



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## 1. Text of Advance Notice

(a) This advance notice consists of modifications to (i) the DTC Rules, By-laws and Organization Certificate (“Rules”),<sup>1</sup> (ii) the DTC Settlement Service Guide (“Settlement Guide”),<sup>2</sup> and (iii) the DTC Distributions Service Guide (“Distributions Guide”),<sup>3</sup> annexed hereto as Exhibit 5 (“Proposal”). The Proposal would modify the Rules, Settlement Guide, and Distributions Guide to establish a change in the processing of transactions in money market instruments (“MMI”) that are processed in DTC’s MMI Program (“MMI Securities”).<sup>4</sup> The Proposal would affect DTC’s processing of issuances of MMI Securities (“Issuances”) by issuers of MMI Securities (“Issuers”) as well as Maturity Presentments, Income Presentments, Principal Presentments, and Reorganization Presentments (collectively, “Presentments”) (Issuances and Presentments, collectively, “MMI Obligations”). The Proposal would amend the Rules and Settlement Guide to (i) eliminate intra-day reversals of processed but not yet settled MMI Obligations resulting from an MMI Issuing and Paying Agent (“IPA”) notifying DTC of its refusal to pay (“RTP”) for Presentments of an Issuer’s maturing MMI Securities for a designated Acronym;<sup>5</sup> (ii) eliminate the Largest Provisional Net Credit (“LPNC”) risk management control; (iii) provide that the IPA must acknowledge its funding obligations for Presentments and that Receivers of Issuances must approve their receipt of those Issuances in DTC’s Receiver Authorized Delivery (“RAD”) system before DTC would process MMI Presentments; (iv) implement an enhanced process to test risk management controls under certain conditions with respect to an Acronym (to be referred to as MMI Optimization, as defined below); (v) make updates and revisions to the Settlement Processing Schedule in the Settlement Guide

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<sup>1</sup> Available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

<sup>2</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>.

<sup>3</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Distributions%20Service%20Guide%20FINAL%20November%202014.pdf>.

<sup>4</sup> Eligibility for inclusion in the MMI Program covers MMI, which are short-term debt Securities that generally mature 1 to 270 days from their original issuance date. MMI include, but are not limited to, commercial paper, banker’s acceptances and short-term bank notes and are issued by financial institutions, large corporations, or state and local governments. Most MMI trade in large denominations (typically, \$250,000 to \$50 million) and are purchased by institutional investors. Eligibility for inclusion in the MMI Program also covers medium term notes that mature over a longer term.

<sup>5</sup> Rule 1, *supra* note 1. MMI of an Issuer are designated by DTC using unique four-character identifiers employed by DTC referred to as Acronyms. An MMI Issuer can have multiple Acronyms representing its Securities. MMI transactions and other functions relating to MMI (e.g., confirmations and RTP) instructed and/or performed by IPAs, Participants and/or DTC as described herein are performed on an “Acronym-by-Acronym” basis.

(“Processing Schedule”), as described below, (vi) eliminate the “receive versus payment NA” control (“RVPNA”), as described below, and (vii) make other technical and clarifying changes to the text, as more fully described below. In addition, the Proposal would amend the Distributions Guide to make changes to text relating to the processing of Income Presentments so that it is consistent with the changes proposed in the Settlement Guide in that regard, as more fully described below.<sup>6</sup>

(b) Not applicable.

(c) Not applicable.

## **2. Procedures of the Clearing Agency**

(a) The filing of this advance notice with the Securities and Exchange Commission (“Commission”) was approved by the Risk Committee of the Board of Directors of DTC at a meeting duly called and held on December 15, 2015.

## **3. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

Not Applicable.

## **4. Clearing Agency’s Statement on Burden on Competition**

Not applicable.

## **5. Clearing Agency’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

DTC has not solicited and does not intend to solicit comments regarding the Proposal. DTC has not received any unsolicited written comments from interested parties. To the extent DTC receives written comments on the Proposal, DTC will forward such comments to the Commission. DTC has conducted industry outreach with respect to the proposal including discussion with industry associations and IPAs.

## **6. Extension of Time Period for Commission Action**

Not applicable.

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<sup>6</sup> Capitalized terms not otherwise defined herein have the respective meanings set forth in the Rules, the Settlement Guide, and the Distributions Guide.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

*Nature of the Proposed Change*

DTC is proposing to (i) mitigate risk to DTC and Participants relating to intra-day reversals of processed MMI Obligations in the event of an IPA's RTP with respect to maturing obligations ("Maturing Obligations")<sup>7</sup> for an Acronym and/or income payments<sup>8</sup> relating to Presentments for an Acronym, and (ii) reduce blockage for the completion of MMI Obligations by eliminating the LPNC control, as more fully described below.

Background

When an Issuer issues MMI Securities at DTC, the IPA for that Issuer sends issuance instructions to DTC electronically, which results in crediting the applicable MMI Securities to the DTC Account of the IPA. These MMI Securities are then Delivered to the Accounts of applicable Participants that are purchasing the Issuance in accordance with their purchase amounts. These purchasing Participants typically include broker/dealers or banks, acting as

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<sup>7</sup> A Maturing Obligation is a payment owed in settlement by the IPA to the Participant on whose behalf DTC presents the matured MMI Securities.

<sup>8</sup> Principal and income for an Acronym are distributed by an IPA according to a cycle determined by the terms of the issue (e.g., monthly, quarterly, and semi-annually). Such distributions may be for interest only, principal only, or interest and principal.

custodians for institutional investors. The IPA Delivery instructions may be free of payment or, most often, Delivery Versus Payment. Deliveries of MMI are processed pursuant to the same Rules and the applicable Procedures<sup>9</sup> set forth in the Settlement Guide, as are Deliveries generally, whether free or versus payment. Delivery Versus Payment transactions are subject to risk management controls of the IPA and Receiving Participants for Net Debit Cap and Collateral Monitor sufficiency,<sup>10</sup> and payment for Delivery Versus Payment transactions is due from the receiving Participants through DTC's net settlement process. To the extent, if any, that the Participant has a Net Debit Balance in its Settlement Account at end-of-day, payment of that amount is due to DTC.

When MMI Securities mature, the Maturity Presentment process is initiated automatically by DTC on maturity date, starting at approximately 6:00 a.m. Eastern Time ("ET"), for Delivery of matured MMI Securities from the applicable DTC Participants' Accounts to the applicable IPA Accounts. This automated process electronically sweeps all maturing positions of MMI Securities from Participant Accounts and debits the Settlement Account of the applicable IPA for the amount of the Maturing Obligations for Presentments for the Acronym and credits the Settlement Accounts of the Deliverers. In accordance with the Rules, payment is due from the IPA for settlement to the extent, if any, that the IPA has a Net Debit Balance in its Settlement Account at end-of-day.

With regard to DTC net settlement, MMI Issuers and IPAs commonly consider the primary source of payments for Maturing Obligations of MMI Securities to be funded by the proceeds of Issuances of the same Acronym by that Issuer on the same Business Day. Because Presentments are currently processed automatically at DTC, IPAs have the option to refuse to pay for Maturing Obligations to protect against the possibility that an IPA may not be able to

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<sup>9</sup> Pursuant to the Rules, the term "Procedures" means the Procedures, service guides, and regulations of the Corporation adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, supra note 1, at 15. The Procedures applicable to MMI settlement processing are set forth in the Settlement Guide. Supra note 1.

<sup>10</sup> Delivery Versus Payment transfers at DTC are structured so that the completion of Delivery of Securities to a Participant in end-of-day settlement is contingent on the receiving Participant satisfying its end-of-day net settlement obligation, if any. The risk of Participant failure to settle is managed through risk management controls, structured so that DTC may complete settlement despite the failure to settle of the Participant, or Affiliated Family of Participants, with the largest net settlement obligation. The two principal controls are the Net Debit Cap and Collateral Monitor. The largest net settlement obligation of a Participant or Affiliated Family of Participants cannot exceed DTC liquidity resources, based on the Net Debit Cap, and must be fully collateralized, based on the Collateral Monitor. This structure is designed so that DTC may pledge or liquidate Collateral of the defaulting Participant in order to fund settlement among non-defaulting Participants. Liquidity resources, including the Participants Fund and a committed line of credit with a consortium of lenders, are available to complete settlement among non-defaulting Participants.

fund settlement because it has not received funds from the relevant Issuer. An IPA that refuses payment for a Presentment (i.e., refuses to make payment for the Delivery of matured MMI Securities for which it is the designated IPA and/or pay interest or dividend income on an MMI Security for which it is the designated IPA) must notify DTC of its RTP in the DTC Settlement User Interface. An IPA may enter an RTP until 3:00 p.m. ET on the date of the affected Presentment.

Under the current Rules, the effect of an RTP is to instruct DTC to reverse all processed Deliveries of that Acronym, including Issuances, related funds credits and debits, and Presentments. This late day reversal of processed (but not yet settled) transactions may override DTC's risk management controls (i.e., Collateral Monitor and Net Debit Cap) and force a presenting Participant into a Net Debit Balance; this situation poses systemic risk with respect to the Participant's ability to fund its settlement and, hence, DTC's ability to complete end-of-day net funds settlement. Also, the possibility of intra-day reversals of processed MMI Obligations creates uncertainty for Participants.

Currently, to mitigate the risks associated with an RTP, DTC Rules and the Settlement Guide provide for the LPNC risk management control. DTC withholds credit intra-day from each Participant that has a Presentment in the amount of the aggregate of the two largest credits with respect to an Acronym. The LPNC is not included in the calculation of the Participant's Collateral Monitor or its Net Debit Balance. This provides protection in the event that MMI Obligations are reversed by DTC as a result of an RTP.<sup>11</sup>

DTC's Rules and Procedures relating to settlement processing for the MMI Program<sup>12</sup> were designed to limit credit, liquidity, and operational risk for DTC and Participants. In connection with ongoing efforts by DTC to evaluate the risk associated with the processing of MMI Obligations, DTC has determined that the risks presented by intra-day reversals of processed MMI Obligations should be eliminated to prevent the possibility that a reversal could override risk controls and heighten liquidity and settlement risk. Eliminating intra-day reversals of processed MMI Obligations would also enhance intra-day finality and allow for the elimination of the LPNC which creates intra-day blockage and affects liquidity through the withholding of settlement credits.

### Proposal

The Proposal would amend the Rules and the Settlement Guide to eliminate provisions for intra-day reversals of processed MMI Obligations based on an IPA's RTP or Issuer

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<sup>11</sup> See Securities Exchange Act Release No. 71888 (April 7, 2014), 79 FR 20285 (April 11, 2014) (SR-DTC-2014-02) (clarifying the LPNC Procedures in the Settlement Guide) and Securities Exchange Act Release No. 68983 (February 25, 2013), 78 FR 13924 (March 1, 2013) (SR-DTC-2012-10) (updating the Rules related to LPNC).

<sup>12</sup> The Procedures applicable to MMI settlement processing are set forth in the Settlement Guide. Supra note 2.

insolvency. In addition, the Proposal would amend the Distributions Guide to make changes to text relating to the processing of Income Presentments so that it is consistent with the changes proposed in the Settlement Guide in that regard, as more fully described below.

Pursuant to the Proposal, DTC would no longer automatically process Presentments (and Issuances and related deliveries). Rather, except as noted below, DTC would only process these transactions after an acknowledgment (“MMI Funding Acknowledgment”) is made by the IPA to DTC whereby either: (i) the value of receiver-approved<sup>13</sup> Issuances alone,<sup>14</sup> or a combination of receiver-approved Issuances plus an amount the IPA(s) has acknowledged has been funded by the Issuer, exceeds the Acronym’s Presentments; or (ii) the IPA acknowledges it has been funded for the entire amount of the gross value of an Acronym, regardless of Issuances.<sup>15</sup>

DTC anticipates that the Proposal would generally maintain the volume of transactions processed today in terms of the total number and value of transactions that have passed position and risk controls throughout the processing day. However, because of the requirement for the IPA to provide an MMI Funding Acknowledgement prior to processing of an Acronym, the reason why transactions do not complete during the processing day would shift. It is expected that the value and volume of MMI transactions recycling for risk management controls during the late morning and afternoon time periods would be reduced as a result of MMI transactions being held outside of the processing system awaiting an MMI Funding Acknowledgement decision. The non-MMI transactions and fully funded MMI transactions would also likely have a reduction in blockage from risk management controls as a result of the elimination of the LPNC control. The elimination of the LPNC control would no longer withhold billions of dollars of settlement credits until 3:05 p.m. ET as it does today, which would in turn permit these transactions to complete earlier in the day.

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<sup>13</sup> DTC subjects certain transactions to receiver approval in its RAD system.

<sup>14</sup> An affirmative MMI Funding Acknowledgement by the IPA would not be required in the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments since these Issuances would provide the funding of the maturing obligations versus an Issuer having to fund the IPA. The Proposal would provide that in this instance, the IPA is deemed to provide a standing instruction to process transactions in the Acronym, subject to risk management controls. Any such instruction or deemed instruction by the IPA would be irrevocable once given.

<sup>15</sup> In the case where an affirmative MMI Funding Acknowledgment by the IPA would be required for Presentments to be processed, the MMI Funding Acknowledgement would be a notification provided by an IPA to DTC with respect to an Acronym that the IPA acknowledges and affirms its funding obligation for a maturing Acronym either (i) in the entire amount of the Acronym or (ii) for an amount at least equal to the difference between the value of Issuances and the value of the Presentments. In the case of (ii) above, the IPA may (later that day) increase the funding amount it acknowledges, but in no event may the IPA reduce the amount of its obligation previously acknowledged that day.



An IPA would make an MMI Funding Acknowledgment using a new Decision Making Application (“DMA”). When an MMI Funding Acknowledgement has occurred, it would constitute the IPA’s instruction to DTC to attempt to process transactions in the Acronym. At this point, if the IPA has acknowledged that it would fully fund the Acronym, then the transactions would be sent to the processing system and attempted against position and risk management controls. If the IPA provides an MMI Funding Acknowledgement for only partial funding of the entire amount of Presentments for an Acronym, DTC would test risk management controls of Deliverers and Receivers with respect to that Acronym to determine whether risk management controls would be satisfied by all Deliverers and Receivers of the Acronym and determine whether all parties maintain adequate position to complete the applicable transactions (i.e., “MMI Optimization”). In the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments, and thus an affirmative acknowledgment by the IPA would not be required, risk management controls for all Deliverers and Receivers would be tested using MMI Optimization as well.

As indicated above, if partial funding from the IPA is necessary, then transactions would be routed to MMI Optimization. Generally, in MMI Optimization, all Deliverers and Receivers of the Acronym must satisfy risk management controls and delivering Participants must hold sufficient position, in order for the transactions in that Acronym to be processed. However, as long as the Issuances that can satisfy Deliverer and Receiver risk controls for that Acronym are equal to or greater than the Maturing Presentments of that Acronym, the applicable transactions (i.e., those that pass risk controls) would be processed. If there are multiple IPAs for an Acronym, DTC would determine funding based on the satisfaction of conditions for all Receivers and Deliverers with respect to all Presentments, Issuances and applicable Deliver Orders in the Acronym and MMI Funding Acknowledgements for all IPAs with Issuances and Presentments in the Acronym. No instruction of an IPA to DTC to process the subject MMI transactions shall be effective until MMI Optimization is satisfied with respect to all transactions in the Acronym.

If there is no MMI Funding Acknowledgment for the IPA for an Acronym for which Maturing Obligations are due by 3:00 p.m. ET on that day and/or DTC is aware that the Issuer of an Acronym is insolvent (“Acronym Payment Failure”), then DTC would not process transactions in the Acronym.<sup>16</sup>

In the event of an Acronym Payment Failure, DTC would (i) prevent further issuance and maturity activity for the Acronym in DTC’s system, (ii) prevent Deliveries of MMI Securities of the Acronym on failure date and halt all activity in that Acronym, (iii) set the Collateral Value of the MMI Securities in the Acronym to zero for purposes of calculating the Collateral Monitor of any affected Participant, and (iv) notify Participants of the Acronym Payment Failure. Notification would be made through a DTC broadcast through the current process.

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<sup>16</sup> DTC would automatically consider an Acronym Payment Failure occurring due to an IPA’s failure to provide timely MMI Funding Acknowledgement (i.e., provide the acknowledgment by 3:00 p.m. ET) as an RTP.

Notwithstanding the occurrence of an Acronym Payment Failure, the IPA would remain liable for funding pursuant to any MMI Funding Acknowledgment previously provided for that Business Day.

A “Temporary Acronym Payment Failure” with respect to Income Presentments would occur when an IPA notifies DTC that it temporarily refuses to pay Income Presentments for the Acronym (typically due to an Issuer’s inability to fund Income Presentments on that day). A Temporary Acronym Payment Failure would only be initiated if there are no Maturity Presentments, Principal Presentments and/or Reorganization Presentments on that Business Day. DTC expects the Issuer and/or IPA to resolve such a situation by the next Business Day. In the event of a Temporary Acronym Payment Failure, DTC would (i) temporarily devalue to zero all of the Issuer’s MMI Securities for purposes of calculating the Collateral Monitor, unless and until the IPA acknowledges funding with respect to the Income Payments on the following Business Day, (ii) notify Participants of the delayed payment through a DTC broadcast as is the current process today, and (iii) block from DTC’s systems all further Issuances and maturities by that Issuer for the remainder of the Business Day on which notification of the Temporary Payment Failure was received by DTC.

An IPA would not be able to avail itself of a Temporary Acronym Payment Failure for the same Acronym on consecutive Business Days.

Also, in light of the proposed elimination of intra-day reversals of processed MMI Obligations, DTC would also eliminate the RVPNA control. The RVPNA control is provided for in the Settlement Guide and implements current Section 1(c) of Rule 9(B). RVPNA is used to prevent a Participant from Delivering free of value or undervalued any MMI Securities received versus payment on the same Business Day.<sup>17</sup> This protects DTC against being unable to reverse transactions for Deliveries Versus Payment of MMI Securities in the event of an RTP by the IPA.<sup>18</sup> The elimination of reversals of processed MMI Obligations would eliminate the need for the RVPNA control.

#### Proposed Changes to the Rules, Settlement Guide, and Distributions Guide

DTC would amend the text of Rule 1 (Definitions), Rule 9(A) (Transactions in Securities and Money Payments), Rule 9(B) (Transactions in Eligible Securities), Rule 9(C) (Transactions in MMI Securities), the Settlement Guide and the Distributions Guide to reflect the proposed changes described above. Specifically:

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<sup>17</sup> For purposes of RVPNA, MMI Securities are considered undervalued if they are Delivered Versus Payment for less than 10 percent below market value.

<sup>18</sup> For example, if A Delivers MMI Securities to B versus payment and B Delivers the same MMI Securities to C free of payment (subject to risk management controls), under Rule 9(B), Section 1, the Delivery to C is final when the securities are credited to C. DTC would therefore be unable to reverse the Delivery to C and thus it cannot reverse the Delivery from B to A.

- (i) Rule 1 would be amended to:
  - a. Delete the definition of LPNC; and
  - b. Add a cross-reference to indicate that the terms MMI Funding Acknowledgment and MMI Optimization would be defined in Section 1 of Rule 9(C).
  
- (ii) Rule 9(A) would be amended to add text providing that an instruction to DTC from a Participant for Delivery Versus Payment of MMI Securities pursuant to Rule 9(C) shall not be effective unless and until applicable conditions specified in Rule 9(C) as set forth below have been satisfied.
  
- (iii) Rule 9(B) would be amended to:
  - a. Eliminate text referencing the LPNC;
  - b. Eliminate the provision precluding DTC from acting on an instruction for Delivery of MMI Securities subject of an Incomplete Transaction if the instruction involves a Free Delivery, Pledge or Release of Securities or a Delivery, Pledge or Release of Securities substantially undervalued; and
  - c. Add text providing that an instruction to DTC from a Participant for Delivery Versus Payment of MMI Securities pursuant to Rule 9(C) shall not be effective unless and until the applicable conditions specified in Rule 9(C) described below have been satisfied.
  
- (iv) Rule 9(C) would be amended to:
  - a. Add the definitions of MMI Funding Acknowledgment and MMI Optimization to reflect the meaning of these terms as described above;
  - b. Add text that Delivery Versus Payment of MMI Securities would be affected in accordance with Rules 9(A), 9(B) and the Settlement Guide in addition to Rule 9(C);
  - c. Add text indicating that instructions by a Presenting Participant for a Presentment or Delivery of MMI Securities would be deemed to be given only when any applicable MMI Funding Acknowledgment has been received by DTC;
  - d. Remove conditions and references relating to reversals of processed MMI Obligations;
  - e. Set forth conditions for the processing of Presentments, including:
    - i. The requirement for the IPA to provide an MMI Funding Acknowledgment, except in the case where the aggregate amount of Issuances exceeds Presentments;
    - ii. Satisfaction of risk management controls and RAD;
    - iii. That an instruction to DTC with respect to an Issuance or Presentment shall become effective upon satisfaction of the provisions described in i. and ii. immediately above;
    - iv. That DTC shall comply with an effective instruction;
    - v. That the IPA acknowledges and agrees that DTC would process instructions with respect to Issuances and Presentments as described above and that the IPA's obligations in this regard are irrevocable; and

- vi. That if the IPA notifies DTC in writing of its insolvency, or if DTC otherwise has notice, or if the IPA issues a Payment Refusal for the Acronym, then the IPA would not be required to acknowledge its obligations and DTC would not be required to process any further instructions with respect to the applicable Acronym;
  - f. Eliminate references to MMI Securities being devalued in the event of an RTP because in the event of any payment failure by the IPA, DTC would then revert to the Acronym Payment Failure Process described below; and
  - g. Delete a reference indicating that DTC's Failure to Settle Procedure includes special provisions for MMI Securities.
  
- (v) The Settlement Guide would be amended to:
  - a. Delete the description of, and all references and provisions related to, LPNC;
  - b. Delete: (A) the definition of RVPNA, (B) a provision that transactions for MMI Securities that are deemed RVPNA would recycle pending release of the LPNC control at 3:05 p.m. ET, and (C) a note that MMI Securities received versus payment are not allowed to be freely moved until the LPNC control is released;
  - c. Add a description of "Unknown Rate" to provide for a placeholder in the Settlement Guide for references to an interest rate where payment of interest by an IPA to Receivers is scheduled but the interest rate to be paid is not known at the time;
  - d. Change the heading of the section currently named "Establishing Your Net Debit Cap" to "Limitation of Participant Net Debit Caps by Settling Banks" to reflect the context of that section more specifically;
  - e. Revise the Settlement Processing Schedule to:
    - i. Add a cutoff time of 2:30 p.m. ET for an IPA to replace the Unknown Rate with a final interest rate and state that the IPA must successfully transmit the final rate to DTC before 2:30 p.m. ET;
    - ii. Add a cutoff time of 2:55 p.m. ET after which Issuances and Presentments cannot be processed on the given Business Day because the conditions described above for processing of MMI Obligations have not been met;
    - iii. Remove a reference for a cutoff relating to reversals of MMI Obligations since reversals would no longer occur as described above;
    - iv. Define 3 p.m. ET as the cutoff time for any required MMI Funding Acknowledgements to be received in order for DTC to be able to process for a given Acronym that day;
    - v. Add at cutoff time of 3 p.m. ET for an IPA to notify DTC of a Temporary Acronym Payment Failure;
    - vi. Delete a reference to the release of LPNC controls as LPNC would no longer exist; and
    - vii. Clarify that a 3:10 p.m. ET cutoff after which CNS transactions that cannot be completed would be dropped from the system, also applies to valued transactions in non-MMI Securities and fully paid for and secondary MMI Deliveries or Maturity Presentments;

- f. Add a section describing MMI Processing to include a description of MMI Funding Acknowledgments and the MMI Optimization process as described above;
  - g. Revise the section referencing provisions for “Issuer Failure Processing” to instead describe Acronym Payment Failure Processing and Temporary Acronym Payment Failure Process, as these processes are described above, since the contingencies for processing a payment failure hinge on the failure of payment on an Acronym by an IPA regardless of whether it is ultimately caused by an Issuer insolvency or otherwise;
  - h. Remove a duplicate reference to the DTC contact number for Participants/IPAs to call in the event of an Acronym Payment Failure;
  - i. Remove the description of the “MMI IPA MP Pend” process which was designed to allow IPAs to minimize the impact of potential reversals of processed MMI Obligations; as such reversals would no longer occur; and
  - j. Change the name of the section named “Calculating Your Net Debit Cap” to “Calculation of Participant Net Debit Caps”.
- (vi) The Distributions Guide would be amended to (i) delete language reflecting that Income Presentments are processed at the start-of-day, and (ii) add a brief description of the processing of Presentments as proposed above and provide a cross-reference to the Settlement Guide relating to MMI settlement processing.
- (vii) The Proposal would also make technical and clarifying changes to the texts of the Rules and Settlement Guide for consistency throughout the texts in describing the concepts and terms set forth above, make corrections to grammar and spacing and edit text to provide for enhanced readability.

### Implementation

The Proposal would be implemented in phases whereby Acronyms would be migrated to be processed in accordance with the Proposal over a period of five months beginning in November 2016 and with all Acronyms expected to be implemented by the end of March 2017, except for the implementation of the elimination of the Rule and Settlement Guide provisions relating to RVPNA which elimination would not occur until all other aspects of the Proposal are implemented with respect to all Acronyms. DTC would announce phased implementation dates for the Proposal via Important Notice upon all applicable regulatory approval by the Commission.

### *Expected Effect on Risks to DTC, Its Participants, or the Market*

As described above, the Proposal would amend the Rules and the Settlement Guide to: (i) eliminate provisions for intra-day reversals of processed MMI Obligations based on an IPA’s RTP or Issuer insolvency, (ii) impose a new requirement on IPAs to provide DTC an MMI Funding Acknowledgment, (iii) remove the LPNC risk management control; and (iv) implement MMI Optimization.

### Elimination of Intra-day Reversals

As noted above, under the current DTC Rules, intraday reversals of MMI Obligations may override DTC's risk management controls (i.e., Collateral Monitor and Net Debit Cap) and force a presenting Participant into an otherwise unanticipated Net Debit Balance at the end-of-day; this situation poses systemic risk with respect to the Participant's ability to fund its settlement and, hence, DTC's ability to complete end-of-day net funds settlement. The proposed elimination of intra-day reversals of processed MMI Obligations would decrease risk to DTC, its Participants and the marketplace by eliminating the settlement risk associated with such reversals, improving settlement finality.

### IPAs' Obligation to Provide an MMI Funding Acknowledgment

Pursuant to the Proposal, DTC would no longer automatically process Presentments (and Issuances and related deliveries). Rather, as applicable, DTC would only process these transactions after receiving an MMI Funding Acknowledgment from the IPA. In this regard, once an IPA provides an MMI Funding Acknowledgment, its ability to notify DTC of an RTP would be limited as it would not be allowed to reduce the amount of its obligation previously acknowledged that day.<sup>19</sup> This provision of the Proposal would facilitate the elimination of intra-day reversals, as described above, and, therefore, decrease settlement risk for DTC and its Participants.

### Removal of the LPNC Control

Currently, the LPNC control exists to mitigate the risks associated with an RTP by withholding credit intra-day from each Participant in the amount of the aggregate of the two largest credits with respect to Presentment of an Acronym. DTC expects that the proposed elimination of the LPNC control and the attendant intraday withholding of credits would reduce the risk of intraday liquidity blockages within DTC's system for Participant activity, for both MMI and non-MMI transactions, because at any point intraday, Participants would have a true view of their Net Debit Balances or Net Credit Balances and be able to respond accordingly.

### MMI Optimization

As described above, as applicable, DTC would test risk management controls of Deliverers and Receivers using the proposed MMI Optimization process with respect to the Acronym to determine whether risk management controls would be satisfied by all Deliverers and Receivers of the Acronym and determine whether all Deliverers maintain adequate position to complete the applicable transactions. As described above, the application of MMI

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<sup>19</sup> As noted above, an affirmative MMI Funding Acknowledgement by the IPA would not be required in the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments since these Issuances would provide the funding of the maturing obligations versus an Issuer having to fund the IPA. The Proposal would provide that in this instance, the IPA is deemed to provide a standing instruction to process transactions in the Acronym, subject to risk management controls. Any such instruction or deemed instruction by the IPA would be irrevocable once given.

Optimization to MMI transactions, as applicable, would facilitate timely processing of transactions under the proposal and reduce the risk to Participants that transactions may not settle due to failure to satisfy risk controls.

*Management of Identified Risks*

The proposed requirement for an IPA to provide DTC an MMI Funding Acknowledgment prior to DTC's processing of affected MMI transactions, as applicable, would replace DTC's current automatic processing of MMI Transactions. The fact that such transactions would not be processed until an MMI Funding Acknowledgment is provided by the IPA may create a risk of blockage of MMI transactions by Participants. However, DTC anticipates that the various aspects of the Proposal taken together would offset any such risk and reduce the risk of blockage overall for both MMI and non-MMI transactions because of the effect of (i) the removal of the LPNC control would eliminate the attendant withholding of settlement credits from Participants intraday net settlement balances, and (ii) increased efficiency in the testing of risk controls through the MMI Optimization process, as described above, would reduce the volume of MMI transactions that might otherwise recycle pending passing of risk management controls.

*Consistency with the Clearing Supervision Act*

The Proposal is consistent with Section 805(b) of the Payment, Clearing and Settlement Supervision Act ("Clearing Supervision Act").<sup>20</sup> The objectives and principles of Section 805(b) of the Clearing Supervision Act are the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks, and support of the stability of the broader financial system.<sup>21</sup>

DTC believes that the Proposal is consistent with the provisions of the Clearing Supervision Act because the elimination of reversals of MMI transactions would promote intraday settlement finality and protect end-of day settlement from the risk of the failure to settle by IPAs or affected Participants by removing the risk exposure due to the override of DTC's risk management controls (i.e., Collateral Monitor and Net Debit Cap) to process reversals under current rules. As such the Proposal would promote the robustness of DTC's risk management controls.

DTC also believes that the Proposal is consistent with the provisions of the Clearing Supervision Act because the elimination of the risk that a Participant could incur a Net Debit Balance that exceeds DTC's risk controls caused by an intra-day reversal of processed (but not yet settled) MMI Obligations would promote both the safety and soundness of DTC's system and reduce systemic risks by (i) reducing the risk of a shortfall in a defaulting Participant's collateral available for DTC to use to satisfy the defaulting Participant's

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<sup>20</sup> 12 U.S.C. 5464(b).

<sup>21</sup> Id.

settlement obligations, and (ii) reducing the risk that a Participant default could impose a strain on DTC's liquidity resources and affect DTC's ability to complete system-wide settlement that day.

In addition, DTC believes that the Proposal would be consistent with Rule 17Ad-22(d)(12) promulgated under the Act.<sup>22</sup> Rule 17Ad-22(d)(12) requires that each registered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, ensure that final settlement occurs no later than the end of the settlement day; and requires that intraday or real-time finality be provided where necessary to reduce risks.<sup>23</sup> The Proposal would eliminate the intra-day reversals of processed MMI transactions that are pending for end of day system wide net settlement, thus promoting settlement finality and eliminating the possibility that an intraday reversal could heighten liquidity and settlement risk, as discussed above. As such, DTC believes the Proposal is consistent with Rule 17Ad-22(d)(12).

Taking each of the above points collectively (i.e., the Proposal's promotion of robust risk management, safety and soundness, reduced systemic risk, and consistency with Rule 17Ad-22(d)(12)). DTC believes the Proposal supports the overall stability of the broader financial system consistent with the Clearing Supervision Act.

## **11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of advance notice for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules, Settlement Guide, and Distributions Guide.

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<sup>22</sup> 17 CFR 240.17Ad-22(d)(12).

<sup>23</sup> Id.



**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-DTC-2016-802)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of Advance Notice Relating to Processing of Transactions in Money Market Instruments

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”)<sup>1</sup> and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 (“Act”),<sup>2</sup> notice is hereby given that on September [\_\_], 2016, The Depository Trust Company (“DTC”) filed with the Securities and Exchange Commission (“Commission”) the advance notice SR-DTC-2016-802 (“Advance Notice”) as described in Items I, II and III below, which Items have been prepared by the clearing agency.<sup>3</sup> The Commission is publishing this notice to solicit comments on the Advance Notice from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Advance Notice

This Advance Notice consists of modifications to (i) the DTC Rules, By-laws and Organization Certificate (“Rules”),<sup>4</sup> (ii) the DTC Settlement Service Guide (“Settlement

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<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>3</sup> On September [ ], 2016, DTC filed this Advance Notice as a proposed rule change (SR-DTC-2016-008) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule 19b-4, 17 CFR 240.19b-4. A copy of the proposed rule change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

<sup>4</sup> Available at <http://www.dtcc.com/legal/rules-and-procedures.aspx>.

Guide”),<sup>5</sup> and (iii) the DTC Distributions Service Guide (“Distributions Guide”),<sup>6</sup> annexed hereto as Exhibit 5 (“Proposal”). The Proposal would modify the Rules, Settlement Guide, and Distributions Guide to establish a change in the processing of transactions in money market instruments (“MMI”) that are processed in DTC’s MMI Program (“MMI Securities”).<sup>7</sup> The Proposal would affect DTC’s processing of issuances of MMI Securities (“Issuances”) by issuers of MMI Securities (“Issuers”) as well as Maturity Presentments, Income Presentments, Principal Presentments, and Reorganization Presentments (collectively, “Presentments”) (Issuances and Presentments, collectively “MMI Obligations”). The Proposal would amend the Rules and Settlement Guide to (i) eliminate intra-day reversals of processed but not yet settled MMI Obligations resulting from an Issuing and Paying Agent (“IPA”) notifying DTC of its refusal to pay (“RTP”) for Presentments of an Issuer’s maturing MMI Securities for a

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<sup>5</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>.

<sup>6</sup> Available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Distributions%20Service%20Guide%20FINAL%20November%202014.pdf>.

<sup>7</sup> Eligibility for inclusion in the MMI Program covers MMI, which are short-term debt Securities that generally mature 1 to 270 days from their original issuance date. MMI include, but are not limited to, commercial paper, banker’s acceptances and short-term bank notes and are issued by financial institutions, large corporations, or state and local governments. Most MMI trade in large denominations (typically, \$250,000 to \$50 million) and are purchased by institutional investors. Eligibility for inclusion in the MMI Program also covers medium term notes that mature over a longer term.

designated Acronym;<sup>8</sup> (ii) eliminate the Largest Provisional Net Credit (“LPNC”) risk management control; (iii) provide that the IPA must acknowledge its funding obligations for Presentments and that Receivers of Issuances must approve their receipt of those Issuances in DTC’s Receiver Authorized Delivery (“RAD”) system before DTC would process MMI Presentments; (iv) implement an enhanced process to test risk management controls under certain conditions with respect to an Acronym (to be referred to as MMI Optimization, as defined below); (v) make updates and revisions to the Settlement Processing Schedule in the Settlement Guide (“Processing Schedule”), as described below, (vi) eliminate the “receive versus payment NA” control (“RVPNA”), as described below, and (vii) make other technical and clarifying changes to the text, as more fully described below. In addition, the Proposal would amend the Distributions Guide to make changes to text relating to the processing of Income Presentments so that it is consistent with the changes proposed in the Settlement Guide in that regard, as more fully described below.<sup>9</sup>

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the Advance Notice and discussed any comments

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<sup>8</sup> Rule 1, supra note 4. MMI of an Issuer are designated by DTC using unique four-character identifiers employed by DTC referred to as Acronyms. An MMI Issuer can have multiple Acronyms representing its Securities. MMI Transactions and other functions relating to MMI (e.g., confirmations and RTP) instructed and/or performed by IPAs, Participants and/or DTC as described herein are performed on an “Acronym-by-Acronym” basis.

<sup>9</sup> Capitalized terms not otherwise defined herein have the respective meanings set forth in the Rules, the Settlement Guide, and the Distributions Guide.

it received on the Advance Notice. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A and B below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement on Comments on the Advance Notice Received from Members, Participants, or Others

DTC has not solicited and does not intend to solicit comments regarding the Proposal. DTC has not received any unsolicited written comments from interested parties. To the extent DTC receives written comments on the Proposal, DTC will forward such comments to the Commission. DTC has conducted industry outreach with respect to the proposal including discussion with industry associations and IPAs.

(B) Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

*Nature of the Proposed Change*

DTC is proposing to (i) mitigate risk to DTC and Participants relating to intra-day reversals of processed MMI Obligations in the event of an IPA's RTP with respect to maturing obligations ("Maturing Obligations")<sup>10</sup> for an Acronym and/or income payments<sup>11</sup> relating to Presentments for an Acronym, and (ii) reduce blockage for the completion of MMI Obligations by eliminating the LPNC control, as more fully described below.

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<sup>10</sup> A Maturing Obligation is a payment owed in settlement by the IPA to the Participant on whose behalf DTC presents the matured MMI Securities.

<sup>11</sup> Principal and income for an Acronym are distributed by an IPA according to a cycle determined by the terms of the issue (e.g., monthly, quarterly, and semi-annually). Such distributions may be for interest only, principal only, or interest and principal.

### Background

When an Issuer issues MMI Securities at DTC, the IPA for that Issuer sends issuance instructions to DTC electronically, which results in crediting the applicable MMI Securities to the DTC Account of the IPA. These MMI Securities are then Delivered to the Accounts of applicable Participants that are purchasing the Issuance in accordance with their purchase amounts. These purchasing Participants typically include broker/dealers or banks, acting as custodians for institutional investors. The IPA Delivery instructions may be free of payment or, most often, Delivery Versus Payment. Deliveries of MMI are processed pursuant to the same Rules and the applicable Procedures<sup>12</sup> set forth in the Settlement Guide, as are Deliveries generally, whether free or versus payment. Delivery Versus Payment transactions are subject to risk management controls of the IPA and Receiving Participants for Net Debit Cap and Collateral Monitor sufficiency,<sup>13</sup> and payment for Delivery Versus Payment transactions

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<sup>12</sup> Pursuant to the Rules, the term “Procedures” means the Procedures, service guides, and regulations of the Corporation adopted pursuant to Rule 27, as amended from time to time. See Rule 1, Section 1, supra note 4, at 15. The Procedures applicable to MMI settlement processing are set forth in the Settlement Guide. Supra note 5.

<sup>13</sup> Delivery Versus Payment transfers at DTC are structured so that the completion of Delivery of Securities to a Participant in end-of-day settlement is contingent on the receiving Participant satisfying its end-of-day net settlement obligation, if any. The risk of Participant failure to settle is managed through risk management controls, structured so that DTC may complete settlement despite the failure to settle of the Participant, or Affiliated Family of Participants, with the largest net settlement obligation. The two principal controls are the Net Debit Cap and Collateral Monitor. The largest net settlement obligation of a Participant or Affiliated Family of Participants cannot exceed DTC liquidity resources, based on the Net Debit Cap, and must be fully collateralized, based on the Collateral Monitor. This structure is designed so that DTC may pledge or liquidate Collateral of the defaulting Participant in order to fund settlement among non-defaulting Participants. Liquidity resources, including the Participants Fund and a

is due from the receiving Participants through DTC's net settlement process. To the extent, if any, that the Participant has a Net Debit Balance in its Settlement Account at end-of-day, payment of that amount is due to DTC.

When MMI Securities mature, the Maturity Presentment process is initiated automatically by DTC on maturity date, starting at approximately 6:00 a.m. Eastern Time ("ET"), for Delivery of matured MMI Securities from the applicable DTC Participants' Accounts to the applicable IPA Accounts. This automated process electronically sweeps all maturing positions of MMI Securities from Participant Accounts and debits the Settlement Account of the applicable IPA for the amount of the Maturing Obligations for Presentments for the Acronym and credits the Settlement Accounts of the Deliverers. In accordance with the Rules, payment is due from the IPA for settlement to the extent, if any, that the IPA has a Net Debit Balance in its Settlement Account at end-of-day.

With regard to DTC net settlement, MMI Issuers and IPAs commonly consider the primary source of payments for Maturing Obligations of MMI Securities to be funded by the proceeds of Issuances of the same Acronym by that Issuer on the same Business Day. Because Presentments are currently processed automatically at DTC, IPAs have the option to refuse to pay for Maturing Obligations to protect against the possibility that an IPA may not be able to fund settlement because it has not received funds from the relevant Issuer. An IPA that refuses payment for a Presentment (i.e., refuses to make payment for the Delivery of matured MMI Securities for which it is the designated IPA and/or pay interest or dividend income on an MMI Security for which it is the designated

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committed line of credit with a consortium of lenders, are available to complete settlement among non-defaulting Participants.

IPA) must notify DTC of its RTP in the DTC Settlement User Interface. An IPA may enter an RTP until 3:00 p.m. ET on the date of the affected Presentment.

Under the current Rules, the effect of an RTP is to instruct DTC to reverse all processed Deliveries of that Acronym, including Issuances, related funds credits and debits, and Presentments. This late day reversal of processed (but not yet settled) transactions may override DTC's risk management controls (i.e., Collateral Monitor and Net Debit Cap) and force a presenting Participant into a Net Debit Balance; this situation poses systemic risk with respect to the Participant's ability to fund its settlement and, hence, DTC's ability to complete end-of-day net funds settlement. Also, the possibility of intra-day reversals of processed MMI Obligations creates uncertainty for Participants.

Currently, to mitigate the risks associated with an RTP, DTC Rules and the Settlement Guide provide for the LPNC risk management control. DTC withholds credit intra-day from each Participant that has a Presentment in the amount of the aggregate of the two largest credits with respect to an Acronym. The LPNC is not included in the calculation of the Participant's Collateral Monitor or its Net Debit Balance. This provides protection in the event that MMI Obligations are reversed by DTC as a result of an RTP.<sup>14</sup>

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<sup>14</sup> See Securities Exchange Act Release No. 71888 (April 7, 2014), 79 FR 20285 (April 11, 2014) (SR-DTC-2014-02) (clarifying the LPNC Procedures in the Settlement Guide) and Securities Exchange Act Release No. 68983 (February 25, 2013), 78 FR 13924 (March 1, 2013) (SR-DTC-2012-10) (updating the Rules related to LPNC).

DTC's Rules and Procedures relating to settlement processing for the MMI Program<sup>15</sup> were designed to limit credit, liquidity, and operational risk for DTC and Participants. In connection with ongoing efforts by DTC to evaluate the risk associated with the processing of MMI Obligations, DTC has determined that the risks presented by intra-day reversals of processed MMI Obligations should be eliminated to prevent the possibility that a reversal could override risk controls and heighten liquidity and settlement risk. Eliminating intra-day reversals of processed MMI Obligations would also enhance intra-day finality and allow for the elimination of the LPNC which creates intra-day blockage and affects liquidity through the withholding of settlement credits.

#### Proposal

The Proposal would amend the Rules and the Settlement Guide to eliminate provisions for intra-day reversals of processed MMI Obligations based on an IPA's RTP or Issuer insolvency. In addition, the Proposal would amend the Distributions Guide to make changes to text relating to the processing of Income Presentments so that it is consistent with the changes proposed in the Settlement Guide in that regard, as more fully described below.

Pursuant to the Proposal, DTC would no longer automatically process Presentments (and Issuances and related deliveries). Rather, except as noted below, DTC would only process these transactions after an acknowledgment ("MMI Funding Acknowledgment") is made by the IPA to DTC whereby either: (i) the value of receiver-

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<sup>15</sup> The Procedures applicable to MMI settlement processing are set forth in the Settlement Guide. Supra note 5.



approved<sup>16</sup> Issuances alone,<sup>17</sup> or a combination of receiver-approved Issuances plus an amount the IPA(s) has acknowledged has been funded by the Issuer, exceeds the Acronym's Presentments; or (ii) the IPA acknowledges it has been funded for the entire amount of the gross value of an Acronym, regardless of Issuances.<sup>18</sup>

DTC anticipates that the Proposal would generally maintain the volume of transactions processed today in terms of the total number and value of transactions that have passed position and risk controls throughout the processing day. However, because of the requirement for the IPA to provide an MMI Funding Acknowledgement prior to processing of an Acronym, the reason why transactions do not complete during the processing day would shift. It is expected that the value and volume of MMI transactions recycling for risk management controls during the late morning and afternoon time periods would be reduced as a result of MMI transactions being held outside of the

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<sup>16</sup> DTC subjects certain transactions to receiver approval in its RAD system.

<sup>17</sup> An affirmative MMI Funding Acknowledgement by the IPA would not be required in the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments since these Issuances would provide the funding of the maturing obligations versus an Issuer having to fund the IPA. The Proposal would provide that in this instance, the IPA is deemed to provide a standing instruction to process transactions in the Acronym, subject to risk management controls. Any such instruction or deemed instruction by the IPA would be irrevocable once given.

<sup>18</sup> In the case where an affirmative MMI Funding Acknowledgment by the IPA would be required for Presentments to be processed, the MMI Funding Acknowledgement would be a notification provided by an IPA to DTC with respect to an Acronym that the IPA acknowledges and affirms its funding obligation for a maturing Acronym either (i) in the entire amount of the Acronym or (ii) for an amount at least equal to the difference between the value of Issuances and the value of the Presentments. In the case of (ii) above, the IPA may (later that day) increase the funding amount it acknowledges, but in no event may the IPA reduce the amount of its obligation previously acknowledged that day.

processing system awaiting an MMI Funding Acknowledgement decision. The non-MMI transactions and fully funded MMI transactions would also likely have a reduction in blockage from risk management controls as a result of the elimination of the LPNC control. The elimination of the LPNC control would no longer withhold billions of dollars of settlement credits until 3:05 p.m. ET as it does today, which would in turn permit these transactions to complete earlier in the day.

An IPA would make an MMI Funding Acknowledgment using a new Decision Making Application (“DMA”). When an MMI Funding Acknowledgement has occurred, it would constitute the IPA’s instruction to DTC to attempt to process transactions in the Acronym. At this point, if the IPA has acknowledged that it would fully fund the Acronym, then the transactions would be sent to the processing system and attempted against position and risk management controls. If the IPA provides an MMI Funding Acknowledgement for only partial funding of the entire amount of Presentments for an Acronym, DTC would test risk management controls of Deliverers and Receivers with respect to that Acronym to determine whether risk management controls would be satisfied by all Deliverers and Receivers of the Acronym and determine whether all parties maintain adequate position to complete the applicable transactions, i.e., “MMI Optimization”. In the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments, and thus an affirmative acknowledgment by the IPA would not be required, risk management controls for all Deliverers and Receivers would be tested using MMI Optimization as well.

As indicated above, if partial funding from the IPA is necessary, then transactions would be routed to MMI Optimization. Generally, in MMI Optimization, all Deliverers

and Receivers of the Acronym must satisfy risk management controls and delivering Participants must hold sufficient position, in order for the transactions in that Acronym to be processed. However, as long as the Issuances that can satisfy Deliverer and Receiver risk controls for that Acronym are equal to or greater than the Maturing Presentments of that Acronym, the applicable transactions (i.e., those that pass risk controls) would be processed. If there are multiple IPAs for an Acronym, DTC would determine funding based on the satisfaction of conditions for all Receivers and Deliverers with respect to all Presentments, Issuances and applicable Delivery Orders in the Acronym and MMI Funding Acknowledgements for all IPAs with Issuances and Presentments in the Acronym. No instruction of an IPA to DTC to process the subject MMI transactions shall be effective until MMI Optimization is satisfied with respect to all transactions in the Acronym.

If there is no MMI Funding Acknowledgment for the IPA for an Acronym for which Maturing Obligations are due by 3:00 p.m. ET on that day and/or DTC is aware that the Issuer of an Acronym is insolvent (“Acronym Payment Failure”), then DTC would not process transactions in the Acronym.<sup>19</sup>

In the event of an Acronym Payment Failure, DTC would (i) prevent further issuance and maturity activity for the Acronym in DTC’s system, (ii) prevent Deliveries of MMI Securities of the Acronym on failure date and halt all activity in that Acronym, (iii) set the Collateral Value of the MMI Securities in the Acronym to zero for purposes of calculating the Collateral Monitor of any affected Participant, and (iv) notify

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<sup>19</sup> DTC would automatically consider an Acronym Payment Failure occurring due to an IPA’s failure to provide timely MMI Funding Acknowledgement (i.e., provide the acknowledgment by 3:00 p.m. ET) as an RTP.

Participants of the Acronym Payment Failure. Notification would be made through a DTC broadcast through the current process.

Notwithstanding the occurrence of an Acronym Payment Failure, the IPA would remain liable for funding pursuant to any MMI Funding Acknowledgment previously provided for that Business Day.

A “Temporary Acronym Payment Failure” with respect to Income Presentments would occur when an IPA notifies DTC that it temporarily refuses to pay Income Presentments for the Acronym (typically due to an Issuer’s inability to fund Income Presentments on that day). A Temporary Acronym Payment Failure would only be initiated if there are no Maturity Presentments, Principal Presentments and/or Reorganization Presentments on that Business Day. DTC expects the Issuer and/or IPA to resolve such a situation by the next Business Day. In the event of a Temporary Acronym Payment Failure, DTC would (i) temporarily devalue to zero all of the Issuer's MMI Securities for purposes of calculating the Collateral Monitor, unless and until the IPA acknowledges funding with respect to the Income Payments on the following Business Day, (ii) notify Participants of the delayed payment through a DTC broadcast as is the current process today, and (iii) block from DTC’s systems all further Issuances and maturities by that Issuer for the remainder of the Business Day on which notification of the Temporary Payment Failure was received by DTC.

An IPA would not be able to avail itself of a Temporary Acronym Payment Failure for the same Acronym on consecutive Business Days.

Also, in light of the proposed elimination of intra-day reversals of processed MMI Obligations, DTC would also eliminate the RVPNA control. The RVPNA control is

provided for in the Settlement Guide and implements current Section 1(c) of Rule 9(B). RVPNA is used to prevent a Participant from Delivering free of value or undervalued any MMI Securities received versus payment on the same Business Day.<sup>20</sup> This protects DTC against being unable to reverse transactions for Deliveries Versus Payment of MMI Securities in the event of an RTP by the IPA.<sup>21</sup> The elimination of reversals of processed MMI Obligations would eliminate the need for the RVPNA control.

Proposed Changes to the Rules, Settlement Guide, and Distributions Guide

DTC would amend the text of Rule 1 (Definitions), Rule 9(A) (Transactions in Securities and Money Payments), Rule 9(B) (Transactions in Eligible Securities), Rule 9(C) (Transactions in MMI Securities), the Settlement Guide and the Distributions Guide to reflect the proposed changes described above. Specifically:

- (i) Rule 1 would be amended to:
  - a. Delete the definition of LPNC; and
  - b. Add a cross-reference to indicate that the terms MMI Funding Acknowledgment and MMI Optimization would be defined in Section 1 of Rule 9(C).
- (ii) Rule 9(A) would be amended to add text providing that an instruction to DTC from a Participant for Delivery Versus Payment of MMI Securities

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<sup>20</sup> For purposes of RVPNA, MMI Securities are considered undervalued if they are Delivered Versus Payment for less than 10 percent below market value.

<sup>21</sup> For example, if A Delivers MMI Securities to B versus payment and B Delivers the same MMI Securities to C free of payment (subject to risk management controls), under Rule 9(B), Section 1, the Delivery to C is final when the securities are credited to C. DTC would therefore be unable to reverse the Delivery to C and thus it cannot reverse the Delivery from B to A.

pursuant to Rule 9(C) shall not be effective unless and until applicable conditions specified in Rule 9(C) as set forth below have been satisfied.

(iii) Rule 9(B) would be amended to:

- a. Eliminate text referencing the LPNC;
- b. Eliminate the provision precluding DTC from acting on an instruction for Delivery of MMI Securities subject of an Incomplete Transaction if the instruction involves a Free Delivery, Pledge or Release of Securities or a Delivery, Pledge or Release of Securities substantially undervalued; and
- c. Add text providing that an instruction to DTC from a Participant for Delivery Versus Payment of MMI Securities pursuant to Rule 9(C) shall not be effective unless and until the applicable conditions specified in Rule 9(C) described below have been satisfied.

(iv) Rule 9(C) would be amended to:

- a. Add the definitions of MMI Funding Acknowledgment and MMI Optimization to reflect the meaning of these terms as described above;
- b. Add text that Delivery Versus Payment of MMI Securities would be affected in accordance with Rules 9(A), 9(B) and the Settlement Guide in addition to Rule 9(C);
- c. Add text indicating that instructions by a Presenting Participant for a Presentment or Delivery of MMI Securities would be deemed to

be given only when any applicable MMI Funding

Acknowledgment has been received by DTC;

- d. Remove conditions and references relating to reversals of processed MMI Obligations;
- e. Set forth conditions for the processing of Presentments, including:
  - i. The requirement for the IPA to provide an MMI Funding Acknowledgment, except in the case where the aggregate amount of Issuances exceeds Presentments;
  - ii. Satisfaction of risk management controls and RAD;
  - iii. That an instruction to DTC with respect to an Issuance or Presentment shall become effective upon satisfaction of the provisions described in i. and ii. immediately above;
  - iv. That DTC shall comply with an effective instruction;
  - v. That the IPA acknowledges and agrees that DTC would process instructions with respect to Issuances and Presentments as described above and that the IPA's obligations in this regard are irrevocable; and
  - vi. That if the IPA notifies DTC in writing of its insolvency, or if DTC otherwise has notice, or if the IPA issues a Payment Refusal for the Acronym, then the IPA would not be required to acknowledge its obligations and DTC would not be required to process any further instructions with respect to the applicable Acronym;

- f. Eliminate references to MMI Securities being devalued in the event of an RTP because in the event of any payment failure by the IPA, DTC would then revert to the Acronym Payment Failure Process described below; and
  - g. Delete a reference indicating that DTC's Failure to Settle Procedure includes special provisions for MMI Securities.
- (v) The Settlement Guide would be amended to:
- a. Delete the description of, and all references and provisions related to, LPNC;
  - b. Delete: (A) the definition of RVPNA, (B) a provision that transactions for MMI Securities that are deemed RVPNA would recycle pending release of the LPNC control at 3:05 p.m. ET, and (C) a note that MMI Securities received versus payment are not allowed to be freely moved until the LPNC control is released;
  - c. Add a description of "Unknown Rate" to provide for a placeholder in the Settlement Guide for references to an interest rate where payment of interest by an IPA to Receivers is scheduled but the interest rate to be paid is not known at the time;
  - d. Change the heading of the section currently named "Establishing Your Net Debit Cap" to "Limitation of Participant Net Debit Caps by Settling Banks" to reflect the context of that section more specifically;
  - e. Revise the Settlement Processing Schedule to:



- i. Add a cutoff time of 2:30 p.m. ET for an IPA to replace the Unknown Rate with a final interest rate and state that the IPA must successfully transmit the final rate to DTC before 2:30 p.m. ET;
- ii. Add a cutoff time of 2:55 p.m. ET after which Issuances and Presentments cannot be processed on the given Business Day because the conditions described above for processing of MMI Obligations have not been met;
- iii. Remove a reference for a cutoff relating to reversals of MMI Obligations since reversals would no longer occur as described above;
- iv. Define 3 p.m. ET as the cutoff time for any required MMI Funding Acknowledgements to be received in order for DTC to be able to process for a given Acronym that day;
- v. Add at cutoff time of 3 p.m. ET for an IPA to notify DTC of a Temporary Acronym Payment Failure;
- vi. Delete a reference to the release of LPNC controls as LPNC would no longer exist; and
- vii. Clarify that a 3:10 p.m. ET cutoff after which CNS transactions that cannot be completed would be dropped from the system, also applies to valued transactions in non-MMI Securities and fully paid for and secondary MMI Deliveries or Maturity Presentments;

- f. Add a section describing MMI Processing to include a description of MMI Funding Acknowledgments and the MMI Optimization process as described above;
  - g. Revise the section referencing provisions for “Issuer Failure Processing” to instead describe Acronym Payment Failure Processing and Temporary Acronym Payment Failure Process, as these processes are described above, since the contingencies for processing a payment failure hinge on the failure of payment on an Acronym by an IPA regardless of whether it is ultimately caused by an Issuer insolvency or otherwise;
  - h. Remove a duplicate reference to the DTC contact number for Participants/IPAs to call in the event of an Acronym Payment Failure;
  - i. Remove the description of the “MMI IPA MP Pend” process which was designed to allow IPAs to minimize the impact of potential reversals of processed MMI Obligations; as such reversals would no longer occur; and
  - j. Change the name of the section named “Calculating Your Net Debit Cap” to “Calculation of Participant Net Debit Caps”.
- (vi) The Distributions Guide would be amended to (i) delete language reflecting that Income Presentments are processed at the start-of-day, and (ii) add a brief description of the processing of Presentments as proposed

above and provide a cross-reference to the Settlement Guide relating to MMI settlement processing.

- (vii) The Proposal would also make technical and clarifying changes to the texts of the Rules and Settlement Guide for consistency throughout the texts in describing the concepts and terms set forth above, make corrections to grammar and spacing and edit text to provide for enhanced readability.

#### Implementation

The Proposal would be implemented in phases whereby Acronyms would be migrated to be processed in accordance with the Proposal over a period of five months beginning in November 2016 and with all Acronyms expected to be implemented by the end of March 2017, except for the implementation of the elimination of the Rule and Settlement Guide provisions relating to RVPNA which elimination would not occur until all other aspects of the Proposal are implemented with respect to all Acronyms. DTC would announce phased implementation dates for the Proposal via Important Notice upon all applicable regulatory approval by the Commission.

#### *Expected Effect on Risks to DTC, Its Participants, or the Market*

As described above, the Proposal would amend the Rules and the Settlement Guide to: (i) eliminate provisions for intra-day reversals of processed MMI Obligations based on an IPA's RTP or Issuer insolvency, (ii) impose a new requirement on IPAs to provide DTC an MMI Funding Acknowledgment, (iii) remove the LPNC risk management control; and (iv) implement MMI Optimization.

### Elimination of Intra-day Reversals

As noted above, under the current DTC Rules, intraday reversals of MMI Obligations may override DTC's risk management controls (i.e., Collateral Monitor and Net Debit Cap) and force a presenting Participant into an otherwise unanticipated Net Debit Balance at the end-of-day; this situation poses systemic risk with respect to the Participant's ability to fund its settlement and, hence, DTC's ability to complete end-of-day net funds settlement. The proposed elimination of intra-day reversals of processed MMI Obligations would decrease risk to DTC, its Participants and the marketplace by eliminating the settlement risk associated with such reversals, improving settlement finality.

### IPAs' Obligation to Provide an MMI Funding Acknowledgment

Pursuant to the Proposal, DTC would no longer automatically process Presentments (and Issuances and related deliveries). Rather, as applicable, DTC would only process these transactions after receiving an MMI Funding Acknowledgment from the IPA. In this regard, once an IPA provides an MMI Funding Acknowledgment, its ability to notify DTC of an RTP would be limited as it would not be allowed to reduce the amount of its obligation previously acknowledged that day.<sup>22</sup> This provision of the

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<sup>22</sup> As noted above, an affirmative MMI Funding Acknowledgement by the IPA would not be required in the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments since these Issuances would provide the funding of the maturing obligations versus an Issuer having to fund the IPA. The Proposal would provide that in this instance, the IPA is deemed to provide a standing instruction to process transactions in the Acronym, subject to risk management controls. Any such instruction or deemed instruction by the IPA would be irrevocable once given.

Proposal would facilitate the elimination of intra-day reversals, as described above, and, therefore, decrease settlement risk for DTC and its Participants.

#### Removal of the LPNC Control

Currently, the LPNC control exists to mitigate the risks associated with an RTP by withholding credit intra-day from each Participant in the amount of the aggregate of the two largest credits with respect to Presentment of an Acronym. DTC expects that the proposed elimination of the LPNC control and the attendant intraday withholding of credits would reduce the risk of intraday liquidity blockages within DTC's system for Participant activity, for both MMI and non-MMI transactions, because at any point intraday, Participants would have a true view of their Net Debit Balances or Net Credit Balances and be able to respond accordingly.

#### MMI Optimization

As described above, as applicable, DTC would test risk management controls of Deliverers and Receivers using the proposed MMI Optimization process with respect to the Acronym to determine whether risk management controls would be satisfied by all Deliverers and Receivers of the Acronym and determine whether all Deliverers maintain adequate position to complete the applicable transactions. As described above, the application of MMI Optimization to MMI transactions, as applicable, would facilitate timely processing of transactions under the proposal and reduce the risk to Participants that transactions may not settle due to failure to satisfy risk controls.

#### Management of Identified Risks

The proposed requirement for an IPA to provide DTC an MMI Funding Acknowledgment prior to DTC's processing of affected MMI transactions, as applicable,

would replace DTC's current automatic processing of MMI Transactions. The fact that such transactions would not be processed until an MMI Funding Acknowledgment is provided by the IPA may create a risk of blockage of MMI transactions by Participants. However, DTC anticipates that the various aspects of the Proposal taken together would offset any such risk and reduce the risk of blockage overall for both MMI and non-MMI transactions because of the effect of (i) the removal of the LPNC control would eliminate the attendant withholding of settlement credits from Participants intraday net settlement balances, and (ii) increased efficiency in the testing of risk controls through the MMI Optimization process, as described above, would reduce the volume of MMI transactions that might otherwise recycle pending passing of risk management controls.

*Consistency with the Clearing Supervision Act*

The Proposal is consistent with Section 805(b) of the Payment, Clearing and Settlement Supervision Act ("Clearing Supervision Act").<sup>23</sup> The objectives and principles of Section 805(b) of the Clearing Supervision Act are the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks, and support of the stability of the broader financial system.<sup>24</sup>

DTC believes that the Proposal is consistent with the provisions of the Clearing Supervision Act because the elimination of reversals of MMI transactions would promote intraday settlement finality and protect end-of day settlement from the risk of the failure to settle by IPAs or affected Participants by removing the risk exposure due to the override of DTC's risk management controls (i.e., Collateral Monitor and Net

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<sup>23</sup> 12 U.S.C. 5464(b).

<sup>24</sup> Id.

Debit Cap) to process reversals under current rules. As such the Proposal would promote the robustness of DTC's risk management controls.

DTC also believes that the Proposal is consistent with the provisions of the Clearing Supervision Act because the elimination of the risk that a Participant could incur a Net Debit Balance that exceeds DTC's risk controls caused by an intra-day reversal of processed (but not yet settled) MMI Obligations would promote both the safety and soundness of DTC's system and reduce systemic risks by (i) reducing the risk of a shortfall in a defaulting Participant's collateral available for DTC to use to satisfy the defaulting Participant's settlement obligations, and (ii) reducing the risk that a Participant default could impose a strain on DTC's liquidity resources and affect DTC's ability to complete system-wide settlement that day.

In addition, DTC believes that the Proposal would be consistent with Rule 17Ad-22(d)(12) promulgated under the Act.<sup>25</sup> Rule 17Ad-22(d)(12) requires that each registered clearing agency shall establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, ensure that final settlement occurs no later than the end of the settlement day; and requires that intraday or real-time finality be provided where necessary to reduce risks.<sup>26</sup> The Proposal would eliminate the intra-day reversals of processed MMI transactions that are pending for end of day system wide net settlement, thus promoting settlement finality and eliminating the possibility that an intraday reversal could heighten liquidity and settlement risk, as discussed above. As such, DTC believes the Proposal is consistent with Rule 17Ad-22(d)(12).

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<sup>25</sup> 17 CFR 240.17Ad-22(d)(12).

<sup>26</sup> Id.

Taking each of the above points collectively (i.e., the Proposal's promotion of robust risk management, safety and soundness, reduced systemic risk, and consistency with Rule 17Ad-22(d)(12)). DTC believes the Proposal supports the overall stability of the broader financial system consistent with the Clearing Supervision Act.

III. Date of Effectiveness of the Advance Notice and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The clearing agency shall post notice on its website of proposed changes that are implemented.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the Advance Notice is consistent with the



Clearing Supervision Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2016-802 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-DTC-2016-802. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the Advance Notice that are filed with the Commission, and all written communications relating to the Advance Notice between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of DTC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments

received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2016-802 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

By the Commission.

Secretary

**Bold, Underlined** text indicates additions

**~~Bold, Strikethrough~~** text indicates deletions

**THE DEPOSITORY TRUST COMPANY**

**RULES, BY-LAWS  
AND ORGANIZATION CERTIFICATE  
OF**

**THE DEPOSITORY TRUST COMPANY**

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**RULE 1**

**DEFINITIONS; GOVERNING LAW**

*Section 1.* Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules, have the meanings herein specified:

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**~~Largest Provisional Net Credit~~**

~~The term “Largest Provisional Net Credit” means, on any Business Day, with respect to an Account Family, the sum of the two largest aggregate net credits to an Account Family attributable to transactions in the MMI Securities of any issuer, determined on an Acronym basis.~~

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*Section 2.* Set forth below are certain other terms defined in these Rules, and the place in these Rules where such other terms are defined and used:

<u>Defined Term</u>	<u>Rule</u>	<u>Section</u>
<b><u>MMI Funding Acknowledgment</u></b>	<b><u>Rule 9(C)</u></b>	<b><u>Section 1</u></b>
<b><u>MMI Optimization</u></b>	<b><u>Rule 9(C)</u></b>	<b><u>Section 1</u></b>

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## **RULE 9(A)**

### **TRANSACTIONS IN SECURITIES AND MONEY PAYMENTS**

*Section 1.* Deliveries of Securities through the facilities of the Corporation shall be made in accordance with these Rules and the Procedures.

Any Participant making a Delivery Versus Payment of Securities through the facilities of the Corporation shall provide the Corporation with an instruction specifying the amount of the payment therefor in accordance with the Procedures. After receipt of such instruction (or upon its own initiative pursuant to Section **12** of Rule 9(C)), the Corporation is authorized to, and shall (subject to the right of the Corporation to cease to act for a Participant pursuant to these Rules and the Procedures), credit the Account of the Deliverer with the amount specified and debit the Account of the Receiver with the same amount. **Notwithstanding anything to the contrary, any such instruction with respect to a Delivery Versus Payment of MMI Securities pursuant to Rule 9(C) and the Procedures shall not be effective unless and until the applicable conditions specified in Rule 9(C) have been satisfied.**

Payments through the facilities of the Corporation shall be made in accordance with these Rules and the Procedures.

If a Participant shall present an instruction to the Corporation in accordance with the Procedures specifying that, in connection with a transaction in Securities, an amount or amounts of money shall be credited to its Account currently or in the future and that the same amount or amounts shall at that time be debited to the Account of another Participant, the Corporation is authorized to, and shall (subject to the right of the Corporation to cease to act for a Participant pursuant to these Rules and the Procedures), credit the Account of the Participant which presented the instruction (or which is deemed to have presented the instruction pursuant to Section **12** of Rule 9(C)) for the amount or amounts specified at the time or times specified and debit the Account of the other Participant at the same time or times with the same amount or amounts.

If a Participant shall present an instruction to the Corporation in accordance with the Procedures specifying that, in connection with a transaction in Securities, an amount or amounts of money shall be debited to its Account currently or in the future and that the same amount or amounts shall at that time be credited to the Account of another Participant, the Corporation is authorized to, and shall (subject to the right of the Corporation to cease to act for a Participant pursuant to these Rules and the Procedures), debit the Account of the Participant which presented the instruction (or which is deemed to have presented the instruction pursuant to Section **12** of Rule 9(C)) for the amount or amounts specified at the time or times specified and credit the Account of the other Participant at the same time or times with the same amount or amounts.

*Section 2.* Except as otherwise provided in the Procedures, payments between Participants pursuant to Section 1 of this Rule shall be made through the facilities of the Corporation as provided in this Section 2. In addition to the debit or credit of amounts pursuant to Section 1 of this Rule, the Corporation shall debit or credit itself, Participants and Pledges with other amounts receivable and payable in accordance with these Rules and the Procedures. On each Business Day, the Corporation shall net all of the debits and credits to all of the Accounts of each Participant and Pledgee. Any agreement between the Participant and the Corporation to the contrary notwithstanding, if a Participant has multiple Accounts, the Corporation may treat them as one Account for the purposes of this Rule.

At the request of the Corporation, a Participant or Pledgee shall immediately furnish the Corporation with such assurances as the Corporation shall require of the financial ability of the Participant or Pledgee to fulfill its commitments and shall conform to any conditions which the Corporation deems necessary for the protection of the Corporation, other Participants or Pledgees, including deposits to the Participants Fund; provided, however, that any such conditions shall not be inconsistent with any applicable laws or rules or regulations of regulatory bodies having jurisdiction over the Participant or Pledgee.

Subject to Rule 9(B):

(a) If at any time a balance is due to the Corporation from a Participant or Pledgee, payment of the amount of such balance shall be made by the Participant or Pledgee to the Corporation in the manner and at the time and place specified in the Procedures.

(b) If at any time a balance is due to a Participant or Pledgee from the Corporation, payment of the amount of such balance shall be made by the Corporation to the Participant or Pledgee in the manner and at the time and place specified in the Procedures.

(c) A Participant or Pledgee shall pay the Corporation the whole or any part of its Net Debit Balance at any time upon the demand of the Corporation.

*Section 3.* If the Account of a Payee is credited and the Account of a Payor is debited with an amount of money as provided in Section 1 of this Rule, and the Payor shall fail to make payment to the Corporation of such amount or, having made payment thereof, the Corporation shall be required to return such payment to the Payor or its representative, the Payee shall be obligated to return to the Corporation the amount that was not paid by the Payor to the Corporation or the amount required to be returned by the Corporation to the Payor or its representative, and the Corporation shall be entitled to debit the Account of the Payee for such amount at any time.

## RULE 9(B)

### TRANSACTIONS IN ELIGIBLE SECURITIES

This Rule applies to all services provided by the Corporation, including the services provided by the Corporation in the MMI Program.

*Section 1.* The Corporation shall not act on an instruction received by the Corporation from an Instructor to effect a Delivery, Pledge, Release or Withdrawal, or any other transaction affecting the Account of the Instructor or another Participant or Pledgee (other than a transaction classified in the Procedures as exempt from this Section), unless the Securities (if the transaction involves Securities) are, prior to the transaction, Deposited Securities or Pledged Securities reflected in the Account of the Instructor, as specified in the Procedures, and:

(a) immediately after the transaction, the Collateral Monitor for the Account Family of the Instructor which includes the Account from which the Securities subject of the instruction are Delivered, Pledged or Withdrawn, ~~as reduced by the amount of the Largest Provisional Net Credit for such Account Family,~~ will not be negative and the Family Net Debit for that Account Family, ~~as increased by the amount of such Largest Provisional Net Credit,~~ will not exceed the Net Debit Cap for such Account Family; and

(b) immediately after the transaction, if the transaction subject of the instruction affects an Account in the Account Family of another Participant or Pledgee or an Account in the same or another Account Family of the Instructor (in either case, a “Contra Party”), the Collateral Monitor for the Account Family of the Contra Party, ~~as reduced by the amount of the Largest Provisional Net Credit for such Account Family,~~ will not be negative and the Family Net Debit for that Account Family, ~~as increased by the amount of such Largest Provisional Net Credit,~~ will not exceed the Net Debit Cap for such Account Family; and

~~(c) if the transaction subject of the instruction involves a Free Delivery, Pledge or Release of Securities or a Delivery, Pledge or Release of Securities substantially undervalued, as specified in the Procedures, the Securities subject of the instruction shall not be MMI Securities subject of an Incomplete Transaction.~~

(c) with regard to any Delivery Versus Payment of MMI Securities, including issuances, Presentments, and applicable Deliveries, such instruction shall not be effective unless and until the applicable conditions specified in Rule 9(C) have been satisfied.

If the transaction subject of the instruction is a Free Delivery, Pledge or Release to a Contra Party and the applicable tests in clauses (a), (b) and (c) of the first paragraph of this Section are satisfied, the transaction shall be an effective transaction as to the Contra Party.

If the transaction subject of the instruction is a Delivery, Pledge or Release Versus Payment to a Contra Party and the applicable tests in clauses (a), (b) and (c) of the first paragraph of this Section are satisfied, the instruction of the Instructor shall constitute an instruction to make the following entries on the books of the Corporation.

(a) the Account of the Instructor is debited, and the Account of the Corporation is credited, by the amount of the obligation or the number of shares or rights subject of the instruction (whereby the Corporation shall be the holder of the Securities subject of the instruction);

(b) the Account of the Instructor is credited, and the Account of the Corporation is debited, by the amount of the payment specified in the instruction; and

(c) as specified in the Procedures, (i) the debits and credits to the Accounts of the Corporation are replicated as Incomplete Transactions in the Accounts of the Contra Party and (ii) the Collateral Monitor for the Contra Party is appropriately adjusted.

An Incomplete Transaction made on a Business Day shall be converted to an effective transaction as to the Contra Party, as specified in the Procedures, at the earliest of:

(a) the time it is finally determined by the Corporation on that Business Day that the balance in the Settlement Account of the Contra Party for that Business Day is not negative;

(b) the time the Contra Party pays the amount of the negative balance in its Settlement Account, as finally determined by the Corporation for that Business Day, to the Corporation, as provided in these Rules and as specified in the Procedures; or

(c) the time during that Business Day when:

- (1) in the case of a Delivery Versus Payment, the Contra Party instructs the Corporation to effect a Delivery, Pledge or Withdrawal of the Securities;
- (2) in the case of a Pledge Versus Payment, the Contra Party instructs the Corporation to effect a Delivery, Release or Withdrawal of Securities;
- (3) in the case of a Release Versus Payment, the Contra Party instructs the Corporation to effect a Delivery, Pledge or Withdrawal of Securities; and
- (4) in each case, the applicable tests in clauses (a), (b) and (c) of the first paragraph of this Section are satisfied.

If the Corporation receives an instruction from a Pledgee to effect a Delivery or Withdrawal of Pledged Securities, such instruction shall have the effect of notifying the Corporation that the Pledgee elects not to Release the Pledged Securities but, rather, to assert its Control over the Pledged Securities by the transfer of a greater interest in the Pledged Securities to itself or another Person. The Corporation shall accept such an instruction as a representation that the Pledgee is acting in accordance with applicable law, rules or regulations, agreements or any adjudication thereof.

A Participant may at any time during a Business Day wire Federal funds to the account of the Corporation at the Federal Reserve Bank of New York by Fedwire in order to reduce or eliminate a negative balance or create a positive balance in its Settlement Account.

Each Participant and the Corporation shall settle the balance of the Settlement Account of the Participant on a daily basis in accordance with these Rules and the Procedures. Except as provided in the Procedures, the Corporation shall not be obligated to make any settlement payments to any Participants until the Corporation has received all of the settlement payments that Settling Banks and Participants are required to make to the Corporation.



*Section 2.* In the manner and for the purposes set forth in these Rules and the Procedures, and subject to applicable law, (i) the Corporation shall hold the entire interest in, and shall have the authority of a holder of Securities to act, in its sole discretion, with respect to any Securities Delivered Versus Payment, which are the subject of an Incomplete Transaction, to issue or transfer the entire interest in such Securities, including the authority to sell, Pledge or otherwise dispose of such Securities, (ii) the Corporation shall hold a security interest in any Securities Pledged or Released Versus Payment, which are the subject of an Incomplete Transaction, to Pledge for value or Release for value a security interest in such Securities, and shall have the authority of a secured party to sell, Pledge or otherwise dispose of such Securities, and (iii) the Corporation, acting as agent and attorney-in-fact for its Participants, shall have the authority to Pledge or sell on their behalf any of their shares of Preferred Stock.

If a Participant fails to pay the amount of a negative balance in its Settlement Account, as finally determined by the Corporation on a Business Day, at the time and in the manner provided in these Rules and as specified in the Procedures, or if the Corporation determines that, in light of the financial or operating condition of a Participant, it is in the best interests of the Corporation, other Participants or Pledgeses not to complete certain transactions with respect to the Participant, although it does not cease to act therefor, or the Corporation terminates or suspends some or all of the transactions of a Participant in the MMI Program with respect to some or all MMI Securities subject of those transactions, during the Business Day, the Corporation may, with respect to any such Participant (a "Defaulting Participant"), in such order and in such amounts as the Corporation shall determine, in its sole discretion:

(a) Pledge any or all Net Additions and Preferred Stock of the Defaulting Participant to secure a loan to the Corporation; or

(b) sell any or all Net Additions and Preferred Stock of the Defaulting Participant in the manner specified in Section 4 of this Rule.

The Corporation may Pledge or sell any or all Net Additions of a Defaulting Participant notwithstanding the fact that the proceeds may exceed the negative balance in the Settlement Account of the Defaulting Participant. The proceeds of any Pledge or sale shall be applied as provided in these Rules and as specified in the Procedures.

The Corporation may Pledge or sell any or all shares of the Preferred Stock of a Defaulting Participant notwithstanding the fact that the proceeds may exceed the negative balance in the Settlement Account of the Defaulting Participant. The proceeds of any Pledge or sale shall be applied as provided in these Rules and as specified in the Procedures.

Each Defaulting Participant which fails to settle its Settlement Account at the time specified in the Procedures shall be charged interest on the amount of the required payment. The Corporation may also assess penalties against the Defaulting Participant, as specified in the Procedures, if the Defaulting Participant fails to settle.

The Corporation may borrow from some or all of its Participants, in the manner and to the extent specified in the Procedures, an amount up to the entire amount of the Gross Credit Balances of such Participants on the Business Day on which one or more Participants fails to settle its Net Debit Balance. Such borrowing shall be secured by the Pledge, to the lending Participants, on the books of the Corporation, of the Net Additions of the Defaulting Participant or Participants which failed to settle, in the manner specified in Section 2 of Rule 4(A).

*Section 3.* A Participant may, during a Business Day, instruct the Corporation to transfer Securities from its Minimum Amount to its Net Additions and from its Net Additions to its Minimum Amount. If a Deliverer instructs the Corporation to Deliver Securities to a Receiver and the instruction cannot be satisfied out of the Net Additions of the Deliverer, the instruction shall be deemed to be an instruction to first transfer from the Minimum Amount of the Deliverer to the Net Additions of the Deliverer sufficient Securities so that the instruction to Deliver Securities from the Deliverer to the Receiver can be satisfied out of the Net Additions of the Deliverer. An instruction to transfer Securities from the Minimum Amount of a Deliverer to the Net Additions of the Deliverer, or which is deemed to be such an instruction, shall constitute a representation by the Deliverer that it has full authority, under applicable law, to do so.

Notwithstanding any other provisions of this Rule, a Participant may restrict Deliveries to its Account by other Participants in the manner specified in the Procedures, and the Corporation may restrict Deliveries in the manner specified in the Procedures if the Corporation determines, in its sole discretion, that a Delivery is overvalued or for other reasons.

A Participant with more than one Account may, in the manner specified in the Procedures, (a) group one or more of its Accounts into one or more Account Families, (b) designate the portion of its Collateral to be allocated to each of its Account Families and (c) designate the portion of its Net Debit Cap to be allocated to each of its Account Families. The Corporation shall not be obligated to make any allocations in accordance with such instructions if the Corporation determines, in its sole discretion that such action might result in financial loss to the Corporation, other Participants or Pledges. The Corporation may allocate, in the manner specified in the Procedures, any portion of the Collateral of a Participant or its Net Debit Cap which is not allocated by the Participant. If a Participant has more than one Account but does not group its Accounts into one or more Account Families, the Corporation shall group all of the Accounts of the Participant into one Account Family.

The Corporation is authorized to establish priorities for the completion of any transaction the Participant instructs the Corporation to make but which is not completed because of limitations set forth in these Rules.

Each Participant shall settle through its Settling Bank or Back-Up Settling Bank, if any, or, if its Settling Bank or Back-Up Settling Bank, if any, refuses to settle on its behalf, the Participant shall settle with the Corporation directly.

A Participant shall be deemed to have failed to settle when (a) the Corporation receives a Settling Bank Refusal (as defined in Rule 9(D)) from the Settling Bank representing the Participant or when the Settling Bank representing the Participant has failed to pay its Net-Net Debit Balance (as defined in Rule 9(D)) by the time specified in the Procedures and (b) the

Participant has not paid its Net Debit Balance to the Corporation by the time specified in the Procedures.

*Section 4.* If the Corporation shall sell any Securities, the sale may be made in any available market or at public auction or by private sale, and may be made without demand or notice to any Participant. If the sale is made in any market, or if the sale is made at public auction, the Corporation may purchase the Securities sold for its own account.

## RULE 9(C)

### TRANSACTIONS IN MMI SECURITIES

This Rule applies only to the services provided by the Corporation in the MMI Program:

**Section 1. The terms “MMI Funding Acknowledgment” and “MMI Optimization” are defined as follows:**

**The term “MMI Funding Acknowledgment” means, on any Business Day, with respect to an MMI Issuing and Paying Agent and an Acronym that has Presentments and issuances, the acknowledgment of the Issuing and Paying Agent, provided to the Corporation in accordance with the Procedures, that the Issuing and Paying Agent will: (i) fund the entire aggregate gross amount of Presentments for the Acronym, in accordance with Rules 9(A), 9(B), 9(C) and the Procedures; or (ii) fund a specified amount that is less than the entire amount of the aggregate gross amount of Presentments for that Acronym, in accordance with Rules 9(A), 9(B), 9(C) and the Procedures.**

**The term “MMI Optimization” means, on any Business Day, with respect to an Issuing and Paying Agent for an Acronym that has Presentments and issuances, as applicable, the process of testing both (i) the satisfaction of Net Debit Cap and Collateral Monitor conditions with respect to all Deliverers and/or Receivers in the Acronym after giving effect to all Presentments and issuances in the Acronym, and (ii) that Delivering Participants maintain adequate position in the Acronym.**

*Section 1-2.* Each MMI Issuing Agent and MMI Paying Agent shall maintain one or more Accounts for its issuing agent activity and its paying agent activity with respect to the issues of MMI Securities for which it acts in that capacity, as specified in the Procedures. One Account may serve a Participant acting in both capacities but that Account shall be governed in each capacity by any Rule relating to that function of the Account as follows:

(a) The Issuing Agent Account with respect to an issue of MMI Securities shall comprise the Account which records the Delivery of such issue of MMI Securities by that MMI Issuing Agent and the Account to which payments therefor are credited as provided in this Rule and as specified in the Procedures.

(b) The Paying Agent Account with respect to an issue of MMI Securities shall comprise the Account to which payments for Presentments with respect to MMI

Securities of that issue are debited and the Account to which MMI Securities of that issue which are the subject of Maturity Presentments or Reorganization Presentments are Delivered.

The instruction of an MMI Issuing Agent to the Corporation to Deliver MMI Securities in connection with their issuance shall constitute a representation that such MMI Securities are issued in accordance with applicable law. MMI Securities may be subject of a Free Delivery or a Delivery Versus Payment.

If, in connection with their issuance, MMI Securities are subject of a Free Delivery, upon the instruction of an MMI Issuing Agent, the MMI Securities shall be credited to the Account of the Receiver designated by the MMI Issuing Agent and, simultaneously, a memo entry shall be made to the Issuing Agent Account reflecting that the MMI Securities have been Delivered as instructed.

If, in connection with their issuance, MMI Securities are subject of a Delivery Versus Payment, such Delivery shall be effected **in accordance with Rules 9(A) and 9(B) as otherwise provided for Deliveries of Securities subject of Incomplete Transactions in Rule 9(B), subject to the further controls/conditions provided in Section 23 of this Rule 9(C) and the applicable Procedures; provided, however, that instead of a debit to the Issuing Agent Account, a memo entry shall be made reflecting that the MMI Securities have been entered on the Account of the Corporation as Securities subject of an Incomplete Transaction and that the credit of payment therefor to the Issuing Agent Account is subject to the further controls provided in Section 2 of this Rule.**

A Presentment with respect to MMI Securities may be initiated by the Corporation or by a Presenting Participant, as specified in the Procedures; if a Delivery Versus Payment is so initiated by the Corporation, the instruction therefor shall be deemed to have been given by the Presenting Participant pursuant to these Rules and the Procedures. **Any such instruction shall only be effective when any applicable MMI Funding Acknowledgment has been received by the Corporation in accordance with the Procedures and the provisions of Rules 9(A), 9(B), and this Rule 9(C) have been satisfied.**

A Delivery of MMI Securities may be initiated by the Corporation or by a Presenting Participant, as specified in the Procedures; if a Delivery Versus Payment is initiated by the Corporation, the instruction therefor shall be deemed to have been given by the Presenting Participant pursuant to these Rules and the Procedures for the Delivery to be effected as otherwise provided for Deliveries of Securities subject of Incomplete Transactions in Rule 9(B), subject to the further controls provided in Section 23 of this Rule. **Any such applicable instruction shall only be effective when any applicable MMI Funding Acknowledgment has been received by the Corporation in accordance with the Procedures and applicable conditions set forth in paragraph (b) of Section 3 of Rule 9(C) have been satisfied.**

~~The further controls provided in Section 2, paragraphs (a), (b) and (c) of this Rule 9(C) shall not apply with respect to an Acronym if, but only if, the following conditions are simultaneously satisfied with respect to that Acronym:~~

- ~~(i) an MMI Paying Agent issues a Payment Refusal with respect to the Acronym;~~
- ~~(ii) there is at least one MMI Paying Agent that is also an MMI Issuing Agent on that day with respect to that Acronym; and~~
- ~~(iii) on that day, for each MMI Paying Agent that is also an MMI Issuing Agent with respect to that Acronym, the aggregate value of issuances of the Acronym processed through an Issuing Agent Account of that Issuing Agent exceeds the aggregate value of all Presentments, other than Reorganization Presentments, of that Acronym processed through a Paying Agent Account by that MMI Paying Agent; and RAD approvals exceed then the agent has given up its right to refuse. The value they have indicated~~
- ~~(iv) each receiving Participant with respect to any Delivery Versus Payment issuances of MMI Securities of that Acronym satisfies the conditions of Rule 9(B) for the processing of such Deliveries as provided in Rule 9(B).~~

~~Section 2.3.~~ Presentments with respect to MMI Securities, ~~including any Deliveries of MMI Securities pursuant to Maturity Presentments and Reorganization Presentments,~~ shall be subject to the following additional controls conditions:

~~(a) On the day of a Payment Refusal, as specified in the Procedures, the Corporation shall not complete any Incomplete Transaction or other transaction (including any instruction with respect to future Delivery) in the MMI Securities of that issuer newly issued that day. Any credits to the Issuing Agent Account of the MMI Issuing Agent or to any intermediate re-Delivering Participant with respect to the new issue shall be cancelled and each potential Receiver of the new issue shall be re-credited in the amount of its payment therefor. The provisional entry of the associated MMI Securities to the Account of a Receiver shall simultaneously be cancelled and every transaction in those MMI Securities, including any re-Delivery by a Receiver, shall be null and void and of no effect. The parties to the transactions affected thereby shall resolve their respective rights and obligations outside the Corporation. Where the MMI Securities of that issuer newly issued that day are subject of an Incomplete Transaction, the credit of the MMI Securities to the Account of the Corporation and debit of payment to the Account of the Corporation shall likewise be cancelled and the Corporation shall be under no obligation to complete the transaction.~~

~~(b) On the day of a Payment Refusal, as specified in the Procedures, the Corporation shall not complete any Maturity Presentment or Reorganization Presentment or Incomplete Transaction in the MMI Securities of that issuer. Any credits to the Accounts of Presenting Participants on account of such Presentment shall be cancelled, the provisional credit of the subject MMI Securities to the Paying Agent Account and debit to the Account of the Presenting Participant shall simultaneously be cancelled and the transactions shall be null and void and of no effect. The parties to the transactions shall resolve their respective rights and obligations outside the Corporation. Where the MMI Securities subject of a Maturity Presentment or Reorganization Presentment are subject of an Incomplete~~

~~Transaction, the credit of the MMI Securities to the Account of the Corporation and the debit of payment to the Account of the Corporation shall likewise be cancelled and the Corporation shall be under no obligation to complete the transaction.~~

~~(c) On the day of a Payment Refusal, as specified in the Procedures, the Corporation shall not complete any Income Presentment or Principal Presentment in the MMI Securities of that issuer. Any credits to the Accounts of the Corporation and Participants, and any debits to the Paying Agent Account on account of such Presentments, shall be cancelled and the transactions shall be null and void and of no effect. The parties to the transactions shall resolve their respective rights and obligations outside the Corporation. If all of the Presentments the Corporation did not complete pursuant to paragraphs (a) and (b) of this Section and the first two sentences of this paragraph are Income Presentments, and if the issuer is not insolvent, as defined in Rule 12, on the Business Day next following the Payment Refusal, the Corporation may re-initiate such Income Presentments and any Incomplete Transactions in newly issued MMI Securities of the issuer that the Corporation did not complete pursuant to the first sentence of paragraph (a) of this Section. If there is another Payment Refusal with respect to the MMI Securities of the issuer on such Business Day, the Corporation may then take the actions described in paragraphs (a) and (b) of this Section and the first two sentences of this paragraph, and all other actions authorized by these Rules.~~

~~(d) On the day of an issuer's insolvency, as defined in Rule 12, the Corporation may take any of the actions set forth in paragraphs (a), (b) and (c) of this Section 2 with respect to some or all of the MMI Securities issued by the insolvent issuer.~~

~~(e) The credit cancellations provided in paragraphs (a), (b), (c) and (d) of this Section may increase the Family Net Debit of the parties to such transactions over and above their Net Debit Caps. The Participants affected thereby are nevertheless fully obligated to satisfy any Net Debit Balances outstanding. The cancellation of debits and credits of payments and of debits and credits of MMI Securities, under the circumstances provided in these Rules and as specified in the Procedures, are not intended to affect or prejudice the underlying rights and obligations of the parties to the transactions as such rights and obligations may be determined outside the Corporation, subject to applicable law, rules or regulations, agreements or any adjudication thereof.~~

(a) On each Business Day on which an Issuing and Paying Agent shall have Presentments with respect to an Acronym, the Issuing and Paying Agent shall provide an MMI Funding Acknowledgment at the times and in the manner provided in the Procedures, except that no MMI Funding Acknowledgment shall be required if, on that Business Day, the aggregate amount of issuances for that Acronym for which the Receiving Participants have approved receipt of Delivery in accordance with the Procedures exceeds the aggregate amount of Presentments of that Acronym to the Issuing and Paying Agent.

**(b) (1) Net Debit Cap and Collateral Monitor conditions with respect to the issuance and Presentment of any Acronym shall be satisfied with respect to each Deliverer and Receiver of Securities of the Acronym on that Business Day, including, as applicable, through the application of MMI Optimization, and (2) the acceptance by each Receiver of such Securities in accordance with the Procedures. MMI Optimization shall be applied with respect to an Acronym only when on that Business Day either (a) issuances exceed Presentments for the Acronym and the Issuing and Paying Agent for the Acronym has not provided an MMI Funding Acknowledgment that it will fund the entire aggregate gross amount of Presentments for the Acronym, or (b) the Issuing and Paying Agent has provided an MMI Funding Acknowledgment that it will fund a specified amount that is less than the entire amount of the aggregate gross amount of Presentments for that Acronym.**

**(c) Any instruction with respect to an issuance or Presentment of MMI Securities of an Acronym on any Business Day shall become effective when (i) the Corporation has received an MMI Funding Acknowledgment, if required, and (ii) the conditions set forth in paragraph (b) of this Section have occurred.**

**(d) When any such instruction has become effective, the Corporation shall comply with such instruction as provided in these Rules and Procedures, including, but not limited to, Rules 9(A), 9(B) and this Rule 9(C).**

**(e) The Issuing and Paying Agent, by providing an MMI Funding Acknowledgment, acknowledges and agrees that the Corporation will process instructions with respect to issuances and Presentments of the applicable Acronym in reliance upon such MMI Funding Acknowledgment and that it is an irrevocable obligation of such Issuing and Paying Agent to pay the Corporation the specified amount set forth in such MMI Funding Acknowledgment without regard to whether or not the Issuing and Paying Agent shall have received any payment from the issuer of such Acronym on such Business Day and without regard to any other rights, duties or obligations of the Issuing and Paying Agent to or from the issuer of such Acronym.**

**(f) If an Issuing and Paying Agent notifies the Corporation, or the Corporation shall otherwise have notice, that an issuer is insolvent as defined in Rule 12, or if an MMI Paying Agent issues a Payment Refusal with respect to an Acronym, then the Issuing and Paying Agent shall not thereafter be required to provide any MMI Funding Acknowledgment with respect to any Acronym of that issuer and the Corporation shall not be required to process any further instructions with respect to any Acronym of the issuer; *provided, however,* the Issuing and Paying Agent shall remain liable for funding pursuant to any MMI Funding Acknowledgment prior thereto.**

**(g) All MMI Securities of an issuer which is insolvent, as defined in Rule 12, or subject of a Payment Refusal of a MMI Paying Agent, as specified in the Procedures, shall, at the time of such insolvency or Payment Refusal, be Devalued to a Collateral Value of zero and shall not collateralize any transaction. This Devaluation is**

intended to serve only to protect the integrity of the MMI Program without prejudice to the underlying rights and obligations of the parties to the transactions as such rights and obligations may be determined outside the Corporation, subject to applicable law, rules or regulations, agreements and any adjudication thereof.

~~(g) A Delivery Versus Payment of MMI Securities shall be effected only if the principal amount of the MMI Securities being Delivered does not exceed the designated amount specified in the Procedures.~~

(h) In the event that a Receiver fails to settle its Net Debit Balance, the Corporation shall resolve the obligations of the parties to the transaction pursuant to the Failure to Settle Procedure included in the Procedures, ~~as such Procedures may apply particularly to MMI Securities.~~

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## DTC Settlement Service Guide

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### About Settlement

#### Overview

This chapter describes DTC's Settlement products. Each section includes a description of the product and how it works, as well as corresponding functions ~~you~~ a Participant can use to access the product.

*Note-* Although DTC makes every effort to provide ~~you~~ the Participant with timely information, ~~you are~~ the Participant is primarily responsible for obtaining such information without reliance on DTC. ~~We~~ DTC recommends that ~~you~~ Participants reconcile ~~your~~ their records with DTC's records before any critical dates or cutoff times.

#### About DTC's Settlement Department

DTC's Settlement Department is responsible for overseeing the process of the settlement of ~~your~~ Participant transactions. Specifically, the Settlement Department:

- Ensures the collection/disbursement of ~~your~~ Participant net settlement obligations and credits through the Fedwire system
- Ensures that major components of DTC's Settlement Service are updating/processing in a timely manner
- Helps resolve problems affecting the settlement process
- Grants input extensions when processing problems arise
- Provides backup to the extent possible when ~~your~~ Participant systems go down
- Answers ~~your~~ questions regarding all aspects of settlement processing
- Processes deposits and withdrawals of Federal book-entry eligible securities.



## Settlement Transactions

There are three main types of transactions processed through the Settlement system.

1. **Deliveries:** DTC's delivery program allows **you a Participant** to settle securities transactions by making book-entry deliveries to another Participant's account. The securities are immobilized in DTC's custody, eliminating the need for physical movement of certificates. DTC reduces the seller's position and increases the buyer's position without the need to move physical certificates. Deliveries can be made with or without the condition of money payment, depending on **your the applicable Participant's** delivery instructions.
2. **Payment Orders (POs):** The payment order service provides **you Participants** with a convenient method for settling amounts of money related to securities transactions that are effected separately through DTC earlier on the same day or on a previous day. **You Participants** can use payment orders to collect option contract premiums and mark-to-market open contracts such as stock loans.

**Collateral loans:** The collateral loan service allows **you a Participant** (the pledgor) to pledge securities as collateral for a loan or for other purposes and also request the release of pledged securities. This service allows such pledges and pledge releases to be made free, meaning that the money component of the transaction is settled outside of the depository, or valued, meaning that the money component of the transaction is settled through DTC as a debit/credit to the pledgor's and pledgee's DTC money settlement account. When pledging securities to a pledgee, the pledgor's position is moved from the pledgor's general free account to the pledgee's account which prevents the pledged position from being used to complete other transactions. Likewise, the release of a pledged position would move the pledged position back to the pledgor's general free account where it would then be available to complete other transactions.

## Important Terms

The following terms are important to understanding the Settlement Service:

This term	Refers to
Aggregate Affiliated Family Net Debit Cap	A limit to the settlement debit an Affiliated Family can incur at any point during the processing day.
chill	A systemic way DTC can prohibit <b>you a Participant</b> from processing certain activities (for example, valued delivery chill will prevent <b>you the Participant</b> from making valued deliveries from <b>your its</b> account).
Collateral Monitor (CM)	DTC's process for measuring the sufficiency of the collateral in <b>you a Participant's</b> account to cover <b>your its</b> net settlement obligation.
collateral value	The market value of a security less the applicable DTC haircut.
Computer-to-Computer Facility (CCF/CCF II)	A batch transmission system for input/output based on various protocols between <b>your a Participant's</b> mainframe and DTC's mainframe.
Continuous Net Settlement (CNS)	The system employed by NSCC to settle NYSE, AMEX, NASDAQ, and over-the-counter trades.
deliver order	The term used to define a book-entry movement of shares of a

This term	Refers to
(DO)	particular security between two DTC Participants.
drop	A transaction that does not complete because of insufficient position, Risk Management Controls, and so forth.
haircut	The percentage decrease of a security's market value in determining the collateral value of the security.
initial distribution	The delivery of shares of a new issue from the lead manager and syndicate members to their customers. Shares are considered initial distribution shares until they are sold on the secondary market.
<b>Largest Provisional Net Credit (LPNC)</b>	<b><del>A control that ensures that reversing a failed MMI issue transaction does not cause your Risk Management Controls to be overridden.</del></b>
long allocations	Deliveries from NSCC's Omnibus Account 888 to <b>you a Participant's</b> DTC account as a result of Continuous Net Settlement processing.
market value	The prior day's closing price of a security for security valuation purposes.
memo segregation	An inventory control mechanism that allows <b>you a Participant</b> to protect fully-paid-for securities in <b>your its</b> general free or IPO control account.
Message Queuing (MQ)	A system for messaging across multiple platforms. Developed as part of IBM's WebSphere family, it is also referred to as "WebSphere MQ" or "MQ Series."
Minimum Amount (MA)	DTC's classification for securities in <b>your a Participant's</b> account that are not considered collateral.
Money Market Instrument (MMI)	Debt securities such as commercial paper or medium-term notes that are eligible for DTC's MMI Program.
Net Additions (NA)	DTC's classification for securities in <b>your a Participant's</b> account that are considered collateral.
net debit cap	A limit to the settlement net debit <b>you a Participant</b> can incur at any point during the processing day.
night deliver order (NDO)	A DO input on the day prior to settlement. A reduced rate is charged for NDO transactions.
payment order (PO)	A transaction in which a Participant charges another Participant for changes in value for outstanding stock loans or option contract premiums.
<b>receive versus</b>	<b><del>A sub-counter of your NA position that indicates how much</del></b>

This term	Refers to
<del>payment NA (RVP-NA)</del>	<del>of your NA position was received versus payment during the current day.</del>
Receiver Authorized Delivery (RAD)	A control mechanism that allows <b>you a Participant</b> to review transactions prior to completion of processing. It limits <b>your the Participant's</b> exposure from misdirected or erroneously entered DOs, POs, institutional delivery transactions, MMI transactions, reclaims, pledges and releases of pledged securities.
reclamation or reclaim	The return of a DO, PO, institutional delivery transaction or MMI transaction received by a Participant. All reclaims are considered original transactions for purposes of DTC processing and are subject to <del>DTC's risk management controls</del> <b>Risk Management Controls</b> and RAD.
Risk Management Controls	The controls, primarily net debit cap and CM, that are used to provide protection to all DTC Participants against the inability of one or more Participants to settle net settlement obligations.
Settlement progress payments (SPP)	An intraday funds transfer sent via Fedwire to <b>your a Participant's</b> DTC Participant account.
Settlement User Interface	Any system or combination of systems that allows for input/inquiry into the DTC Settlement System.
short covers	Deliveries to NSCC's Omnibus Account 888 as a result of CNS.
syndicate	A group of broker-dealers that agree to purchase a new issue of securities from the issuer for resale to the investment public.
<b><u>Unknown Rate</u></b>	<b><u>For variable rate MMI Securities, the interest rate that the IPA will pay for the income portion of a presentment.</u></b>
unvalued additions	Unvalued additions to <b>your a Participant's</b> security account that do not carry a related payment obligation with the receipt of securities. They include: <ul style="list-style-type: none"> <li>• Deposits</li> <li>• Free release of pledged securities</li> <li>• Receipt of a free DO</li> <li>• Releases of segregated securities</li> </ul>

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## End-of-Day Settlement Process

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### Establishing Your Limitation of Participant Net Debit Caps by Settling Banks

A Settling Bank can limit the net debit cap assigned to each Participant it represents. However, the maximum amount set by a Settling Bank cannot exceed **your the Participant's** system-calculated net debit cap established by DTC.

To establish or change the net debit cap for a Participant for which it settles, the Settling Bank must submit a letter of instruction to DTC requesting the amount of the net debit cap for the Participant. This letter should be sent via e-mail to DTCProductRisk@dtcc.com using the Settling Bank's e-mail domain, or via mail or overnight delivery addressed to:

**The Depository Trust Company**  
~~Vice President~~ **Executive Director**, Enterprise Risk Management  
 55 Water Street  
 New York, NY 10041

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## Settlement Processing Schedule

The following table describes the DTC Settlement processing schedule. All times are eastern time **(ET)**.

Cutoff Time ET	This Occurs
	* * *
2:00 p.m.	Cutoff for: <ul style="list-style-type: none"> <li>Valued MMI issuances.</li> </ul>
<b><u>2:30 p.m.</u></b>	<ul style="list-style-type: none"> <li><b><u>An Issuing and Paying Agent (IPA) to replace the Unknown Rate with a final rate for distribution - the IPA must successfully transmit the final rate to DTC before 2:30 PM ET.</u></b></li> </ul>
2:45 p.m.	Cutoff for: <ul style="list-style-type: none"> <li>RAD approval of MMI valued issuance deliver order transactions.</li> </ul>
2:55 p.m.	<p><b><u>Cutoff for:</u></b></p> <ul style="list-style-type: none"> <li><b><u>Cutoff for entering Entering</u></b> release requests designating position as eligible for CNS.</li> <li><b><u>Processing Valued MMI transactions for issuances, MMI DOs and maturity presentments in the MMI Optimization process.</u></b></li> </ul>
3:00 p.m.	Cutoff for: <ul style="list-style-type: none"> <li><b><u>An Issuer's Paying Agent notifying DTC of the default that would require the reversal of transactions in DTC's system. DTC's receipt of an IPA's MMI Funding Acknowledgement or refusal to pay notification.</u></b></li> <li><b><u>An IPA to notify DTC of a Temporary Acronym Payment Failure (as defined below).</u></b></li> </ul>
<del>3:00 p.m.</del>	<ul style="list-style-type: none"> <li>Forced Receiver Authorized Delivery (RAD) period begins.</li> </ul> <p><i>Note—<del>You</del> <b>A Participant</b> can continue to enter valued and free transactions. However, all valued transactions are forced into RAD and require the receiving Participant's approval.</i></p>

Cutoff Time ET      This Occurs

\* \* \*

~~3:05 p.m.      Largest Provisional Net Credit (LPNC) control ends. DTC begins using your actual collateral monitor and net settlement balances (instead of simulated collateral monitors and net settlement balances) in determining whether Risk Management Control recycles can complete.~~

3:10 p.m.      Cutoff for:

- pledgees to approve pledge release requests designating position as CNS-eligible.
- Valued recycle cutoff. All non-MMI valued, and CNS transactions and fully paid for and secondary MMI deliveries or maturity presentments that cannot be completed because of insufficient position, collateral, or net debit cap are dropped from the system.
- *Note*—All valued transactions input or approved by Participants after this time will not recycle; they will either complete or drop.

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## Money Market Instrument (MMI) Processing

MMIs are subject to, and are processed in accordance with, Rule 9(A), Rule 9(B), Rule 9(C) of DTC and the Procedures set forth in this Settlement Service Guide.

### MMI Funding Acknowledgment by the IPA

Subject to DTC risk controls, DTC processes maturing Presentments for delivery versus payment to the applicable IPA with respect to an Acronym in the Rules and these Procedures only after an acknowledgment (“MMI Funding Acknowledgment”) is made by the IPA to DTC whereby either: (i) the value of issuances approved by receivers via Receiver Authorized Delivery (RAD) alone<sup>1</sup> or a combination of receiver-approved issuances plus an amount the IPA(s) has been funded by the issuer exceed the Acronym’s Presentments, or (ii) the IPA acknowledges it will fund the entire amount for the gross value of an Acronym, regardless of issuances.<sup>2</sup> An IPA must make an MMI Funding Acknowledgment using the Decision Making Application (DMA). When an MMI Funding Acknowledgement has occurred, it constitutes the IPA’s instruction to DTC to attempt to process transactions in the Acronym.

### Testing for Position and Risk Management Controls

After an IPA has acknowledged that it will fully fund the Acronym, then the transactions are sent to the processing system and attempted against position and Risk Management Controls. If the IPA provides an MMI Funding Acknowledgement for only partial funding of the entire amount of

<sup>1</sup> An affirmative MMI Funding Acknowledgement by the IPA is not required in the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments. In this instance, the IPA is deemed to provide a standing instruction to process transactions in the Acronym, subject to Risk Management Controls. Any such instruction or deemed instruction by the IPA is irrevocable once given.

<sup>2</sup> In the case where an affirmative MMI Funding Acknowledgment by the IPA is required for Presentments to be processed, the MMI Funding Acknowledgement must be a notification provided by an IPA to DTC with respect to an Acronym, that the IPA acknowledges and affirms its funding obligation for a maturing Acronym either (i) in the entire amount of the Acronym or (ii) for an amount at least equal to the difference between the value of Issuances and the value of the Presentments. In the case of (ii) above, the IPA may (later that day) increase the funding amount it acknowledges, but in no event may the IPA reduce the amount of its obligation previously acknowledged that day.

Presentments for an Acronym, DTC tests Risk Management Controls of deliverers and receivers with respect to that Acronym to determine whether Risk Management Controls would be satisfied by all deliverers and receivers of the Acronym and all parties maintain adequate position to complete the applicable transactions, i.e., "MMI Optimization". In the case that the aggregate amount of RAD approved Issuances of an Acronym exceeds the aggregate amount of Presentments, Risk Management Controls for all deliverers and receivers are tested using MMI Optimization as well.

As indicated above, when partial funding from the IPA is necessary, transactions are routed to MMI Optimization. In MMI Optimization, it is generally required that all deliverers and receivers of the Acronym must satisfy risk management controls and delivering Participants hold sufficient position, in order for the transactions in that Acronym be processed. However, as long as the Issuances that can satisfy Deliverer and Receiver risk controls for that Acronym are equal to or greater than the Maturing Presentments of that Acronym, the applicable transactions (i.e., those that pass risk controls) are processed.

Note: If there are multiple IPAs for an Acronym, DTC determines funding based on the satisfaction of conditions for all deliverers and receivers with respect to all Presentments, Issuances and applicable DOs in the Acronym and MMI Funding Acknowledgements for all IPAs with Issuances and Presentments in the Acronym. No instruction of an IPA to DTC to process the subject MMI transactions shall be effective until MMI Optimization is satisfied with respect to all transactions in the Acronym.

## **Money Market Instrument (MMI) Issuer Failure Acronym Payment Failure Processing**

### **About the Product**

~~The Money Market Instrument (MMI) Issuer Acronym Payment Failure processing~~ is designed to protect DTC and ~~its notify~~ Participants ~~from incurring financial losses when an~~ if there is no timely MMI issue defaults Funding Acknowledgment from the IPA(s) for an Acronym for which presentments are due on that day and/or DTC is aware that the issuer of an Acronym is insolvent and therefore payments due to Participants relating to presentments for that Acronym will not be funded by IPA(s) through DTC settlement ("Acronym Payment Failure"). Using the MMRP function, issuing paying agents Using the IPA Decision Making Application or automated messaging, (IPAs) can notify DTC that they refuse to pay ~~maturity or periodic interest payment proceeds, or both, for Presentments~~ for an MMI issue Acronym. An IPA must inform DTC of its refusal to pay ~~by 3:00 p.m. eastern time in accordance with the timeframe set forth in the Settlement Processing Schedule above.~~ After DTC verifies the default it begins MMI Issuer Failure procedures.

In the event that an IPA does not fund, then the rights of the IPA as a Participant and all Participants that are party to the subject MMI transactions shall be resolved outside of DTC.

### **How the Product Process Works**

~~Upon notification of a default, If there is an Acronym Payment Failure,~~ DTC will initiate the following process, pursuant to which DTC:

- ~~Freezes the issue preventing~~ Prevents further issuance and maturity activity at DTC for that Acronym.
- ~~Globally locks all CUSIP numbers associated with the failed issue to prevent any activity~~ All CUSIPs under the failed Acronym are blocked so that no Participant may instruct any delivery of such Acronym on that Business Day. The block will be lifted the following Business Day.

- Devalues all of the Issuer's MMIs for ~~Same-Day Funds Settlement (SDFS) collateralization collateral monitor calculations.~~
- ~~Reverses all of the Issuer's issuances, maturities, and income presentments processed that day~~
- Notifies Participants of the ~~default event via the FFSP function~~
- ~~Reverses all deliveries of newly issued paper.~~

Notwithstanding the occurrence of an Acronym Payment Failure, the IPA shall remain liable for funding pursuant to any MMI Funding Acknowledgment.

### Notifying DTC of Temporary Refusal to Pay Acronym Payment Failure Process

~~A Temporary Refusal to Pay "Temporary Acronym Payment Failure" with respect to~~ Income Presentments occurs when an ~~paying agent IPA indicates notifies DTC of~~ an issuer's ~~temporary~~ inability to fund ~~income Income presentments Presentments~~ (IPs) ~~and therefore the IPA refuses to pay Income Presentments for the Acronym.~~ This is ~~considered a temporary~~ situation that ~~will DTC expects the issuer and/or IPA to be resolved resolve by~~ the next ~~business day Business Day~~. ~~Using the IPA Decision Making Application (IPA DMA) or automated messaging, IPAs can notify DTC that they refuse to pay Income Presentments for an MMI acronym for which there is a Temporary Acronym Payment Failure. Paying agents enter these notifications via the MMRP function.~~ When DTC receives ~~such~~ a notification, it:

- Temporarily devalues to zero all of the Issuer's MMIs for ~~collateralization Collateral Monitor purposes~~. (The value will be reinstated the following ~~business day Business Day if the funding is paid~~.)
- ~~Temporarily reverses all of the issuer's issuances and income presentments processed that day. These transactions will be automatically Automatically submits these transactions for processing processed~~ the next ~~business day Business Day~~.
- Notifies Participants of the ~~temporary default delayed payment~~.
- Blocks from DTC's systems all further issuances and maturities by that Issuer for the rest of the ~~business day Business Day~~.

Note: An IPA cannot notify DTC of a Temporary Acronym Payment Failure for the same Acronym on consecutive days. If a Funding Acknowledgment of the Acronym is not made by the IPA on the Business Day following the day of a Temporary Acronym Failure, then DTC will follow the Acronym Payment Failure process with respect to the Acronym as described above.

~~Note- You An IPA may can use Temporary Refusal to Pay notify DTC of a Temporary Payment Failure for~~ Income Presentments only if the issuer's only obligations that day are IPs.

### Notifying DTC of Issuer Failure

~~Because Refusal to Pay and Temporary Refusal to Pay notifications are critical, paying agents should call DTC's Settlement Hotline at 212-855-5800 to confirm that DTC received the notification.~~

## **MMI Issuer Failure Acronym Payment Failure Contact Number**

For more information ~~about MMI Issuer Failure~~ on DTC Acronym Payment Failure processing, call DTC's Settlement Operations Hotline at (212) 855-5800.

## **MMI IPA MP Pend**

### **Overview**

~~The MMI IPA MP Pend function or "MP Pend" will allow an issuing/paying agent (IPA) bank the ability to control its exposure to high risk issuers that have known or anticipated funding or credit issues.~~

~~By enhancing money market instrument (MMI) processing, the MP Pend function will assist in mitigating the collective risk for DTCC and its Participants.~~

### **Benefits**

- ~~• Gives IPAs the ability to anticipate and react to potential funding and credit issues associated with maturity presentments.~~
- ~~• Expected to reduce the number of late-day reversals.~~

### **Background**

~~Maturity payment procedures were designed to limit credit, liquidity, and operational risk for DTC and Participants in the MMI program. Maximizing efficiency at the lowest level of risk is the primary goal. To expedite the process, early on the day the MMI matures—approximately 2:00 a.m. eastern time (ET)—DTC automatically sweeps maturing MMI positions from accounts of investors' custodians with positions in the maturing issues and initiates maturity presentments (MPs) to the accounts of the designated IPAs.~~

~~MPs are effectively provisional book-entry deliveries versus payment submitted for inclusion in that day's settlement balance. DTC debits the IPA's account in the amount of the maturity proceeds for settlement that day and credits the same amount of the maturity proceeds to the investor's custodian account for payment that day to the investor.~~

~~Because MPs are processed automatically and randomly against the IPAs' DTC account, IPAs are provided the ability to refuse to pay for a specific issuer's MP in the event that the issuer defaults on its obligation to the IPA. These MPs are subject to reversal later in the day if an IPA refuses to pay (RTP) by 3:00 p.m. eastern time. The objective of the MP Pend function is to reduce the need for late-day reversals.~~

### **Legal Disclaimer**

~~In order to confirm that IPAs have the authority to pend MPs and understand the submission rules, they are required to review and accept a legal disclaimer each time they create or change an MP Pend profile.~~

~~Before submitting an MP Pend profile, the IPAs click to acknowledge that they have read and accept the terms and conditions.~~

### **Legal Disclaimer that the IPA Agrees To**

~~The Issuing Paying Agent for issuer, hereby represents and warrants that it has the authority to submit the request appearing on the next screen(s) and that it will either release the items held in "pend" prior to 3:00 pm eastern time (ET) on the date of maturity or by such time~~



~~communicate to DTC that it will refuse to pay. The Issuing Paying Agent for issuer, acknowledges, understands and agrees that all MPs will be released for normal processing if it does not communicate its intention to DTC that it wishes to refuse to pay by 3:00 pm ET.~~

### ~~How MMI MP Pend Works~~

~~MP Pend allows IPAs to review and approve MPs prior to having them processed into their IPA settlement account. IPAs will be able to pend an MMI maturity presentment and release transactions daily prior to the 3:00 p.m. ET settlement cutoff.~~

~~The four pend levels that MP Pend provides give the IPA greater control over which portion of an MP should pend and which portion should be processed. Using MP Pend, the IPA can pend one of four levels. The highest or broadest level is the acronym level. The lowest or most specific level is the base CUSIP.~~

~~The pend levels below are listed from the highest (acronym) to the lowest (base number) level. If you set up a profile for a base CUSIP number, you must first select the Acronym, Product, and Program that contain the base CUSIP you wish to pend.~~

### ~~MMI MP Pend Levels~~

- ~~1. Acronym (highest level)~~
- ~~2. Product~~
- ~~3. Program~~
- ~~4. Base Number~~

### ~~Workflow in MMI MP Pend~~

~~The following is a typical workflow for IPAs in MMI MP Pend:~~

- ~~1. Set up an MP Pend profile for the designated issuer's MPs~~
- ~~2. View all the transactions that are pended or that have been released~~
- ~~3. Release all transactions for processing or submit a refusal to pay to DTC by 3:00 p.m. ET.~~
- ~~4. Leave the MP Pend profile active for subsequent days, deactivate the profile for re-use later, or delete the profile.~~

### ~~Business Rules~~

~~The following are cutoff times for MMI MP Pend and related functions. All actions are processed real-time and take effect immediately.~~

<del>Action</del>	<del>Cutoff Time</del>	<del>Action is Effective</del>	<del>Applies To . . .</del>
<del>Pend Maturity Presentments (MPs)</del>	<del>Night prior to the maturity presentment (MP) sweep or intraday for MPs with variable rate.  If the IPA profile request is submitted after the MPs are processed, then they will not be pended but will be</del>	<del>Immediately.  Note: the MP Pend profile remains in effect until you deactivate or delete it.</del>	<del>MPs that are Activity Code 28 or intraday MPs for the same issuer acronym.  Note: Includes RPs (reorganization presentments.)</del>

	processed as pending items the following business day.		
<del>Release Maturity Presentment (MP) Transactions</del>	<p>All pending items must be released the same day that the MP matures by 3:00 p.m. eastern time.</p> <p>If the IPA takes no action by 3:00 p.m. eastern time, then these items will be released by DTC Operations for normal processing.</p>	<del>Immediately.</del>	<p>MPs that are Activity Code 28 or intraday MPs for the same acronym.</p> <p>Note: Includes RPs (reorganization presentments.)</p>
<del>Add Rate for MMIs with Unknown Rates</del>	The IPA must add the rate in PAMM or PORS before pending MPs can be released.	<del>Immediately.</del>	MPs that are Activity Code 28 or intraday MPs of the same acronym.
<del>Refusal to Pay (RTP) Maturity Presentments (MPs)</del>	<p>All refusals to pay must be submitted by 3:00 p.m. eastern time via the Money Market Refusal to Pay function (MMRP).</p> <p>If the IPA takes no action by 3:00 p.m. eastern time, then all pending items will be released by DTC Operations for normal processing.</p>	<del>Immediately.</del>	<p>All MPs that are Activity Code 28 or intraday MPs for the same acronym.</p> <p>Note: Includes RPs (reorganization presentments.)</p>

## Important Terms

### ~~MMI MP PEND Actions and Statuses~~

~~MP Pend gives the IPA the ability to set up their Pend profiles in order to indicate which issuer MPs will be pended and at what level. For example, as long as an MP Pend profile is active, all MPs that match that profile will be automatically pended. An MP Pend profile may be created, deactivated, reactivated, or deleted.~~

#### ~~Create~~

~~Creates the IPA's MP Pend profile in an Active status. Any MPs that correspond to the profile are pended effective immediately.~~

#### ~~Deactivate~~

~~Deactivates an MP-Pend profile thereby disabling the profile without deleting it. If you deactivate the profile, it is in Inactive status. Deactivating turns off the profile, but you can reuse it by activating it.~~

~~Note: Deactivating a profile does not affect the transactions that are pending. The IPA still needs to release each MP that is pending. The deactivation would take effect for any MPs that are submitted after the profile is deactivated.~~

#### ~~Activate~~

~~Reactivates an MP-Pend profile that has previously been deactivated. If you activate the profile, it is in Active status, and MPs that correspond to this profile are pending immediately.~~

#### ~~Delete~~

~~Deletes an MP-Pend profile. Delete a profile if you no longer intend to use it; deactivate a profile that you wish to turn off now but may want to reuse.~~

~~Note: Deleting a profile does not affect the transactions that are pending. The IPA still needs to release each MP that is pending.~~

#### ~~Maturity Presentment~~

~~In MMI-MP-Pend, maturity presentment is defined as the following:~~

- ~~• MPs and Reorganization Presentments (RPs) that are activity code 28 processed the night prior to the maturity date and/or intraday for MPs of the same acronym.~~
- ~~• For MMIs that pay interest and principal, the last interest and principal payment that is combined into a single maturity payment (activity code 28-0) to the holder on maturity date.~~
- ~~• For MMIs that make periodic principal payments (both fixed and variable rate, the last periodic principal payment (PPP) made for these MMIs, if made on maturity date. Note: For MMIs that make periodic principal payments on an accelerated basis prior to the scheduled maturity date, a reorganization presentment (RP) (activity code 28-1) is generated.~~

#### ~~MMI-MP-Pend Levels~~

~~Users can create a Pend profile for an MP based on acronym, product, program, and base CUSIP number:~~

##### ~~Acronym~~

~~The four character DTC identifier for the issuer of the MMI.~~

##### ~~Product Type~~

~~The type of money market instruments (MMI). There are 14 different MMIs which include:~~

- ~~• Corporate Commercial Paper~~
- ~~• Municipal Commercial Paper-Tax-Exempt~~
- ~~• Municipal Commercial Paper-Taxable~~
- ~~• Bankers' Acceptance~~
- ~~• Discount Note~~
- ~~• Bank Note-Short-Term~~

- ~~Medium Term Note~~
- ~~Bank Note-Medium Term~~
- ~~Deposit Note-Medium Term~~
- ~~Institutional Certificate of Deposit~~
- ~~Preferred Stock (in commercial paper-like mode)~~
- ~~Corporate Variable Rate Demand Obligation (VRDO) for Commercial Paper (CP)~~
- ~~Municipal Commercial Paper-Tax-Exempt (VRDO/CP) and~~
- ~~Municipal Commercial Paper-Taxable (VRDO/CP).~~

#### *Program*

~~The section of the Securities Act of 1933 for which an MMI is exempt. Examples include SEC 3(a) 2, 4(2), 144A, and Reg S. Unless selected the default is none.~~

#### *Base Number*

~~The first 6 digits of the CUSIP issuance also referred to as the issuer or CUSIP base number.~~

#### *MMI MP Pend Menu*

##### *MMI MP Profile Maintenance page*

~~Used to pend MPs by adding a Pend profile. You can later deactivate, re-activate or delete a profile.~~

##### *MMI MP Profile Inquiry page*

~~Used to see the MP Pend profiles you have added to MP Pend. You can see whether the Pend profile for a given MP is currently in effect (Active status) or not (Deactivated status).~~

##### *MMI MP Transaction Inquiry page*

~~Used to see the MP transactions processed within the last 21 business days. You can see statuses for MPs that are released, held, or failed. You can look up transactions at the various levels such as acronym, product, program, base CUSIP number.~~

##### *MMI MP Transaction Releases page*

~~Used to release the MP transactions that are pending.~~

## **MMI MP Pend Inquiry**

~~IPAs can view their MP Pend transactions within the last 21 business days on the MMI MP Transaction Inquiry page of the Settlement User Interface. Transactions are archived and maintained by DTC for 7 years.~~

#### ***SETTLEMENT WEB RISK MANAGEMENT CONTROL INQUIRY FUNCTION***

~~The Risk Management Controls screen displays additional details about a collateral group's current balances. The screen includes amounts for money market instrument (MMI) maturities that are "held" in a pending status in IMS by the issuing and paying agent (IPA).~~

#### ***PENDING ACTIVITY INQUIRY FUNCTION***

~~Participants can view items on the Pending Activity Inquiry screen.~~

\* \* \*

## Recycle Processing

### About the Product

When DTC receives instructions to effect a transaction, it may first be processed through one of several DTC systems before any DTC accounts are updated. For example, a transaction involving a delivery of securities may first be processed through one or more of the following:

- The IPO Tracking System
- The Receiver Authorized Delivery (RAD) system
- The Money Market Instrument (MMI) system.

After the transaction is processed, it is entered into DTC's Account Transaction Processor (ATP) system, where it is checked for various criteria (see Reasons for Recycling) before it is completed.

One critical function of ATP is Recycle Processing, also referred to as Pend Processing. DTC's recycle processor holds ~~your~~ **Participant** transactions that cannot immediately complete. All transaction types recycle if they cannot immediately complete, except:

- Minimum amount (MA) to net additions (NA) moves (using Collateral Moves functions)
- Releases of collateral
- Memo segregations (using the Memo Segregation functions)
- Segregations (using the Account Segregation Releases function)
- Transactions input with the "prevent pend" option (see below).

*Note-* These transactions will be dropped if they cannot complete when ATP performs its initial check.

### Reasons for Recycling

Transactions can recycle because of Risk Management Controls or insufficient position. A transaction may recycle under any of the following circumstances:

1. The deliverer has insufficient position to complete the transaction.
2. Completing the transaction would make the deliverer's collateral monitor negative, that is, the total remaining collateral in ~~your~~ **the deliverer's** account is less than the resulting net settlement obligation. This could happen if the collateral value of the securities ~~you are delivering to be delivered~~ exceeds the settlement value that would be credited to ~~your~~ **the deliverer's** account, or if the delivery is free and ~~your~~ **the deliverer's** collateral monitor is not sufficient to absorb the decrease.
3. Completing the transaction would cause the total value in the receiver's account, including the securities involved in the transaction, to be less than the resulting net settlement obligation, that is, ~~your~~ **the receiver's** collateral monitor would be made negative. This could happen if the amount that would be charged against ~~your~~ **the receiver's** account exceeds the collateral value of the ~~applicable~~ securities ~~you are receiving~~ and ~~your~~ **the receiver's** collateral monitor is not sufficient to absorb the decrease.
4. Completing the transaction would cause the receiver's net settlement obligation to exceed its net debit cap.

~~5. For MMI securities, the deliverer has insufficient other NA because the securities are deemed received versus payment position (RVP) NA and are being redelivered free or undervalued by more than 10 percent of the market value.~~

~~Note: This applies only to MMI transactions. MMI securities received versus payment are not allowed to be freely moved (free pledges, free deliver orders [DOs], withdrawals, segregations, etc.) until the LPNC control is released at approximately 3:00 p.m. eastern time.~~

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## Risk Management Controls

### About the Product

Risk Management Controls protect ~~you~~ **DTC and its Participants** from the inability of one or more Participants to pay their settlement obligations. Risk Management Controls are based on guidelines established by the Federal Reserve Bank (FRB). DTC currently employs ~~four~~ **three** primary Risk Management Controls for processing securities:

- Collateralization (**Collateral Monitor**)
- Net Debit Caps
- ~~Largest Provisional Net Credit (LPNC) for Money Market Instruments (MMIs)~~
- Issuer/Participant Number (IPN) Collateral Control.

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### Net Debit Caps

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### Calculating Calculation of Your Participant Net Debit Caps

Net Debit Caps for a Participant are calculated daily as follows:

1. The system records ~~your~~ the **Participant's** collateral group's three highest intraday net debit peaks over a rolling 70-business-day period, using ~~simulated~~ net debit peaks ~~instead of actual net debit peaks~~. If ~~you have~~ **the Participant has** elected to group ~~your its~~ accounts into separate families (see Grouping Accounts into Collateral Families) , the system first calculates the average ~~simulated~~ net debit peak of each family, and adds together the average net debit peaks of all ~~of~~ **the Participant's** ~~your~~ families to obtain ~~your~~ **the Participant's** overall average ~~simulated~~ net debit peak.
2. The system multiplies ~~your the Participant's~~ average ~~simulated~~ net debit peak by a factor to determine ~~your the Participant's~~ Net Debit Cap, which cannot exceed DTC's established maximum of \$1.8 billion. (Factors are based on a sliding scale, between 1 and 2, where smaller average peaks are multiplied by larger factors and larger average peaks are multiplied by smaller factors.)

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### Largest Provisional Net Credit Procedures

~~DTC established the largest provisional net credit (LPNC) as defined in the DTC Rules as an additional risk management control to protect against the occurrence, on the same business day, of an issuer insolvency or issuing and paying agent's Refusal to Pay and a Participant's failure to settle.~~

If, by 3:00 p.m. eastern time, DTC learns that an MMI issuing and paying agent refuses to pay for the maturity presentments and/or periodic interest and principal payments of an MMI issuer, or that an MMI issuer is insolvent, it initiates the Issuer Failure process. This process reverses maturity presentments, valued issuances, and valued deliveries and pledges originating from new issuances of the affected issuer and periodic interest and principal payments on MMI securities issued by that issuer and held in Participant accounts at DTC. These reversals are allowed to override collateral monitor and net debit cap controls so additional protection is required. LPNC procedures instead withhold credits due to valued deliveries or pledges of the MMI securities of the affected issuer so that the reversed transactions do not cause the net debit cap balance of a Participant to exceed its net debit cap or the collateral monitor control.

DTC tracks MMI activity in each Participant's account intraday and, as MMI transactions (including but not limited to, P&I payments credited to the account, and deliveries to and maturity presentments from the account) satisfy positions and risk management controls (other than LPNC), the settlement account of the Participant reflects in real time the net debit balance or net credit balance for each Acronym, as defined in the DTC Rules. DTC continuously monitors the applicable MMI Acronyms in which each Participant has the two largest net credits to determine the LPNC in accordance with the DTC Rules.

By way of example only, on a business day, prior to settlement, if an account has an MMI maturity presentment for which a credit of \$50 million is due, but it is also purchasing an MMI issuance in the same Acronym for \$25 million, and both the maturity presentment and issuance deliveries have satisfied position controls, net debit cap and collateral monitor controls, the system will reflect, with respect to this Acronym, a net credit due to the settlement account of \$25 million. A similar calculation would be completed with respect to each Acronym for which a net credit to the settlement account is anticipated to determine the two largest pending net credits for any Acronym, the sum of which equals the LPNC at that time.

The amount of the LPNC will not be credited to the settlement account until after the time for reversals has passed, at which time the amount is credited to the settlement account, offsetting any net debit balance to reduce the settlement obligation, if any, of the Participant. (It may be that the credit of the amount of the LPNC to the settlement account of the Participant creates a net credit balance, so that the Participant has no settlement obligation and is due a net payment in settlement.)

LPNC will not apply to any MMI Acronym for which the value of issuances exceeds the value of maturity presentments for that business day, as further provided in Rule 9(G), Section 1 of the DTC Rules.

*Note* LPNC procedures remain in effect only until the later of 3:05 p.m. eastern time or any time to which the period for MMI reversals may be extended by DTC in accordance with the Rules and Procedures (including this Settlement Service Guide). To view the LPNC for an account, use the Risk Management Controls Inquiry function.

## LPNC Procedures Applied to Net Debit Caps

To accommodate LPNC procedures, DTC established a simulated net balance, which is calculated by computing your actual net settlement balance and reducing it by your LPNC, if any. If the simulated balance results in a net debit, DTC will not allow the simulated net debit to exceed your net debit cap. This helps protect you and DTC so that even if DTC reverses transactions in the MMI Acronyms as to which the credits have been withheld, your net debit after the reversals will not exceed your net debit cap. If you incur only net debits in the MMI programs in which you have activity, your LPNC value will be zero. To determine your LPNC intraday, use the Risk Management Controls Inquiry function in the Settlement User Interface.

*Note* Intraday, until approximately 3:05 p.m. eastern time, your simulated net debit, not your actual net debit, is used for calculating net debit cap controls.

## LPNC Procedures Applied to Collateralization

DTC established a simulated Collateral Monitor (CM) to show your excess collateral after LPNC procedures are applied to your account. DTC calculates your simulated CM by subtracting your

~~LPNC from your actual GM. Until approximately 3:05 p.m. eastern time, transactions that would make your simulated GM negative are not completed; they are held in your recycle queue until you receive sufficient collateral in your account to complete them.~~

~~LPNC procedures help protect you and DTC so that a failing Participant's net debit balance remains collateralized even if DTC reverses transactions in the MMI Acronyms as to which credits have been withheld.~~

## Issuer/Participant Number Collateral Control (IPN)

Collateral in a Participant's account associated with the Participant (such as the Participant's own commercial paper) increases risk to DTC if that Participant failed to pay DTC and its obligation is supported partly or fully by the failing Participant's associated securities. To eliminate this risk, DTC's system monitors collateral received in a Participant's account related to that Participant.

IPN will link to a Participant's account securities related to it and withhold from the Participant any collateral value associated with the security. In effect, transactions processed to a Participant account will remain essentially the same, except that no increase will be applied to the Participant's collateral monitor for the collateral value of securities received that are associated with the Participant. IPN is based on a Participant's legal entity; therefore, this control will apply to every account of a Participant. For example:

When a Participant has an IPA account that issues MMI securities on its own behalf and has a custody account in the same or a separate collateral group, and the IPA account processes an MMI issuance delivery to its own custody account in its own MMI securities, the custody account will receive no collateral increase for the collateral value of that issuance.

IPN control will not affect a Participant's net debit ~~or its LPNC~~ calculations. Because IPN control affects the collateral value of an associated account, IPAs may wish to monitor their accounts more closely intraday for insufficient collateral, especially if ~~they have net maturity~~ presentments ~~versus exceed~~ issuances in ~~their own MMI securities~~ an Acronym for which they act as IPA on a particular day.

## Risk Management Controls Contact Number

For more information on Risk Management Controls, call DTC's Customer Support Center at (888) 382-2721.

## Extension Requests

DTC cannot grant you a Participant an extension of the foregoing deadlines unless a substantial volume of transactions is involved. Please notify DTC as early in the processing day as possible if ~~you think you may~~ there is a need to request an input extension. This will allow DTC to discuss alternative methods of input.

To request an extension call DTC's Settlement Hotline at 212-855-5800.

## Associated Functions

The Short Position Inquiry function is used in association with the Settlement Processing Schedule and allows you Participants to view the detail of their respective short position penalty charges.

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# Distributions Service Guide

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## Allocations

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## Cash Distributions for MMI Issues



DTC distributes income payments for various MMIs, including Medium Term Notes (MTNs). ~~The allocation process differs from the non-MMI issues in the way in which payment is received from the paying agent. At start-of-day, all MMI distributions payable that day are credited to the applicable participant's account and offset by a debit to the issuer's issuing paying agent's (IPA's) account at DTC. You can view these credits via DTC's Settlement service. In the rare instance that an issuer defaults, these credits are reversed prior to DTC's final settlement process. MMI income payments (Income Presentments) are not attempted for processing until the issuer's issuing and paying agent (IPA) makes a funding decision in the form of an "MMI Funding Acknowledgment". Once a funding decision is made items will be processed subject to risk controls and the sufficient inventory of the relevant Participants. See the DTC Settlement Service Guide, available at <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>, for the DTC Procedures relating to the MMI settlement processing.~~

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