TEXT OF PROPOSED RULE CHANGE

**Bold and underlined** text indicates proposed added language.

**Bold and strikethrough** text indicates proposed deleted language.
PROCEDURE VII. CNS ACCOUNTING OPERATION

H. Miscellaneous CNS Activity

Certain types of activity occur within the CNS system which are reflected on Miscellaneous Activity Reports. Each entry shown on these reports is identified by legend as to type, e.g., reorganization, OW Obligations, journal entry, etc. Security entries also appear on the Accounting Summary identified as "miscellaneous". Money entries are netted to a single figure on the Miscellaneous Activity Reports and are identified as "miscellaneous" on the Accounting Summary.

1. Removal of Eligible Securities from CNS

When the Corporation declares a security ineligible for processing through CNS, all net positions in that security are removed from the CNS Stock Record on the effective date. Any pending positions (trades, stock dividends, etc.) are removed as soon as they are posted to the CNS Stock Record. Such entries are posted to the Member's next available Miscellaneous Activity Report issued on the date of removal. The Current Market Value of the security, as of the date of removal, appears on the next available Miscellaneous Activity Report and is posted to the Member's Money account.

When a security is removed from CNS, a random allocation procedure matches Members with long positions to Members with short positions. CNS Receive and Deliver Instructions are produced instructing a Member to receive securities from or deliver securities to another Member of the Corporation or a participant of an interfacing clearing corporation. CNS Receive and Deliver Instructions for equities and corporate bonds are considered Balance Orders (see Section V) and are due for settlement on the date issued and must be settled in the same manner as are Balance Orders. Municipal Bond Receive and Deliver Instructions are subject to the rules of the MSRB and the settlement thereof are the responsibility of the parties to the Receive and Deliver Instructions.

Securities removed from CNS that result in a CNS Receive and Deliver Instruction may be entered into the Obligation Warehouse service in accordance with the Obligation Warehouse Procedure.

2. Journal Entries

Occasionally, it is necessary to adjust positions or money balances within the CNS system. These entries appear on the applicable Miscellaneous Activity Report which identifies, by legend, the type of Journal Entry made.

3. Member Mergers

If two or more Members merge their operations, or if one Member assumes the obligations of one or more other Members, all CNS Stock Record positions and money balances are merged under the new Member number. Such entries are made at the opening of business
on the effective date, and appear on the Miscellaneous Activity Report with the legend "Member Merger".

4. Corporate Reorganizations

Through the facilities of the CNS Reorganizations Processing System, the Corporation offers Members the ability to process within the CNS System transactions in certain securities undergoing corporate reorganizations. For the purpose of this the CNS Reorganization Processing System, reorganizations are divided into two categories: "mandatory" reorganizations, consisting of which may include, for example, mergers, full redemptions, liquidations, reverse splits and name changes; and "voluntary" reorganizations, consisting of which may include, for example, mergers with elections, and either tender offers or exchange offers, which may include those tender or exchange offers that have an offer to consent (collectively "tender voluntary offers").

All CNS securities subject to the a reorganizations listed above (hereinafter referred to as "the subject security") are may be included in the CNS Reorganization Processing System other than except for: (i) securities subject to redemption if there is a conversion event privilege attached; (ii) securities subject to a reorganization where baby bonds are issued; and (iii) securities made ineligible for processing at a Qualified Securities Depository during a corporate reorganization; and (iv) in circumstances when . In addition, a security may not be eligible for the CNS Reorganization Processing System if the Corporation determines that operational difficulties prevent the processing of the security in the CNS Reorganization Processing System, in which case the security shall be A security ineligible for the CNS Reorganization Processing System is removed from the CNS System, and Receive and Deliver Instructions for such security are issued as explained in paragraph 1 of this subsection H, above. For example, in general, the Corporation will not process a reorganization event where the protect period for such event is greater than two business days.

Notwithstanding the foregoing, the Corporation may, from time to time, process corporate actions through the CNS Reorganization Processing System that would otherwise be ineligible, if the Corporation, in its sole discretion, determines that it has the capability to do so. In such circumstances, the Corporation will provide Members with issue a notice detailing how such security will be processed.

To the extent the Corporation receives timely notification of a reorganization, each business day, starting two business days before the effective day of a mandatory reorganization, or four business days before the expiration date of the tender offer a voluntary reorganization ("effective day" and "expiration day" hereinafter referred to as "E") through such time as the Corporation shall determine, the reorganization information received by the Corporation will be provided to Members. If the Corporation does not receive sufficient notification of a pending reorganization to provide to Members on the dates prior to E specified above, the Corporation will provide such information to Members as soon as practical after receipt of such information. While the Corporation uses its best efforts to ensure that the reorganization information provided is complete and accurate, the information provided is solely an unofficial summary prepared by the Corporation for the convenience of its Members, and the Corporation cannot accept responsibility is not responsible for the completeness and accuracy of the information.
Processing within the CNS Reorganization Processing System **differs between securities subject to voluntary and mandatory reorganizations**, and is handled in the following manner:

(a) **Mandatory Reorganizations**

At such time on or after **the effective date of the reorganization** as the Corporation shall determine, CNS positions in the subject security are **converted** into the equivalent positions of the new securities and/or cash. Fractional shares resulting from a reorganization are credited and charged in cash, and are valued using the Current Market Price.

These **conversions** appear on Members’ CNS Miscellaneous Activity Reports and are identified as to the type of mandatory conversion is identified.

(b) **Voluntary Reorganizations**

The Rules below assume the processing of subject securities with a protect period of two days. **Except where otherwise indicated in this subsection (b), the processing of subject securities with a protect period of two days is the same as for subject securities with a protect period of greater than two days.** The processing of subject securities with a protect period of one day or less shall be in accordance with the time frames set forth in the table below.

**On E+1, by such time and in such manner as established by the Corporation from time to time, a Member with a long position (including long positions due to settle up to and including the last day of the protect period) at the close of business on such day in the subject security who seeks to have the Corporation provide the protection described below for such long position, must instruct the Corporation to move its long positions into a CNS Reorganization Sub-Account. Instructions by a Member to move a position to a CNS Reorganization Sub-Account constitute a formal request by the Member for the Corporation to provide such protection for the position moved.**

**After Night Cycle – E+1**

After the night cycle on E+1, by such time and in such manner as established by the Corporation from time to time, the Corporation **shall advise** Members with short positions (including short positions due to settle up to and including the last day of the protect period) in a subject security of their potential liability based on their short positions as of that time in such subject security.

**Note**: Any same day settling trade in such subject security that is received for processing after the night cycle of E+1 will be designated a Special Trade and will be cleared and settled on a Member-to-Member basis between the parties directly.

**On E+1**

**On E+1, by such time and in such manner as established by the Corporation, a Member with a long position in a subject security (including long positions due to settle up to and including the last day of the protect period) at the close of business**
on such day who seeks to have the Corporation provide the protection described below for such long position, must instruct the Corporation to move such long positions into a CNS Reorganization Sub-Account. Instructions by a Member to move a position to a CNS Reorganization Sub-Account constitute a formal request by the Member for the Corporation to provide such protection for the position moved.

On E+2 (Protect Period Expiration Date)

The regular CNS allocation process takes place through the day cycle on the last day of the protect period. A long position in a subject security for which an instruction has been received by the Corporation to establish a position in the CNS Reorganization Sub-Account, as described above, has the highest priority for CNS allocation, as provided for in Section E, 4(a) of this Procedure VII.

On E+2, By such time and in such manner as established by the Corporation from time to time, the Corporation shall inform Members a Member who has given the Corporation instructions to move a long position into a CNS Reorganization Sub-Account will be informed of its potential moves of that position to a CNS Reorganization Sub-Account. On E+2, until such time as established by the Corporation from time to time, Members may add, adjust, or delete long positions which will be moved to the CNS Reorganization Sub-Account in whole or in part by submitting an instruction to the Corporation in such form and until such time on E+2 as established by the Corporation from time to time.

Members are prohibited from moving positions in subject securities between the CNS General Account and that Member’s Fully-Paid-For Subaccount.

After Day Cycle – E+2

At the time established by the Corporation after the day cycle on E+2, these long positions for which proper instructions have been received are moved to a CNS Reorganization Sub-Account. Simultaneously, the Corporation shall move a corresponding number of short positions in the subject security held by representing those short Members with the oldest such short positions. If more than one short position in the subject security is of the same age, the Corporation may utilize a random allocation procedure to select short positions to be moved into the CNS Reorganization Sub-Account are selected on a random basis. As a result of this pairing of long and short positions, a Member with a short position could have only a partial allocation of its position to the CNS Reorganization Sub-Account and thus could have short positions both in the Sub-Account and its CNS General Account. On E+2, when the long and short positions in the subject security are moved into the CNS Reorganization Sub-Account, the Corporation will provide Members with long positions in the subject security notification of their final protection, and will provide Members with short positions in the subject security notification of their final liability.

Movement of positions for securities that are subject to a voluntary reorganization are not permitted between non reorganization sub-accounts either on the “protect” expiration date, or, when there is no “protect” for that voluntary reorganization, on the expiration date of the voluntary reorganization.
In such form and by such time as established by The Corporation may, following a request by a Member and an approval of that request by the Member with the corresponding a long or short position in a subject security, may request the Corporation to move their respective Member's long positions from a CNS Reorganization Sub-Account back to the CNS General Account. In that event, the Corporation also shall move a corresponding short position or positions from the CNS Reorganization Sub-Account to the CNS General Account; positions moved are selected on a random basis.

The Corporation may establish a minimum of two separate CNS Reorganization Sub-Accounts for each security subject to multiple tender voluntary offers; provided, however, that if applicable, and provided it has the operational capabilities to do so, the Corporation may establish additional CNS Reorganization Sub-Accounts in order to process affected securities. If there are more tender offers for a security than available CNS Reorganization Sub-Accounts, all positions in the subject security, except for positions that have already been moved to CNS Reorganization Sub-Accounts, are removed from the CNS System, and Receive and Deliver Instructions for the security are issued as explained in paragraph H.1 above. If, after a security has been removed from the CNS System, a Member with a long position in a CNS Reorganization Sub-Account submits a Delete instruction instructing the Corporation to move the position back to the CNS General Account, the Corporation shall issue Receive and Deliver instructions for the security, as described in paragraph H.1 above.

On and Following E+3

Short positions in the CNS Reorganization Sub-Account are marked from the Current Market Price to the tender voluntary offer price on E+3 and on each subsequent day; funds received as a result of such mark payments are retained by the Corporation until the conclusion of the tender voluntary offer. The Corporation freezes the positions in the CNS Reorganization Sub-Account; corresponding long and short positions in the CNS Reorganization Sub-Account only will be moved out of the CNS Reorganization Sub-Account (i) through the CNS allocation process, as described below, (ii) upon the request of both the a Members with a long and short positions, as described above, or (iii) upon conclusion of the tender voluntary offer, (iii) when the voluntary offer is canceled, or (iv) when the expiration date of the voluntary offer is extended. In such cases, positions in the CNS Reorganization Sub-Account automatically are automatically returned to the Members' CNS General Account, and the mark to the tender voluntary offer price returned to Members with short positions, when a tender offer is canceled.

The regular CNS allocation process takes place through the day cycle on the last day of the protect period or the expiration of the tender offer, whichever is later. Because the CNS Reorganization Sub-Account always will have the highest priority for allocation, allocations to the Sub-Account from Members covering short positions in both the CNS General Account and CNS Reorganization Sub-Account occur. As a result, each day the CNS Reorganization Sub-Account is balanced by moving excess short positions from the CNS Reorganization Sub-Account to the CNS Account; positions moved are selected on a random basis. In the event that delivery of the subject security is made by the Member with the short position outside the facilities of the Corporation, and the Member does not want its CNS account debited for the
securities and/or cash under the terms of the tender offer, both the Members with the long and short positions must, in such form and by such time as established by the Corporation, instruct the Corporation to exit the quantity of shares which has been so delivered from the CNS Reorganization Sub-Accounts of the Members. If the Members do not so instruct the Corporation, the Members’ Reorganization Sub-Accounts will not reflect such delivery and the Corporation shall process the credits and debits set forth below based on the position in the Members’ CNS Reorganization Sub-Accounts as if the delivery had not occurred. Any adjustments to reflect the delivery must be made between the Members and not through the facilities of the Corporation.

The table below sets forth the time frames for the processing of subject securities subject to a voluntary reorganization with a protect period of one day or less and voluntary reorganizations with no protect period.

<table>
<thead>
<tr>
<th>Date long position member must instruct NSCC to move position to Reorg. Sub-Acct. (Standard Date)</th>
<th>Date short Member notified of potential Liability</th>
<th>Date long Member notified of potential Protection</th>
<th>Date long Members are prohibited from moving positions in subject securities between CNS General Account and Fully-Paid-For Subaccount</th>
<th>Last date long members may submit Delete instructions</th>
<th>Last date long Members may submit Protect Add or Adjust Instructions (protect add or adjust submitted on CNS end date)*</th>
<th>Date long positions moved to Reorg. Sub-Account</th>
<th>Date long Member notified of Final Protection and short Member notified of Final Liability</th>
<th>Short position marked to tender voluntary offer price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Day Protect</td>
<td>E</td>
<td>E</td>
<td>E+1</td>
<td>E+1</td>
<td>E+1</td>
<td>E+1</td>
<td>E+1</td>
<td>E+2 or thereafter</td>
</tr>
<tr>
<td>No Protect</td>
<td>E-1</td>
<td>E-1</td>
<td>E</td>
<td>E</td>
<td>E</td>
<td>E</td>
<td>E</td>
<td>E+1 or thereafter</td>
</tr>
</tbody>
</table>

* “CNS end date” is either the protect expiration date of the offer or, when there is no protect, it is the expiration date of the offer.

On Conclusion of Voluntary Offers

Upon conclusion of the **tender voluntary** offer, at a time determined by the Corporation, the Corporation shall make journal entries to unwinding positions in the CNS Reorganization Sub-Account and established positions representing the terms of the **tender voluntary** offer in the CNS General Account by:

(i) crediting a long Member’s CNS **General** Account for the securities distributed under the terms of the **voluntary** offer and/or crediting a long Member’s settlement account for the cash or securities distributed under the terms of the **tender voluntary** offer;

(ii) debiting a short Member’s CNS **General** Account for the securities distributed under the terms of the **tender voluntary** offer and/or debiting a short Member’s settlement account for the cash or securities distributed under the terms of the **tender voluntary** offer; and,
(iii) crediting the settlement account of short Members with the mark to the tender voluntary offer price being retained by the Corporation.

In the event that not all shares positions in a subject security are accepted pursuant to the terms of a tender voluntary offer, entries crediting and debiting the securities positions and/or cash under the terms of the tender voluntary offer are made on a pro rata basis, based on the pro rata acceptance ratio of the tender voluntary offer as reported to the Corporation by a Qualified Securities Depository. All entries with respect to the tender voluntary offer appear on the Member’s CNS Miscellaneous Activity Report and are identified as resulting from a tender voluntary offer. Fractional shares resulting from a pro rata acceptance are credited to Members’ settlement accounts and charged in cash, and are valued using the tender voluntary offer price.

The Corporation will shall provide protection to the long Member for a position in the CNS Reorganization Sub-Account upon completion of the tender voluntary offer, but only to the extent of the monetary difference between the Current Market Price and the terms of the tender voluntary offer price, and only to the extent of the pro rata acceptance ratio of the tender voluntary offer as discussed above. In addition, in the event that a long Member incurs, or anticipates that it will incur, liabilities greater than this amount, the long Member must notify the Corporation as soon as possible. Upon receipt of such notice, the Corporation shall reverse the entries made establishing the positions in the cash and/or securities distributed under the terms of the tender offer with respect to (i) the long Member and (ii) a Member or Members, chosen randomly, who had a corresponding short position in the CNS Reorganization Sub-Account. Such entries will reestablish the long and short positions in the CNS Account for such Members in the security subject to the tender offer. Upon doing so, the Corporation shall remove the positions in the security subject to the tender offer from the CNS System and shall (i) issue Receive and Deliver Instruction, at the tender office price, to the long and short Members, respectively as described in paragraph 1 above; and (ii) credit and debit the appropriate Members’ settlement accounts for the terms of the tender offer. Upon giving the Corporation the notice described in this paragraph, the long Member may take such action as it believes to be necessary to protect itself against liability, including executing, without further notice to the short Member or Members, a buy-in of the subject securities pursuant to the provisions of the third paragraph of Section X.B. of these Procedures.

5. Convertible Securities

A Member with a closing long position in a convertible security may submit to the Corporation a CNS Conversion Instruction instructing the Corporation to convert its closing long position (or a portion thereof) from the convertible security to the underlying security. Such instructions are accepted by the Corporation only on:

(i) the expiration date of the conversion privilege;

(ii) the date on which the conversion privilege changes to a less favorable rate; or

(iii) the dividend record date for the underlying security.
The Member’s long position in the convertible security (or a portion of the long position, if the Member so instructs) is removed from CNS and replaced by a long position in the underlying security according to the ratio specified by the issuer.

The Corporation identifies the Members having the oldest short positions in the convertible security. Age is defined as the number of consecutive days during which the position has been short, irrespective of quantity. If the Members in the oldest age group have a greater quantity of short positions than is needed to satisfy the CNS Conversion Instructions, the short positions of one or more such Members is chosen for conversion on a random basis. The short position (or portion thereof) which has been chosen for conversion will be removed from CNS and replaced by a short position in the underlying security according to the ratio specified by the issuer.

Entries for Members with long or short positions in both the convertible and underlying security will appear on the Miscellaneous Activity Report issued the following day. Such entries are identified by the legend “Conversion”. If the conversion results in fractional shares, cash-in-lieu of fractions is credited and debited to the Members involved.

If the date on which the CNS Conversion Instruction is received is the dividend record date for either the convertible security or the underlying security, Members’ record date positions are adjusted as if the entries had been made prior to the close of business on record date, notwithstanding the fact that the entries are actually made on the following day.

In the event that the Designated Depositories do not provide book-entry conversion service for a particular security, the Corporation reserves the right to declare such securities ineligible for CNS.

65. ID Net Service

Pursuant to Rule 65 and Procedure XVI, the Corporation permits ID Net Subscribers to may enter into transactions eligible for the ID Net Service, and All such transactions will be are recorded on the Miscellaneous Activity Report. All removals of such transactions from the ID Net Service occurring in either day or evening cycle will are also be recorded on the Miscellaneous Activity Report.

76. Obligation Warehouse

Pursuant to Rule 51 and the Obligation Warehouse Procedure II.A, the Corporation permits Members to submit OW Obligations submitted for processing through the Obligation Warehouse service and that are CNS-eligible obligations processed therein may be entered into this the CNS Accounting Operation. Unless otherwise excluded by the Member pursuant to the Obligation Warehouse Procedure II.A, CNS-eligible OW Obligations will be are recorded on the Miscellaneous Activity Report on the night before Settlement Date (SD-1) and included in the CNS Accounting Operation in the night cycle on Settlement Date in accordance with the provisions of the Obligation Warehouse.

1 This functionality will be made available to Members at a date no less than 10 business days following announcement of its implementation by Important Notice.
Procedure [II.A]. All OW CNS activity will be reflected on the Miscellaneous Activity Report.

7. Asset Servicing and Other Events; Revealing Counterparties

The Corporation may support asset servicing or other events or payments and the Corporation may, in its sole discretion, determine that such event or payment be processed outside the Corporation’s facilities for any reason, including, for example, operational difficulties in processing the payment or event or because the payment or event is not processed by a Qualified Securities Depository.

Examples of payments or other events that the Corporation may determine shall be processed outside its facilities include payments pursuant to litigation or other disputes, distributions on class actions, bankruptcy payments, consent solicitations, other distributions, claims, fees, or events with respect to which a Member has notified the Corporation that it either has incurred or anticipates it will incur liabilities greater than the terms of the reorganization event.

In order to assist Members in processing a payment or other event that is not applied by the Corporation, or to assist Members to address claims, disputes or information requests related to an event that the Corporation has processed and that requires the Member to work directly with the counterparty, the Corporation may utilize a random allocation procedure (as described in this Procedure VII, Section H(1)) to match Members with long positions with Members with short positions over the critical event date, and identify such counterparties to each other.

*    *    *