

NOTICE TO MEMBERS: 76-11
Notices to Members should be
retained for future reference.

NASD

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1735 K STREET NORTHWEST • WASHINGTON D.C. 20006

March 8, 1976

TO: All NASD Members

RE: Cooper (Stanley) & Co., Inc.
1124 Federal Reserve Bank Building
105 W. 4th Street
Cincinnati, Ohio 45202

ATTN: Operations Officer, Cashier, Fail-Control Department

On Wednesday, March 3, 1976, a receiver in bankruptcy was appointed for the above captioned firm. Members may use the "immediate close-out" procedure as provided in Section 59 (i) of the NASD's Uniform Practice Code to close-out open OTC contracts.*

Accordingly, questions regarding the firm should be directed to:

Receiver in Bankruptcy

Mr. Harvey B. Rielag
309 Tri State Building
Cincinnati, Ohio 45202
Telephone: (513) 721-1060

* This notice, which applies to all NASD Members, has been issued by National Clearing Corporation. The Board of Directors of NCC interprets and enforces the provisions of the NASD's Uniform Practice Code.

NASD

NOTICE TO MEMBERS: ~~76-12~~
Notices to Members should be
retained for future reference.

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

1735 K STREET NORTHWEST • WASHINGTON D. C. 20006

March 17, 1976

I M P O R T A N T

TO: ALL NASD Members and Interested Persons

RE: Proposed Rules-National Clearing Corporation:
Proposed Combination of Clearing Facilities

Since 1971 National Clearing Corporation (NCC), the Association's clearing facility, has provided a clearing service for over-the-counter (OTC) transactions in securities for Association members. From its start in New York City, this service has been expanded to include eleven (11) regional centers (Atlanta, Baltimore, Boston, Chicago, Dallas, Jersey City, Milwaukee, Minneapolis, Philadelphia, St. Louis and Washington, D.C.) with a facility scheduled to be opened in April in Cleveland. The goal of NCC and the Association has been to bring service to as large a number of members in as broad a range of issues as possible and to do so at costs which are reasonable and equitable. In this connection, the Association for some time now has been discussing with the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX) a combination of existing clearing facilities to reduce costs. These discussions have been actively supported by the Boards of the Association and the NCC and by numerous clearing participants.

In April, 1975 a committee of the NCC Board began meeting with representatives of the Boards of Securities Industry Automation Corporation (SIAC), Depository Trust Company (DTC), Stock Clearing Corporation (SCC), and American Stock Exchange Clearing Corporation (ASECC). The outcome of these meetings was an agreement which established requirements to provide clearing services, in a single system, which would be equivalent in all respects to those currently provided through separate systems.

Senior officers of the Association, the NYSE and the AMEX as well as representatives of SIAC and NCC also formed a steering committee to plan implementation of the single system concept. Subsequently the Boards of the three clearing facilities appointed an advisory committee composed of clearing participant representatives to assist in developing plans.

A plan was formulated by the steering committee and endorsed by the various Boards and the advisory committee to combine the operations of the three clearing facilities. Under this plan a new corporation, National Securities Clearing Corporation (NSCC) will be formed and will be jointly owned, one-third each, by NCC, ASECC and SCC.

Upon approval by the Boards of the Association, the AMEX and the NYSE at their March meetings, the NSCC will be incorporated and apply to the Securities and Exchange Commission (SEC) for registration as a clearing agency. Upon approval by the SEC, NCC will transfer all its assets and clearing business and ASECC and SCC will transfer certain assets plus their clearing business to NSCC. Then, during an interim period (Phase I), NSCC will operate three separate divisions, utilizing the existing rules of NCC, ASECC and SCC and serviced by two processors as at present, Bradford Computer and Systems, Inc. (Bradford) and SIAC. During this period also NSCC will prepare rules, develop a conversion plan and design the system which meets the requirements established by the clearing participant representatives referenced above.

Upon approval of these rules and the conversion plan by the SEC, NSCC will begin conversion of OTC business from the present NCC system to the new single system operated by SIAC under a new service agreement (Phase II). Ninety (90) days before completion of the conversion, NSCC will give Bradford notice of intention to cancel the NCC operating contract. Following completion of the conversion, NSCC will operate with a single clearing fund and operating system and uniform rules for all participants.

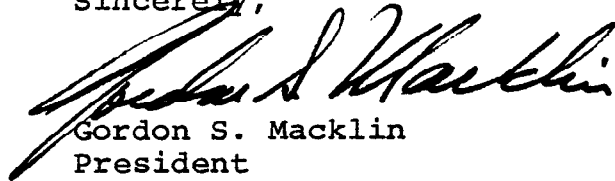
In order to obtain the views of all present and possible future participants, the Board of NCC has requested that the enclosed draft rules, providing for operation of NCC as a division of the NSCC during Phase I, be forwarded to the Association membership for comment.

Please address your comments to:

Robert J. Woldow
Corporate Secretary
National Clearing Corporation
1735 K Street, N.W.
Washington, D.C. 20006

Comments should be received no later than April 19, 1976 in order to receive consideration.

Sincerely,



Gordon S. Macklin
President

EXPLANATION OF PROPOSED RULES CHANGES

The changes to the By-Laws, Addendum to the By-Laws, Operating, Interim and National Envelope Settlement System rules have been proposed to facilitate operation of NCC's existing services as a separate division of the National Securities Clearing Corporation, a registered clearing agency to be established to combine all present services provided by NCC and the clearing facilities of the New York exchanges.

The majority of the proposed changes are purely ministerial: the concept of "clearing corporation" as it is referred to in the by-laws and rules would refer to the National Securities Clearing Corporation in place of NCC; the phrase "NCC Division" would denote specific instances, however, where the identity of NCC and/or its services must be maintained. Definitions would be added so that references within the by-laws and rules to, among other things, clearing funds, insurance funds and specific systems would be identifiable as related only to the NCC Division. Additionally, the other divisions of the new clearing entity would also be defined. Finally, in order that the National Securities Clearing Corporation may continue to operate the present Continuous Net Settlement and Daily Balance Order systems as well as the Envelope Settlement system, Articles IX through XII of the NCC By-Laws would become an Addendum to the NCC Division Operating Rules and Articles

6 through 9 of the Addendum to the By-Laws would become an Addendum to the Interim Operating Rules.

The substance of the following by-laws and rules have been changed as indicated below:

BY-LAWS

Article XII (Rules) Section 12.2, would reflect the intent of the Securities Acts Amendments of 1975 that the Securities and Exchange Commission now "approve" (instead of "non-disapprove") rules which are submitted to it.

OPERATING RULES

Rule 5 (Clearing Fund) Section (s), would clearly note that the Clearing Fund, Insurance Fund, Free Position Clearing Fund or Free Position Insurance Fund may not be used to satisfy liabilities to the Clearing Corporation incurred by operation of the SCC and/or ASECC Divisions.

Rule 22 (Lien on Securities) has been added in order that the intent of the By-Laws providing for such liens be reflected in the Operating Rules, thereby further protecting the clearing corporation, its membership and the investing public from losses caused by defaulting members.

INTERIM RULES

Rule 101 (Definitions and Descriptions) Section 101.01, would be amended in order that the term "Clearing Member", as defined therein, include any broker or dealer registered

with the Securities and Exchange Commission, instead of members of the Association only. This would be in compliance with the Securities Acts Amendments of 1975 which prohibit self-regulatory organizations from limiting or conditioning the participation of any of its members in any registered clearing agency. Additionally, a definition of a "qualified person" would be added for purposes of the Addendum to the By-Laws (Operating Rules) as discussed below, to mean any Clearing Member, Bank Member, Special Member or other person who has qualified to participate in the Envelope Settlement and/or Daily Balance Order System.

ADDENDUM TO THE BY-LAWS

Article 6 (Members) Section 6.01, would allow the new entity to act for "qualified" persons, as such are defined by Rule 101 of the Interim Rules, instead of members of the Association only, thereby affecting compliance with the Securities Acts Amendments of 1975 as discussed above.

It is proposed that the Operating Rules be amended as indicated hereinbelow.

NCC DIVISION
OPERATING RULES

AMENDMENTS TO RULE 1

(Definitions and Descriptions)

It is proposed that the following definitions be amended or added as follows:

"Clearing Corporation", or "Corporation"

The terms "Clearing Corporation" or "Corporation" means ~~National Clearing Corporation~~ the corporation named National Securities Clearing Corporation, an independent and separately capitalized subsidiary of NASD organized which is incorporated in the State of New York for the purpose of clearing and settling securities transactions.

"Clearing and Settling"

The term "Clearing and Settling" means a procedure for comparing and matching reports of securities transactions, debiting and crediting accounts of parties thereto and exchanging securities and payments to balance their accounts. Whenever such term is used in these Rules, the method of Clearing and Settling referred to is the method described under the terms "Trade Reporting and Comparison" and "Continuous Net Settlement" below, and not any other method which may be provided for in the rules of other organizations or Divisions of the Corporation.

"Clearing Bank"

The term "Clearing Bank" means a bank or trust company which is a member of the Federal Deposit Insurance Corporation and which has qualified, pursuant to Rule 3 of

these Rules, to clear and settle its securities transactions through the facilities of the NCC Division of the Clearing Corporation, with all the rights, duties and obligations of a Clearing Member. Whenever a provision of these Rules applies, by its terms, to a Clearing Member or refers to a "Clearing Member," it shall also apply to, and be deemed to refer to, a Clearing Bank. A Clearing Bank may also be an Associated Bank.

"Clearing Center"

The term "Clearing Center" means a facility of the NCC Division providing Trade Reporting and Comparison as well as Continuous Net Settlement services (hereinafter defined) for securities transactions effected between Clearing Members (hereinafter defined). There may also be regional facilities for receiving and transmitting reports of securities transactions and receiving and delivering securities and payments from and to Clearing Members within a prescribed region and transmitting data to a Clearing Center for comparison, clearance and settlement.

"Clearing Fund"

The term "Clearing Fund" means the fund established by the Clearing Corporation for the NCC Division to which, pursuant to Rule 5 of these Rules, Clearing Members are required to pay cash and/or securities to be used for payment of Clearing Members' liabilities and obligations to the Clearing Corporation arising out of services provided by the NCC Division and to be used for payment of liabilities

of the Clearing Corporation.

"Clearing Member"

The term "Clearing Member" means any person, firm or corporation who has qualified pursuant to Rule 3 of these Rules to clear and settle securities transactions through the facilities of the NCC Division of the Clearing Corporation.

"Clearing Member Participant"

The term "Clearing Member Participant" means any Clearing Member of the NCC Division of the Clearing Corporation who has been qualified to utilize the services of a Securities Depository with which the Clearing Corporation has established a system for the movement of securities positions by bookkeeping entries in accordance with the rules of said Securities Depository and who has elected to utilize free position movements.

"Cleared Security"

The term "Cleared Security" means any security which has been declared by the Clearing Corporation to be qualified for clearance through the facilities of the NCC Division of the Clearing Corporation pursuant to Rule 4 of these Rules.

"Continuous Net Settlement"

The term "Continuous Net Settlement" means that method of accounting provided for in Rule 7 for, clearing

and settling securities transactions by which a Clearing Member's open net valued and Free Positions and net money balance resulting from the clearing and settling of its securities transactions are brought forward daily, on a perpetual basis, and in which the daily transactions, bookkeeping entries, receipts and deliveries of funds and securities, except for special transactions provided for in Rule 12 of these Rules, are merged, netted and carried forward for security positions leaving in the Clearing Member's accounts within the system all transactions which have failed to delivery or in receipt until settlement activity occurs through the delivery to a Clearing Center of securities and corresponding money settlements or through off-setting transactions, and all securities which the Clearing Member desires the system to retain in the Free Position. Except for special transactions provided for in Rule 12 of these Rules, the Clearing Member carries one net valued position and one Free Position for each security and one net money position for each daily settlement, with such positions updated by trades settling and by receipts and deliveries. Securities delivered by Clearing Members owing them to a Clearing Center are allocated on a formula basis to Clearing Members due such securities. When securities are delivered against positions due to a Clearing Center, the delivering Clearing Member's account is credited at a Current Market

Value. The Clearing Members to whom the securities are allocated are charged at Current Market Value at the same time.

"Current Market Price"

The term "Current Market Price" means the price for a security determined daily by the Clearing Center, for use in determining the Mark to the Market differential (Rule 8) and for such other uses as are provided in these Rules. Unless otherwise specified in an official publication of the Clearing Corporation for the NCC Division, such price shall be the mean of the prices at which transactions (excluding "As of" and "Withhold" trades) in that security were reported in trade reports for trades on the second business day prior to the day such price is used. If no trade reports are available for trades on the second business day prior to the day such price is used, then such price shall be obtained from trade reports for trades on the most current preceding business day. If such price may not be obtained from trade reports, the Clearing Corporation shall determine what price shall be used.

"Depository Participant"

The term "Depository Participant" means any member of a Securities Depository with which the Clearing Corporation has established a system for the movement

of securities positions by bookkeeping entries but which is not presently a Clearing Member of the NCC Division of the Clearing Corporation, as defined in these Rules.

"Long Valued Allocation"

The automatic bookkeeping movement of shares from a Clearing Member's Long Valued Position to its Free Position at the NCC Division of the Clearing Corporation or its account at a Securities Depository based on available shares in the Continuous Net Settlement system.

"Member to Member Journal"

An individual instruction to move shares, via bookkeeping entry, between a Clearing Member Participant's Free Position at the NCC Division of the Clearing Corporation and its account at a Securities Depository, or between two different Clearing Members' Free Positions at the NCC Division of the Clearing Corporation or between a Clearing Member's or Clearing Member Participant's Free Position at the NCC Division of the Clearing Corporation and a Clearing Member Participant's account at a Securities Depository, or between a Clearing Member's or Clearing Member Participant's Free Position at the NCC Division of the Clearing Corporation and a Depository Participant's Account at a Securities Depository.

"Non-Cleared Security"

The term "Non-Cleared Security" means any security which has not qualified for clearance through the facilities of the NCC Division of the Clearing Corporation pursuant

to Rule 4 of these Rules.

"Non-Clearing Member"

The term "Non-Clearing Member" means any broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, who has not qualified as a Clearing Member pursuant to the provisions of Rule 3 of these Rules but who has entered into an agreement with a Clearing Member, approved by the Clearing Corporation in accordance with the procedure of the NCC Division prior or subsequent to the Effective Date, pursuant to Rule 3 of these Rules to clear and settle its transactions with Clearing Members.

"Short Valued Position"

The term "Short Valued Position" means the valued position of a Clearing Member's net open commitments resulting from sales of an eligible security which exceeds the Clearing Member's net open commitments resulting from purchases of the security.

"Trade Reporting and Comparison"

The term "Trade Reporting and Comparison" means that system provided for in Rule 6 by which all trades between Clearing Members made in Cleared Securities are reported to a Clearing Center for comparison as to the terms of the transaction and for clearance, and in which all reports of trades are compared and only those trades for which reports by both Buyer and Seller are matched and are entered into the

clearing records.

"NCC Division"

The term "NCC Division" means the NCC Division of the National Securities Clearing Corporation.

"ASECC Division"

The term "ASECC Division" means the ASECC Division of the National Securities Clearing Corporation.

"SCC Division"

The term "SCC Division" means the SCC Division of the National Securities Clearing Corporation.

"Effective Date"

The term "Effective Date" means the date on which National Securities Clearing Corporation acquires the businesses of Stock Clearing Corporation, American Stock Exchange Clearing Corporation and National Clearing Corporation.

The remainder of Rule 1 would remain unchanged.

AMENDMENTS TO RULE 2

(Scope and Applicability of Rules)

It is proposed that Rule 2 be amended as follows:

Rule 2. Unless the Clearing Corporation, by written consent, shall provide otherwise, all over-the-counter transactions in Cleared Securities among Clearing Members, Non-Clearing Members, and Clearing Member Participants and security movements with Depository Participants shall be subject to the provisions of these Rules and the schedules adopted in accordance with these Rules which are a part hereof.

These Rules and any amendments thereto shall become effective when approved in the manner provided by the ~~By-Laws of the Clearing Corporation~~ Addendum to these Rules, by the Board of Directors of the Clearing Corporation and the Board of Governors of NASD and ~~not-disapproved~~ approved by the Securities and Exchange Commission. In the event that the proposed amendments to the Rules would involve a substantive change in the existing policy of the ~~Clearing Corporation,~~ NCC Division, such proposed amendments will be submitted to the membership of the NASD for comment.

Whenever these Rules provide that a particular matter is to be determined by the Clearing Corporation, such determination will be made in the first instance by an authorized officer

of the national staff of the Clearing Corporation. Authorized officers of the national staff of the Clearing Corporation shall also have the power to reverse or modify determinations made in the first instance by an authorized officer of a Clearing Center.

Whenever these Rules provide that a particular matter is to be determined by a Clearing Center, such determination will be made in the first instance by an authorized officer of the Clearing Center.

The Clearing Corporation at its discretion may operate any additional systems through the NCC Division for the comparison, clearing and/or settlement of transactions. Such additional systems shall be operated under such rules as the Board of Directors of the Clearing Corporation may adopt subject to approval by the Board of Governors of the NASD and ~~not-disapproved~~ approved by the Securities and Exchange Commission.

Any aspect of a securities transaction not provided for in or exempted under these Rules or in such rules as may be adopted by the Clearing Corporation, shall be governed by such NASD rules, regulations or codes as would apply to such transactions in the absence of these rules.

AMENDMENTS TO RULE 3

(Clearing Members, Clearing Banks and Associated Banks)

It is proposed that Rule 3, Sections (a), (b), (c), (h) and (i) be amended as follows.

Rule 3. (a) Upon application to the NCC Division and approval by the Clearing Corporation, in the manner prescribed by the Board of Directors of the Clearing Corporation, any broker-dealer may be a Clearing Member, provided only that such broker-dealer:

(i) shall be registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended;

(ii) shall not be known to be in violation of any law, regulation or rule which materially affects its ability to perform as a Clearing Member;

(iii) shall have executed and delivered the agreement between each Clearing Member and the Clearing Corporation provided for in the ~~By-Laws~~ Addendum to these Rules;

(iv) shall have complied with such financial standards as may be established from time to time by the Board of Directors and published in schedules adopted in accordance with Rule 20.

(b) Upon application to the NCC Division and approval by the Clearing Corporation, in the manner prescribed by the Board of Directors of the Clearing Corporation, any bank or

trust company which is a member of the Federal Deposit Insurance Corporation and which is subject to the regulation of Federal or State banking authorities and which is not in violation of any rule or regulation of, or law administered by, such authority, which would materially affect its ability to perform as a Clearing Bank which has executed and delivered the agreement provided for in the ~~By-Laws~~ Addendum and maintains adequate staff, on duty at the hours required, for carrying out its functions in Clearing and Settling, may be a Clearing Bank and may clear and settle through the facilities of the NCC Division of the Clearing Corporation its own securities transactions and securities transactions of those for whom it is acting as a duly constituted fiduciary. A Clearing Bank shall have all the rights, duties and obligations provided by these Rules for a Clearing Member.

(c) Except as hereinafter provided in paragraph (f) ~~the Clearing-Corporation~~ NCC Division shall act only for Clearing Members and Clearing Banks, and only Clearing Members and Clearing Banks shall be entitled to clear or settle contracts or transactions through the ~~Clearing-Corporation~~ NCC Division.

* * *

(h) Upon approval by the Clearing Corporation of the Agreement executed between them, Associated Banks may receive and deliver securities and payments on behalf of Mail Clearing Members in accordance with these Rules, and maintain accounts

of Mail Clearing Member's upon which the Clearing Corporation may draw funds to satisfy a Mail Clearing Member's money obligations or in which the Clearing Corporation may deposit funds in payment of net money balances due a Mail Clearing Member, subject to the ~~By-Laws~~ Addendum.

(i) Upon approval by the Clearing Corporation which approval shall not be granted until all financial responsibilities to the Clearing Corporation have been satisfied, a Clearing Member may withdraw from the NCC Division of the Clearing Corporation when such Clearing Member shall be a Clearing Bank and shall have signed the necessary withdrawal form or such Clearing Member has made application to become a Non-Clearing Member or a Non-Member and has qualified to become such under these Rules.

The remainder of Rule 3 would remain unchanged.

AMENDMENTS TO RULE 4

(Cleared Securities)

It is proposed that Rule 4, Sections (a) and (b) be amended as follows:

Rule 4. (a) The Clearing Corporation shall determine which securities are qualified for clearance through its NCC Division facilities, which determination shall be based upon the following standards: (1) there has been demonstrated sufficient trading interest in the security and sufficient public information is available for an informed market to exist; (ii) there is no actual knowledge on the part of the Clearing Corporation that questions have been raised as to the validity and legality of the issuance and of the continuing transfer and delivery of the security and no other legal impediment has come to the attention of the Clearing Corporation ; (iii) the market price of the security is not so volatile as to impair the operation of the Mark to the Market provided for in Rule 8 of these Rules; (iv) the availability of certificates representing the security is such that transactions in the security can be settled "regular way"; and (v) the location of the transfer agents and/or their capability for reissuance of certificates for securities is such that it would not impair efficient operation of clearing procedures and processing of transfer requests.

The Clearing Corporation may determine that a security is

qualified for clearance either in all Clearing Centers established by the Clearing Corporation or in one or more specified Clearing Centers only.

The Clearing Corporation may also determine which securities are "Eligible Securities" as defined in these Rules, for the purpose of effecting movement to or from accounts at Securities Depositories.

A Clearing Member may, by written application to a Clearing Center through which it clears its transactions, request that a security be added to the list of Cleared Securities or Eligible Securities either for that Clearing Center or for an additional number of or all the Clearing Centers established for the NCC Division by the Clearing Corporation.

(b) Unless the Clearing Corporation shall determine otherwise, in an official notice or publication for the NCC Division of the Clearing Corporation, types of securities and transactions which shall not be qualified for admission to clearance through the Continuous Net Settlement system are: rights, bonds, debentures, or other interest bearing obligations; units consisting in whole or in part of securities other than stock or warrants for stock; fractional shares; script; securities traded on a when-issued basis; securities of an issuer in receivership or liquidation; securities of an issuer in an arrangement proceeding under Chapter XI of the Bankruptcy Act; securities of an issuer adjudged bankrupt; securities traded on a cash basis; securities traded subject to the interest

equalization tax; foreign securities, except those evidenced by American Depositary Receipts or that have a Transfer Agent located in the United States or Canada; securities traded on and after Ex-stock dividend date at the "pre-dividend" price; called securities when the entire issue is not called; and securities suspended from trading by action of the Securities and Exchange Commission or other authority having power to suspend over-the-counter trading.

The remainder of Rule 4 would remain unchanged.

AMENDMENTS TO RULE 5

(Clearing Fund)

It is proposed that Rule 5, Sections (b), (d), (e), (j), (m), (n) and (s) be amended as follows.

Rule 5. (b) The amount of a Clearing Member's required balance in the Clearing Fund for each code or symbol shall be determined as follows:

(i) At the time the Clearing Member's application to become a Clearing Member is approved and accepted, it shall pay the minimum payment as determined pursuant to Paragraph (a) in cash to the Clearing Fund account;

(ii) On the tenth business day following entry of the Clearing Member's first transaction for clearance and settlement by the NCC Division, the Clearing Corporation shall calculate an amount equal to 2% of the average daily closing Long Valued Positions plus 2% of the average daily closing Short Valued Positions as shown on its report for the preceding five business days valued at the Current Market Price; the Clearing Corporation shall notify the Clearing Member of the amount by which such calculated amount exceeds the Clearing Member's minimum payment and the Clearing Member shall pay such difference within two business days of receiving notice thereof;

(iii) Thereafter, at the end of each month, the Clearing Fund balance of each Clearing Member shall be approximately equal to 2% of the average daily closing Long Valued Positions

plus 2% of the average daily closing Short Valued Positions as shown on its report, valued at the Current Market Price. The difference between each Clearing Member's balance in the Clearing Fund and such percentage amount shall be calculated each month and the Clearing Corporation shall notify each Clearing Member each month of the amount of such difference. Within two business days of receiving such notice, the Clearing Member shall pay such amount to the Clearing Fund;

(iv) Throughout each month the Clearing Corporation shall also calculate daily such percentage amount. However, no additional payment by a Clearing Member to the Clearing Fund shall be required between the monthly calculations unless the daily calculated amount exceeds by 25% the Clearing Member's balance at the end of the previous month.

(v) If the Clearing Member's balance at the end of the previous month exceeds by 15% the amount calculated for its required balance at the end of the current month, such excess shall upon request be refunded to the Clearing Member. If the above amount does not exceed 15%, no refund shall be given.

* * *

(d) The balance in the Clearing Fund account of each Clearing Member shall be in the form of cash to a minimum of \$10,000 or such greater amount as may be determined by the Board of Directors. And, all cash balances of all Clearing Members at

the discretion of the Board of Directors of the Clearing Corporation or an officer of the Clearing Corporation designated by said Board of Directors may from time to time be partially or wholly invested by the Clearing Corporation for its NCC Division account in securities issued or guaranteed by the United States and/or deposited in a special account or accounts in its name in a depository or depositories having membership in the Federal Deposit Insurance Corporation. Any securities in which this portion of the Clearing Fund is invested shall be the property of the Clearing Corporation and may be used by it to be pledged to secure obligations payable from the Clearing Fund or loans obtained to pay such obligations. Any interest paid by the depositories, and/or interest paid or profit realized on the securities in which the cash portion of the Clearing Fund or any part thereof may be invested, shall belong to the Clearing Corporation and no interest shall be paid or credited to the accounts of the Clearing Members on the amounts so paid by them to the Clearing Fund. The Clearing Corporation may permit any part of each Clearing Member's balance in the Clearing Fund in excess of \$10,000 or such greater amount as may be determined by the Board of Directors to be evidenced by an open account indebtedness secured by unmatured bearer bonds which are direct obligations of, or obligations guaranteed as to principal and interest by the full faith and credit of the United States, or,

at the discretion of the Clearing Corporation, certain unmatured bearer bonds which are direct obligations of or obligations guaranteed as to principal and interest by a State or political subdivision of a State, having a market value not less than the amount of such open account indebtedness. Such bonds shall be pledged to the Clearing Corporation on such terms and conditions as may reasonably be prescribed by the Clearing Corporation to assure the availability of the bonds to meet obligations payable from the Clearing Fund including, but not limited to, provisions permitting the Clearing Corporation to pledge, loan or sell such bonds to secure obligations payable from the Clearing Fund. The bonds pledged by a Clearing Member to secure its open account indebtedness may be held by the Clearing Corporation or for its account by an Associated Bank. The interest on said bonds shall be paid to the Clearing Member so pledging. The Clearing Corporation may, upon reasonable notice to a Clearing Member, require that a part or all of his balance in the Clearing Fund then evidenced by bonds be paid in cash.

(e) The Clearing Fund shall be used only to the extent required to satisfy liabilities as follows:

(i) If any Clearing Member shall fail to discharge duly any liability to the Clearing Corporation resulting from NCC Division activities, the Clearing Corporation may apply the balance in that Clearing Member's account, or so much thereof as is necessary, toward the discharge of

such liability and such Clearing Member shall upon demand pay the deficiency in its required balance resulting from such application.

(ii) If a Clearing Member's liability to the Clearing Corporation exceeds its balance in the Clearing Fund of that Account and such liability arose by reason of that Clearing Member's default, or in connection with Clearing and Settling or carrying out of any contract or transaction for that Clearing Member or any other liabilities to the Clearing Corporation (including any loss by reason of the insolvency of any depository, or larceny or embezzlement of any funds or securities in the depository) such excess liability shall be satisfied from the Clearing Fund pro rata from those balances of other Clearing Members in the Clearing Fund at the time of the transaction or transactions from which the liability arose. The amount of any balances of other Clearing Members so applied may, in the discretion of the Board of Directors of the Clearing Corporation, be reimbursed to the Clearing Fund from the retained earnings of the Clearing Corporation to the extent available, provided that such reimbursement does not impair the continuing operation of the NCC Division of the Clearing Corporation.

(iii) Insofar as a liability arising, by reason of the default of a Clearing Member in any contract or transaction with another Clearing Member or other Clearing Members

under these Rules is satisfied by such other Clearing Member or Clearing Members, it shall not be deemed a liability to the Clearing Corporation within the meaning of this Section.

(iv) Those liabilities which directly arise from the Clearing and Settling of transactions for Clearing Members by reason of action taken, or failure to act, by the NCC Division of the Clearing Corporation may, in the discretion of the Board of Directors of the Clearing Corporation and to the extent necessary, be satisfied from the Clearing Fund. Amounts paid out of the Clearing Fund for liabilities of the Clearing Corporation shall be reimbursed to the Clearing Fund out of the retained earnings, if any, of the Clearing Corporation provided, however, that such reimbursement does not impair the continued operation of the NCC Division of the Clearing Corporation, and if such retained earnings are insufficient to reimburse the Clearing Fund, then, as promptly as the Board of Directors of the Clearing Corporation may deem advisable, out of the Clearing Corporation's operating revenues.

* * *

(j) Each Clearing Member and each Clearing Member Participant, as defined in these Rules, shall make a payment to the Clearing Corporation which shall be credited by the Clearing Corporation to a separate account for the NCC Division designated as the Free Position Clearing Fund. A Clearing Member or a Clearing Member Participant may not withdraw, in whole or in

part, the balance in its Free Position Clearing Fund account without prior approval of the Clearing Corporation in conformity with these Rules. The Clearing Corporation may require that such initial payment be in a greater amount than the required balance and may vary the required balance from time to time based upon the formula set forth below in Paragraph (k) of this Rule 5.

* * *

(m) The Balance in the Free Position Clearing Fund account of each Clearing Member or Clearing Member Participant shall be in the form of cash to such amount as may be determined by the Board of Directors. And all cash balances of all Clearing Members and Clearing Member Participants, at the discretion of the Board of Directors of the Clearing Corporation or an officer of the Clearing Corporation designated by said Board of Directors, may from time to time be partially or wholly invested by the Clearing Corporation for its NCC Division account in securities issued or guaranteed by the United States and/or deposited in a special account or accounts in its name in a depository or depositories having membership in the Federal Deposit Insurance Corporation. Any securities in which this portion of the Free Position Clearing Fund is invested shall be the property of the Clearing Corporation and may be used by it to be pledged to secure obligations payable from the Free Position Clearing Fund or loans obtained to pay such obligations. Any interest paid by the depositories, and/or interest paid or profit realized on the the securiites in which the cash portion of the Free

Position Clearing Fund or any part thereof may be invested, shall belong to the Clearing Corporation and no interest shall be paid or credited to the accounts of the Clearing Members or Clearing Member Participants on the amounts so paid by them to the Free Position Clearing Fund. The Clearing Corporation may permit any part of each Clearing Member or Clearing Member Participant's balance in the Free Position Clearing Fund, as may be determined by the Board of Directors, to be evidenced by an open account indebtedness secured by unmatured bearer bonds which are direct obligations of, or obligations guaranteed as to principal and interest by the full faith and credit of the United States, or, at the discretion of the Clearing Corporation, certain unmatured bearer bonds which are direct obligations of or obligations guaranteed, as to principal and interest by a State or political subdivision of a State, having a market value not less than the amount of such open account indebtedness. Such bonds shall be pledged to the Clearing Corporation on such terms and conditions as may reasonably be prescribed by the Clearing Corporation to assure the availability of the bonds to meet obligations payable from the Free Position Clearing Fund including, but not limited to, provisions permitting the Clearing Corporation to pledge, loan or sell such bonds to secure obligations payable from the Free Position Clearing Fund. The bonds pledged by a Clearing Member or a Clearing Member Participant to secure its open account indebtedness may be held by the Clearing Corporation or for its account

by an Associated Bank. The interest on said bonds shall be paid to the Clearing Member or Clearing Member Participant so pledging. The Clearing Corporation may, upon reasonable notice to a Clearing Member or a Clearing Member Participant, require that a part or all of its balance in the Free Position Clearing Fund then evidenced by bonds be paid in cash.

(n) The Free Position Clearing Fund shall be used only to the extent required to satisfy liabilities as follows:

(i) If any Clearing Member or Clearing Member Participant shall fail to discharge duly any liability to the Corporation resulting from member to member free position movements, the Clearing Corporation may apply the balance in that Clearing Member's or Clearing Member Participant's Free Position Clearing Fund account, or so much thereof as is necessary, toward the discharge of such liability and such Clearing Member or Clearing Member Participant shall upon demand pay the deficiency in its required balance resulting from such application.

(ii) If a Clearing Member or Clearing Member Participant's liability to the Corporation exceeds its balance in the Free Position Clearing Fund and such liability arose by reason of that Clearing Member's or Clearing Member Participant's default, or in connection with the completion of instructions received from the Clearing Member or Clearing Member Participant by the Clearing Corporation, such excess liability shall be satisfied first, from the defaulting

member's portion of any other clearing fund deposit with the Clearing Corporation not required to cover losses in that type of settlement activity; second, from the Free Position Insurance Fund; third, from the earned surplus of the Clearing Corporation to the extent available, provided that such reimbursement, in the determination of the Board of Directors, will not impair the continuing operation of the NCC Division of the Clearing Corporation; and fourth, pro rata from all other Clearing Members and Clearing Member Participants in the Free Position Clearing Fund at the time of the transaction or transactions in which the liability arose based upon a 40 settlement day moving average of credits.

(iii) Those liabilities which directly arise from the completion of transactions in accordance with free position movement instructions from Clearing Members or Clearing Member Participants by reason of action taken, or failure to act by the Clearing Corporation, may in the discretion of the Board of Directors of the Clearing Corporation and to the extent necessary, be satisfied from the Free Position Clearing Fund. Amounts paid out of the Free Position Clearing Fund for liabilities of the Clearing Corporation shall be reimbursed to the Free Position Clearing Fund out of the retained earnings, if any, of the Clearing Corporation provided, however, that

such reimbursement does not impair the continued operation of the NCC Division of the Clearing Corporation, and if such retained earnings are insufficient to reimburse the Free Position Clearing Fund, then as promptly as the Board of Directors of the Clearing Corporation may deem it advisable out of the Clearing Corporation's operating revenues.

* * *

(s) The Clearing Fund, the Insurance Fund, the Free Position Clearing Fund and the Free Position Insurance Fund shall not be used for any liabilities or losses incurred by the Clearing Corporation for trades cleared as Block trades, as provided in Rule 12 nor shall the Clearing Fund, Insurance Fund, Free Position Clearing Fund or Free Position Insurance Fund be used to satisfy liabilities incurred by the operations of the SCC and/or ASECC Divisions. Additionally, the Clearing Fund and the Insurance Fund shall not be used to satisfy liabilities created by transactions involving free position movements, nor shall the Free Position Clearing Fund or the Free Position Insurance Fund be used to satisfy liabilities arising from the clearance and settlement of securities transactions through the Continuous Net Settlement system.

The remainder of Rule 5 would remain unchanged.

AMENDMENTS TO RULE 6

(Trade Reporting and Comparison)

It is proposed that Rule 6, Sections (e), (g) and (j) be amended as follows.

Rule 6. (e) The Clearing Center will make available to the Clearing Member daily reports summarizing transactions for each security on such forms as may be determined by the Clearing Corporation from time to time, containing substantially the following information:

(i) A report reflecting all trades reported, including compared items, uncomparing items and advisories (which are trades submitted against a Clearing Member for which it did not submit matching data),

(ii) a report reflecting compared trades, summarized by security, which shall be allowed to proceed further in the clearing process, and

(iii) a report reflecting movements of Cleared Securities, including Eligible Securities, to or from a Clearing Member's Free Position.

Each Clearing Member shall promptly check each report received and report any errors or omissions to the other Clearing Member concerned and to the Clearing Center as soon as possible but in any event prior to the time prescribed by the Clearing Center in schedules published in accordance with Rule 20. Uncomparing trades and advisories shall be held in a pending file and

matched, if possible, on re-entry of corrected information supplied by the Clearing Member. A Clearing Member may delete an uncomparing trade shown on its report by submitting a trade delete on or before the third business day following Trade Date. In the event that a Clearing Member submits a trade delete such delete shall take precedence over an advisory re-entered in acceptance of the same trade and said trade shall be excluded from clearance through the system. Trades which remain uncomparing and uncorrected after the third business day following the Trade Date, shall be removed from the pending file and must be re-entered as "As of" trades in accordance with paragraph (f) of this Rule 6 or with prior approval of the Clearing Center confirmed and cleared outside the NCC Division facilities of the Clearing Corporation and in accordance with the applicable rules of NASD. Reporting of corrections shall consist of deletions and additions to reports submitted, in the manner required by the Clearing Center. It shall be the sole responsibility of the Clearing Member to check the accuracy of all reports promptly upon receipt and neither the Clearing Center nor the Clearing Corporation shall assume any responsibility for checking their accuracy or making corrections not reported by a Clearing Member in accordance with these Rules.

* * *

(g) Clearing Members shall be permitted to delete previously compared transactions from clearance and settlement if both the Clearing Member Buyer and the Clearing Member Seller submit "Withhold" trade reports. "Withhold" trades will

settle two business days after they are reported.

* * *

(j) Unless the Clearing Corporation shall determine otherwise, Transaction Reports submitted by a Clearing Member for a security not included in the list of Clearing Securities provided for in Rule 4 shall not be processed by the NCC Division of the Clearing Corporation until such security has been admitted to clearance.

The remainder of Rule 6 would remain unchanged.

AMENDMENTS TO RULE 7

(Continuous Net Settlement Service)

It is proposed that Rule 7, Sections (a), (d) and (h) be amended as follows.

Rule 7. (a) The Continuous Net Settlement system provides for each Clearing Member various accounting positions for each security. These positions include a valued position (either long or short) and a Free Position (always long) The positions are either increased or decreased by settling trades, physical deliveries of securities to the Clearing Corporation, physical withdrawal of securities from the Clearing Corporation and bookkeeping entry movements within the Continuous Net Settlement system.

(i) Settling Trades

Under Continuous Net Settlement a Clearing Member's valued positions in a security shall not be affected by any contract for the purchase or sale of such security until the Settlement Date for such contract. A Clearing Member's valued positions in a security shall be affected each business day by such Clearing Member's settling trades of the security as follows: Net settling purchases in a security shall create or increase a Long Valued Position and/or decrease a Short Valued Position and net settling sales in a security shall create or increase a Short Valued Position and/or decrease a Long Valued

Position.

(ii) Physical Deliveries to the Clearing Corporation

Delivery of a security to the Clearing Corporation by a Clearing Member having a Short Valued Position in the security shall be credited to such Short Valued Position. In the event a Clearing Member delivers a security to the Clearing Corporation in an amount which exceeds the Clearing Member's Short Valued Position in that security, such delivery may create or increase the Clearing Member's Free Position in such security as provided in Rule 16 of these Rules.

(iii) Physical Withdrawal of Securities from the Clearing Corporation

Securities may be withdrawn from the Continuous Net Settlement system by Transfer Request (see Rule 11), or by Street Stock Order Out Request. The Street Stock Order Out Request may be an individual instruction which the Clearing Member presents to the Clearing Corporation when he desires a specific withdrawal, or it can be a standing instruction. If the Clearing Member chooses a specific withdrawal, the Clearing Corporation will attempt to fill the specific withdrawal requests from the Clearing Member's Free Position first; if the Free Position is not sufficient, a combination of his Free and Long Valued Positions will then be utilized. If the Clearing Member Chooses the standing instruction, all securities in his

Free Position at the end of the daily allocation process will be automatically ordered out of his Free Position and delivered to the Clearing Member. In the event that the needed certificate denominations are not available to fill the automatic order out, the Clearing Corporation will, if possible, partially fill the automatic order out in multiples of 100 shares. Any share balances which cannot be withdrawn by automatic order out due to unallocable denominations will remain in the Free Position. Odd lot share balances will be filled partially.

(iv) Movement by Bookkeeping Entries

Movement of securities will occur within the Continuous Net Settlement system by several bookkeeping entries. Such entries include:

(1) Long Valued Position to Free Position-
When the Clearing Member has a Long Valued Position the Continuous Net Settlement system will attempt to allocate shares received to that Long Valued Position. If successful the shares are then moved automatically from the Clearing Member's Valued Position to its Free Position.

(2) From the Free Position the Clearing Member may do one of the following:

(A) Automatic Withdrawal - A Clearing Member may elect in such manner as may be prescribed by the Clearing Corporation to have its total Free Position balance in any security at the Clearing Corporation automatically delivered out to it.

(B) Manual Withdrawal - A Clearing Member may elect via individual manual instruction in such manner as may be prescribed by the Clearing Corporation to have all or part of its total Free Position balance in any security at the Clearing Corporation delivered out to it.

(C) Automatic Movement to a Clearing Member Participant's Account at a Securities Depository - A Clearing Member Participant may elect in such manner as may be prescribed by the Clearing Corporation to have its total Free Position balance in any Eligible Security at the Clearing Corporation automatically moved to its account at a Securities Depository.

(D) Manual Movement to a Clearing Member Participant's Account at a Securities Depository - A Clearing Member Participant may elect via individual manual instruction in such manner as may be prescribed by the Clearing Corporation to have all or part of its total Free Position balance in any Eligible Security at the Clearing Corporation moved to its account at a Securities Depository.

(3) Free Position to Short Valued Position- When the Clearing Member has a Short Valued Position in the Continuous Net Settlement system he may satisfy such Short Valued Position by the following bookkeeping entries:

(A) Automatic Coverage of Short Valued Position from Free Position at the Clearing Corporation - A Clearing Member may elect in such manner as may be prescribed

by the Clearing Corporation to have any security in its Free Position at the Clearing Corporation automatically moved to satisfy its Short Valued Position obligations in that security.

(B) Manual Coverage of Short Valued Position from Free Position at the Clearing Corporation-A Clearing Member may elect via individual manual instruction in such manner as may be prescribed by the Clearing Corporation to have any security in its Free Position at the Clearing Corporation moved to satisfy Short Valued Position obligations in that security.

(C) Automatic Coverage of Short Valued Position from a Clearing Member Participant's Account at a Securities Depository - A Clearing Member Participant may elect in such manner as prescribed by the Clearing Corporation to have an Eligible Security in its account at a Securities Depository automatically moved from such account to the Clearing Corporation to satisfy Short Valued Position obligations in that security.

(D) Manual Coverage of Short Valued Positions from a Clearing Member Participant's Account at a Securities Depository- A Clearing Member Participant may elect via an individual manual instruction in such manner as may be prescribed by the Clearing Corporation to have any Eligible Security in its account at a Securities Depository moved from such account to the Clearing Corporation to satisfy Short Valued Position obligations in that security.

(E) Movement to another Clearing Member's Free Position at the Clearing Corporation - A Clearing Member may instruct the Clearing Corporation, in such manner as may be prescribed by the Clearing Corporation to have any security in its Free Position at the Clearing Corporation transferred to the Free Position of another Clearing Member at the Clearing Corporation either with or without an assigned dollar value.

(v) Movement Among Clearing Members, Clearing Member Participants and Depository Participants

The Clearing Corporation may maintain an account for the NCC Division at one or more Securities Depositories for the safekeeping of and to facilitate the transfer and movement of Eligible Securities. Such transfers or movements in addition to those described in paragraph (a)(iv) above may include the following:

(1) A Clearing Member or a Clearing Member Participant may instruct the Clearing Corporation, in the manner prescribed by the Clearing Corporation, to transfer Eligible Securities from its Free Position at the Clearing Corporation to the account at a Securities Depository of either a Clearing Member Participant or a Depository Participant with or without an assigned dollar value.

(2) A Clearing Member Participant or a Depository Participant may instruct a Securities Depository in which it has an account, in the manner prescribed by such Securities Depository, to transfer Eligible Securities from its

account at the Securities Depository to the Free Position at the Clearing Corporation of either a Clearing Member Participant or Clearing Member with or without an assigned dollar value.

* * *

(d) Clearing Members shall settle with the Clearing Center each business day:

(i) by delivery to or receipt from the Clearing Center checks covering any net money balance due or owed for NCC Division services, as reported to the Clearing Member. All payments of net money balances by Clearing Members to the Clearing Corporation for NCC Division services shall be made by check drawn on a bank with an office in close proximity to the Clearing Center, and payments in amounts of five thousand dollars (\$5,000) or more shall be made by certified or official bank check.

(ii) by bookkeeping entry to or from the Clearing Member's Free Position, or by delivery to or receipt from the Clearing Center of certificates in a form constituting good delivery (as provided in Rule 16) of net securities balances due. Certificates, or instructions for bookkeeping entry movements, representing securities in settlement of securities balances due shall be delivered to the Clearing Center on each Settlement Day prior to the time specified in schedules published in accordance with Rule 20, and may be delivered one day prior to the Settlement Day if so provided for in schedules published in accordance with Rule 20.

* * *

(h) If at the end of the settlement process, the Clearing Corporation has funds in its bank accounts established for the NCC Division representing checks outstanding and in the process of collection, such funds shall only be used by the Clearing Corporation to make payments for securities delivered to the NCC Division of the Clearing Corporation in settlement of short valued positions except to the extent that such funds may be invested by the Clearing Corporation in securities which are direct obligations of, or obligations guaranteed as to principal and interest by the United States or a state or political subdivision of a state or repurchase agreements thereof, on a short-term basis. The interest realized from such investment may be used by the Clearing Corporation for such purposes which, in its discretion, it deems appropriate.

The remainder of Rule 7 would remain unchanged.

AMENDMENTS TO RULE 8

(Mark to the Market)

It is proposed the Rule 8 Section (a) be amended as follows:

Rule 8. (a) On and after Settlement Date each open valued position (long or short) of each Clearing Member shall be marked to the Current Market Price of the security involved and the difference in value between the Current Market Price and the net contract price or the previous day's amount created by marking each position to the market shall be paid to or received from the Clearing Corporation which shall calculate one net money balance representing the net difference for all open valued positions for the NCC Division services marked to the market. Such balance shall be included in that day's money settlement with the Clearing Center.

The remainder of Rule 8 would remain unchanged.

AMENDMENTS TO RULE 9

(Close-Out Procedure: Buying-In)

It is proposed that Rule 9 Section (a) be amended as follows:

Rule 9. (a) In the event that a Clearing Member due a security from the Clearing Center, because of a Long Valued Position, has not received said security on Settlement Date, said Clearing Member may demand immediate delivery on the first full business day following the date that delivery was due (the Settlement Date) by filing with the Clearing Center a written notice of intention to "Buy-In" in the form approved by the Clearing Corporation. "Buy-Ins" being submitted by members of the NCC Division of the Clearing Corporation will be regulated by the schedules contained in official publications of the Clearing Corporation issued pursuant to Rule 20 of these Rules.

The remainder of Rule 9 remains unchanged.

AMENDMENTS TO RULE 10

(Dividends, Stock Splits and Other Distributions)

It is proposed that Rule 10, Section (d)(vi) be amended as follows.

Rule 10. (d) (Stock Dividends, Splits and Distributions.)

(vi) When a dividend in securities not qualified for clearance is declared on a security which is qualified for clearance, the Clearing Corporation shall only clear and settle in the NCC Division the resulting positions in the non-qualified security and shall not accept trade reports for said security.

The remainder of Rule 10 would remain unchanged.

AMENDMENTS TO RULE 12

(Special Transactions)

It is proposed that Rule 12, Section (c) be amended as follows:

Rule 12. (c) Securities Subject to Mandatory Exchanges and Mergers. When a Cleared Security is subject to a mandatory exchange or merger and the issuer of such security is not the surviving company, the Clearing Corporation will cease to clear and settle such security through the NCC Division on the Effective Date of the exchange or merger. No further reports of transactions in said security shall be processed by any Clearing Center five business days prior to the Effective Date. Outstanding positions of Clearing Members shall be adjusted to show the appropriate number of shares of the surviving company on the Effective Date of the exchange or merger.

The remainder of Rule 12 would remain unchanged.

AMENDMENTS TO RULE 13

(Suspension of Cleared Securities Including Eligible Securities; Suspension of a Clearing Member)

It is proposed that Rule 13, Section (b) be amended as follows:

Rule 13. (b) Suspension of a Clearing Member.

(i) Any Clearing Member subject to an order of the Securities and Exchange Commission prohibiting it from engaging in, or limiting its activities in, the securities industry or like order of any other authority having power to suspend or limit the activities of such Clearing Member, may be permitted to continue clearance through the facilities of the NCC Division of the Clearing Corporation under such terms and conditions as the Clearing Corporation may determine in conformity with said order provided that:

(A) such Clearing Member is not financially impaired as defined in Rule 14 of these Rules;

(B) such Clearing Member's broker-dealer registration under the Securities Exchange Act of 1934 has not been revoked; and

(C) such Clearing Member has not otherwise ceased to qualify as a Clearing Member as provided in Rule 3 of these Rules.

(ii) A Clearing Member shall be suspended by the Clearing Corporation and no reports of transactions shall be received from a Clearing Member if such Clearing Member's registration as a broker-dealer under the Securities Exchange Act of 1934 is revoked.

(iii) A Clearing Member may be suspended by the Clearing Corporation and no reports of transactions shall be received from a Clearing Member if:

(A) it has otherwise ceased to qualify as a Clearing Member as provided in Rule 3 of these Rules;

(B) it is in violation of the Rules, ~~By-Laws~~ Addendum or Agreements of the Clearing Corporation.

(iv) In each case of suspension, the Clearing Corporation shall make arrangements for the timely and orderly settlement of open valued positions of such suspended Clearing Member. If, in the opinion of the Clearing Corporation, such suspended Clearing Member subsequently becomes financially impaired, the provisions of Rule 14 shall apply. The Clearing Corporation shall notify all Clearing Members on a timely basis of suspensions under this Rule. A Clearing Member shall promptly notify the Clearing Corporation by telegram or other comparable media of the occurrence or threatened occurrence of any event which may make it subject to the provisions of this section.

(v) The Clearing Corporation may continue to clear and settle transactions through the NCC Division for a Clearing

Member which is no longer a Clearing Member Participant; however, such Clearing Member may not submit instructions for delivery (receipt) of securities to(from) his account at a Securities Depository in which he is no longer eligible to participate.

(vi) The Clearing Corporation shall not transfer Eligible Securities to (from) the account of a suspended Clearing Member or Clearing Member Participant.

The remainder of Rule 13 remains unchanged.

AMENDMENTS TO RULE 17

(Charges to Clearing Members by the Clearing Corporation
for NCC Services to Clearing Members)

It is proposed that Rule 17, Section (c) and said Rule's Title be amended as indicated herein.

Rule 17. (c) In order to ensure the continuation of services to Clearing Members, the Board of Directors may declare an emergency rate increase of 15% or less, subject to ~~non-~~ approval by the Securities and Exchange Commission. The Board would make such declaration after a determination that current revenues and/or retained earnings are insufficient to cover operating costs and such reserves as appear prudent to meet existing or contingent liabilities. Such emergency rate increase may not continue in effect for more than six calendar months.

The remainder of Rule 17 would remain unchanged.

AMENDMENTS TO RULE 18

(Grievance Procedure)

It is proposed that Rule 18, Section (a) be amended as follows.

Rule 18.(a) Members and other persons aggrieved by the action of the Clearing Corporation for the NCC Division in:

(i) denying the application of any person, firm, organization, bank or trust company to become a Clearing Member or Clearing Bank; or

(ii) suspending or excluding a Clearing Member or Clearing Bank from the system; or

(iii) denying an application to have securities added to the lists of Cleared Securities or Eligible Securities, or deleting a security from the list of Cleared Securities or Eligible Securities; or

(iv) assessing against, and requiring payment of, the amount of any additional Clearing Fund payment by a Clearing Member, which is objected to as being unreasonable and arbitrary in light of the volume and type of transactions cleared by such Clearing Member; or

(v) imposing a non-compliance charge upon any Clearing Member, the amount of which is disputed as being unfair in light of the offense;

shall upon filing a complaint with the Board of Governors of the NASD, be entitled upon request to a hearing thereon,

decision and review by the Board of Governors in accordance with procedures specified by the Board of Governors. At the same time as the filing of complaint with the Board of Governors of the NASD, the complainant shall also serve upon the Board of Directors of the Clearing Corporation notice of such appeal. Such notice shall consist of:

(i) a brief statement of the action complained of by the aggrieved party,

(ii) a brief statement of the facts preceding the decision by the Clearing Corporation, and

(iii) a brief statement why the complainant believes the action was in error.

By joint resolution made by a majority of its members, the Board of Directors of the Clearing Corporation may, subsequent to such filing of notice of appeal and before the Board of Governors has rendered its decision, reverse the action of the Clearing Corporation in whole or in part. Wherein a complainant feels aggrieved by the action of the Board of Governors of NASD in approving, reversing, or modifying the action of the Clearing Corporation in cases involving the five categories above, if the statute or rules permit appeal, the complainant may make application for review to the Securities and Exchange Commission.

The remainder of Rule 18 would remain unchanged.

AMENDMENTS TO RULE 19

(Audits, Financial Statement and
Indemnification for Employees' Acts)

It is proposed that Rule 19 be amended as follows.

Rule 19. a. Audits.

The financial books and records of the NCC Division of the Clearing Corporation shall be audited at least once annually by a firm of independent public accountants selected by the Board of Directors. The audit shall consist of such procedures as may be deemed necessary by such accountants to enable them to certify the financial statement of the Clearing Corporation at the end of its fiscal year.

b. Financial Statements.

The Clearing Corporation shall furnish annually to each Clearing Member, Clearing Bank, and Associated Bank, audited financial statements of the Clearing Corporation.

c. Insurance Coverage

The Clearing Corporation shall maintain fidelity bond coverage for the NCC Division in an amount of not less than \$25,000,000 insuring the Clearing Corporation against any losses which it may sustain as a result of, among other things,

- (i) the dishonest or fraudulent acts of employees,
- (ii) burglary, robbery, theft, damage, mysterious disappearance or destruction of securities,
- (iii) forgery or alteration,
- (iv) loss of securities in transit, and

(v) dishonest or fraudulent acts of agents
of the Clearing Corporation.

AMENDMENTS TO RULE 20

(Schedules)

It is proposed that Rule 20, and Sections D.I. and G. a. of the Schedule Adopted in Accordance with Rule 20 be amended as follows.

Rule 20. The Clearing Corporation shall adopt and publish schedules which shall set forth, among other things, charges to Clearing Members, times and places for delivery of reports, securities and payments, which shall be denoted in the Clearing Member Manual for each Clearing Center, lists of Clearing Members, Clearing Banks, Associated Banks and Cleared Securities and the procedures for allocating securities among Clearing Members in Continuous Net Settlement. Such schedules and changes therein for the NCC Division shall be adopted and become effective only after review and approval by the Board of Directors of the Clearing Corporation, by the Board of Governors of the NASD and ~~not-disapproved~~ approved by the Securities and Exchange Commission

* * *

Schedules Adopted in Accordance with Rule 20

D. Non-Compliance Charges.

I. For failure of a Clearing Member to return properly verified and signed monthly audit copy of the report by the time prescribed in the ~~By-Laws~~ Addendum, \$25 for each calendar day overdue.

* * *

G. Financial Standards for Membership

a. Financial Standards for ~~membership in the Clearing Corporation~~ Clearing Members shall be those financial standards established by NASD for its membership as amended and supplemented.

b. Each Clearing Member other than a Clearing Bank who is not required to file a Form "Q" with NASD in accordance with the Association's Rules of Fair Practice and any amendments thereto shall furnish the Clearing Corporation with monthly financial reports. Such reports shall be in the form and embody such requirements as may be established by the Board of Directors or by a committee appointed for this purpose by the Board.

The remainder of the Schedule Adopted in Accordance with Rule 20 would remain unchanged.

RULE 22

(Lien on Securities)

It is proposed that Rule 22 be added in the following form.

Rule 22. (a) The Clearing Corporation shall have a lien, to the extent of the amount owed by such Clearing Member to the Clearing Corporation, upon cash and upon securities and other property held by the Clearing Corporation for which the Clearing Member is obligated to make payment for CNS money settlement to the Clearing Corporation until such CNS money settlement payment is made. It shall have the right to borrow money and to pledge for the repayment thereof all or any part of the securities which it so holds for the NCC Division account of a Clearing Member, either alone or together with securities which it holds for the NCC Division account of other Clearing Members, or otherwise, and whether or not the amounts for which such securities are so pledged exceeds the debt owed the NCC Division by the Clearing Member or Clearing Members.

(b) In the event a Clearing Member:

(i) becomes financially impaired as defined in Rule 14 of these rules; or

(ii) fails to pay any debt to the Clearing Corporation by the time required under these Rules on demand by the Clearing Corporation; or

(iii) fails to afford adequate security for its obligations to the Clearing Corporation; or

(iv) fails to comply with Rule 5 of these Rules;
the Clearing Corporation may, in its discretion, and without
further demand or notice to the Clearing Members, sell, in any
manner the Clearing Corporation designates, all or any part
of the securities which it holds for such Clearing Member's
NCC Division account; and the Clearing Corporation will apply
the proceeds of any such sale to the payment of the Clearing
Member's NCC Division obligations to the Clearing Corporation
and will pay any surplus over to the Clearing Member or its
legal representative.