



SECURITIES FINANCING TRANSACTION (SFT) CLEARING SERVICE

BACKGROUND

Securities financing transactions (SFTs) are any transactions where securities are used to borrow cash or vice versa.

The Depository Trust & Clearing Corporation (DTCC), through its equities clearing subsidiary, National Securities Clearing Corporation (NSCC), is constructing a new model for central clearing of equities lending and borrowing transactions, leveraging its clearing capabilities, risk management and efficient infrastructure to provide the market with a bilaterally cleared stock loan service. The new Securities Financing Transaction (SFT) Clearing service is expected to launch in 2021, pending regulatory approval.

BENEFITS

While SFT clearing has existed in limited segments of the inter-dealer markets, it has included only a narrow range of asset classes and has mostly excluded non-dealer participants.

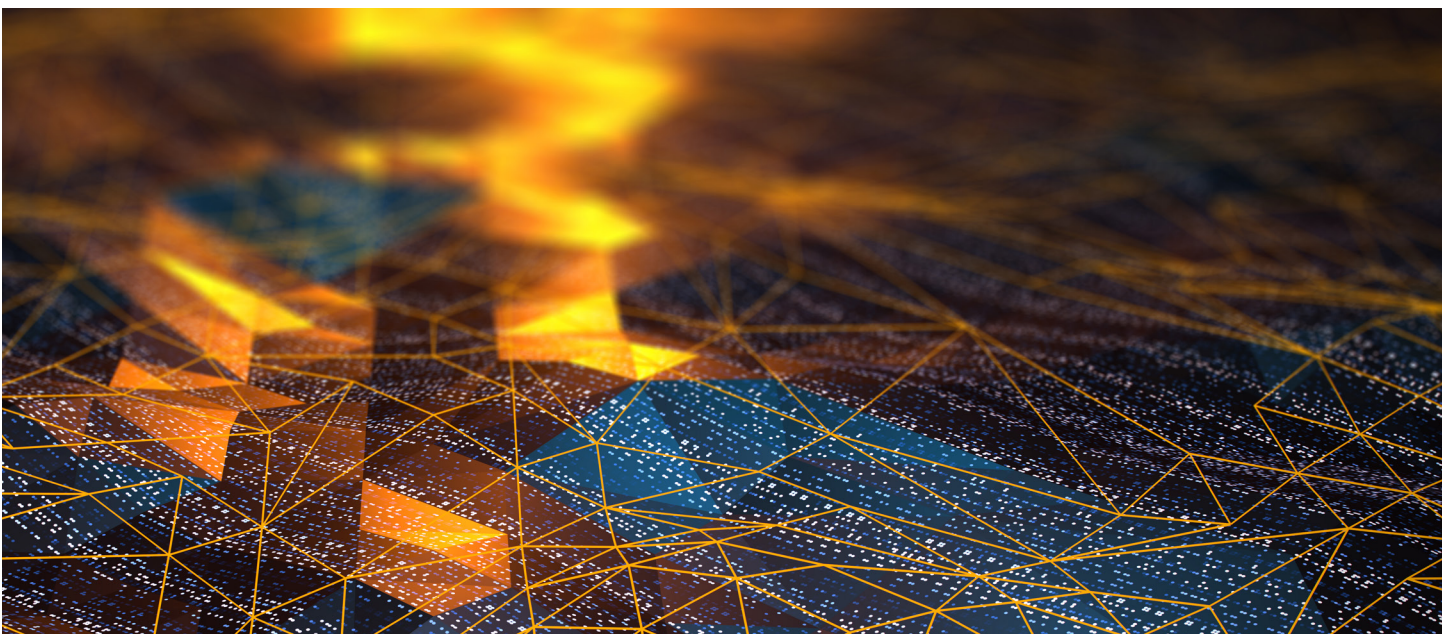
Central clearing of equities SFTs has the potential to expand capacity for DTCC's clients by significantly enhancing market access, while at the same time, mitigating pricing pressures through counterparty risk reduction in the bilateral securities lending market.

Benefits include balance sheet savings for both borrowers and agent lenders, and a reduction in counterparty risk by novating to NSCC the completion of settlement obligation.

HOW THE SFT CLEARING SERVICE WOULD WORK

DTCC is developing a common interface and formats for all industry participants, which would allow parties to create their own tools or leverage those provided by vendors. Business models for clearing of securities loans are still evolving, and key features are being actively discussed between agent lenders, borrowers, and NSCC. In addition, vendors would also be involved in the product development process. Where possible, the SFT Clearing service will leverage NSCC's and DTC's existing systems.

- To capture maximum capital and balance sheet efficiencies, equities SFTs that are term transactions could be submitted to NSCC for clearing, allowing for the maximum netting benefits.



In Phase 1 of the development, the term would be limited to overnight equities SFTs.

- To minimize the operational burden of settling overnight obligations, settlements would be allowed to pair off daily against new activity, with NSCC calculating and processing price differential payment amounts that are created by the daily pair off and processed through DTC.
- All SFT Clearing activity (including all proprietary activity and institutional client activity) would be cleared through a client account designated for SFT activity alone that would not be able to be used to clear and settle cash market activity
- SFT Clearing activities have the ability to settle DVP/RVP at DTC.
- Supports recall and buy-in processing and supports corporate action processing for most mandatory events and cash dividend processing.

WHO CAN USE THE SFT CLEARING SERVICE

In order to continue expanding membership, the SFT Clearing service offering would include both direct and indirect access for financial institutions, based on two models: a sponsored membership model and a direct broker/dealer agency model (traditional NSCC membership model).

Allowing access through limited direct membership reflects the minimal risk cash lending clients introduce and the unique needs of these clients. Institutional clients would join NSCC as sponsored members, and their equities SFT activity would be intermediated via back-to-back principal trading by their sponsoring members in NSCC (Sponsored Member-to-Sponsoring Member and Sponsoring Member-to-Dealer or other Sponsored Member).

- Agent Clearing Members are NSCC full-service Members

eligible to participate in the SFT Clearing service, who facilitate their institutional clients' SFT activity through agent trading. The agency model offers a version of agency securities lending that clears via the central counterparty (CCP). The Agent Clearing Member has a significant role to play in the service:

- Post all Clearing Fund associated with the activity of their clients.
 - Remain fully liable to NSCC for their clients' settlement obligations.
 - Be responsible for any default loss allocable to Agent Client Omnibus Account as well as their own loss allocation as an NSCC full-service Member.
- Sponsoring Members act as intermediaries and processing agents for their sponsored members. Sponsoring members can receive risk-weighted asset (RWA) relief by transacting with a CCP. If they elect to transact as principal, they may be able to trade in a balance sheet-neutral environment due to the CCP nature of this activity. They would have the ability to match clients who are both lenders and borrowers with no street-side settlements.
 - Sponsored Members should expect increased utilization of holdings, with less counterparty risk due to the CCP nature of the activity. Additionally, the need for immediate ALD (Agency Lending Disclosure) reporting would no longer be applicable.
 - Other SFT Members would have more opportunities through a cleared SFT process to directly borrow or lend securities with counterparties who may not have had prior approvals in a bilateral, uncleared environment, providing more supply and liquidity to the market. This maximizes balance sheet and capital efficiency by introducing more clearing opportunities for market participants.

FOR MORE INFORMATION

For further information regarding the SFT Clearing service or sponsored membership, please contact DTCC at rmsupport@dtcc.com.