securities that are not pledged at a Qualified Securities Depository shall be held by the Corporation for its account by a bank or trust company (other than the participant) designated by the Corporation.~~

~~Each participant's Required Deposit shall be allocated by the Corporation among the Mutual Fund Services, the Insurance and Retirement Processing Services and the services for which the Corporation assumes responsibility for completion of transactions and which are designated as such by the Corporation (collectively the "Systems" and individually a "System") and in which the~~

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up to a specified amount drawn on it by the Corporation, ~~provided that~~ **and (ii)** the terms and conditions of ~~any such Letter of Credit are deemed which the Corporation determines are~~ acceptable to the Corporation in its sole discretion **(each such letter of credit, an "Eligible Letter of Credit")**. Any amount drawn on any **Eligible** Letters of Credit shall be deposited into, and constitute an additional cash deposit to, the Clearing Fund and shall reduce the participant's open account indebtedness by a corresponding amount. Within ten **(10)** calendar days prior to the stated expiration date of any such **Eligible** Letter of Credit or within such time as the Corporation shall direct upon receipt by the Corporation of written notice from an approved bank of an earlier expiration date of any **Eligible** Letter of Credit ~~securing~~ **supporting** a participant's open account indebtedness, such participant shall make a substitution for the **Eligible** Letter of Credit, in accordance with the provisions of this Rule, in the amount required, effective upon or prior to the expiration of the **Eligible** Letter of Credit.



~~participant participates. The allocation for each System, shall bear the same percentage relationship to the participant's Required Deposit as the participant's use of that System bears to his use of all services offered by the Corporation as measured by settlement dollars. The allocation for the Mutual Fund Services and the Insurance and Retirement Processing Services shall be the dollar amount required to be deposited pursuant to the Clearing Fund formula. The portion of the Clearing Fund allocated for the Mutual Fund Services shall be known as the "Mutual Fund Allocation". The portion of the Clearing Fund allocated for the Insurance and Retirement Processing Services shall be known as the "Insurance Allocation". The portion of the Clearing Fund allocated for each System shall be known as the "Fund" for that System. For example, the portion of the Required Deposit of each Member which shall be allocated for the CNS System shall be known as the Member's "CNS Fund Deposit" and the aggregate of the CNS Fund Deposits shall be known as the "CNS Fund."~~

SEC. 2. Permitted Use, Investment, and Maintenance of Clearing Fund Assets. The Clearing Fund shall only be used by the Corporation (i) to secure each Member's performance of obligations to the Corporation, including each Member's obligations with respect to any loss allocations as set forth in Section 4 of this Rule, (ii) to provide liquidity to the Corporation to meet its settlement obligations, including, without limitation, through the direct use of cash in the Clearing Fund or through the pledge or rehypothecation of pledged Eligible Clearing Fund Securities in order to secure liquidity, and (iii) for investment as set forth in this section.

Each time the Corporation uses any part of the Clearing Fund pursuant to clause (ii) in the preceding paragraph for more than 30 calendar days, the Corporation, at the close of business on the 30<sup>th</sup> calendar day (or on the first business day thereafter) from the day of such use, shall consider the amount used but not yet repaid as a loss to the Clearing Fund incurred as a result of a Defaulting Member Event and immediately allocate such loss in accordance with Section 4 of this Rule.

The Corporation may invest any cash in the Clearing Fund, including (i) cash deposited by a Member as part of its Actual Deposit, (ii) the proceeds of (x) any loans made to the Corporation secured by the pledge by the Corporation of Eligible Clearing Fund Securities pledged to the Corporation or (y) any sales of Eligible Clearing Fund Securities pledged to the Corporation, (iii) cash receipts from any investment of, repurchase or reverse repurchase agreements relating to, or liquidation of, Clearing Fund assets, and (iv) cash payments on Eligible Letters of Credit (collectively, "Clearing Fund Cash"), in accordance with the Clearing Agency Investment Policy adopted by the Corporation.

The Corporation shall not be required to segregate ~~any Fund for a System, the Mutual Fund Allocation, or the Insurance Allocation from the Clearing Fund.~~ The Corporation's each Member's Actual Deposit, but shall maintain books and records shall, however, identify the percentage of each Member's Required Deposit which

~~is at any time allocated to a Fund for a System, to the Mutual Fund Allocation, or the Insurance Allocation. That percentage of (a) the participant's actual cash deposit to the Clearing Fund, and (b) each Eligible Clearing Fund Security pledged to the Corporation by the Member and (c) the face amount of each Letter of Credit (if required by the Corporation) issued on behalf of the participant in favor of the Corporation shall be deemed allocated to the Fund for the System concerning the assets that constitute each Member's Actual Deposit.~~

~~SEC. 2. Subject to the limitations contained in this Rule and the use of a Member's, Mutual Fund/Insurance Services Member's, Insurance Carrier/Retirement Services Member's or Fund Member's actual deposit as provided in Section 3 of this Rule to satisfy his obligations to the Corporation, the use of~~

~~(a) (1) each Fund shall be limited to satisfaction of losses or liabilities of the Corporation incident to the operation of the clearance and settlement business of the Corporation arising in the System to which the Fund pertains, and~~

~~(2) the Mutual Fund Allocation shall be limited to satisfaction of losses or liabilities of the Corporation incident to the operation of Mutual Fund Services, and~~

~~(3) the Insurance Allocation shall be limited to satisfaction of losses or liabilities of the Corporation incident to the operation of Insurance and Retirement Processing Services, and~~

~~(b) the Clearing Fund, which consists of all Clearing Fund deposits except for deposits made in respect of the Mutual Fund Services and Insurance and Retirement Processing Services, shall be limited to satisfaction of losses or liabilities of the Corporation incident to the operation of the clearance and settlement business of the Corporation other than losses or liabilities of a System.~~

~~Any cash in the Clearing Fund may be partially or wholly invested in securities issued or guaranteed as to principal and interest by the United States or agencies or instrumentalities of the United States, repurchase agreements relating to such securities or, certificates of deposit or deposit accounts insured by the Federal Deposit Insurance Corporation, "FDIC", or otherwise pursuant to the investment policy adopted by the Corporation.~~

~~Each participant Member shall be entitled to any interest earned or paid on pledged Eligible Clearing Fund Securities or Clearing Fund cash deposits.<sup>3</sup> Any interest on pledged Eligible Clearing Fund Securities that is received by the~~

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<sup>3</sup> Sponsored Accounts (as defined in Procedure IX.B.) will receive interest earned or paid on their Clearing Fund deposits held at DTC at such rate or rates as DTC pays to its participants.

Corporation shall be credited to the Member's cash deposit to the Clearing Fund, except in the event of a default by such Member on any obligations to the Corporation, in which case the Corporation may exercise its rights under Section 3 of this Rule.

~~No cash in the Clearing Fund and no proceeds of any loans made to the Corporation upon the pledge, by the Corporation, of Eligible Clearing Fund Securities pledged by a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member, or the assignment or transfer, by the Corporation, of Letters of Credit (if any) (or the proceeds thereof) issued on behalf of such participant in favor of the Corporation, to secure the participant's open account indebtedness ("Clearing Fund Cash") and no money payments received from Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members or Fund Members and payable to others ("Cash Receipts") shall be used by the Corporation for any purpose other than (a) the investment of any Clearing Fund Cash or Cash Receipts in securities issued or guaranteed as to principal and interest by the United States or its agencies or invested in certificates of deposit or similar deposits of FDIC approved banks selected by the Corporation, or deposited by the Corporation in its name in a depository or depositories selected by the Corporation, (b) the payment of Cash Receipts to the persons entitled thereto for the purposes for which such Cash Receipts were received by the Corporation, including the allocation of fees, fines and other charges receivable by the Corporation to the Corporation's general account, (c) the application of Clearing Fund Cash to satisfy (i) any loss or liability of the Corporation to the extent permissible pursuant to this Section and Sections 3 and 4 of this Rule or (ii) the return of the deposit of such a participant pursuant to Sections 6 or 9 of this Rule and (d) the loan of Clearing Fund Cash to the Corporation to permit the Corporation to meet its settlement obligations to its participants.~~

SEC. 3. Application of Clearing Fund Deposits and Other Amounts to Members' Obligations. ~~If a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member is obligated to the Corporation pursuant to these Rules and Procedures, other than for a pro rata charge governed by Section 5 of this Rule, and (i) fails to satisfy the obligation or (ii) the obligation is a Cross-Guaranty Obligation, the Corporation shall apply to such obligation the portion, of the participant's amount of such Member's a~~Actual dDeposit, any amounts available under a Clearing Agency Cross-Guaranty Agreement, and any proceeds of any of the foregoing to satisfy necessary to eliminate the obligation. ~~Upon the Corporation's demand the participant shall deposit in the Clearing Fund, within such time as the Corporation shall require, that which is necessary to eliminate any resulting deficiency in his Required Deposit. and the Corporation may take any and all actions with respect to such assets and amounts, including assignment, transfer, and sale of any Eligible Clearing Fund Securities, that the Corporation determines is appropriate. If such application results in any deficiency in the Member's Actual Deposit as compared~~

**to its Required Fund Deposit, the Member shall immediately replenish its Actual Deposit.** If the ~~participant Member shall fails~~ to do so, the Corporation may take disciplinary action against such ~~participant Member~~ pursuant to Rule 46 or Rule 48. Any disciplinary action ~~which that~~ the Corporation takes pursuant to Rule 46 or Rule 48 or the voluntary or involuntary cessation of membership ~~by the participant~~ shall not affect the ~~Member's~~ obligations ~~of the participant~~ to the Corporation or any remedy to which the Corporation may be entitled under applicable law.

~~In applying a Member's or Mutual Fund/Insurance Services Member's actual deposit to his obligations to the Corporation, the Corporation shall first apply that portion of his actual deposit which has been allocated to the Mutual Fund Allocation to obligations arising in the Mutual Fund Services, to the Insurance Allocation to obligations arising in the Insurance and Retirement Processing Services and to any Fund to obligations arising in the System to which the Fund pertains. If after such application the participant remains obligated in one or more Systems, the Corporation shall apply any remaining deposit to his remaining obligation to each such System, in the same proportion that each obligation bears to the total remaining obligations to the Systems. If the participant thereafter remains obligated to the Corporation, any remaining deposit shall be applied thereto.~~

~~Notwithstanding the foregoing, to the extent that a loss or liability of the Corporation is determined by the Corporation to arise in connection with an Off-the-Market Transaction, it shall be allocated directly and entirely to the Member that submitted the Off-the-Market Transaction, or on whose behalf the Off-the-Market Transaction was submitted, to the Corporation; however, no allocation shall be made if such Member has satisfied all applicable intraday mark-to-market margin charges assessed by the Corporation with respect to the Off-the-Market Transaction, as permitted by these Rules and Procedures.~~

~~SEC. 4. Loss Allocation Waterfall, Off-the-Market Transactions. If the Corporation incurs a loss or liability (i) relating to or arising out of a default of a Member for whom the Corporation has ceased to act pursuant to Rule 46 (such Member being referred to as a "Defaulting Member") that is not satisfied pursuant to Sections 3, 13 or 14 of this Rule (a "Defaulting Member Event") or (ii) otherwise incident to the clearance and settlement business of the Corporation as determined below (a "Declared Non-Default Loss Event") in a System which is not satisfied pursuant to Section 3 of this Rule, the existing retained earnings of the Corporation or such lesser part thereof as the Corporation determines shall be applied to the loss or liability unless the Board of Directors elects instead to apply the Fund for that System. The Corporation shall not apply any other portion of the Clearing Fund to any such loss or liability. Corporation shall address the loss or liability as follows:~~

~~If the Corporation incurs a loss or liability in the Mutual Fund Services or the Insurance and Retirement Processing Services which is not satisfied pursuant to Section 3 of this Rule, the existing retained earnings of the~~

~~Corporation or such lesser part thereof as the Corporation determines shall be applied to the loss or liability unless the Board of Directors elects instead to apply the Mutual Fund Allocation for the Mutual Fund Services or the Allocation for the Insurance and Retirements Processing Service.~~

~~If the Corporation incurs any loss or liability otherwise than in a System which is not satisfied pursuant to Section 3 of this Rule or the second paragraph of Section 4 of this Rule, the existing retained earnings of the Corporation or such lesser part thereof as the Corporation determines shall be applied to the loss or liability unless the Board of Directors elects instead to apply the Clearing Fund.~~

~~If the retained earnings applied to the loss or liability are insufficient to eliminate the loss or liability, the Fund allocated for the System in which the loss or liability occurred, the Mutual Fund Allocation, the Insurance Allocation or the Clearing Fund, whichever applicable, shall be applied to eliminate the excess loss, provided, however, that if a loss or liability occurs simultaneously in a System, the Insurance and Retirement Processing Services and/or the Mutual Fund Services and any other service whose transactions are not guaranteed and such losses or liabilities are not satisfied by the application of retained earnings, the Fund for the System, the Insurance Allocation and the Mutual Fund Allocation shall be applied before the Clearing Fund is applied. If a Fund or the Mutual Fund Allocation or the Insurance Allocation or the Clearing Fund is applied to a loss or liability, the Corporation shall provide 5 business days' prior notice to each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member and Fund Member and to the Securities and Exchange Commission, stating the amount to be applied and the reasons therefore.~~

~~If a Fund is applied, each Member who participated in the System, other than the Member or Members, if any, responsible for causing the loss or liability, shall be charged pro rata based upon his or their allocation to the Fund, less the proportion of such allocation attributable to the additional amount the Member was required to deposit pursuant to Rule 15, (as such allocation was fixed at the time the loss or liability is discovered). If the Mutual Fund Allocation or the Insurance Allocation, as the case may be, is applied, each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member who participated in the Mutual Fund Services or Insurance and Retirement Processing Services, as the case may be, other than the Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member, or Members, Insurance Carrier/Retirement Services Members or Fund Members, if any, responsible for causing the loss or liability, shall be charged pro rata based on his or their allocation to the Mutual Fund Allocation or Insurance Allocation, as the case may be.~~

~~If the Clearing Fund is applied, each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member and Fund Member, other than the Member or Members, Mutual Fund/Insurance Services~~

~~Member or Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Member or Insurance Carriers Members, or Fund Member or Fund Members, if any, responsible for causing the loss or liability, shall be charged pro rata based upon his Required Deposit, less the amount of his Mutual Fund Services deposit, or Insurance and Retirement Processing Services deposit, as the case may be, and less the additional amount he was required to deposit pursuant to Rule 15 (as such Required Deposit was fixed at the time the loss or liability is discovered), without regard for any allocation to a Fund for a System.~~

~~SEC. 5. Except as provided in Section 8 of this Rule, if a pro rata charge is made pursuant to Section 4 of this Rule against a Member's, Mutual Fund/Insurance Services Member's, Insurance Carrier/Retirement Services Member's or Fund Member's actual deposit, and as a consequence such participant's remaining deposit to the Clearing Fund is less than his Required Deposit, the participant shall, upon the Corporation's demand, deposit in the Clearing Fund, within such time as the Corporation shall require, that which is necessary to eliminate any deficiency in his Required Deposit. If the participant shall fail to do so, the Corporation may take disciplinary action against the participant pursuant to Rule 46 or Rule 48. Any disciplinary action which the Corporation takes pursuant to Rule 46 or Rule 48 or the voluntary or involuntary cessation of membership by the participant shall not affect the obligations of the participant to the Corporation or any remedy to which the Corporation may be entitled under applicable law.~~

*For the purposes of this Rule, the following terms shall have the following meanings:*

*"Defaulting Member" shall mean a Member for which the Corporation has ceased to act pursuant to Rule 46.*

*"Defaulting Member Event" shall mean the determination by the Corporation to cease to act for a Member pursuant to Rule 46.*

*"Declared Non-Default Loss Event" shall mean the determination by the Board of Directors that a loss or liability incident to the clearance and settlement business of the Corporation may be a significant and substantial loss or liability that may materially impair the ability of the Corporation to provide clearance and settlement services in an orderly manner and will potentially generate losses to be mutualized among Members in order to ensure that the Corporation may continue to offer clearance and settlement services in an orderly manner.*

*If the Corporation incurs a loss or liability arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporation shall address the loss or liability as follows:*

Defaulting Member Events and/or Declared Non-Default Loss Events that occur within a period of ten (10) business days (an "Event Period") shall be grouped together for purposes of applying the limits on loss allocation set forth in this Rule.

In the case of a Defaulting Member Event, an Event Period begins on the day the Corporation notifies Members that it has ceased to act for a *the* Defaulting Member (or the next business day, if such day is not a business day).

In the case of a Declared Non-Default Loss Event, an Event Period begins on the day that the Corporation notifies Members of the determination by the Board of Directors that the applicable loss or liability incident to the clearance and settlement business of the Corporation may be a significant and substantial loss or liability that may materially impair the ability of the Corporation to provide clearance and settlement services in an orderly manner and will potentially generate losses to be mutualized among Members in order to ensure that the Corporation may continue to offer clearance and settlement services in an orderly manner. *Declared Non-Default Loss Event* (or the next business day, if such day is not a business day), which notification shall be issued promptly following any such determination. If a subsequent Defaulting Member Event or Declared Non-Default Loss Event occurs during an Event Period, any losses or liabilities arising out of or relating to any such subsequent event shall be resolved as losses or liabilities that are part of the same Event Period, without extending the duration of such Event Period.

*Each Member shall be obligated to the Corporation for the entire amount of any loss or liability incurred by the Corporation arising out of or relating to any Defaulting Member Event with respect to such Member. To the extent that such loss or liability is not satisfied pursuant to Section 3 of this Rule 4, the Corporation shall apply a Corporate Contribution thereto and charge the remaining amount of such loss or liability ratably to other Members, as further provided below.*

The Corporation shall apply the Corporate Contribution to losses and liabilities that arise out of or relate to one or more Defaulting Member Events and/or Declared Non-Default Loss Events that occur within an Event Period. If losses and liabilities with respect to such Event Period remain unsatisfied following application of the Corporate Contribution, the Corporation shall allocate such losses and liabilities to Members, subject to the requirements and limitations below.

In the case of losses and liabilities relating to or arising out of a Declared Non-Default Loss Event, all Members shall be subject to loss allocation. In the case of losses and liabilities relating to or arising out of a Defaulting Member Event, only non-defaulting Members shall be subject to loss allocation. After a first round of loss allocations with respect to an Event Period, only Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with

Section 6 of this Rule shall be subject to loss allocation with respect to that Event Period. The Corporation shall notify Members subject to loss allocation of the amounts being allocated to them (“Loss Allocation Notice”) in successive rounds of loss allocations.

Each Member that is a Member on the first day of an Event Period shall be obligated to pay its pro rata share of losses and liabilities arising out of or relating to each Defaulting Member Event (other than a Defaulting Member Event with respect to which it is the Defaulting Member) and each Declared Non-Default Loss Event occurring during the Event Period. Any Member for which the Corporation ceases to act on a non-business day, triggering an Event Period that commences on the next business day, shall be deemed to be a Member on the first day of that Event Period.

A loss allocation “round” means a series of loss allocations relating to an Event Period, the aggregate amount of which is limited by the sum of the Loss Allocation Caps of affected Members (a “round cap”). When the aggregate amount of losses allocated in a round equals the round cap, any additional losses relating to the applicable Event Period would be allocated in one or more subsequent rounds, in each case subject to a round cap for that round. The Corporation may continue the loss allocation process in successive rounds until all losses from the Event Period are allocated among Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 6 of this Rule.

Each loss allocation shall be communicated to Members by the issuance of a notice that advises the Members of the amount being allocated to them (“Loss Allocation Notice”). Each Member’s pro rata share of losses and liabilities to be allocated in any round shall be equal to (i) the average of its Required Fund Deposit for the seventy (70) business days preceding the first day of the applicable Event Period or such shorter period of time that the Member has been a Member (each Member’s “Average RFD”), divided by (ii) the sum of Average RFD amounts of all Members subject to loss allocation in such round.  
Loss Allocation Notice.

Each Loss Allocation Notice shall specify the relevant Event Period and the round to which it relates. The first Loss Allocation Notice in any first, second, or subsequent round shall expressly state that such Loss Allocation Notice reflects the beginning of the first, second, or subsequent round, as the case may be, and that each Member in that round has five (5) business days from the issuance of such first Loss Allocation Notice for the round (such period, a “Loss Allocation Withdrawal Notification Period”) to notify the Corporation of its election to withdraw from membership pursuant to Section 6 of this Rule, and thereby benefit from its Loss Allocation Cap. The “Loss Allocation Cap” of a Member shall be equal to the greater of (x) its Required Fund Deposit on the first day of the applicable Event Period and (y) its Average RFD.



After a first round of loss allocations with respect to an Event Period, only Members that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 6 of this Rule shall be subject to further loss allocation with respect to that Event Period.

Each Member's pro rata share of losses and liabilities to be allocated in any round shall be equal to (i) the average of its Required Fund Deposit for the seventy (70) business days preceding the first day of the applicable Event Period or such shorter period of time that the Member has been a Member (each Member's "Average RFD") divided by (ii) the sum of Average RFD amounts of all Members subject to loss allocation in such round. Each Member's maximum payment obligation with respect to any loss allocation round shall be equal to the greater of (x) its Required Fund Deposit on the first day of the applicable Event Period or (y) its Average RFD (such amount shall be each Member's "Loss Allocation Cap").

Members shall pay to the Corporation the amount specified in any first round Loss Allocation Notice on the second business day after the Corporation issues any such notice. Members shall pay to the Corporation the amount specified in any subsequent round Loss Allocation Notice on the second business day after the Corporation issues such notice, unless the Member has timely notified (or will timely notify) the Corporation of its election to withdraw from membership with respect to a prior loss allocation round pursuant to Section 6 of this Rule.

Notwithstanding Section 9 of this Rule, to the extent that a Member's Loss Allocation Cap exceeds the Member's Required Fund Deposit on the first day of the applicable Event Period, the Corporation may, in its discretion, retain any excess amounts on deposit from the Member, up to the Member's Loss Allocation Cap.

If a Member fails to make payment to the Corporation in respect of a Loss Allocation Notice by the time such payment is due, the Corporation shall have the right to proceed against such Member as a Member that has failed to satisfy an obligation in accordance with Section 3 of this Rule.

If a Member notifies the Corporation of its election to withdraw from membership pursuant to Section 6 of this Rule, the Member shall comply with the provisions of Section 6 of this Rule. If, after notifying the Corporation of its election to withdraw from membership pursuant to Section 6 of this Rule, the Member fails to comply with the provisions of Section 6 of this Rule, its notice of withdrawal shall be deemed void and any further losses resulting from the applicable Event Period may be allocated against it as if it had not given such notice.

To the extent that a loss or liability of the Corporation is determined by the Corporation to arise in connection with the close-out or liquidation of an Off-the-Market Transaction in the portfolio of a Defaulting Member, it shall be allocated directly and entirely to the Member that was the counterparty to such Off-the-Market Transaction; however, no allocation shall be made if the Defaulting Member has satisfied all applicable intraday mark-to-market margin charges assessed by the Corporation with respect to the Off-the-Market Transaction, as permitted by these Rules and Procedures, prior to its default.

**SEC. 5. Corporate Contribution.** For any loss allocation pursuant to Section 4 of this Rule, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporation's corporate contribution to losses or liabilities that are incurred by the Corporation with respect to an Event Period ("Corporate Contribution") shall be an amount that is equal to fifty (50) percent of the amount calculated by the Corporation in respect of its General Business Risk Capital Requirement as of the end of the calendar quarter immediately preceding the Event Period. The Corporation's General Business Risk Capital Requirement, as defined in its Clearing Agency Policy on Capital Requirements, is, at a minimum, equal to the regulatory capital that the Corporation is required to maintain in compliance with Rule 17Ad-22(e)(15) under the Securities Exchange Act of 1934, as amended. If the Corporate Contribution is applied by the Corporation against a loss or liability relating to an Event Period, whether arising out of or relating to a Defaulting Member Event or a Declared Non-Default Loss Event, the Corporate Contribution for any subsequent Event Periods occurring during the two hundred fifty (250) business days thereafter shall be reduced to the remaining unused portion of the Corporate Contribution amount that applied for the first Event Period. The Corporation shall notify Members of any such reduction to the Corporate Contribution.

Nothing in these Rules and Procedures shall prevent the Corporation from voluntarily applying amounts greater than the Corporate Contribution against any loss or liability of the Corporation, whether *arising out of or relating to a* Defaulting Member Event or a Declared Non-Default Loss Event, if the Board of Directors, in its sole discretion, believes such to be appropriate under the factual situation existing at the time.

**SEC. 6. Withdrawal Following Loss Allocation.** If a Member timely notifies the Corporation of its election to withdraw from membership in respect of a loss allocation *round* as set forth in Section 4 of this Rule ("Loss Allocation Withdrawal Notice"), the Member shall:

(i) specify in the Loss Allocation Withdrawal Notice an effective date for its withdrawal from membership, which date shall not be later than ten (10) business days following the last day of the Loss Allocation Withdrawal Notification Period,

(ii) cease all activity that would result in transactions being submitted to the Corporation for clearance and settlement for which such Member would be obligated to perform, where the scheduled final settlement date would be later than the effective date of the Member's withdrawal, and

(iii) ensure that all clearance and settlement activity for which such Member is obligated to the Corporation is fully and finally settled by the effective date of the Member's withdrawal from membership, including, without limitation, by resolving by such date all fails and buy-in obligations.

*A Member that withdraws in compliance with the requirements of this section shall nevertheless remain obligated for its pro rata share of losses and liabilities with respect to any Event Period for which it is otherwise obligated hereunder; however, its aggregate obligation shall be limited to the amount of its Loss Allocation Cap (as fixed in the round for which it withdrew).*

If the Member fails to comply with the requirements in this section, its Loss Allocation Withdrawal Notice will be deemed void, and the Member will remain subject to further loss allocations pursuant to Section 4 of this Rule as if it had not given such Loss Allocation Withdrawal Notice.

~~SEC. 67. *Return of Members' Clearing Fund Deposits.* A Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member or his successor in interest shall be entitled to the return of his actual deposit 90 days after:~~

~~(i) the participant ceases to be a participant and~~

~~(ii) all transactions open at the time the participant ceases to be a participant which could result in a charge to the Clearing Fund or any Fund have been closed, and~~

~~(iii) all obligations to the Corporation for which the participant was responsible while a participant have been satisfied or, at the discretion of the Corporation, have been deducted by the Corporation from the participant's actual deposit; provided, however, that the participant has presented to the Corporation such indemnities or guarantees as the Corporation deems satisfactory or another participant has been substituted on all transactions and obligations of the participant.~~

~~In the absence of an acceptable guarantee, indemnity or substitution, the greater of:~~

~~(a) 25% of the Member's, Mutual Fund/Insurance Services Member's, Insurance Carrier/Retirement Services Member's or Fund Member's average clearing fund requirement over the 12 months immediately prior to the date the participant ceases to be such, or~~

~~(b) \$100,000,~~

~~or, if the participant's actual clearing fund deposit is less than \$100,000, the entire deposit, shall be returned no later than 2 years (4 years for Members who have Sponsored Accounts at a Qualified Securities Depository) after (i), (ii) and (iii) above have occurred.~~

~~A Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member shall be entitled to the return of his Mutual Fund Services deposit or Insurance and Retirement Processing Services deposit, as the case may be, ninety (90) days after all Mutual Fund Services transactions or Insurance and Retirement Processing Services transactions, as the case may be, for which he was responsible have been satisfied.~~

~~Any obligation of participant to the Corporation unsatisfied at the time he ceases to be a participant shall not be affected by such cessation of membership.~~

~~If a Member gives notice to the Corporation of its election to withdraw from membership, the Member's Actual Deposit in the form of (i) cash or securities shall be returned to it within thirty (30) calendar days and (ii) Eligible Letters of Credit shall be returned to it within ninety (90) calendar days, after all of its transactions have settled and all matured and contingent obligations to the Corporation for which the Member was responsible while a Member have been satisfied. Notwithstanding the foregoing, the Corporation may retain for up to two (2) years the Actual Deposits from Members who have Sponsored Accounts at DTC.~~

~~SEC. 78. Changes in Members' Required Fund Deposits. Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members or Fund Members Each Member shall deposit in the Clearing Fund such amount ~~which~~ that is necessary to satisfy any increase in ~~his~~ its Required Fund Deposit within such time as the Corporation shall require. At the time the increase becomes effective, the ~~participant's~~ Member's obligations to the Corporation shall be determined in accordance with the increased Required Fund Deposit whether or not the ~~increase in his Required Deposit has been made~~ Member has satisfied such increased amount.~~

~~SEC. 89. Excess Clearing Fund Deposits. If a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member~~

~~or Fund Member, within 10 business days after receipt of notice of a pro rata charge pursuant to Section 4 of this Rule, gives notice to the Corporation of his election to terminate his business with the Corporation, or his use of the Mutual Fund Services or the Insurance and Retirement Processing Services, he shall nevertheless remain obligated for the pro rata charge; however, his obligation in respect of any pro rata charge other than a pro rata charge arising from losses in the Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be, shall be limited to the amount of his Required Deposit less the portion of this deposit attributable to the Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be, and his obligation in respect of a pro rata charge from the Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be, shall be limited to the amount of his Mutual Fund Services deposit or the Insurance and Retirement Processing Services deposit, as the case may be, as fixed immediately prior to the time of the pro rata charge. The Corporation may make additional pro rata charges attributable to the same loss or liability. In such instance, notwithstanding the foregoing limitation, the obligation of a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member, who after receipt of notice of an additional charge elects to terminate his business with the Corporation, or his use of the Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be, shall be limited in respect of any pro rata charge other than a pro rata charge arising from losses in the Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be, to the greater of (a) his Required Deposit less the portion of his deposit attributable to the Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be, as fixed immediately prior to the time of the first pro rata charge, or (b) the amount of all prior pro rata charges, attributable to the same loss or liability in respect of which his right to limit such obligation, as provided above, has not been timely exercised, and in respect of a Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be, pro rata charge to the greater of (a) the deposit attributable to the Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be, as fixed immediately prior to the time of the first pro rata charge or (b) the amount of all prior pro rata charges in respect of which his right to limit such obligations, as provided above, has not been timely exercised. If the amount of the Member's, Mutual Fund/Insurance Services Member's, Insurance Carrier/Retirement Services Member or Fund Member's actual deposit is less than his Required Deposit and, accordingly, his actual deposit is insufficient to satisfy the pro rata charge as limited by this Section 8, he shall be obligated to make up the deficiency in his Required Deposit notwithstanding the fact that he subsequently ceases to be a participant, or terminates his use of the Mutual Fund Services or the Insurance and Retirement Processing Services, as the case may be.~~

~~**SEC. 9.**—The Corporation shall determine with such frequency as it shall, from time to time to specify, whether the amount deposited by each Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member~~

~~or Fund Member~~ to the Clearing Fund may be in excess of such Member's participant's Required Fund Deposit. On any day that the Corporation has determined that an excess deposit exists with respect to any Member, the Corporation will, in the form and manner required by the Corporation, notify each such Member of such excess. ~~and provided notification that the Clearing Fund deposit of a participant exceeds its Required Deposit, then upon such participant's request, provided in such form and within such timeframe as determined by the Corporation from time to time, the Corporation shall cause to be returned to the participant cash on deposit (in excess of the minimum amount of cash required to be maintained in the Clearing Fund) and/or Eligible Clearing Fund Securities (valued at their collateral value on the day of such withdrawal) securing such participant's open account indebtedness in an aggregate amount equal to such excess or such lesser amount as the Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member may request; provided, however, that such excess shall not be returned (a) until any amount which is required to be charged against the participant's Required Deposit is paid by the participant to the Corporation and/or (b) if the Corporation determines that the participant's current month's use of one or more services is materially different than the previous month's use of such service(s) upon which such excess deposit is based.~~ Subject to the Corporation's rights under these Rules and Procedures to require additional amounts to be deposited by a Member, upon a Member's request, and in accordance with such procedures as the Corporation may set forth from time to time, the Corporation shall return to the Member such amount of its excess cash on deposit (subject to the minimum amount of cash required to be maintained in the Clearing Fund) and/or pledged Eligible Clearing Fund Securities (valued at their collateral value in accordance with Section III of Procedure XV on the day of such withdrawal) as the Member requests. Notwithstanding the foregoing, the Corporation may, in its discretion, determine to withhold all or part of any excess deposit of a Memberparticipant if such Memberparticipant has been placed on the Watch List pursuant to these Rules and Procedures or if the Corporation determines that the Member's anticipated activities in the Corporation in the near future may reasonably be expected to be materially different than its activities of the recent past.

The provisions of this Section 9 of Rule 4 shall not limit the rights or remedies of the Corporation as provided by Rule 15 of the Rules and Procedures of the Corporation.

SEC. 10. No waiver; Subsequent Recovery Against Loss Amounts. No loss allocation under this Rule shall constitute a waiver of any claim the Corporation may have against a Member for any losses or liabilities, including, without limitation, any loss or liability to which the Member is subject under these Rules and Procedures. If a loss charged pro rata is afterward recovered by the Corporation, in whole or in part, the net amount of the recovery shall be credited to the persons, including the Corporation, against whom the loss was charged in proportion to the amounts charged against them.

SEC. 11. **Substitution or Withdrawal of Pledged Securities.** Upon notice to the Corporation provided in such form and within such timeframe as determined by the Corporation from time to time, a **participant Member** may withdraw **or substitute pledged** Eligible Clearing Fund Securities ~~from pledge~~, provided that the **participant Member continues to has**, ~~effective simultaneously with such withdrawal, deposited cash with, or pledged additional Eligible Clearing Fund Securities to, the Corporation which in the aggregate, secure the open account indebtedness of the participant and/or~~ satisfy **his at all times its** Required **Fund** Deposit.

SEC. 12. **Authority of Corporation.** In furtherance of the rights of the Corporation pursuant to these Rules **and Procedures**, the Corporation shall have full power and authority to pledge, repledge, hypothecate, transfer, create a security interest in, or assign ~~(each, a “Pledge”)~~ any or all **aActual dDeposits of Members, Mutual Fund/Insurance Services Members, Insurance Carrier/Retirement Services Members and Fund Members to the Clearing Fund which shall consist of (i) Clearing Fund Cash, (ii) securities, repurchase agreements, deposits or other instruments in which Clearing Fund Cash is invested and (iii) Eligible Clearing Fund Securities pledged by a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or a Fund Member, or Letters of Credit issued on behalf of any such participant in favor of the Corporation (if any such Letters of Credit are required by the Corporation), in each case to secure the participant’s obligations to the Corporation under these Rules, together with the proceeds of any of the foregoing, and any proceeds thereof** for the purpose of securing loans made to the Corporation (the party making any such loan to the Corporation hereinafter referred to as the “Lender”); provided that the proceeds of such loans are used for a purpose permissible under Section 2 of this Rule. Such loans shall be on terms and conditions deemed necessary or advisable by the Corporation (including collateralization thereof) in its sole discretion, and may be in amounts greater, and extend for periods of time longer, than the obligations, if any, of any Member, ~~Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member~~ to the Corporation for which such property and **Eligible lLetters of eCredit** (if any) were pledged to or deposited with the Corporation; provided, however, that if any such loan is made as a result of a loss or liability suffered by the Corporation, the Corporation will promptly, but in no event later than 30 **calendar** days from the day the loan is made, repay the loan in full. No Member, ~~Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member~~ shall have any right, claim or action against any secured Lender (or any collateral agent of such secured Lender) for the return, or otherwise in respect, of any such collateral **Ppledged** by the Corporation to such secured Lender (or its collateral agent), so long as any loans made by such Lender to the Corporation or other obligations, secured by such collateral, are unpaid and outstanding. Subject to the foregoing and to the terms and conditions of such loan, the Corporation shall remain obligated to each such **participant Member** to return, and to allow substitution for or withdrawal of, cash, and Eligible Clearing Fund Securities, and **Eligible lLetters of eCredit** (if any) pledged or deposited by such **participant Member** as a Clearing Fund deposit ~~or to secure an open account indebtedness to the Clearing Fund~~, or otherwise to collateralize such **participant’s Member’s** obligations to the Corporation,

under the circumstances and within the time frames specified in these Rules and Procedures. In the event of any conflict or inconsistency between this Rule 4 and any agreement between the Corporation and any Member, ~~Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or a Fund Member~~, this Rule 4 shall govern and prevail.

**SEC. 13. Mutual Fund Deposits.** Each Member that uses the Mutual Fund Services to submit mutual fund purchases, redemptions, or exchanges to any Fund Member or another Member and each Mutual Fund/Insurance Services Member shall, and each Fund Member (collectively with such Members and Mutual Fund/Insurance Services Members, "Mutual Fund Participants") may, be required to make a cash deposit to the Clearing Fund in the amounts determined in accordance with Procedure XV and other applicable Rules and Procedures (its "Mutual Fund Deposit" and, unless specified otherwise, for the purposes of these Rules and Procedures, Required Fund Deposits shall include Mutual Fund Deposits). In the case of a Member, its Mutual Fund Deposit shall be a separate and additional component of such Member's deposit to the Clearing Fund but shall not constitute part of such Member's Required Fund Deposit for purposes of calculating pro rata loss allocations pursuant to Section 4 of this Rule.

If any Mutual Fund Participant fails to satisfy any obligation to the Corporation relating to the Mutual Fund Services, notwithstanding the Corporation's right to reverse in whole or in part any credit previously given to the contra side to any outstanding Mutual Fund Services transaction of the Mutual Fund/Insurance Services Member, the Corporation shall first apply such Mutual Fund Participant's Mutual Fund Deposit. If after such application any loss or liability remains and if such Mutual Fund Participant is a Member that is not otherwise obligated to the Corporation, the Corporation shall apply such Member's Actual Deposit in accordance with Section 3 of this Rule. The Corporation shall next allocate any further remaining loss or liability to the other Mutual Fund Participants in successive rounds of loss allocations, in each case up to the aggregate of Mutual Fund Deposits from non-defaulting Mutual Fund Participants and, after the first such round, Mutual Fund Participants that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 6 of this Rule, following the procedures and subject to the timeframes set forth in Sections 4 and 6 of this Rule as if such Mutual Fund Participants are Members. If any loss or liability remains thereafter and there are no continuing Mutual Fund Participants, the Corporation shall proceed with loss allocations to Members for a Defaulting Member Event as set forth in Section 4 of this Rule. The application of any participant's Mutual Fund Deposit shall not affect any other right or remedy of the Corporation under these Rules and Procedures or under applicable law.

A Mutual Fund Participant that elects to withdraw from membership shall be entitled to the return of its Mutual Fund Deposit no later than thirty (30) calendar days after all of its transactions have settled and all matured and contingent obligations to the Corporation for which such Mutual Fund Participant was responsible while a Mutual Fund Participant have been satisfied.



Without limitation of the specific provisions set forth in this section, the Corporation's rights, authority and obligations with respect to deposits to the Clearing Fund that are set forth in this Rule 4, including, without limitation, the treatment of Clearing Fund Cash, shall apply to Mutual Fund Deposits.

SEC. 14. Insurance Deposits. Each Mutual Fund/Insurance Services Member that uses the Insurance and Retirement Processing Services and each Insurance Carrier/Retirement Services Member (collectively, "Insurance Participants") may be required to make a cash deposit to the Clearing Fund in the amounts determined in accordance with Procedure XV and other applicable Rules and Procedures (its "Insurance Deposit" and, unless specified otherwise, for the purposes of these Rules and Procedures, Required Fund Deposits shall include Insurance Deposits).

If any Insurance Participant fails to satisfy any obligation to the Corporation relating to the Insurance and Retirement Processing Services, the Corporation shall first apply such Insurance Participant's Insurance Deposit. If after such application any loss or liability remains, the Corporation shall next allocate such remaining loss or liability to the other Insurance Participants in successive rounds of loss allocations, in each case up to the aggregate of Insurance Deposits from non-defaulting Insurance Participants and, after the first such round, Insurance Participants that have not submitted a Loss Allocation Withdrawal Notice in accordance with Section 6 of this Rule, following the procedures and subject to the timeframes set forth in Sections 4 and 6 of this Rule as if such Insurance Participants are Members. If any loss or liability remains thereafter and there are no continuing Insurance Participants, the Corporation shall proceed with loss allocations to Members for a Defaulting Member Event as set forth in Section 4 of this Rule. The application of any Insurance Participant's Insurance Deposit shall not affect any other right or remedy of the Corporation under these Rules and Procedures or under applicable law.

An Insurance Participant that elects to withdraw from membership shall be entitled to the return of its Insurance Deposit no later than thirty (30) calendar days after all of its transactions have settled and all matured and contingent obligations to the Corporation for which such Insurance Participant was responsible while an Insurance Participant have been satisfied.

Without limitation of the specific provisions set forth in this section, the Corporation's rights, authority and obligations with respect to deposits to the Clearing Fund that are set forth in this Rule 4, including, without limitation, the treatment of Clearing Fund Cash, shall apply to Insurance Deposits.

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RULE 4(A). SUPPLEMENTAL LIQUIDITY DEPOSITS

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

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“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 **Fund** Deposit of the Member;

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“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 **Fund** Deposits.

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SEC. 11. *Ceasing to be a Participant.* Special Activity Supplemental Deposits shall not be subject to the provisions of Section **67** of Rule 4 relating to the **90thirty (30) calendar** day deferral of refunds of deposits to the Clearing Fund when a Member ceases to be a participant.

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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 **aActual d**Deposit of the Member to the Clearing Fund but shall be in addition to, and separate from, (i) the Required **Fund** 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 Sections **3 or 13** 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.

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### RULE 13. EXCEPTION PROCESSING

Notwithstanding any provisions in these Rules **and Procedures** to the contrary, in the event that a security may not otherwise be eligible for processing through the CNS, Balance Order or other **S**system, the Corporation, in its sole discretion, may adopt, from time to time, procedures deemed appropriate for the processing of such security. Any such procedures shall be promptly communicated to Members by the Corporation and the Members shall be bound by the procedures set forth in such notice as fully as though such procedures were now a part of the Rules **and Procedures** of the Corporation. Each such notice shall be effective only for the security covered therein.

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## RULE 15. ASSURANCES OF FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY

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SEC. 2. (a) Each Member or Limited Member, or any applicant to become such, shall furnish to the Corporation such adequate assurances of its financial responsibility and operational capability as the Corporation may at any time or from time to time deem necessary or advisable in order to protect the Corporation, its participants, creditors or investors, to safeguard securities and funds in the custody or control of the Corporation and for which the Corporation is responsible, or to promote the prompt and accurate clearance, settlement and processing of securities transactions. Upon the request of a participant or applicant, or otherwise, the Corporation may choose to confer with the participant or applicant before or after requiring it to furnish adequate assurances pursuant to this Rule.

(b) Adequate assurances of the financial responsibility or operational capability of a participant or applicant to become such, as may be required pursuant to these Rules and Procedures, may include, but shall not be limited to, as appropriate under the context of the participant's use of the Corporation's services:

- (i) additional reporting by the participant (or by the entity providing a guarantee) of its financial or operational condition at such intervals and in such detail as the Corporation shall determine;
- (ii) entering into agreements concerning the provision of operational support services by an entity acceptable to the Corporation;
- (iii) restrictions on the participant's use of the Corporation's services;
- (iv) increased Clearing Fund deposits (including additional amounts required in respect of trade activity received by the Corporation after calculation of the applicable Required **Fund** Deposit);
- (v) additional payments to the Corporation in such amounts as may be determined by the Corporation each morning reflecting a percentage of up to 100 percent of the participant's (i) average amount of total daily net debit positions or (ii) morning gross debit activity;
- (vi) delivering securities to the Member only against immediate payment by the Member to the Corporation; and

- (vii) assurances as may be required pursuant to the Corporation's Guidelines and/or Procedures.

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RULE 42. WIND-DOWN OF A MEMBER, FUND MEMBER OR INSURANCE  
CARRIER/RETIREMENT SERVICES MEMBER

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The Corporation may, in its discretion, impose conditions on, or take actions with respect to, the Wind-Down Member as appropriate to mitigate risk the Corporation perceives may be presented by the Wind-Down Member, including but not limited to, the following:

- (i) Permitting the Wind-Down Member to submit to the Corporation only transactions that serve to support the wind-down;
- (ii) Permitting the Wind-Down Member to continue use of one or more of the Corporation's services, notwithstanding that it may not meet some or all of the financial or operational requirements for continuance as a Member or Limited Member, as applicable;
- (iii) Restricting or modifying the Wind-Down Member's use of any or all of the Corporation's services (whether generally, or with respect to certain transactions);
- (iv) Requiring additional assurances of the financial responsibility or operational capability of the Wind-Down Member through, for example, submission of a guaranty of the Wind-Down Member's obligations to the Corporation by an entity acceptable to the Corporation and/or additional reporting by the Wind-Down Member;
- (v) Agreeing to complete one or more trades to which the Wind-Down Member is a party prior to the time the Corporation's guaranty otherwise would become effective pursuant to these Rules and Procedures;
- (vi) Requiring the Wind-Down Member to post increased Clearing Fund deposits and/or to post its Required **Fund** Deposit all in cash or in proportions of cash, qualifying bonds and **e**Eligible Letters of Credit different from those permitted under Rule 4;
- (vii) Prohibiting the Wind-Down Member from withdrawing Clearing Fund on deposit in excess of its Required **Fund** Deposit;
- (viii) Calculating the Required **Fund** Deposit of the Wind-Down Member in a manner different from the applicable formulae provided in the Procedures, in order to more appropriately reflect the risk presented by the Wind-Down Member to the Corporation, such as for example, not applying certain components of such calculation; or

- (ix) Liquidating by buying-in or selling-out, as applicable, any open positions of the Wind-Down Member, for the benefit of such Wind-Down Member with any profit or loss resulting therefrom being debited or credited, as applicable, to the settlement account of the Wind-Down Member.

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PROCEDURE III. TRADE RECORDING SERVICE (INTERFACE WITH QUALIFIED CLEARING AGENCIES)

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B. Settlement of Option Exercises and Assignments and Settlement of Stock Futures Reaching Maturity

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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, 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 (ii) the Corporation has declined or 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 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, unless otherwise agreed between OCC and the Corporation. 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 will be recalculated excluding the exited E&A/Delivery Transactions.

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

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### I.(B) Additional Clearing Fund Formula

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#### (4) Bank Holiday Charge

For purposes of this section, “Holiday” means any day on which equities markets are open for trading, but the Board of Governors of the Federal Reserve System observes a holiday and banks are closed.

On the business day prior to any Holiday, the Corporation may require each Member to make an additional Clearing Fund deposit (“Bank Holiday Charge”). The Bank Holiday Charge approximates the exposure that a Member’s trading activity on the applicable Holiday could pose to the Corporation. Since the Corporation cannot collect margin on the Holiday, the Bank Holiday Charge is due on the business day prior to the applicable Holiday.

The methodology for calculating a Bank Holiday Charge shall be determined by the Corporation in advance of each applicable Holiday. The Bank Holiday Charge approximates each Member’s Required **Fund** Deposit to address the exposure that such Member’s trading activity on the Holiday could pose to the Corporation. The Corporation shall have the discretion to calculate the Bank Holiday Charge based on its assessment of market conditions at the time the Bank Holiday Charge is calculated (such as, for example, significant market occurrences that could impact market price volatility). The Corporation shall inform Members of the methodology it will use to calculate the Bank Holiday Charge by an Important Notice issued no later than 10 business days prior to the day on which the applicable Bank Holiday Charge is applied. Examples of potential methodologies for the Bank Holiday Charge may include, but shall not be limited to, time scaling of the volatility charge or a stress scenario that reflects potential market price volatility on the Holiday.

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### II. Minimum Clearing Fund and Additional Deposit Requirements

- (A) Each Member of the Corporation shall be required to contribute a minimum of \$10,000 (the “minimum contribution”). The first 40% (but no less than \$10,000) of a Member’s Required **Fund** Deposit must be in cash and the remaining amount, may be evidenced by open account indebtedness secured by the pledge of Eligible Clearing Fund Securities, which shall be valued, for collateral

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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.

purposes, as set forth in subsection III below. A Mutual Fund/Insurance Services Member's entire deposit is required to be in cash.

1. Special Provisions Related to Eligible Clearing Fund Securities:

- (a) Any deposits of Eligible Clearing Fund Agency Securities<sup>7</sup> or Eligible Clearing Fund Mortgage-Backed Securities<sup>8</sup>, respectively, in excess of 25 percent of the Member's Required **Fund Deposit** will be subject to an additional haircut equal to twice the percentage as specified in the proposed haircut schedule detailed in subsection III below, and
  - (b) No more than 20 percent of a Member's Required **Fund Deposit** secured by pledged Eligible Agency Securities may be of a single issuer.
- (B) All Clearing Fund requirements and other deposit requirements shall be made by Members and Mutual Fund/Insurance Services Members, within one hour of demand unless otherwise determined by the Corporation; provided, however, that to the extent the Member and Mutual Fund/Insurance Services Member is meeting such obligation with a (1) deposit of cash, such deposit shall be made by Federal Funds wire transfer and be received no later than fifteen minutes prior to the close of the Federal Funds wire, and (2) delivery of eligible securities, such delivery shall be received within the deadlines established by ~~a Qualified Securities Depository~~ **DTC**. At the discretion of the Corporation, cash deposits may be included as part of the Member's or Mutual Fund/Insurance Services Member's, daily settlement obligation.
- (C) Additional Clearing Fund deposits shall not be requested unless they exceed such threshold as determined by the Corporation from time to time; provided that the affected Member or Limited Member is not on the Watch List.
- (D) Where the amount of a Member's and Mutual Fund/Insurance Services Member's deficiency is in excess of \$1,000 but less than \$5,000, the Corporation may require payment in multiples of \$1,000. Where the amount of the deficiency is in excess of \$5,000, the Corporation may require payment in multiples of \$5,000.

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<sup>7</sup> A Member that is an Agency may not pledge Eligible Clearing Fund Agency Securities of which it is the issuer.

<sup>8</sup> With regard to a Member that pledges Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, such securities will be subject to a premium haircut, as set forth in subsection III below.

ADDENDUM E

**STATEMENT OF POLICY**

**APPLICATION OF RETAINED EARNINGS - MEMBER IMPAIRMENTS**

~~Under Rule 4, Section 4, if the Corporation suffers a loss or liability by reason of a Member's impairment, and such loss or liability is not satisfied or otherwise made good from the impaired Member's Clearing Fund deposit, the Corporation, in its discretion, may either satisfy such loss or liability or any part thereof out of its then existing retained earnings or, after appropriate notice to both the membership and the Securities and Exchange Commission, directly from the Clearing Fund deposits of all other Members on a pro rata basis.~~

~~While neither the Corporation nor its three predecessor clearing agencies have ever subjected their memberships to such a pro rata assessment, the ability exists for the Corporation to bypass completely its retained earnings. Since the Board of Directors of the Corporation is desirous of clarifying its intentions with respect to the usage of retained earnings in Member impairment situations, the Board has adopted this Policy Statement.~~

~~The Board of Directors of the Corporation hereby advises the membership of the Corporation that pursuant to Rule 4, Section 4 of the Rules of the Corporation, the Corporation will apply no less than twenty-five percent (25%) of its retained earnings, existing at the time of a Member impairment which gives rise to a loss or liability not satisfied by the impaired Member's Clearing Fund deposit, to such loss or liability.~~

~~Nothing herein, however, shall prevent the Corporation from applying more than twenty-five percent (25%) of its then existing retained earnings, if the Board of Directors, in its sole discretion, believes such to be appropriate under the factual situation existing at the time of the Member impairment.~~

~~This Policy Statement may not be changed, modified or altered, without thirty days prior written notice to the membership and to the Securities and Exchange Commission. Any such change, modification or alteration shall only be prospective in effect, and shall not be applicable to any losses or liability previously incurred as a result of prior Member impairments.~~

**(ADDENDUM LETTER RESERVED FOR FUTURE USE)**

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ADDENDUM K

**~~INTERPRETATION OF THE BOARD OF DIRECTORS  
APPLICATION OF CLEARING FUND~~THE CORPORATION'S GUARANTY**

~~Pursuant to Rule 47, the Board of Directors has the authority to interpret the Rules of the Corporation. The purpose of this interpretation is to clarify certain provisions of Rule 4 and the extent to which the Clearing Fund may be applied to a loss or liability of the Corporation.~~

**~~I. APPLICATION OF THE CLEARING FUND TO LOSSES SUSTAINED BY A SYSTEM~~**

- ~~1. Section 1 of Rule 4 provides that each Member's Required Deposit shall be allocated by the Corporation among the services for which the Corporation assumes responsibility for completion of transactions and which are designated as such by the Corporation (collectively the "Systems" and individually a "System") and in which the Member participates.~~
- ~~2. The Corporation has in practice assumed responsibility for completion of transactions in each of the following services, and has deemed each of these services to be a System, even though the Corporation has not previously made a formal designation of each such service as a System within the definition of Section 1 of Rule 4:~~

The Corporation guarantees the completion of compared and locked-in CNS and balance orders transactions from a fixed point in the clearance and settlement process.<sup>1</sup> 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 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 guarantee 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-

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<sup>1</sup> The trade guarantee of obligations arising out of the exercise or assignment of options that are settled at the Corporation is addressed in a separate arrangement between NSCC and Options Clearing Corporation, as referred to in Procedure III of the Rules and Procedures, and is not addressed in these Rules and Procedures.

distributed trades of Members as if they were CNS transactions for surveillance purposes regardless of the accounting operation in which they ultimately settle.

~~3. In connection with the expansion by the Corporation of its clearance and settlement business, it has become desirable for the Corporation to make formal designations of the services constituting Systems within the definition of Section 1 of Rule 4. Accordingly, the Board hereby designates the services referred to in paragraph 1.2. above as services for which the Corporation assumes the responsibility for the completion of transactions, and therefore as Systems within the Rule 4, Section 1 definition. These services are the only services so designated as of this date.~~

## ~~II. APPLICATION OF THE CLEARING FUND TO EXCESS LOSSES AND LOSSES OUTSIDE OF A SYSTEM~~

~~1. Section 2(b) of Rule 4 provides that the use of the Clearing Fund in its entirety (which consists in part of all the Funds) shall be limited to satisfaction of losses or liabilities of the Corporation incident to the operation of the clearance and settlement business of the Corporation other than losses or liabilities of a System.~~

~~2. Pursuant to Section 2(b) of Rule 4, the entire Clearing Fund must be available to satisfy losses arising outside of a System.~~

~~There are various circumstances pursuant to which the entire Clearing Fund may be available to satisfy losses outside of a System:~~

- ~~• One circumstance arises out of the Mutual Fund Services. Members that do not participate in the Mutual Fund Services are shielded from exposures to the Mutual Fund Services losses as long as the Corporation continues to have active participants in Mutual Fund Services.~~

~~If the Corporation were to have an unsatisfied Mutual Fund Services loss, such loss may be satisfied from the entire Clearing Fund (less the amounts paid in respect of the Mutual Fund Services).~~

- ~~• An additional circumstance arises out of the Insurance and Retirement Processing Services. If the Corporation were to have an unsatisfied loss due to a Member's, Mutual Fund/Insurance Services Member's or Insurance Carrier/Retirement Services Member's use of the Insurance and Retirement Processing Services, such loss may be satisfied from the entire Clearing Fund.~~

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ADDENDUM O  
ADMISSION OF NON-US ENTITIES AS DIRECT NSCC MEMBERS

Admission of Non-US Entities<sup>1</sup>

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- Foreign Legal Opinion – obtain an opinion of reputable foreign counsel satisfactory to NSCC providing, among other things, that the agreements described above may be enforced against the foreign entity in the courts of its home country or other jurisdictions where the entity or its property may be found.<sup>2</sup>

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<sup>1</sup> This policy statement excludes Non-U.S. entities that are insurance companies.

<sup>2</sup> NSCC reserves the right to require the entity to deposit additional amounts to the Clearing Fund and to post an **Eligible IL** letter of **eCredit** in an instance where NSCC, in its sole discretion, believes the entity presents legal risk.