



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, which shall be the highest resultant value among the following:

(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:

(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 **credit rating, and municipal bonds that are rated BBB+ or lower, or that are not rated, shall also be** separately categorized by municipal sector. **From time to time, but not less frequently than annually, the** Corporation shall establish a percentage applicable to each "**remaining time to maturity**" grouping. **Such percentage shall be based on (1) the historical returns of applicable benchmark indices, such as tenor-based indices (i.e., based on time to maturity), municipal bond sector-based indices, and high-yield indices; (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%**~~From time to time, but not less frequently than annually, the Corporation shall assign~~

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

~~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. In extraordinary circumstances where the Corporation determines that a certain municipality or issuer of municipal bonds presents unique risks that are not captured by the grouping set forth herein, NSCC may, in its discretion, apply the highest percentage being applied to any municipal bond group pursuant to this subsection (B) to municipal bonds issued by such municipality or issuer.~~

(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, which shall be the highest resultant value among the following:

(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 credit rating, and municipal bonds that are rated BBB+ or lower, or that are not rated, shall be separately categorized by municipal sector. From time to time, but not less frequently than annually, Tthe Corporation shall establish a percentage applicable to each "remaining time to maturity" grouping. Such percentage shall be based on (1) the historical returns of applicable benchmark indices, such as tenor-based indices (i.e., based on time to maturity), municipal bond sector-based indices, and high-

yield indices; (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%. 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. In extraordinary circumstances where the Corporation determines that a certain municipality or issuer of municipal bonds presents unique risks that are not captured by the grouping set forth herein, NSCC may, in its discretion, apply the highest percentage being applied to any municipal bond group pursuant to this subsection (B) to municipal bonds issued by such municipality or issuer.
