

CNS Prime Broker Interface

The CNS Interface for prime brokers is a settlement option that streamlines prime broker transaction processing. The interface allows an executing broker to hand off a trade executed on behalf of a hedge fund to its prime broker for clearance and settlement. The CNS Interface enables qualified clearing agencies to provide NSCC with a trade offset record, which nets out the executing broker's position, leaving the prime broker with the remaining settlement obligation. The offset and netting processes simplify trade processing and mitigate risk for both parties.

Additionally, the CNS Interface can also be used for the transfer processing of a Hedge Fund asset position(s) between two prime broker accounts. The interface leverages an existing automated and standardized matching process to reduce the likelihood of fails and reclaims, resulting in more straight-through and less resource intensive asset transfer processing and reduced operational risk.¹

The CNS Interface leverages existing DTCC services that broker-dealers utilize in their clearance and settlement process today to achieve matching and settlement for prime broker transaction processing, primarily including:

- **Institutional Trade Processing (ITP)'s TradeSuite ID® system** - For trade matching and comparison of prime broker transactions
- **NSCC's Universal Trade Capture (UTC) system** – For trade capture of all street-side trades including ITP prime broker trades
- **NSCC's Continuous Net Settlement (CNS®) system** – For netting of settlement obligations to one net position per security per broker where NSCC becomes the central counterparty
- **DTC's Settlement system** – To accommodate the book-entry deliver order movements to settle their CNS long and short obligations

WHO CAN USE THE CNS INTERFACE

Firms that are NSCC full-service Members that utilize **CNS®**

BENEFITS

The CNS Interface streamlines prime broker transaction processing and mitigates risk for both parties to the transaction.

- The CNS Interface allows prime broker transactions to settle in the CNS System.
- CNS simplifies trade processing by netting all securities transactions into one position per issue for settlement. This eliminates the need to settle prime broker transactions on a trade-for-trade basis.
- The CNS Interface reduces counterparty risk by providing an NSCC guaranty for eligible securities.

HOW THE CNS INTERFACE WORKS

The two brokers involved in a prime broker transaction will utilize TradeSuite ID to match the transaction that is to be settled. For a trade, the executing broker (of street-side trade) will always submit the confirmation and the prime broker will affirm that trade.

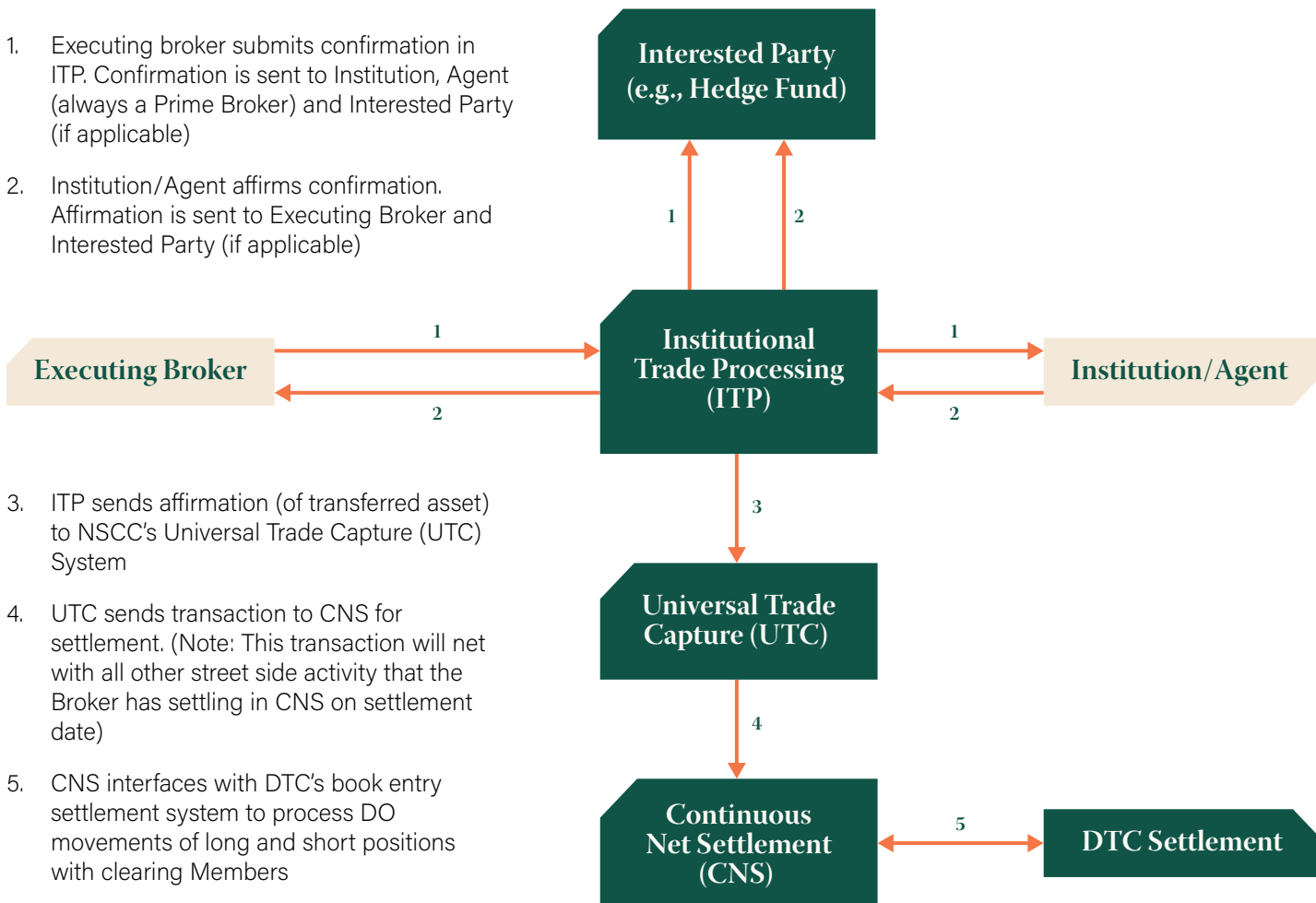
¹ An alternate settlement of prime broker asset transfers is for the counterparties settle them bilaterally with each other directly at DTC. For more about this, please see the section below on "Alternate Processing".

HOW THE CNS INTERFACE WORKS (CONTINUED)

For a transfer, the prime broker who is delivering the asset will always submit the confirmation acting in the role of the executing broker. (Note: If a prime broker is receiving an asset with a short position, then they will be acting as the executing broker and generating the confirmation for that asset with the short position)². The contra prime broker, acting in the role of the agent, will affirm that asset position(s) that is to be transferred for the Hedge Fund.

Whether a trade or a transfer, ITP will forward the affirmed transaction to NSCC's UTC system where it is processed in market code 90 (DTC ID -Prime Broker). Additionally, once received NSCC will apply its trade guaranty to that transaction. For settlement, UTC will forward the transaction to CNS where it will be netted with a prime broker's other CNS settlement activity for their same clearing participant number.³

Flow of the CNS Interface



² The prime broker who is submitting the confirm must use an Executing Broker ID that is eligible to settle CNS

³ If the security is eligible for CNS at the time of affirmation, then ITP will forward the affirmed transaction to UTC. If the security subsequently becomes ineligible for CNS before UTC sends to CNS, then UTC will include the transaction in its multilaterally netted guaranteed balance order process. In this process, a clearing Member will be assigned a balance order(s) to settle with another NSCC Clearing Member (not necessarily the one who was the original counterparty to the transaction). These balance orders are settled at a uniform settlement price (or mark-to-market) and are guaranteed by NSCC until settlement date.

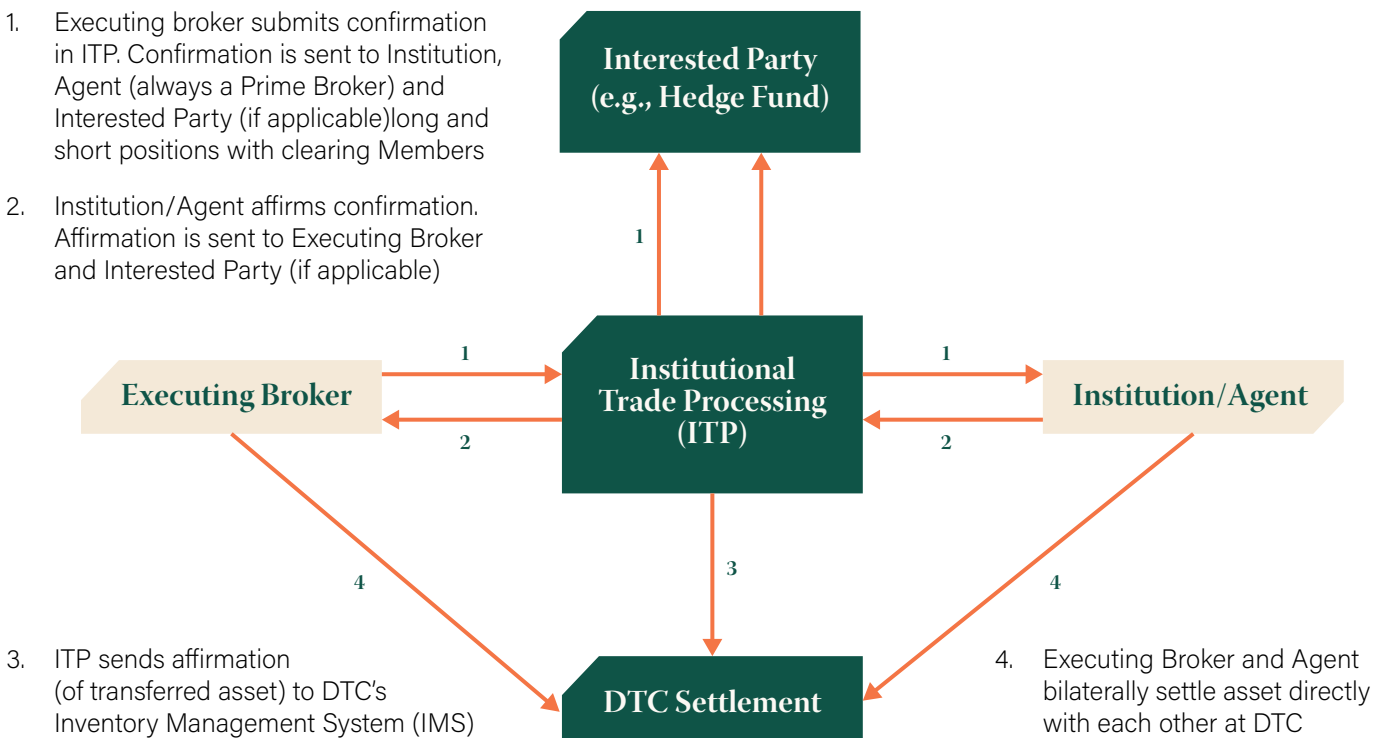
BENEFITS

Certain transactions will not be eligible to settle through the CNS interface. As a result, these transactions must settle bilaterally between the two contra-parties. Some of the reasons for are as follows:

- › The security does not meet CNS eligibility requirements
- › The affirmation occurs past cutoff time
- › The executing broker is submitting a confirm using an execution broker ID that is not eligible to settle in CNS
- › The prime broker on the confirm (who is always the Agent) has an Agent ID that is not eligible to settle in CNS

When this occurs, ITP will forward the affirmed transaction to DTC's Inventory Management System (IMS). The party delivering the asset must provide instruction to DTC to process a valued Deliver Order (DO) to the receiving party for the asset share quantity and net settlement amount. This bilateral transaction will not be guaranteed by NSCC as it will settle trade-for-trade between the two brokers who were the counterparties to the transaction. Below is an illustration of this settlement model:

Flow of the Bilateral Settlement Interface



AGENT ID AND EXECUTING BROKER ID THAT SHOULD BE USED IN THE TRADESUITE ID MATCHING PROCESS

Brokers can either use the same Agent ID or Executing Broker ID they use for their matching of their PB trades and transfers or they can open separate ones for each process.

In order to open a new Agent ID or Executing Broker ID, the broker would need to request the new ID using the following link:
<https://na2.docuSign.net/Member/PowerFormSigning.aspx?PowerFormId=d866822d-b806-4fc2-874b-915b715e8ccf&activateonly=1&persistoriginal=1>



FOR MORE INFORMATION

To request additional information, please contact Client Support at 1-888-382-2721.

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