

IMPORTANT NOTICE

National Securities Clearing Corporation



The Depository Trust &
Clearing Corporation

A#6355

P&S #5925

DATE: December 7, 2006

TO: ALL PARTICIPANTS

ATTENTION: MANAGING PARTNER/OFFICER, OPERATIONS
PARTNER/OFFICER, COMPLIANCE OFFICER

FROM: General Counsel's Office

SUBJECT: RULE CHANGE – SR-NSCC-2006-09 (Cash, Next Day and
Seller's Option Equity transactions and related Clearing Fund
enhancements)

On November 27, 2006, the Securities and Exchange Commission ("SEC") approved National Securities Clearing Corporation ("NSCC") rule change SR-NSCC-2006-09. This rule change modifies the procedures for equity trade processing to enable cash, next day and seller's option equity trades received on a locked-in basis from self-regulatory organizations and Qualified Special Representatives to be processed in CNS. In conjunction with this change, NSCC is also adding a new element to its Clearing Fund formula to cover shortened process cycle trades. **NSCC plans to implement these rule changes in the first quarter of 2007, when the CNS processing of cash, next day and seller's option equity transactions goes live. The date for implementation will be announced in a subsequent Important Notice.**

Currently, cash, next day and seller's option equity trades are recorded or compared, as applicable, and reported by NSCC, but not settled through its facilities. Instead they settle on a trade-for-trade basis directly between counterparties.¹ When the Corporation updated and revised CNS in 2004, a major aspect included a new platform for the system that accommodates real-time updates, including the capacity to add trades to the settlement process real-time for late input into CNS until noon of settlement day. At that time, Rule changes were made to permit as-of regular way equity trades (that is, trades settling on a T+3 basis that are either recorded or compared after trade date) to be processed in CNS for settlement on their originally designated settlement dates through the cut-off time designated by NSCC on T+3. Given the system's real-time capabilities, Members would now also like to have cash, next day and seller's option equity trades in CNS-eligible CUSIPs that are received on a locked-in basis made eligible for processing in CNS. The amendments accommodate this.

NSCC is also modifying its Clearing Fund formula (Procedure XV) by including an additional component intended to mitigate the risk associated with shortened process trades, in particular cash, next day and T+3 as-of CNS trades. The Corporation's trade guaranty would attach to these trades prior

¹ Cash and next day transactions in debt securities are also compared, but not settled through, NSCC. NSCC is not at this time seeking to make such transactions eligible for settlement in CNS.

to the scheduled collection of clearing fund monies. The additional component is intended to mitigate this risk by calculating an average Clearing Fund requirement for this type of activity (referred to as “Specified Activity”) based upon historical activity.

Additional information with regard to this enhancement can be found in NSCC Important Notice A#6220 (P&S#5790) “Processing Non-Standard Settlement Trades in CNS”, dated March 23, 2006.

Questions regarding enhanced non-standard settlement equity trades processing should be addressed to Robert M. Yodice, Director, Product Management at (212) 855-8024. Questions regarding the new Clearing Fund component should be addressed to Barbara Hammel, Director, Risk Management at (212) 855-5785. Questions regarding the rule change may be directed to the undersigned at (212) 855-3208.

Merrie Faye Witkin
Vice President and Deputy General Counsel