



<b>B #:</b>	B9180-18
<b>Date:</b>	August 10, 2018
<b>To:</b>	All Participants
<b>Category:</b>	DTC Risk Management
<b>From:</b>	Settlement Manager/Managing Director/Cashier
<b>Attention:</b>	Changes to DTC calculations affecting your Collateral Monitor
<b>Subject:</b>	B9180-18

This notice relates to Participants that are also Members of National Securities Clearing Corporation (NSCC) that utilize CNS (Continuous Net Settlement), referred to as Common Members.

The purpose of this notice is to inform Common Members that DTC is making a minor processing change to the valuation of certain securities deliveries to CNS that may affect the value of your Collateral Monitor at DTC. DTC anticipates that this change will have a minimal impact, but you should be alerted to monitor your Collateral Monitor to ensure that the flow of transactions intraday does not require action on your part.

This change will modify the collateral value of equity securities that are delivered from your Account to CNS as short covers. The change is to increase the haircut which will reduce the collateral value of equity securities with a price per share equal to or greater than \$5 ("Affected Securities"). In particular, for Affected Securities, that are not received versus payment and are onward delivered to CNS, the Collateral Monitor will be increased by an amount equal to the market value of the securities multiplied by haircuts ranging from 25% to 65% instead of 10% currently. This change will align the collateral valuation of the Affected Securities with the current DTC haircut schedule (please see Appendix below).

As a reminder, to manage intraday transaction blockages due to risk management controls, the tools available to you are: to designate additional securities as collateral, process delivery versus payment transactions that will generate intraday credits to your settlement account, or Fed wire settlement progress payments to your Account at DTC. Clients can monitor their collateral monitor balance via the Risk Management Controls Inquiry link in the Cash and Balances tab in the Settlement Web.

For more information related to CNS processing at DTC, you may wish to review the Settlement Service Guide<sup>1</sup>.

This change will become effective and will be reflected in Members' DTC Collateral Monitor beginning on **Friday August 31, 2018**.

Questions regarding this notice should be directed to:

- Your Relationship Manager or
- DTC Risk Hotline 1(212) 855-2260

<sup>1</sup> For more information on Collateralization please reference the Settlement Service Guide <http://www.dtcc.com/~media/Files/Downloads/legal/service-guides/Settlement.pdf>

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**Appendix:**

Security Type	Rating ( S&P / Moody )	Current Collateral Haircut
<b>Interest bearing United States Treasury Securities</b>		
with remaining terms to maturity of up to 2 years		2%
with remaining terms to maturity in excess of 2 years and up to 5 years		3%
with remaining terms to maturity in excess of 5 years and up to 10 years		4%
with remaining terms to maturity in excess of 10 years		6%
<b>Zero Coupon United States Treasury Securities</b>		
with remaining terms to maturity of up to 5 years		5%
with remaining terms to maturity in excess of 5 years		12%
<b>MBS issued by a US Agency and US Government Sponsored Enterprise (GSE)</b>		
	AAA to AA / Aaa to Aa2	7%
<b>Interest bearing Agency unsecured notes, debentures and other interest bearing obligations of (i) instrumentalities of the U.S. or (ii) GSEs</b>		
GNMA, FNMA, FHLMC, remaining terms to maturity of up to 10 years	AAA to AA / Aaa to Aa2	5%
All other GSEs not under US Govt conservatorship with remaining terms to maturity of up to 10 years	AAA to AA / Aaa to Aa2	7%
GNMA, FNMA, FHLMC, remaining terms to maturity in excess of 10 years	AAA to AA / Aaa to Aa2	7%
All other GSEs not under US Govt conservatorship with remaining terms to maturity in excess of 10 years	AAA to AA / Aaa to Aa2	10%
<b>Zero Coupon Agency unsecured notes, debentures and other interest bearing obligations of (i) instrumentalities of the U.S. or (ii) GSEs</b>		
GNMA, FNMA, FHLMC, remaining terms to maturity of up to 5 years	AAA to AA / Aaa to Aa2	7%
All other GSEs not under US Govt conservatorship with remaining terms to maturity of up to 5 years	AAA to AA / Aaa to Aa2	7%
GNMA, FNMA, FHLMC, remaining terms to maturity in excess of 5 years	AAA to AA / Aaa to Aa2	12%
All other GSEs not under US Govt conservatorship with remaining terms to maturity in excess of 5 years	AAA to AA / Aaa to Aa2	18%
<b>Fixed-rate, non-callable, non-amortizing Canadian Dollar (CAD) - denominated negotiable debt obligations with fixed maturity, in book entry form, issued by the federal Government of Canada</b>		
with remaining terms to maturity of up to 10 years	AAA / Aaa	4%
with remaining terms to maturity in excess of 10 years	AAA / Aaa	8%
<b>Zero coupon Canadian Dollar (CAD) - denominated negotiable debt obligations with fixed maturity, in book entry form, issued by the federal Government of Canada</b>		
with remaining terms to maturity of up to 10 years	AAA / Aaa	7%
with remaining terms to maturity in excess of 10 years	AAA / Aaa	14%
<b>Agency CMOs</b>		
Supported by US Govt conservatorship and 2 Vendor prices	AAA to AA / Aaa to Aa2	20%
< 2 Vendor Prices		100%
<b>Medium-Term Notes / Corporate Bonds</b>		
	AAA to A- / Aaa to A3	20%
	BBB+ to BBB- / Baa1 to Baa3	30%
	BB+ to BB- / Ba1 to Ba3	40%
	B+ to B- / B1 to B3	50%
	CCC+ / Caa1 and below or unrated	100%

Security Type	Rating ( S&P / Moody )	Current Collateral Haircut
<b>Municipal Bonds</b>		
	AAA to A- / Aaa to A3	25%
	BBB+ to BBB- / Baa1 to Baa3	30%
	BB+ to BB- / Ba1 to Ba3	100%
	B+ / B1 and below or unrated	100%
<b>Money market Instruments</b>		
Corporate Commercial Paper Discount Notes (maturity not to exceed one year)	A-1+ to A-1 / P-1	6%
	A-2 / P-2	30%
	A-3 / P-3	100%
	below A-3 / P-3 or unrated	100%
Institutional Negotiable Certificates of Deposit (original maturity 270 days or less)	A-1+ to A-1 / P-1	6%
	A-2 / P-2	100%
	A-3 / P-3	100%
	below A-3 / P-3 or unrated	100%
Municipal Commercial Paper Discount Notes, Municipal Notes and Other Short Term Municipal Debt (maturity not to exceed one year)	SP-1+ to SP-1 / MIG-1	10%
	SP-2 / MIG-2	100%
	SP-3 / MIG-3	100%
	below SP-3 / MIG-3	100%
Preferred Stock in CP mode	All	100%
Bankers Acceptances	All	100%
Discount Notes	All	100%
Short Term Bank Notes	All	100%
<b>Institutional Negotiable Certificates of Deposit (original maturity greater than 270 days, with remaining maturity of up to five years)</b>		
	AAA to A- / Aaa to A3	10%
	BBB+ to BBB- / Baa1 to Baa3	25%
	BB+ to BB- / Ba1 to Ba3	100%
	B+ to B- / B1 to B3	100%
	CCC+ / Caa1 and below or unrated	100%
with remaining maturity of more than 5 years	All	100%
<b>Corporate and Municipal Variable-Rate Demand Obligations (non-CP Mode with 2 Agency Ratings)</b>		
	AAA / Aaa	20%
	AA+ to AA- / Aa1 to Aa3	35%
	A+ to A- / A1 to A3	50%
	BBB+ to BBB- / Baa1 to Baa3	75%
	BB+ / Ba1 and below or unrated	100%
less than 2 Agency Ratings		100%
<b>Corporate and Municipal Variable-Rate Demand Obligations (in-CP Mode)</b>		
	All	100%
<b>Non-Agency CMOs</b>		
2 Agency Ratings & 2 Vendor Prices	AAA / Aaa	50%
2 Agency Ratings & 2 Vendor Prices	AA+ to AA- / Aa1 to Aa3	60%
2 Agency Ratings & 2 Vendor Prices	A+ / A1 and below or unrated	100%
< 2 Agency Ratings or < 2 Vendor Prices		100%

Security Type	Rating ( S&P / Moody )	Current Collateral Haircut
<b>Publicly issued Asset Backed Securities (ABS)</b>		
2 Vendor prices	AAA / Aaa	35%
2 Vendor prices	AA+ to AA- / Aa1 to Aa3	45%
2 Vendor prices	A+ / A1 and below or unrated	100%
< 2 Vendor prices		100%
<b>Equity Securities (Common, Preferred) listed on a U.S. national securities exchange, NASDAQ, or a Canadian securities exchange</b>		
with a market price of \$10.00 or more per share or per other unit		25%
with a market price between \$7.50 and \$9.99 per share or per other unit		30%
with a market price between \$5.00 and \$7.49 per share or per other unit		50%
with a market price below \$5.00 per share or per other unit		100%
<b>Equity Securities (Warrants, Rights, Units, Closed End Mutual Funds) listed on a U.S. national securities exchange, NASDAQ, or a Canadian securities exchange with a market price of \$5.00 or more per share or per other unit</b>		
with a market price of \$5.00 or more per share or per other unit		50%
with a market price below \$5.00 per share or per other unit		100%
<b>American Depository Receipts (ADRs) traded OTC</b>		
with a market price of \$5.00 or more per share or per other unit		50%
with a market price below \$5.00 per share or per other unit		100%
<b>UITs listed or not listed on a U.S. national securities exchange, NASDAQ, or a Canadian securities exchange</b>		
with a market price of \$5.00 or more per share or per other unit		50%
with a market price below \$5.00 per share or per other unit		100%
<b>Equity Securities (Common, Preferred, Warrants, Rights, Units) not listed on a U.S. national securities exchange, NASDAQ, or a Canadian securities exchange</b>		
with a market price of \$5.00 or more per share or per other unit		65%
with a market price below \$5.00 per share or per other unit		100%
<b>144A / Reg S ( All Securities - Equity &amp; Debt )</b>	All	100%
<b>Auction Rate Preferred Stock and Tender Rate Preferred Stock</b>		100%

1. Securities are assigned a 100% haircut if the issue has matured, the issuer is in bankruptcy or the security is not priced by an approved DTC pricing model or by a third-party vendor for a period of 10 business days or more.
2. DTC may reduce its risk by assigning higher haircuts, where applicable, to equity securities designated as highly volatile, based on their historical price volatility.