

# IMPORTANT NOTICE

National Securities Clearing Corporation



**A#:** 6304  
**P&S#** 5874  
**DATE:** September 19, 2006  
**TO:** ALL PARTICIPANTS  
**ATTENTION:** PARTNER/OFFICER, COMPLIANCE OFFICER  
**FROM:** General Counsel's Office  
**SUBJECT:** Approval of Rule Filing-SR-NSCC-2006-03 (Clearing Fund Premium Relating to a Member's Ratio of Clearing Fund Requirement to Capital)

On September 15, 2006, the Securities and Exchange Commission ("SEC") approved NSCC rule filing SR-NSCC-2006-03, which amends the rules of NSCC to provide for a Clearing Fund Collateral Premium where a member's Clearing Fund requirement exceeds its excess net capital or equivalent, as more fully described below. **NSCC will implement the approved rule changes on Monday, October 16, 2006.**

The degree to which the collateral requirement of a clearing agency member compares to the member's capital is an important indicator of potential risk that the member presents to the clearing agency. Pursuant to the approved rule, NSCC will inaugurate a Clearing Fund premium (modifying the Clearing Fund Formula in Procedure XV) applicable to NSCC broker/dealer and bank members whose ratio of Clearing Fund requirement (as the numerator), to Capital (as the denominator) (the "Ratio") is greater than 1.0.

The collateral premium will be determined by multiplying: (a) the amount by which a member's base Clearing Fund requirement (that is the amount determined prior to the imposition of such a premium) exceeds its Capital, as defined, by (b) the member's Ratio, expressed as a percent. However, the calculation of the base Clearing Fund requirement, with respect to the amount of the Clearing Fund requirement used in both (a) and (b) above, will not take into account either (i) market-maker domination charges, or (ii) special charges, as determined pursuant to Procedure XV, that are imposed on a member as part of its base requirement (the adjusted amount being referred to as the "Calculated Amount"). The premium thus increases (or decreases exactly in proportion to increases (or decreases) in the Ratio (rounded to the nearest whole percent) and allows for risk management that is measured in proportion to the risk presented. For example, if a member has a Calculated Amount of \$11.4 million and excess net capital of 10 million, its Ratio is 1.14 (or 114 percent), and the applicable collateral premium would be 114 percent of \$1.4 million (which is equal to the amount by which the member's Calculated Amount exceeds its excess net capital), or \$1,596,000. If the same member had a Calculated Amount of \$20 million, its Ratio would be 2.0 (or 200 percent), and the applicable

collateral premium would be 200 percent of \$10 million, or \$20 million. This premium will become part of the member's Required Deposit.

NSCC may, at its discretion: (i) collect an amount less than the calculated collateral premium (including no premium), and (ii) return all or a portion of the premium if it believes that the imposition or maintenance of the premium is not necessary or appropriate. NSCC has identified the following guidelines or circumstances, which are intended to be illustrative, but not limited, where the premium will not be imposed: (a) where the premium results from charges applied with respect to municipal securities trades settling in CNS, where the member has offsetting compared trades settling on a trade-for trade basis through DTC; and (b) management will look to see whether the premium results from an unusual or non-recurring circumstance where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison or trade recording that would otherwise reduce the margined position if timely submitted, or an unexpected haircut or capital charge that does not fundamentally change its risk profile.

NSCC's affiliate, Fixed Income Clearing Corporation, submitted a similar rule filing (File No. SR-FICC-2006-03) to the Commission and will inaugurate a similar Clearing Fund premium on the same date.

Questions regarding the rule filing should be directed to Marie Rey, Vice President, Risk Management at [mrey@dtcc.com](mailto:mrey@dtcc.com), or 212-855-5790, or John Petrofsky at [jpetrofsky@dtcc.com](mailto:jpetrofsky@dtcc.com), or 212-855-7634.

Merrie Faye Witkin  
Vice President and Senior Counsel