

It is proposed that Articles IX through XII of the By-Laws be amended as indicated hereinbelow.

NCC DIVISION

ADDENDUM TO THE OPERATING RULES

AMENDMENTS TO ARTICLE IX

(Clearing Fund(s) and Insurance Fund(s))

It is proposed that Article IX, Section 9.3, be amended as follows:

Sec. 9.3 In the event that a Clearing Member disputes the amount of any increased Clearing Fund payment, it shall be required to first pay such increase and then promptly seek to resolve such dispute as provided in ~~these By-Laws~~ this Addendum and the Rules.

The remainder of Article IX would remain unchanged.

AMENDMENTS TO ARTICLE XI

(Members, Membership Agreement)

It is proposed that Article XI, Section 11.3(b), (c) and (h), and Section 11.5 be amended as follows.

Sec. 11.3

(b) abide by ~~the By-Laws~~ this Addendum and the Rules of the NCC Division of the Corporation and shall be bound by all the provisions thereof, as may be adopted from time to time, including the provision prescribing the liens which the Corporation shall have upon securities, cash, interest in transactions or any property held by the Corporation or allocated to the Clearing Member; however, no liens which the Corporation may have upon such securities interest in transactions or any property held by the Corporation shall be deemed to require a Clearing Member to violate Rule 8c-1 (Hypothecation of Customer's Securities) of the Securities and Exchange Commission;

(c) agree that the ~~By-Laws~~ Addendum and Rules shall be deemed to be a part of the terms and conditions of every contract or transaction which the ~~By-Laws~~ Addendum requires to be reported, cleared or settled through the NCC Division of the Clearing Corporation whether or not the ~~By-Laws~~ Addendum and Rules are expressly made a part of the terms and conditions of the contract or transaction;

* * *

(h) be bound by any amendment to the ~~By-Laws~~ Addendum

and Rules with respect to any transaction occurring subsequent to the time such amendment takes effect as fully as though such amendment were now a part of the ~~By-Laws~~ Addendum and Rules, subject to any right of review which may be provided for in the ~~By-Laws~~ Addendum and Rules;

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Sec.11.5. A Clearing Member may enter into an agreement with a non-Clearing Member to act for or on behalf of the non-Clearing Member, provided that such agreement is in form and substance acceptable to the Clearing Corporation. A Clearing Member who enters into such an agreement to clear, settle or otherwise utilize the facilities of the ~~National~~ Clearing Corporation in respect to any contract or transaction for a non-Clearing Member, so far as the rights of the Corporation and all other Clearing Members are concerned, shall be liable as principal.

The remainder of Article XI would remain unchanged.

AMENDMENTS TO ARTICLE XII

(Rules)

It is proposed that Article XII, Sections 12.1, 12.2, and 12.3 be amended as follows.

Sec.12.1. The Board of Directors shall adopt and may, from time to time amend, Rules of ~~National~~ the NCC Division of the Clearing Corporation in a manner consistent with the Certificate of Incorporation and ~~these By-Laws~~ this Addendum and the Rules governing the conduct of its business, the respective rights and obligations of the Corporation and its Members and such other matters which, in the opinion of the Board of Directors are necessary or convenient to carry out the purposes of the NCC Division of the Corporation.

Sec.12.2. The Rules of ~~National~~ the NCC Division of the Clearing Corporation and any amendments thereto, adopted pursuant to this Article XII, shall have the same force and effect as if they were part of ~~these By-Laws~~ this Addendum and shall be binding on all Members doing business with or through the ~~Corporation~~ NCC Division. The Rules may prescribe, but not be limited to;

(a) the classes of persons and the extent to which such persons shall clear or settle transactions or contracts ~~with~~ through the NCC Division of the Corporation and the extent to which such persons may avail themselves of such other related services as which now or in the future may be provided;

(b) the contracts or transactions which may be cleared or effected through the NCC Division of the Corporation or its facilities and such other related services which now or in the future may be provided;

(c) the respective rights and obligations of the Corporation, Members and others in connection with all business conducted by or through the NCC Division of the Corporation or its facilities;

(d) procedures for determining the rights and liabilities of Clearing Members in respect to the Clearing Fund(s) and the Insurance Fund(s);

(e) fines and other penalties for violation of the Rules;

(f) the charges to be made by the Corporation for services performed by and/or use of its NCC Division facilities;

(g) such other Rules as are not inconsistent with the Certificate of Incorporation and ~~By-Laws~~ Addendum as the Board of Directors may deem necessary or convenient to carry out the purposes of the NCC Division of the Corporation and which the Board of Governors of the National Association of Securities Dealers, Inc. has approved and which are ~~not-dis-~~ approved by the Securities and Exchange Commission.

Sec.12.3 If such rules, or amendments thereto, are approved

by a majority of the Board of Directors and which are approved by the Board of Governors of the National Association of Securities Dealers, Inc. and are ~~not-disapproved~~ approved

by the Securities and Exchange Commission, they shall become effective as of such date as the Board of Directors may prescribe, and shall be binding on all persons clearing or settling transactions through the ~~Corporation~~ NCC Division.

The remainder of Article XII would remain unchanged.

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

NCC DIVISION
INTERIM OPERATING RULES

AMENDMENTS TO RULE 101

(Definitions and Descriptions)

It is proposed that Rule 101 be amended as follows.

Sec.101.01 When used in these Rules, unless the context otherwise requires,

"Association"

(a) The term "Association" means the National Association of Securities Dealers, Inc.

"Corporation"

(b) The term "Corporation" means the ~~National OTC Clearing Corporation~~ Corporation named National Securities Clearing Corporation which is incorporated in the State of New York.

~~"By-Laws"~~

~~(c) The term "By-Laws" means the By-Laws of the Corporation as the same may be amended from time to time.~~

"Addendum"

(c) The term "Addendum" means Articles 6, 7, 8 and 9 of the Addendum to the Interim Operating Rules of the NCC Division as the same may be amended from time to time.

"Board of Directors"

(d) The term "Board of Directors" means the Board of Directors of the Corporation.

"Securities"

(e) The term "Securities" means stocks, bonds, notes, certificates of deposit or participation, trust receipts, rights, warrants and other similar instruments.

"Cleared Securities"

(f) The term "Cleared Securities" means securities included in the list for which provision is made in Section 7.01 of the ~~by-laws~~ Addendum.

"Non-Cleared Securities"

(g) The term "Non-Cleared Securities" means securities other than cleared securities.

"Clearing Member"

(h) The term "Clearing Member" means any ~~member-of-the~~ Association broker or dealer registered with the Securities and Exchange Commission who has qualified to participate in all the operations of the ~~Corporation~~ NCC Division pursuant to Section 6.02 of the ~~By-Laws~~ Addendum. A Clearing Member need not be a stockholder of the Corporation.

"Bank Member"

(i) The term "Bank Member" means any bank, banker, or trust company which has qualified to participate in operations of the ~~Corporation~~ NCC Division other than clearance operations, pursuant to Section 6.04 of the ~~By-Laws~~ Addendum.

"Special Member"

(j) The term "Special Member" means any ~~member-of-the~~ Association person ~~or any bank, trust company, or similar institution,~~ which has qualified to participate, under specified terms and conditions, in particular operations of the ~~Corporation~~ NCC Division pursuant to Section 6.05 of the ~~By-Laws~~ Addendum.

"Member"

(k) The term "Member", where it is not modified, means any

Clearing Member, and any Bank Member. In addition, it means any Special Member except one the scope of whose participation in the operations of the Corporation does not include the operation with which the provision in which the term appears is concerned.

"Non-Member"

(l) The term "Non-Member" means any person who is not a Member.

"Full Business Day"

(m) The term "Full Business Day" means any day other than a Saturday, Sunday, or holiday, upon which both banks and over-the-counter brokers and dealers are open for business, except a day which the Association or the Corporation rules not to be a full business day.

"Business Day"

(n) The term "Business Day" means any day, whether or not a "full business day", upon which the Corporation is open for any business.

"Interim Balance"

(o) The term "Interim Balance" means the difference, at any time prior to the completion of settlement operations on any full business day, between the amounts which the corporation has paid out or is obligated to pay out through the NCC Division for the account of a Clearing Member pursuant to these Rules, plus the amounts payable by such Clearing Member to the corporation for the NCC Division on account of fines and penalties and for services rendered, and the credits to which such Clearing

Member has become definitively entitled pursuant to these Rules, without any adjustment for any amounts paid or payable by the Clearing Member to the Clearing Fund or by the Clearing Fund to the Clearing Member under the provisions of Article 8 of the ~~By-Laws~~ Addendum. In any case where the corporation determines that a Clearing Member owes an excessive debit interim balance, the provisions of Section 103.07 and 108.03 of the Rules are applicable.

"Final Balance"

(p) The term "final balance" means the difference between the amounts owed by the corporation through the NCC Division to a Member and the amounts owed by such Member to the corporation through the NCC Division, as calculated by the corporation at the completion of the settlement operations on any full business day, without any adjustment for any amounts paid or payable by the Clearing Member to the Clearing Fund or by the Clearing Fund to a Clearing Member under the provisions of Article 8 of the ~~By-Laws~~ Addendum.

"Special Cash Balance"

(q) The term "special cash balance" means the aggregate amount which, at any time, a Clearing Member is obligated to pay the Corporation pursuant to special clearances in which such Clearing Member has participated.

"Person"

(r) The term "person" means an individual, a corporation, a partnership, or any other legal entity.

"He," "Him," "His"

(s) The pronouns "he," "him," and "his" refer to any person.

"NCC Division"

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

"Qualified Person"

(u) The term "qualified person" means 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 of the NCC Division of the Corporation pursuant to the Addendum to the Interim Operating Rules.

"Clearing Fund"

(v) The term "Clearing Fund" means the fund established by the Clearing Corporation for the NCC Division to which Clearing Members are required to pay cash and/or securities to be used for payment of Clearing Member's liabilities and obligations to the Clearing Corporation arising out of services provided by the NCC Division pursuant to these rules and to be used for payment of liabilities of the Clearing Corporation.

AMENDMENTS TO RULE 102

(General Provisions)

It is proposed that Rule 102, Section 102.03 be amended as follows.

CORPORATION MAY ACT BY OFFICERS

Sec.102.03 Except where the ~~By-Laws~~ Addendum of these Rules specifically require action to be taken by the Board of Directors or a committee thereof, the corporation may act by one or more officers, Members or other persons as the Board of Directors may prescribe from time to time.

The remainder of Rule 102 would remain unchanged.

AMENDMENTS TO RULE 103

(Obligations of Members)

It is proposed that Rule 103, Sections 103.05 and 103.08 be amended as follows.

CODE NUMBERS

Sec.103.05 (a) The Corporation will allot to each Member a code number which must appear on the face of all forms used by him in connection with the operations of the NCC Division of the Corporation.

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OFFICIAL DATE OF CLEARANCE AND OF SETTLEMENT

Sec.103.08. The official date of any clearance or settlement of a contract cleared through the NCC Division of the Corporation shall be the day on which the securities subject to the contract are to be delivered; and, except as may be otherwise directed by the Corporation, either in general or in particular instances, all comparison tickets, summaries, security balance orders, stamp bills, checks and drafts shall bear such official date even though they may be issued on a preceding day.

The remainder of Rule 103 would remain unchanged.

AMENDMENTS TO RULE 105

(Receiving and Comparison Facilities)

It is proposed that Rule 105, Section 105.02 be amended as follows.

DELIVERY OF COMPARISON TICKETS

Sec.105.02 Each Clearing Member, who is a party to a transaction in a cleared or non-cleared security to be included in a clearance or comparison operation conducted by the NCC Division of the Corporation, shall deliver to the Corporation when and as the Corporation shall from time to time direct on the business day following the transaction, a comparison ticket or other document with respect to the transaction in the form prescribed by the Corporation designating the other party to the transaction.

The remainder of Rule 105 would remain unchanged.

AMENDMENTS TO RULE 107

(Delivery Facilities)

It is proposed that Rule 107, Sections 107.01, 107.06, 107.08 and 107.09 be amended as follows.

NATURE OF DELIVERY FACILITIES

Sec.107.01 Members may deliver securities to other Members by delivering them, in envelopes of a type approved by the Corporation, to the NCC Division of the Corporation at a places to be designated for such purpose. The ~~Corporation~~ NCC Division will sort such envelopes and make them available at such places to the authorized representatives of the Members to whom they are addressed.

* * *

CHECKING AND STAMPING OF CREDIT LISTS

Sec.106.06. (a) The Corporation will check all envelopes which it receives against the accompanying credit lists to see that each envelope on each credit list has been received. If the envelopes are properly listed on the accompanying credit list, the Corporation will stamp the duplicate credit list as received and make it available promptly to the Member who issued it.

Effect of Stamping

(b) All envelopes listed on the credit list, and their contents, shall be deemed for all purposes to have been accepted by the Corporation and to have been delivered to the receiving Member as of the time when the Corporation stamps the

credit list as provided in paragraph (a) of this Section.

Member for Whom Envelopes are Held

(c) Unless otherwise agreed in writing, -B- before it has stamped the accompanying credit list, the Corporation will hold envelopes for the delivering Member, and after such stamping it will hold them for the receiving Member.

* * *

DELIVERY OF ENVELOPES BY CORPORATION

Sec.107.08 The Corporation will sort the envelopes accepted by it and, subject to its right to hold property as security for the obligations of Members pursuant to Rule 112, will make such envelopes available at the designated places to the authorized representatives of the Members to whom they are addressed. The Corporation will not examine the contents of the envelopes nor verify the amounts of money shown on the credit lists accompanying them, and it will not be responsible with respect thereto.

COLLECTION OF ENVELOPES BY RECEIVING MEMBERS

Sec.107.09 Each Clearing Member and Bank Member shall send to the places designated by the Corporation, at frequent intervals, at 11:30 A.M. and 1:00 P.M. on business days, a representative authorized to receive envelopes from the Corporation.

The remainder of Rule 107 would remain unchanged.

AMENDMENTS TO RULE 111

(Special Clearances)

It is proposed that Rule 111, Sections 111.01 and 111.07 be amended as follows.

SPECIAL CLEARANCES GENERALLY

Sec. 111.01. Whenever the Corporation, in its sole discretion, deems it necessary or desirable in the interest of the NCC Division of the Corporation or of its Clearing Members that there should be a special clearance of contracts with respect to any security, whether a cleared security as to which there are an excessive number of fails between Members on contracts previously cleared, or a non-cleared security which is about to be included in the list of cleared securities, or a non-cleared security whose issue or distribution is subject to a contingency, or otherwise, it may cause a special clearance to be had and may direct all Clearing Members having such contracts to participate therein. Subject to such special regulations and directions as the Corporation may adopt or issue in any particular instance, such special clearances shall be governed by the provisions of this Rule, or, in the absence of a specific provision in this Rule, by the same principles and procedures as are applicable to regular clearances under Rule 106. The judgment of the Corporation as to the applicability of any such Rules, principles and procedures shall be conclusive on all interested parties in all respects.

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DEPOSITS BY CORPORATION

Sec.111.07. The Corporation will deposit cash in an amount equal to the aggregate amount of the cash deposits it has received pursuant to Section 111.06 in a special account or accounts in its name for the NCC Division in one or more banks or trust companies selected by it, and it may similarly deposit any bonds pledged by Members pursuant to Section 111.05. Any such deposit, whether of cash or of bonds, shall be at the risk of the clearing members who are parties to the clearance giving rise to such deposit. In case of loss through insolvency of a depository or otherwise the Corporation shall apportion such loss among the parties to the clearances in such manner and proportion as it shall deem equitable, and any such apportionment made by the Corporation shall be conclusive on all parties to the clearance.

The remainder of Rule 111 would remain unchanged.

AMENDMENTS TO RULE 112

(Rights of the Corporation with Respect to
Securities Held by It)

It is proposed that Rule 112, Sections 112.01 and 112.02
be amended as follows:

LIEN ON SECURITIES HELD

Sec.112.01 Except as otherwise provided in Article 8 of the
~~By-Laws~~ Addendum with respect to contributions
to the Clearing Fund, the corporation shall have a lien on any
and all securities and cash which it holds at any time for the
account of a Member, including securities delivered to it pursuant
to Rule 107, for all amounts which may from time to time become
due to it from such Member under the ~~By-Laws~~ Addendum of these
Rules. It shall have the right to borrow money and to pledge
for the repayment thereof all or any part of the securities which
it holds for the account of other Members or otherwise, and
whether or not the amounts for which such securities are so
pledged exceed the debt to it of the Member or Members whose
property they are.

SALE OF SECURITIES

Sec.112.02 In case a Member becomes insolvent, as defined in
Section 114.01, or fails to pay any debt to the
Corporation by the time required under the Rules or on demand
by the Corporation or in case the securities which the Corpora-
tion holds for his account become in the Corporation's opinion
insufficient to afford adequate security for his obligations to
the Corporation, or he fails on the Corporation's demand to

furnish additional collateral, the Corporation may, in its discretion, and without further demand or notice to the Member, cause to be sold all or any part of the securities which it holds for such Member's account. Such sale may be made in any available market, at public auction, or by private sale; and if the sale is made otherwise than by private sale, the Corporation may purchase for its own account the securities or other property so held. The Corporation will apply the proceeds of any such sale to the payment of the Member's debt to the Corporation incurred through the NCC Division and any liabilities arising under Articles 6 and 8 of the ~~By-Laws~~ Addendum and will pay any surplus over to the Member or his legal representative.

AMENDMENTS TO RULE 113

(Refusal of the Corporation to Act for a Member,
Other Than in Cases of Insolvency)

It is proposed that Rule 113, Section 113.07 be amended as follows.

DEATH, SUSPENSION OR EXPULSION OF MEMBER

Sec.113.07 If a Member operating as a sole proprietorship dies, or any Member is suspended or expelled from the Association or his membership therein is canceled, the Corporation ~~will~~ may upon receipt of notice of such fact cease to act for such Member generally, in accordance with the provisions of this Rule. Notwithstanding anything to the contrary contained in this Rule, the Corporation may in its sole discretion continue to act for a Member who has been suspended from the Association, where the Corporation has been advised by the Association that such suspension was not occasioned by the suspended Member's current financial position.

The remainder of Rule 113 would remain unchanged.

AMENDMENTS TO RULE 114

(Insolvency of a Member)

It is proposed that Rule 114, Sections 114.04, 114.05 and 114.08 (d) and (e) be amended as follows.

EXCLUSION FROM CLEARANCE OPERATIONS OF INSOLVENT
CLEARING MEMBER'S TRANSACTIONS

Sec.114.04 All transactions of an insolvent Clearing Member effected on the day on which the Corporation receives notice of such Clearing Member's insolvency will be excluded from the Corporation's NCC Division clearance operations with respect to that day's transactions, and all comparison tickets covering such transactions which have been delivered to the NCC Division of the Corporation will be returned to the Clearing Members who issued the same.

TREATMENT OF PRIOR TRANSACTIONS

Sec.114.05 If, at the time when the Corporation receives notice of a Clearing Member's insolvency, transactions effected by such insolvent Clearing Member on a previous day have been compared but not cleared by the NCC Division of the Corporation, the Board of Directors, in its discretion, may direct either (a) that such transactions of the insolvent Clearing Member shall be excluded from the uncompleted clearance operation, in which case the comparison tickets covering such transactions which have been delivered to the Corporation will be returned to the Clearing Members who issued the same, and Section 114.06 shall apply to the transactions in question, or

(b) that such transactions of the insolvent Clearing Member shall be included in such uncompleted clearance operation and that such operation shall be completed by the Corporation, in which latter case Section 114.07 shall apply to the security balance orders and the actions to be taken with respect thereto when the same are issued on completion of the clearance operation.

* * *

ACCOUNTING TO DETERMINE PROFITS AND LOSSES

Sec.114.08

Aggregate Loss

(d) If, in the aggregate, the selling out and buying in of securities deliverable to or by the insolvent Clearing Member under security balance orders calling for delivery on the same day results in a loss, the Corporation in its discretion may (1) pay the same or any part thereof to the Clearing Members sustaining such losses and debit the net amount to the account of the insolvent Clearing Member or to his contribution to the Clearing Fund, or to the contributions of other Clearing Members to the Clearing Fund, in the manner and to the extent provided in Article 8 of the ~~By-Laws~~ Addendum, or (2) make a pro rata assessment of other Clearing Members, as provided in paragraph (e) of this Section, and from the proceeds of such assessment pay the amount of the loss or such part thereof as the Corporation has not paid pursuant to the foregoing clause (1).

Pro Rata Assessments

(e) If the Corporation determines to make assessments

pursuant to clause (2) of paragraph (d) of this Section, it will calculate, as to all transactions of the insolvent Clearing Member which were cleared on the same day as the transaction resulting in the security balance orders which are subject to the particular accounting in question, the profit or loss which the insolvent Clearing Member would have sustained if such transactions had been closed out under this Rule at the price at which security balances for such security were in fact closed out, or in the case of any security as to which there was no security balance, at a price to be established by the Corporation. The Corporation will then send to each Clearing Member having a transaction which under the foregoing calculation would have produced a loss to the insolvent Clearing Member, a notice requiring him to pay to the Corporation all or a specified amount of such loss, and each such Clearing Member shall pay such amount promptly upon receipt of such notice. The Corporation will credit the amounts so paid to a special account and will also credit to such account any profits resulting from the closing out of securities balances deliverable to or by the insolvent Clearing Member. The Corporation will then apply the amounts so credited to such special account for the following purposes, in the order indicated: FIRST, to reimburse the Corporation for amounts paid out by it for the account of the insolvent Clearing Member in connection with clearing operations; SECOND, to reimburse Clearing Members for

losses sustained by them in closing out security balances deliverable to or by the insolvent Clearing Member on security balance orders; THIRD, to reimburse the Corporation for any loss sustained by it by reason of the insolvency for which it will not otherwise be reimbursed by the remedies provided in the Rules or the ~~By-Laws~~ Addendum; FOURTH, to reimburse Clearing Members pro rata as provided in this paragraph for amounts which they have paid to the Corporation on account of losses which would have been sustained in closing out transactions between them and the insolvent Clearing Member had such transactions in fact been closed out; FIFTH, to pay any residual amount to the insolvent Clearing Member or his Legal Representative.

The remainder of Rule 114 would remain unchanged.

AMENDMENTS TO RULE 116

(Charges for NCC Division Services Rendered)

It is proposed that Rule 116, Sections 116.01 and 116.01(h) be amended as follows.

Sec.116.01 For NCC Division services rendered by the Corporation Members and non-members for whom the Corporation has consented to act shall pay compensation to the Corporation as follows.

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(h) For the use of distribution boxes by Members and non-members ~~not presently paying box rental charges to American Stock-Exchange-Clearing-Corporation,~~ \$5.00.

The remainder of Rule 116 would remain unchanged.

AMENDMENTS TO RULE 118

(Bills)

It is proposed that Rule 118, Sections 118.01 and 118.02 be amended as follows.

TIME FOR RENDERING AND PAYING BILLS, CLEARING MEMBERS

Sec.118.01 The Corporation will render bills to Clearing Members for charges payable on account of the NCC Division business of any month and for fines imposed during any month on or before the tenth day of the succeeding month, and will charge the accounts of Clearing Members with the amounts shown by such bills at the end of the day on which such bills are rendered.

Sec.118.02 The Corporation will render bills to Bank Members and Special Members for charges payable on account of the NCC Division business of any month and for fines imposed during any month on or before the tenth day of the succeeding month. Such bills shall be paid not later than ten days after they are rendered.

The remainder of Rule 118 would remain unchanged.

AMENDMENTS TO RULE 120

(Taxes)

It is proposed that Rule 120, Sections 120.01, 120.02 and 120.04 be amended as follows.

PAYMENT REQUIRED THROUGH CORPORATION

Sec.120.01 Clearing Members that do not make payment of applicable, (1) New York State Stock Transfer Taxes and (2) New York City Taxes on the sale and purchase of certificates of indebtedness, through a separate Division of the Clearing Corporation or an exchange clearing corporation shall make such payment through the ~~Corporation's~~ NCC Division. Each such clearing Member shall, at or before 10:00 A.M. on each business day, deliver to the Corporation the prescribed forms and reports indicating the amount of taxes due for settlement on that day with respect to transactions effected by such Clearing Member. If no such taxes are so payable, the Clearing Member shall nonetheless file the reports stating that no tax is due, at or before 10:00 A.M.

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PROCEDURE FOR COMPLIANCE WITH TAX REGULATIONS:
CLEARED TRANSACTIONS

Sec.120.04. Every Clearing Member paying New York State stock transfer taxes through the Corporation pursuant to Section 120.01 shall, with respect to transactions in cleared securities, impress by rubber stamp, (1) on the certificate of stock or other corporate certificate where such certificate is delivered pursuant to a balance order issued by the corporation

NCC Division, (2) on each page of a copy of each sale contract list and supplemental sale contract list retained by such clearing Member, and (3) on confirmation notices filed with the ~~Corporation~~ NCC Division covering sales, a certificate in substantially the following form:

"NEW YORK STATE STAMP TAXES PAID
THROUGH NATIONAL SECURITIES CLEARING CORPORATION

.....
(Member-NCC Division of National Securities Clearing Corporation)"

Such certificate shall bear the facsimile signature of the broker and the rubber stamp shall be kept in the possession of the broker and used only by him or his duly designated representative.

The remainder of Rule 120 would remain unchanged.

It is proposed that the Addendum to the By-Laws be amended as indicated hereinbelow.

NCC DIVISION

ADDENDUM TO THE INTERIM RULES

AMENDMENTS TO THE

ADDENDUM

~~By-Laws of National Clearing Corporation~~
Interim Operating Rules of the NCC Division of
the National Securities Clearing Corporation

In order to continue in effect the ~~Corporation's~~ NCC Division's present balance-order clearance and envelope settlement systems ~~to provide for the transition from one clearing system to another,~~ the following Articles of the By-Laws of National OTC Clearing Corporation are adopted and continued in effect with the same force and effect as ~~By-Laws~~ the Addendum to the Interim Rules of the NCC Division of National Securities Clearing Corporation to apply to those operations that are subject to the "Interim Operating Rules":

NOTC By-Laws Articles numbered 6, 7, 8 and 9 as set forth in the form of ~~By-Laws~~ Rules attached hereto.

AMENDMENTS TO ARTICLE 6

(Members)

It is proposed that Article 6, Sections 6.01, 6.02, 6.04 and 6.05 be amended as follows.

Sec. 6.01. The corporation may act for ~~members of the National Association of Securities Dealers, Inc.~~ qualified persons, as defined by Interim Operating Rule 101, actually engaged in the securities business and banks, trust companies and similar institutions, whose applications to the NCC Division of the Corporation have been approved and who have entered into any prescribed agreement with the corporation and complied with other conditions of participation.

Sec. 6.02. Any ~~member of the National Association of Securities Dealers Inc.~~ qualified person whose application to become a Clearing Member has been approved by the corporation shall pay to the corporation the required original contribution to the Clearing Fund in accordance with the provisions of Article 8 hereof and shall sign and deliver to the corporation an instrument in writing whereby such applicant shall agree substantially as follows:

(a) That the Clearing Member will clear or settle through the ~~corporation~~ NCC Division or through another Clearing Member every contract and transaction to which he is a party and which ~~the By-Laws~~ this Addendum or the rules of the ~~corporation~~ NCC Division may require to be cleared or settled through the ~~corporation~~ NCC Division.

(b) That the Clearing Member will abide by ~~the by-laws~~ this Addendum and the rules of the corporation NCC Division and shall be bound by all the provisions thereof including the provisions prescribing the liens which the corporation shall have upon securities which are the subject of transactions had for the Clearing Member's account, and that the corporation shall have all the liens, rights, and remedies contemplated by said ~~by-laws~~ Addendum and rules.

(c) That ~~the by-laws~~ this Addendum and the rules of the corporation NCC Division shall be a part of the terms and conditions of every contract or transaction which the Clearing Member may have with the NCC Division of the corporation and of every contract or transaction which ~~the by-laws~~ this Addendum and the rules of the corporation NCC Division may require to be cleared or settled through the corporation NCC Division, or which the Clearing Member may submit for settlement, and that the Clearing Member will comply with and be bound by ~~the by-laws~~ this Addendum and the rules of the corporation NCC Division in respect of a transaction submitted by ~~him~~ it for settlement whether or not the ~~by-laws~~ Addendum and rules are expressly made a part of the terms and conditions of the transaction to be settled.

(d) That the Clearing Member will pay to the corporation the compensation provided for by ~~the by-laws~~ this Addendum and the rules of the corporation NCC Division for clearing and other services and such fines as may be imposed in accordance with such ~~by-laws~~ Addendum and rules of the ~~corporation~~ NCC Division

for the failure of the Clearing Member to comply therewith.

* * *

(f) That the Clearing Member's books and records shall at all times be open to the inspection of the duly authorized representatives of the corporation, that the corporation shall be furnished with all such information in respect of the Clearing Member's business and NCC Division transactions as it may require and that any such information obtained by or given to duly authorized representatives of the corporation or of the National Association of Securities Dealers, Inc. may be made available by either organization to the other; provided, that the corporation shall have no right to inspect the books and records or to require information relating to transactions wholly subsequent to the time when a Clearing Member ceases to be such.

* * *

(h) That the Clearing Member will be bound by any amendment to ~~the by-laws~~ this Addendum and the rules of the ~~corporation~~ NCC Division with respect to any transaction occurring subsequent to the time such amendment takes effect as fully as though such amendment were now a part of ~~the by-laws~~ such Addendum and rules of the ~~corporation~~ NCC Division, provided however that no such amendment shall affect the Clearing Member's right to cease to be a Clearing Member or alter the provisions of Article 8 of the ~~by-laws~~ Addendum of the ~~corporation~~ NCC Division unless before such amendment becomes effective the Clearing Member is given an opportunity to give written notice to the corporation of his election that it shall definitively cease to act for him.

* * *

Sec.6.04. Any bank, banker or trust company whose application to become a Bank Member has been approved by the Corporation and which has entered into an agreement with the corporation in form prescribed by the Board of Directors of the corporation shall be entitled as a Bank Member to participate in the operations of the ~~corporation~~ NCC Division to the extent and subject to all of the terms and conditions set forth in ~~the by-laws~~ this Addendum and the rules of the ~~corporation~~ NCC Division.

Sec.6.05. The Board of Directors may at any time and from time to time permit ~~members of the National Association of Securities Dealers, Inc.~~ qualified persons actually engaged in the securities business ~~and banks, trust companies and similar institutions~~ to participate in the operations of the ~~corporation~~ NCC Division as Special Members to such extent and subject to such terms and conditions as may be prescribed by ~~the by-laws~~ this Addendum and the rules of the ~~corporation~~ NCC Division or by resolution of the Board of Directors.

The remainder of Article 6 would remain unchanged.

AMENDMENTS TO ARTICLE 7

(Lists to be Maintained)

It is proposed that Article 7, Sections 7.01 and 7.02 be amended as follows.

Sec.7.01. The corporation shall maintain a list of the stocks, bonds, notes, rights to subscribe and other securities, rights or interests which may be the subject of contracts cleared through the corporation NCC Division and which are hereinafter called "Cleared Securities" and may from time to time add securities or remove them from such list.

Sec.7.02. The corporation shall maintain and keep current lists of the persons, firms and corporations eligible to participate in the operations or use the facilities of the corporation NCC Division. Clearing Members, Bank Members and each class of Special Members, if any, shall be separately classified.

AMENDMENTS TO ARTICLE 8

(Clearing Fund)

It is proposed that Article 8, Sections 8.02, 8.03, 8.04 and 8.05 be amended as follows.

Sec. 8.02 In the discretion of the Board of Directors, any cash contributions to the Clearing Fund may from time to time be partially or wholly invested by the corporation as administrator of the Clearing Fund in securities issued or guaranteed by the United States and securities issued by any United States Government agency whether or not guaranteed by the United States and to the extent not so invested shall be deposited by the corporation in a special NCC Division Clearing Fund ~~trust~~ account or accounts in a depository or depositories having membership in the Federal Deposit Insurance Corporation. Amounts deposited in such Clearing Fund accounts may be withdrawn only for purposes of the Clearing Fund as specified in this Article, upon checks or orders of the corporation signed by an officer or officers of the corporation designated by its Board of Directors.

Any securities in which the Clearing Fund is invested by the corporation and any securities deposited by Clearing Members in lieu of paying cash to the Clearing Fund shall be held by the corporation or for its NCC Division account by a bank or trust company, and shall at all times be kept separate and apart from other securities held by the corporation in such manner as to be readily identifiable as held ~~in-trust~~ for purposes of the Clearing Fund. Such securities may be pledged by the corporation to secure obligations payable from the Clearing Fund or loans

obtained to pay such obligations, and may be sold by the corporation to provide for such obligations.

Any interest paid by the depositories on cash in the Clearing Fund or paid on securities in which the corporation has invested cash in the Clearing Fund shall be payable to the corporation ~~free of any trust~~ as compensation for administration of the Fund. Interest accrued or paid on securities deposited by a Clearing Member in lieu of paying cash shall belong to the Clearing Member so long as the Clearing Member is not in default in any obligation to the corporation.

No depository of cash in the Clearing Fund and no bank or trust company having custody of securities held for purposes of the Clearing Fund shall have any responsibility or liability for application of cash or securities withdrawn by duly authorized officers of the corporation.

For purposes of Sections 8.01 and 8.02, the term "obligations payable from the Clearing Fund" shall include all obligations of such character that they will be payable from the Clearing Fund unless otherwise provided for.

Sec. 8.03. If any Clearing Member shall fail to discharge duly any liability to the corporation arising from the clearing or settling or completion of any contract or transaction through the NCC Division, the amount of his contribution or so much thereof as is necessary shall forthwith be applied toward the discharge of such liability and such member shall immediately upon demand make good the deficiency in the amount of his

contribution resulting from such application.

Sec.8.04. If the corporation suffers a loss in excess of a Clearing Member's contribution to the Clearing Fund by reason of his default, or suffers a loss in connection with clearing or settling or carrying out any contract or transaction for its NCC Division members (including any loss by reason of the insolvency of any depository, or larceny or embezzlement of any funds or securities) such excess loss, or such loss, as the case may be, shall to the extent of the earned surplus of the corporation be made good therefrom, but to the extent that said surplus is insufficient, shall be made good out of the Clearing Fund and charged pro rata against the contributions, as fixed at the time of the transaction from which the loss results, of the Clearing Members other than the Clearing Members, if any, primarily liable.

Insofar, however, as a loss sustained through the default of a Clearing Member in any contract or transaction with another Clearing Member or other Clearing Members is under the rules of the corporation made good by such other Clearing Member or Clearing Members, it is not to be deemed a loss sustained by the corporation within the meaning of this Section.

Sec.8.05. Liabilities of the corporation for the NCC Division other than liabilities arising out of a loss of the character specified in Section 8.04 of this Article shall be payable from any available assets of the corporation other than the Clearing Fund described herein. If the operations of the corporation NCC Division terminate for any reason, amounts in

the Clearing Fund in excess of liabilities payable therefrom as provided in Section 8.04 shall be returned to the Clearing Members for whose account they are held, without charge or diminution on account of claims of creditors, expenses of winding up or otherwise.

The remainder of Article 8 would remain unchanged.

AMENDMENTS TO ARTICLE 9

(Rules)

It is proposed that Article 9, Sections 9.01 and 9.02 be amended as follows.

Sec.9.01. The board of directors shall adopt and from time to time amend rules of the ~~corporation~~ NCC Division governing the conduct of its business, the respective rights and obligations of the corporation, Members and others doing business with or through the corporation and such other matters as the board of directors may deem appropriate. Without limiting the generality of the foregoing, the rules may prescribe:

(a) the contracts and transactions which may be cleared or effected through the ~~corporation~~ NCC Division or its facilities;

(b) procedures for reporting transactions to be cleared and effecting delivery and settlement thereunder, and procedures in connection with any other transactions by or through the ~~corporation~~ NCC Division or its facilities;

(c) the respective rights and obligations of the corporation, Members and others in connection with all transactions effected by or through the ~~corporation~~ NCC Division or its facilities;

(d) procedures for determining the rights and liabilities of Clearing Members in respect of the Clearing Fund provided for in Article 8 of ~~these by-laws~~ this Addendum;

(e) the rights and remedies of the corporation on account of amounts paid out for the account of NCC Division Members

and others, including the liens and other rights of the corporation in respect of funds and securities held for the account of such persons;

(f) rights of the corporation to pledge securities in the Clearing Fund and securities held for the account of ~~Clearing~~ NCC Division Members to secure loans and other obligations of the corporation;

(g) fines and other penalties for violation of the rules, and procedures for determining the existence of violations and assessing fines and other penalties;

(h) the charges to be made by the corporation for services performed by it or for use of its facilities;

(i) such other rules as are not inconsistent with the certificate of incorporation and by-laws as the board of directors may deem necessary or convenient to carry out the purposes of the corporation.

Sec.9.02. The board of directors of the corporation shall have power to interpret the rules adopted pursuant to this Article ~~and any such interpretation shall be final and conclusive.~~ The rules of the corporation made in accordance with ~~these by-laws~~ this Addendum and any interpretations thereof by the board of directors shall have the same force and effect as duly adopted ~~by-laws~~ rules of the corporation for the NCC Division in the same manner as though set forth at length herein.

The remainder of Article 9 would remain unchanged.

It is proposed that the rules of the National Envelope Settlement System be amended as indicated hereinbelow.

NCC DIVISION

NATIONAL ENVELOPE SETTLEMENT SYSTEM RULES

AMENDMENTS TO RULE 1

(Definitions and Descriptions)

It is proposed that the following amendments be made to the Definitions and Descriptions in Rule 1.

National Envelope Settlement System (NESS)

The term "National Envelope Settlement System" means that procedure by which NESS Deliveries are settled through the facilities of the NCC Division of the Clearing Corporation for NESS "Participants," "Correspondent Participants" and "Special Participants."

NESS

The abbreviation "NESS" means the National Envelope Settlement System.

Settlement

The term "settlement" means that procedure whereby Participants make and receive NESS Deliveries through the facilities of the NCC Division of the Clearing Corporation, thereby satisfying contractual obligations arising out of securities transactions between Participants.

Participant

The term "Participant" means any firm or corporation which has qualified pursuant to Rule 3 of these Rules to effect settlement of NESS Deliveries through the facilities of the NCC Division of the Clearing Corporation.

Special Participant

The term "Special Participant" means any bank or trust company which has been qualified, as determined by the Clearing

corporation pursuant to Rule 3 of these Rules, to effect settlement of NESS Deliveries through the facilities of the NCC Division of the Clearing Corporation, or any financial institution, other clearing corporation, or such other organization which the Board of Directors, in its discretion, has permitted to participate to such extent and under such terms as the Clearing Corporation may prescribe. Whenever a provision of these Rules applies, by its terms, to a "Participant", or refers to a "Participant", it shall also apply to, and be deemed to refer to, a "Special Participant" unless determined otherwise by the Board of Directors.

Correspondent Participant

The term "Correspondent Participant" means any broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, or any bank or trust company who either does not desire to be a Participant or a Special Participant or is not qualified as a Participant or Special Participant as determined by the Clearing Corporation pursuant to the provisions of Rule 3 of these Rules, if, in either case, it has entered into an agreement with a Participant or a Special Participant approved by the Clearing Corporation, pursuant to Rule 3 of these Rules whereby the Participant or Special Participant effects settlement of the Correspondent Participant's contractual obligations with Participants, Special Participants, or other Correspondent Participants of NESS Deliveries through the Clearing Corporation's NCC Division facilities.

Non-Participant

The term "Non-Participant" means any firm or corporation other than a "Participant", "Correspondent Participant," or

"Special Participant".

NESS Delivery

The term "Ness Delivery" means any delivery which is qualified, as determined by the Clearing Corporation, for settlement in NESS through the facilities of the NCC Division of the Clearing Corporation, pursuant to Rule 4 of these Rules.

Non-NESS Delivery

The term "Non-NESS Delivery" means any delivery which is not qualified, as determined by the Clearing Corporation for settlement in NESS through the facilities of the NCC Division of the Clearing Corporation, pursuant to Rule 4 of these Rules

Clearing Fund

The term "Clearing Fund" means the fund established by the Clearing Corporation for the NCC Division to which, pursuant to Rule 11 of these Rules, participants are required to pay cash and/or securities to be used for payment of participant's liabilities and obligations to the Clearing Corporation arising out of services provided by the NCC Division pursuant to these Rules and to be used for payments of liabilities of the 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 shall provide otherwise, all NESS Deliveries among Participants and Special Participants shall be subject to the provisions of these Rules and the schedules adopted in accordance with these Rules. Excluded are those transactions settled through the ~~Clearing Corporation~~ NCC Division pursuant to its Rules.

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

The remainder of Rule 2 would remain unchanged.

AMENDMENTS TO RULE 3

(Participants and Special Participants)

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

Rule 3. (a) Upon application to and approval by the Clearing Corporation, in the manner prescribed by the Board of Directors, any broker-dealer may be a Participant, provided 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 the Clearing Corporation determines would materially affect its ability to perform as a Participant; and

(iii) shall have executed and delivered the required agreement with ~~between each Participant and~~ the Clearing Corporation; and

(iv) shall have complied with such financial standards as may be established from time to time by the Board of Directors and adopted in the same manner as required for rules in accordance with Rule 2 above and published in the schedules adopted in accordance with Rule 13.

(b) Upon application to the NCC Division and approval by the Clearing Corporation, in the manner prescribed by the Board

of Directors, any bank or trust company may be a Special Participant if it is subject to regulation by Federal or State banking authorities, and is not known to be in violation of any rules, regulation, or law administered by such authority, which the Clearing Corporation determines would materially affect its ability to perform as a Special Participant, and has executed and delivered the required agreement provided for by these Rules as the Board of Directors may designate. Also, any financial institution, other clearing corporation, or such other organization may become a Special Participant upon application to the NCC Division and approval by the Board of Directors. A Special Participant shall have the rights, duties and obligations provided by these Rules for a Participant, unless otherwise provided by the Board of Directors.

* * *

(i) The Clearing Corporation will allot to each Participant a symbol which must appear on the face of all papers or instruments used by the Participant in connection with the operations of the NCC Division of the Clearing Corporation; whenever under these Rules the names of the Participants are to be used, the Clearing Corporation may use, and may require all Participants to use, the symbol in lieu of their names.

The remainder of Rule 3 would remain unchanged.

AMENDMENT TO RULE 4

(NESS Deliveries)

It is proposed that Rule 4 be amended as follows.

Rule 4. The Clearing Corporation shall determine which deliveries are qualified for settlement through its NCC Division facilities, which determination shall be based upon the following standard: all securities contained in envelopes delivered pursuant to Rule 5 of these Rules must be listed in the CUSIP Directory unless the Clearing Corporation has, in its discretion, determined otherwise and notified the Participants in an official publication that such security is included or excluded.

AMENDMENTS TO RULE 5

(National Envelope Settlement)

It is proposed that Rule 5, Section (a) be amended as follows.

Rule 5. (a) Unless the Clearing Corporation shall have previously agreed otherwise, NESS delivery of envelopes to Participants must be to Clearing Centers maintained by the Clearing Corporation in such manner as may be prescribed by the Clearing Corporation; however, each Participant shall only receive envelopes from other Participants at the Clearing Centers assigned to such receiving Participant by the Clearing Corporation. Upon receipt of such envelopes, the Clearing Corporation will sort such envelopes and make them available to the Clearing Center(s) assigned to the receiving Participant in accordance with such schedules and procedures as the Clearing Corporation shall prescribe pursuant to Rule 13 of these Rules.

The remainder of Rule 5 would remain unchanged.

AMENDMENTS TO RULE 6

(Suspension of a Participant)

It is proposed that Rule 6 be amended as follows.

Rule 6. Any Participant suspended pursuant to the Operating Rules, Interim Operating Rules or such other rules of any one or more Divisions of the Clearing Corporation, may, in the discretion of the Clearing Corporation, also be suspended from NESS

A Participant may also be suspended from NESS if:

- (a) it has otherwise ceased to qualify as a Participant as provided in Rule 3 of these Rules; or
- (b) it is in violation of the NESS Rules or Agreement(s); or
- (c) such suspension is necessary or appropriate in the public interest or for the protection of investors, the Clearing Corporation, its Members or to carry out the purposes of these Rules.

AMENDMENTS TO RULE 7

(Financial Impairment)

It is proposed that Rule 7, Section (a) be amended as follows.

Rule 7. (a) The Clearing Corporation by action of ~~the Financial Responsibility~~ a Committee as authorized by the Board of Directors may deem a Participant financially impaired if:

(i) the Participant fails to fully discharge its liability to the Clearing Corporation for payment of money balances when due or satisfy the Clearing Corporation that proper provision for payment has been made;

(ii) the Clearing Corporation has knowledge that the Participant is at present or threatens to become unable to meet its debts as they become due;

(iii) the Clearing Corporation has notice that the Participant's liabilities exceed its assets and the Clearing Corporation determines in its discretion that such financial conditions prevent the Participant from fulfilling its obligations under these Rules;

(iv) the Clearing Corporation has knowledge that a proceeding has been instituted by the Securities and Exchange Commission, NASD or any national securities exchange alleging that the Participant is violating any rule or regulation requiring the maintenance of a specified minimum net capital or ratio between aggregate indebtedness and net capital, or any

official investigation, examination or adverse report relating to its financial responsibility is pending or has been released and the Clearing Corporation has determined in its discretion that such will materially affect the Participant's ability to continue to operate as a Participant; or

(v) a voluntary or involuntary petition in bankruptcy has been filed with respect to the Participant, it has been adjudged bankrupt or insolvent, is subject to court order appointing a receiver or trustee of its assets, or has been made an assignment for the benefit of creditors.

The remainder of Rule 7 would remain unchanged.

AMENDMENTS TO RULE 9

(Lien on Securities)

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

Rule 9. (a) Except as otherwise provided in the ~~By-Laws~~ Addendum to the Operating Rules or in the other rules of the ~~Clearing-Corporation~~ NCC Division, the Clearing Corporation shall have a lien, to the extent of the amount owed by such Participant to the Clearing Corporation, upon cash and upon securities and other property held by the Clearing Corporation for which the Participant is obligated to make payment for NESS money settlement to the Clearing Corporation until such NESS money settlement payment is made. It shall have the right to borrow money and to pledge for the repayment thereof all of any part of the securities which it so holds for the account of a Participant, either alone or together with securities which it holds for the account of other Participants or otherwise, and whether or not the amounts for which such securities are so pledged exceed the debt owed by the Participant or Participants.

The remainder of Rule 9 would remain unchanged.

AMENDMENTS TO RULE 10

(Agreement Between Each Participant and
the Clearing Corporation)

It is proposed that Rule 10, Sections (a), (c) and (d) be amended as follows.

Rule 10. (a) Each Participant, prior to effecting settlement of any NESS Delivery through the facilities of the NCC Division of the Clearing Corporation shall execute and deliver a written agreement including but not limited to the following:

(i) that the Participant will abide by these Rules and shall be bound by all the provisions thereof;

(ii) that these Rules shall be deemed to be a part of the terms and conditions of every contract or transaction settled under these Rules, whether or not these Rules are expressly made a part of the terms and conditions of the contract or transaction;

(iii) that the Participant will pay within such time as may be specified in these Rules, or any schedules published thereunder, any sum which shall have become due and payable by the Participant to another Participant;

(iv) that the Participant will pay to the Clearing Corporation the charge for services rendered provided for by these Rules and such charges as may be imposed in accordance with these Rules;

(v) that the Participant's books and records shall, at all times during business hours, be subject to reasonable inspection

by the duly authorized representative of the Clearing Corporation; and that the Clearing Corporation shall be furnished with all such information in respect to the Participant's business and transactions as it may require; provided, however, that if the Participant shall cease to be a Participant and shall have satisfied all its obligations to the Clearing Corporation, the Clearing Corporation shall have no right to inspect its books and records or to require information relating to transactions wholly subsequent to the time when it ceases to be a Participant;

(vi) that the Participant shall have a duly authorized representative present in its office during the hours that its assigned Clearing Center is open for business;

(vii) that the Participant will be bound by any amendment to these Rules with respect to any transaction submitted for settlement occurring subsequent to the time such amendment takes effect as fully as though such amendment were now a part of these Rules, subject to any right of review which may be provided for in these Rules;

(viii) that the Participant may not refuse to accept a NESS Delivery made to it pursuant to these Rules;

(ix) that the Participant shall maintain appropriate insurance coverage equal to or greater than the total value of any securities delivered by a Participant through NESS on any one business day; and,

(x) that the agreement with the Clearing Corporation shall inure to the benefit of and be binding upon the parties thereto

and their respective successors and assigns.

* * *

(c) In the event that a Participant who is also a Clearing Member under the Clearing Corporation's NCC Division's Operating Rules is a party to a Special Transaction, as defined by Rule 12 of the Operating Rules, with another Participant who is also a Clearing Member, such Participant must effect settlement of such Special Transaction through NESS.

(d) Each Participant prior to effecting settlement of any NESS Delivery through the facilities of the NCC Division of the Clearing Corporation for a Correspondent Participant, shall execute and deliver a written agreement including but not limited to the following:

- (i) that the Correspondent Participant's books and records shall, at all times during business hours, be subject to reasonable inspection by the duly authorized representative of the Clearing Corporation; and that the Clearing Corporation shall be furnished with all such information in respect to the Correspondent Participant's business and transactions as it may require; provided, however, that if the Correspondent Participant shall cease to be a Correspondent Participant and shall have satisfied all its obligations to the Clearing Corporation, the Clearing Corporation shall have no right to inspect its books and records or to require information relating to transactions wholly subsequent to the time when it ceases to be a Correspondent Participant;
- (ii) that a Participant shall accept any and all securities delivered to it by a Correspondent Participant for settlement

through NESS as part of a NESS Delivery in the event that such securities have been compared and cleared for such Correspondent Participant through the National Trade Comparison Service of the Clearing Corporation, provided such National Trade Comparison Service is ~~non-disapproved~~ approved by the Securities and Exchange Commission;

(iii) that a Participant shall accept from a Correspondent Participant any and all Special Transactions, as defined by Rule 12 of the Operating Rules, for settlement through NESS;

(iv) that no part of an agreement between a Participant and a Correspondent Participant shall violate any provision of these Rules;

(v) that any agreement executed between a Participant and a Correspondent Participant shall inure to the benefit of and be binding upon the parties thereto and their successors and assigns.

The remainder of Rule 10 would remain unchanged.

AMENDMENTS TO RULE 11

(Clearing Fund)

It is proposed that Rule 11, Sections (b), (e) and (f) be amended as follows.

Rule 11.(b) The amount of a Participant's contribution shall be determined as follows:

(i) at the time the Participant's application to become a Participant is approved and accepted, it shall make the minimum payment in cash determined by the Board of Directors, or such other payment as the Board of Directors has determined, to the National Envelope Settlement System Clearing Fund;

(ii) on the first settlement day for the entry of the Participant's first transaction submitted to the NCC Division, the Clearing Corporation shall calculate an amount equal to 7 1/2% of that day's debit balance; when the daily calculations require amounts under \$1,000, requirements will be rounded up to the next \$100; when daily calculations require amounts over \$1,000, requirements will be rounded up to the next \$1,000; the Clearing Corporation shall notify the Participant of the amount by which such calculated amount exceeds the Participant's initial payment and the Participant shall immediately pay such differences;

(iii) thereafter, on a daily basis, the Clearing Fund balance of each Participant shall be approximately equal to 7 1/2%

of the Participant's average daily debit balances; the difference between each Participant's balance in the Clearing Fund and such percentage amount shall be calculated daily and the Clearing Corporation shall notify each Participant of such difference; the Participant shall immediately pay such amount to the Clearing Corporation;

(iv) notwithstanding the above, the Clearing Corporation may require a Participant to increase its required Clearing Fund balance to an amount deemed appropriate by the Board of Directors or a committee of the Board for the protection of Participants and/or the Clearing Corporation.

(v) if the Participant's balance exceeds the amount calculated for its required balance, such excess shall automatically be refunded to the Participant to the extent that there is a sufficient amount of cash in its Clearing Fund to accommodate payment. Where, however, the Clearing Corporation has demanded an amount greater than the required balance pursuant hereto, any refund shall be in the discretion of the Board of Directors or a committee of the Board.

* * *

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

(i) If any Participant shall fail to discharge duly any liability to the Clearing Corporation incurred pursuant to the operation of the NCC Division, the Clearing Corporation may apply the balance in that Participant's account, or so much thereof as

is necessary, toward the discharge of such liability and such Participant shall upon demand pay the deficiency in its required balance resulting from such application.

(ii) If a Participant's liability to the Clearing Corporation exceeds its balance in the Clearing Fund of that account and such liability arose by reason of that Participant's default, or in connection with clearing and settling or carrying out of any contract or transaction for that Participant or any other liabilities to the Clearing Corporation, such excess liability shall be satisfied first, from the defaulting Participant's portion of any other Clearing Fund deposit with the Clearing Corporation for the NCC Division not required to cover losses in that type of settlement activity; second, 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 third, pro rata from all other Participants in the Clearing Fund at the time of the transaction or transactions in which the liability arose based on a 40 settlement day moving average of credits.

(iii) Insofar as a liability arising by reason of the default of a Participant in any contract or transaction with another Participant or other Participants under these Rules is satisfied by such other Participant or Participants, such

liability shall not be deemed a liability of the Clearing Corporation within the meaning of this section;

(iv) Those liabilities which directly arise from the clearing and settling of transactions for Participants by reason of action taken, or failure to act, by the Clearing Corporation through the NCC Division 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 Fund or Corporation~~ of the Clearing Corporation, may deem advisable out of the Clearing Corporation's operating revenues.

(f) If the Clearing Fund shall be insufficient to pay liabilities as provided in this Rule 11, and as a result the Clearing Corporation is unable to satisfy its obligations and at the same time carry on its intended NCC Division operations, then the Clearing Corporation may require from each Participant an additional payment to the Clearing Fund. Such additional payment shall be assessed pro rata based upon a 40 settlement day moving average of credits of each Participant in the Clearing

Fund at the time of the transactions from which the liabilities arose. If the Clearing Corporation afterward recovers in whole or in part the amount so assessed, any such assessment shall , as promptly as the continuing obligations of the Clearing Corporation permit, be reimbursed to those Participants assessed in proportion to the amounts so assessed against them whether or not they are still Participants.

The remainder of Rule 11 would remain unchanged.

AMENDMENTS TO RULE 13

(Schedules)

It is proposed that Rule 13, Section B. be amended as follows.

Rule 13. The Clearing Corporation shall adopt and publish schedules which shall set forth, among other things, charges to Participants, times and places for delivery of reports and lists of Participants and Special Participants. Charge schedules and changes therein shall be adopted and become effective only after review and approval by the Board of Directors and the Board of Governors of the NASD and ~~not-disapproved~~ approved by the Securities and Exchange Commission.

* * *

B. Charges for the NESS services rendered through NESS the NCC Division shall be the following:

(a) a basic service charge of \$40.00 for each calendar month or any part thereof, for any Participant which is not already a Clearing Member in the Clearing Corporation's Continuous Net Settlement (CNS) system or Envelope Settlement System;

(b) a service charge for each calendar month, or any part thereof, computed on the basis of \$1.00 for each \$100,000.00 (or fraction thereof) of such Participant's aggregate debits and credits made by the Clearing Corporation in such month or part thereof pursuant to Rule 5 of these Rules;

(c) A \$1.00 charge for each envelope requiring inter-city delivery (including each reclamation or redelivery) through NESS; and,

(d) a \$.15 charge per side for each dividend claim item.

The remainder of Rule 13 would remain unchanged.

AMENDMENTS TO RULE 14

(Transfer Taxes)

It is proposed that Rule 14, Section (b) be amended as follows.

Rule 14. (b) Unless the Participant pays its (i) New York State Stock Transfer Tax and (ii) New York City tax on the sale and purchase of certificates of indebtedness through the ~~American Stock Exchange or the New York Stock Exchange~~ a separate Division of the Clearing Corporation or an exchange Clearing Corporation, each Participant shall pay such taxes through the ~~Clearing Corporation~~ NCC Division on such forms as may be required by the Clearing Corporation.

The remainder of Rule 14 would remain unchanged.