



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 XV. CLEARING FUND FORMULA AND OTHER MATTERS¹

I.(A) Clearing Fund Formula for Members

(1) For CNS Transactions

(a)(i) The volatility of such Member's net of unsettled Regular Way, When-Issued and When-Distributed pending positions (i.e., net positions that have not yet passed Settlement Date) and fail positions (i.e., net positions that did not settle on Settlement Date), hereinafter collectively referred to as Net Unsettled Positions. Such calculation shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate.

(ii) The Corporation shall have the discretion to exclude from the **above** calculations **in subsection (i) above** Net Unsettled Positions in classes of securities whose volatility is (x) less amenable to statistical analysis, such as OTC Bulletin Board or Pink Sheet issues or issues trading below a designated dollar threshold (e.g., five dollars), or (y) amenable to generally accepted statistical analysis only in a complex manner, **such as other than** municipal **or** corporate bonds. The amount of Clearing Fund with respect to such Net Unsettled Positions shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation, which percentage shall be not less than 10% in respect of the positions covered by subsection x of this paragraph and shall be not less than 2% in respect of the positions covered by subsection y of this paragraph; **The Corporation shall exclude from the calculations in subsection (i) above municipal and corporate bonds, which are addressed in subsection (iii) below.**

(iii) The Corporation shall exclude from the calculations in subsection (i) above Net Unsettled Positions in corporate and municipal bonds. The amount of Clearing Fund required with respect to Net Unsettled Positions in corporate and municipal bonds shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation, which shall be not less than 2%, calculated as follows:

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

(A) Corporate bonds shall be categorized into groups according to the bonds' "remaining time to maturity" and credit rating. From time to time, but not less frequently than annually, the Corporation shall establish for each category of corporate bonds a percentage calculated using historical market price volatility of a benchmark index. Such percentage shall be based on (1) the historical returns of the applicable benchmark index; (2) a pre-determined look-back period, which shall not be shorter than 10 years; and (3) a pre-determined calibration percentile, which shall not be less than 99%.

(B) Municipal bonds shall be grouped by "remaining time to maturity" and separately categorized by municipal sector. The Corporation shall establish a percentage applicable to each "remaining time to maturity" grouping. From time to time, but not less frequently than annually, the Corporation shall assign each municipal sector a risk factor. If a municipal bond is rated lower than a pre-determined threshold, which shall be no lower than BBB+, or is non-rated, then the Corporation shall apply a risk factor to the applicable percentage. Such risk factor shall be based on the sector index's spread to a benchmark index. The highest sector-based risk factor shall apply to municipal bonds that are not mapped to a municipal sector.

(2) For Balance Order Transactions

(a)(i) The volatility of such Member's net of unsettled Regular Way, When-Issued and When-Distributed positions that have not yet passed Settlement Date, hereinafter collectively referred to as Net Balance Order Unsettled Positions. Such calculation shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities Exchange Act of 1934, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate.

(ii) The Corporation shall have the discretion to exclude from the **above** calculations **in subsection (i) above** Net Balance Order Unsettled Positions in classes of securities whose volatility is (x) less amenable to statistical analysis, such as OTC Bulletin Board or Pink Sheet issues or issues trading below a designated dollar threshold (e.g., five dollars), or (y) amenable to generally accepted statistical analysis only in a complex manner, **such as other than** municipal **or** corporate bonds. The amount of Clearing Fund required with respect to such Net Balance Order Unsettled Positions shall be determined by

multiplying the absolute value of such positions by a percentage designated by the Corporation, which percentage shall be not less than 10% in respect of the positions covered by subsection x of this paragraph and shall be not less than 2% in respect of the positions covered by subsection y of this paragraph; **The Corporation shall exclude from the calculations in subsection (i) above municipal and corporate bonds, which are addressed in subsection (iii) below.**

(iii) The Corporation shall exclude from the calculations in subsection (i) above Net Balance Order Unsettled Positions in corporate and municipal bonds. The amount of Clearing Fund required with respect to Net Balance Order Unsettled Positions in corporate and municipal bonds shall be determined by multiplying the absolute value of such positions by a percentage designated by the Corporation, which shall be not less than 2%, calculated as follows:

(A) Corporate bonds shall be categorized into groups according to the bonds' "remaining time to maturity" and credit rating. From time to time, but not less frequently than annually, the Corporation shall establish for each category of corporate bonds a percentage calculated using historical market price volatility of a benchmark index. Such percentage shall be based on (1) the historical returns of the applicable benchmark index; (2) a pre-determined look-back period, which shall not be shorter than 10 years; and (3) a pre-determined calibration percentile, which shall not be less than 99%.

(B) Municipal bonds shall be grouped by "remaining time to maturity" and separately categorized by municipal sector. The Corporation shall establish a percentage applicable to each "remaining time to maturity" grouping. From time to time, but not less frequently than annually, the Corporation shall assign each municipal sector a risk factor. If a municipal bond is rated lower than a pre-determined threshold, which shall be no lower than BBB+, or is non-rated, then the Corporation shall apply a risk factor to the applicable percentage. Such risk factor shall be based on the sector index's spread to a benchmark index. The highest sector-based risk factor shall apply to municipal bonds that are not mapped to a municipal sector.
