



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

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

A. Introduction

Through arrangements with Qualified Clearing Agencies, the Corporation allows trades from different marketplaces to be cleared and settled through the Corporation.

B. Settlement of Option Exercises and Assignments—~~(“E&A”)~~ and Settlement of Stock Futures Reaching Maturity

Through an arrangement (the “Accord”) with The Options Clearing Corporation (“OCC”), ~~Members which have entered into agreements with the OCC~~ Participating Members (defined below) may settle regular way through the facilities of the Corporation security and money obligations arising out of (i) the exercise or assignment of an option, and (ii) the maturity of a stock futures contract through the facilities of the Corporation (collectively, “E&A/Delivery Transaction”); provided that (x) the E&A/Delivery Transaction is between two Participating Members, and (y) securities to be delivered or received in such settlement are either (1) CNS Securities, or (2) Balance Order Securities. The recording and reporting of such transactions is similar to those set forth in Procedure II.

A “Participating Member” is (i) a Member that is also a member firm of OCC, as separately defined by the rules of that entity (“OCC Member”); (ii) a Member that has been appointed by an OCC Member to effect settlement of E&A/Delivery Transactions through the Corporation on the appointing OCC Member’s behalf; (iii) an OCC Member that has appointed a Member to effect settlement of E&A/Delivery Transactions through the Corporation on its behalf; (iv) the Canadian Depository for Securities Limited (“CDS”); or (v) a Canadian clearing firm that is an OCC Member and settles activity at the Corporation through an identifiable subaccount in the account at the Corporation of CDS in which CDS effects settlement on behalf of such firm. Only Participating Members that are Members identified in (i), (ii), and (iv) above shall be named as counterparties on E&A/Delivery Transactions delivered to the Corporation pursuant to the Accord.

A Participating Member ~~which that~~ wishes to utilize this ~~S~~service must ~~advise the Corporation and~~ execute an agreement with OCC in the form acceptable to OCC. OCC shall notify the Corporation of all Participating Members that have executed such agreements.

Unless otherwise agreed between OCC and the Corporation, E&A/Delivery Transactions are ~~data is~~ received by the Corporation from OCC ~~on each day on~~ which both the Corporation and OCC are open for accepting trades for clearance, a locked-in basis and 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 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 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 Deposit to the Clearing Fund will be recalculated excluding the exited E&A/Delivery Transactions.

E&A/Delivery Transactions are routed to the Balance Order Accounting Operation or the CNS Accounting Operation and are is reported to Members on such reports and in such formats as determined by the Corporation from time to time.

Exercised calls and assigned puts appear as purchases. Exercised puts and assigned calls appear as sells. Physical delivery of matured futures appear as purchases or sells.

The date of the maturity or exercise/assignment at OCC is recorded as the trade date for the maturity or exercise/assignment. The Settlement Date for such transactions is three days later. If the exercise occurs on a Saturday during exercise weekend, the preceding OCC business day is the trade date.

Regarding any E&A/Delivery Transaction submitted to the Corporation by OCC,

(1) if and to the extent that a security to be delivered and received in settlement of such E&A/Delivery Transaction is not a CNS Security or a Balance Order Security, such transaction shall be treated as a trade-for-trade transaction and the Corporation's guarantee pursuant to Addendum K shall not apply to these transactions; or

(2) if and to the extent that such E&A/Delivery Transaction is not submitted to the Corporation for regular way settlement, such transaction shall be processed in accordance with these Rules, as applicable.

~~The Corporation may require a special mark-to-market payment from Members as a result of such transactions being entered on its records.~~

~~Exercises and assignment transactions are routed to the Balance Order Accounting Operation or the CNS Accounting Operation.~~

~~If for any reason the Corporation ceases to act for a Member or ceases to clear a particular security, the Corporation may refuse to accept Interface Clearing input for such Member or such security.~~

PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS¹

I.(A) Clearing Fund Formula for Members

(1) For CNS Transactions

(b) The net of each day's difference between (x) the contract price of such Member's Regular Way, When-Issued and When-Distributed net positions for transactions not submitted through the ID Net service that have not yet passed Settlement Date and its fail positions, and (y) the Current Market Price for such positions² (such difference to be known as the "Regular Mark-to-Market"); provided that: (i) ~~the Corporation shall exclude from this calculation any trades for which the Corporation has, under a Clearing Agency Cross-Guaranty Agreement, either obtained coverage for such difference (if the sum of the differences for the trades subject to the agreement is a positive number) or undertaken an obligation to provide coverage for such difference (if the sum of the differences for trades subject to the agreement is a negative number),~~ (ii) the Corporation may, but shall not be required to, exclude from this calculation any shares delivered by the Member in the night cycle to satisfy all or any portion of a short position, and (iii) that if the Member is an ID Net Subscriber and if the value of the Regular Mark-to-Market as computed above is a positive number, then the value of the Regular Mark-to-Market shall be zero;

(2) For Balance Order Transactions

(b) The net of each day's difference between the contract price of such Member's Net Balance Order Unsettled Positions, and the Current Market Price for such positions ~~(such difference to be known as the "Regular Mark-to-Market"), provided that the Corporation shall exclude from this calculation any trades for which the Corporation has, under a Clearing Agency Cross-Guaranty Agreement, either obtained coverage for such difference (if the sum of the differences for the trades subject to the agreement is a positive number) or undertaken an obligation to provide coverage for such~~

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

² For fail positions, the contract price used for this purpose is the prior day's Market Price.

~~difference (if the sum of the differences for trades subject to the agreement is a negative number);~~
