



NATIONAL
SECURITIES
CLEARING
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

Bold and underlined text indicates proposed added language

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

RULE 1. DEFINITIONS AND DESCRIPTIONS

Illiquid Position

The term “Illiquid Position” means a Net Unsettled Position in an Illiquid Security that exceeds applicable volume thresholds. For net buy positions in an Illiquid Security, the volume thresholds shall be no greater than 100 million shares and based on the Member’s rating on the credit risk matrix. For net sell positions in an Illiquid Security, the volume threshold shall be no greater than 1 million shares on an absolute value basis, and based on both the Member’s excess net capital and the Member’s rating on the credit risk matrix.

In determining if the volume threshold is met with respect to a net sell position in Illiquid Securities, the Corporation shall apply an offset against shares of Illiquid Securities in the Member’s inventory at DTC to the quantity of shares in a Member’s Illiquid Position. Such offset shall not be applied to (1) net buy positions in Illiquid Securities, or (2) Members that have the weakest rating on the credit risk matrix.

Illiquid Security

The term “Illiquid Security” means a security, other than a family-issued security as defined in Procedure XV, that either (i) is not traded on or subject to the rules of a national securities exchange registered under the Securities Exchange Act of 1934, as amended; or (ii) is an OTC Bulletin Board or OTC Link issue.

PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS¹

I.(A) Clearing Fund Formula for Members

(1) For CNS Transactions

(d) If such Member clears for one or more Market Makers³ (i.e., the Member's Correspondent(s)) or is itself a Market Maker in any security dominated by either the Member or its Correspondent(s) (where domination is calculated for each Member and each of its Correspondent(s) according to criteria determined by the Corporation from time to time), and if the sum of the absolute values of the Net Unsettled Positions in such dominated security or securities of any one or more of such Market Makers exceeds the excess net capital of the respective Market Maker or the Member (whether or not it is a Market Maker), (i.e., such Market Maker's or Member's Excess), the Corporation may then require the Member to contribute an additional Clearing Fund Deposit to the Corporation (**the "Market Maker Domination Charge"**) either in an amount equal to each such Market Maker's or Member's Excess or the sum of each of the absolute values of the Net Unsettled Positions or a combination of both. In performing the calculation, the Corporation may take into account offsetting pending (i.e., non-fail) transactions that have been confirmed and/or affirmed through an institutional delivery system acceptable to the Corporation. In addition, where a Market Maker's Net Unsettled Positions in dominated issues are cleared by one or more Members, the Corporation may treat those positions, for purposes of calculations pursuant to this paragraph, as if they were all cleared by the Market Maker's clearing Member, as listed in the records of the Corporation in accordance with Section 3(e) of Rule 3⁴;

¹ All calculations shall be performed daily or, if the Corporation deems it appropriate, on a more frequent basis.

³ As used in this Procedure, the term "Market Maker" shall mean a member firm of the Financial Industry Regulatory Authority, Inc. (FINRA) that is registered by the FINRA as a Market Maker.

⁴ The Corporation may require or permit such Member to deliver some or all shares necessary to complete a short obligation in lieu of part or all of its requirement under this section or subsection I.(A)(2)(c).

plus

(i) For Illiquid Positions, an amount (“Illiquid Charge”) equal to:

(1) for buy positions in sub-penny Illiquid Securities, the aggregate shares in such positions multiplied by \$0.01, or

(2) for sell positions,

(a) if the position has a Current Market Price equal to or below \$1.00, the product of the aggregate quantity of Illiquid Securities in the position and either (i) the One Month High Price, or (ii) the Current Market Price of the Illiquid Securities in the position multiplied by a factor of between 2 and 10, based on the minimum share price, which shall not be less than \$0.01; and

(b) if the position has a Current Market Price that is greater than \$1.00, the product of the aggregate quantity of Illiquid Securities in the position and either (i) the One Month High Price, or (ii) the Current Market Price of the Illiquid Securities in the position rounded up to the next \$0.50.

For purposes of (2)(a) and (b) above, in determining whether to use the One Month High Price or the Current Market Price of the Illiquid Securities in the Illiquid Position,

(A) if the share quantity in the Illiquid Position is less than 100 percent and greater than or equal to 25 percent of the average daily volume (“ADV”), the calculation shall use the lesser of the One Month High Price or the Current Market Price of the Illiquid Securities (rounded up to the next \$0.50, if applicable); and

(B) if the share quantity in the Illiquid Position is greater than or equal to 100 percent of the ADV, the calculation shall use the greater of the One Month High Price or the Current Market Price of the Illiquid Securities (rounded up to the next \$0.50, if applicable).

The Corporation shall apply the greater of the Illiquid Charge or the Market Maker Domination Charge if it determines that the Illiquid Position is

subject to both charges. Members that are not rated by the credit risk matrix are not subject to the Illiquid Charge.

(2) For Balance Order Transactions

(c) If such Member clears for one or more Market Makers (i.e., the Member's Correspondent(s)) or is itself a Market Maker in any security dominated by either the Member or its Correspondent(s) (where domination is calculated for each Member and each of its Correspondent(s) according to criteria determined by the Corporation from time to time), and if the sum of the absolute values of the Net Balance Order Unsettled Positions in such dominated security or securities of any one or more of such Market Makers exceeds the excess net capital of the respective Market Maker or the Member (whether or not it is a Market Maker), (i.e., such Market Maker's or Member's Excess), the Corporation may then require the Member to contribute ~~an additional Clearing Fund Deposit to the Corporation~~ **the Market Maker Domination Charge** either in an amount equal to each such Market Maker's or Member's Excess or the sum of each of the absolute values of the Net Balance Order Unsettled Positions or a combination of both. In performing the calculation, the Corporation may take into account offsetting pending (i.e., non-fail) transactions that have been confirmed and/or affirmed through an institutional delivery system acceptable to the Corporation. In addition, where a Market Maker's Net Balance Order Unsettled Positions in dominated issues are cleared by one or more Members, the Corporation may treat those positions, for purposes of calculations pursuant to this paragraph, as if they were all cleared by the Market Maker's clearing Member, as listed in the records of the Corporation in accordance with Section 3(e) of Rule 3;

plus

(g) For Illiquid Positions, an Illiquid Charge equal to:

(1) for buy positions in sub-penny Illiquid Securities, the aggregate shares in such positions multiplied by \$0.01, or

(2) for sell positions,

(a) if the position has a Current Market Price equal to or below \$1.00, the product of the aggregate quantity of Illiquid Securities in the position and either (i) the One Month High Price, or (ii) the Current Market Price of the Illiquid Securities in the position multiplied by a factor of between 2 and 10,

based on the minimum share price, which shall not be less than \$0.01; and

(b) if the position has a Current Market Price that is greater than \$1.00, the product of the aggregate quantity of Illiquid Securities in the position and either (i) the One Month High Price, or (ii) the Current Market Price of the Illiquid Securities in the position rounded up to the next \$0.50.

For purposes of (2)(a) and (b) above, in determining whether to use the One Month High Price or the Current Market Price of the Illiquid Securities in the Illiquid Position,

(A) if the share quantity in the Illiquid Position is less than 100 percent and greater than or equal to 25 percent of the ADV, the calculation shall use the lesser of the One Month High Price or the Current Market Price of the Illiquid Securities (rounded up to the next \$0.50, if applicable); and

(B) if the share quantity in the Illiquid Position is greater than or equal to 100 percent of the ADV, the calculation shall use the greater of the One Month High Price or the Current Market Price of the Illiquid Securities (rounded up to the next \$0.50, if applicable).

The Corporation shall apply the greater of the Illiquid Charge or the Market Maker Domination Charge if it determines that the Illiquid Position is subject to both charges. Members that are not rated by the credit risk matrix are not subject to the Illiquid Charge.
