



A #:	7556
P&S#:	7126
DATE:	DECEMBER 21, 2012
TO:	ALL PARTICIPANTS
ATTENTION:	MANAGING PARTNER/OFFICER, OPERATIONS PARTNER/OFFICER MANAGER P&S DEPARTMENT, MANAGER DATA PROCESSING DEPARTMENT
FROM:	PRODUCT MANAGEMENT
SUBJECT:	REQUIREMENTS FOR THE CNS ACATS AND DTC SETTLING ASSETS PROJECT

In response to events relating to the close-out of Lehman Brothers in 2008, National Securities Clearing Corporation (“NSCC”) and The Depository Trust Company (“DTC”) have been engaged with the industry in a series of initiatives designed to improve the efficiency and reduce risks associated with transactions processed through NSCC’s Automated Customer Accounts Transfer service (“ACATS”). Previous initiatives in this regard focused on CNS-eligible and mutual fund ACATS obligations. As a next step in this series of initiatives, and as more fully described below, a new ACATS process will be developed for enhanced efficiency and risk reduction for ACATS transfers of CNS-eligible securities and assets that are eligible for settlement at DTC, but not in CNS (“non-CNS DTC-eligible assets”). These modifications are subject to approval of the U.S. Securities and Exchange Commission.

Primary Impacts

The changes described in this Important Notice are designed to address processing and risk-related concerns with respect ACATS processing of CNS-eligible securities and non-CNS DTC-eligible assets including as follows:

- First, this initiative creates functionality for NSCC to track non-CNS DTC-eligible ACATS obligations on ACATS settlement date and reverse only those uncompleted transactions of the defaulting Member in the event of a default. Previous initiatives focused on reversals of CNS-eligible and mutual fund ACATS obligations.
- Second, the proposed modifications will allow NSCC to track CNS ACATS transactions in case of multiple Member defaults on ACATS settlement date. Processes currently in effect solve only for tracking in the event of a single member default.
- Third, as more fully described below, revised processing will ensure that non-CNS DTC-eligible items are credited to a no lien location, as CNS eligible items are currently.

This Important Notice contains a summary of upcoming modifications addressing these issues, and a list of the requirements associated with the project. Record layouts for new files created as a part of the project, and details about Member testing, will be released in the future in separate notices.

The project is tentatively scheduled to begin Member testing in December 2013, and tentatively scheduled to be migrated to production in March 2014.

New Process for ACATS Transfers of CNS-Eligible Securities and non-CNS DTC-eligible Assets

The revised process will remove all non-fail ACATS obligations from CNS, and create a new process for ACATS transactions for both CNS-eligible securities and non-CNS DTC-eligible assets. Since NSCC does not guaranty ACATS transfers, the removal of CNS-eligible ACATS items from CNS processing will not have an impact on NSCC's guaranty of settlement for other CNS transactions.

This change will require the use of two new CNS sub-accounts, and a new NSCC CNS ACATS account at DTC. In this new design, ACATS will send obligations in CNS-eligible assets, and non-CNS DTC-eligible assets obligations, into a new non-guaranteed ACATS process on ACATS settlement date. Under the new process, such ACATS transactions will be aggregated into one net long position and one net short position per security per participant. This aggregation will allow NSCC to track obligations at the underlying customer level, so NSCC could identify and reverse only uncompleted obligations if one or more Members default on ACATS settlement date (Multi-lateral netting of ACATS obligations under the new process would prevent NSCC from tracking them at the underlying customer level.). The new process will allow participants to realize processing efficiencies similar to those realized through the current process by continuing to allow for the reduced settlement of obligations in CNS-eligible items, while extending a similar benefit to DTC-eligible ACATS items.

The associated changes will also ensure that neither DTC nor NSCC has a lien on shares delivered as a result of ACATS transfers. As this new process allocates shares to the long broker, DTC will credit the shares to the broker's Minimum Amount (MA) or non-lien/non-collateral account at DTC.

If a transaction fails at the end of the day, NSCC will apply a debit to the delivering broker and a credit to the receiving broker, as ACATS does currently. In the new process, the money amount will be 100 percent of the CNS market value of the fail for each CNS-eligible item, and 100 percent of the ACATS market value for each non-CNS DTC-eligible item. When the Member pays final money settlement, failed ACATS obligations that are eligible for this new process will take one of two paths depending on whether they involve CNS-eligible or non-CNS DTC-eligible items.

- For fails in CNS-eligible ACATS obligations: A failed ACATS obligation in a CNS-eligible security will enter the CNS net. Because the Member has paid final settlement, NSCC has collected the incentive charge for the failed ACATS obligation. Because the Member has paid NSCC for the obligation, NSCC can guarantee the position, and it is netted with regular CNS processing.
- For fails in non-CNS DTC ACATS obligations: A failed non-CNS DTC-eligible ACATS obligation will be automatically entered into NSCC's Obligation Warehouse system. ACATS

provides instructions to both the receiver and deliverer to settle the failed obligation directly with each other.

If one or more Members do not pay final money settlement, the tracking and reversal functionality included in the project's design allows NSCC to reverse uncompleted ACATS obligations as necessary.

This project represents the collective results of discussions with the industry and the agreed upon designed solution for both CNS and non-CNS DTC eligible transactions. Through discussion with the industry, it became clear that participants rely heavily on the benefit of netting ACATS obligations, so settling these obligations on a trade-for-trade basis would create inefficiencies for participants. As a result, NSCC has worked with the industry to create the requirements for this project: a new, separate, non-guaranteed process for ACATS obligations.

List of Requirements

The various requirements for this project are described in the numbered list below.

1. ACATS Settlement Location 05=CNS updated to include both CNS and DTC eligible securities on broker-broker transfers

Currently ACATS uses Settlement Location 05=CNS to identify securities that are CNS eligible. In the new design, this location will be changed to include non-CNS DTC securities as well. Non-CNS DTC securities currently are DTC eligible securities that settle in Location 25 = DTC, 50 = R&D NSET or 50 = R&D XSET. This change will enable both the ACATS system and Members to identify securities on broker-to-broker transfers eligible for CNS and/or DTC that will settle in the new unguaranteed CNS ACATS process.

The following rules will apply:

- For securities that are DTC eligible, but not CNS eligible, that will now settle under ACATS Settlement Location 05 = CNS, ACATS will assign a new derived Settlement Location Reason of DTC = DTC Eligible Only. This new code will enable Member firms to identify DTC eligible, but not CNS eligible, securities that are settling in this location. This new settlement location reason will be added to the following output files/reports:
 - Multi-Batch (02090716/02090722)
 - End-of-Day (02090717/02090723)
 - Position (02090718/02090724)
 - Settlement File (02090719/02090725)
 - Reversal File (02091008/02091657);
 - As well as any associated print-image reports
 - On broker to broker settling assets, this settlement reason code will include assets which currently settle in ACATS Settlement Location 25 = DTC, 50 = R&D NSET and 50 = R&D XSET with the exception of the following:

- All U.S. Government Securities such as U.S. Treasuries, GNMA, FNMA, FHLMC
 - DTC IPO tracked issues which settle R&D 50 IPO
 - Issues chilled for DTC Deliver Order (DO) processing
 - Issues undergoing a mandatory or voluntary corporation action at DTC
 - Securities submitted with fractional shares or baby bonds
- ACATS will still use Settlement Location 25 = DTC when securities are DTC eligible on broker to broker transfers that are subject to current DTC eligibility rules but not allowed to settle via this new process because the rules outlined above.
 - To use Settlement Location 25=DTC, the delivering firm must be set-up for Auto DO process in ACATS. Otherwise, transactions will settle 50 = R&D NSET. Obligations with Settlement Location 50 = R&D NSET will be sent to the Obligation Warehouse (OW) system for processing (same as current process).
 - ACATS will use Settlement Location 25 = DTC when securities are DTC eligible and settle with a bank (same as current process).
 - U.S. Government securities will no longer be eligible for Settlement Location 25 = DTC.
 - For issues identified to settle in ACATS Settlement location 25=DTC or 50=R&D NSET that have a Transfer Agent = 6767 (6 year PREM Non-Transferrable item), ACATS will continue to change the settling location to 30 = Undeliverable and assign a new settling location reason code of NTRN = 6-year (PREMed) non-transferable. This process will be updated to include any assets that settle in ACATS Settlement Location 05=CNS which is not applicable today.
 - ACATS output files will indicate all assets settling in ACATS Settlement Location 05 = CNS as 'Free' settling assets. There will be no incentive charges on these obligations.
 - For all other securities, ACATS will continue to issue ACATS Receive and Deliver instructions at the end of day and apply valued incentive charges

2. Elimination of the ACATS Short Charge File to the DTC ATP system

Currently, to offset NSCC's risk of providing a guarantee to DTC for CNS deliveries that do not generate credits in NSCC's system, i.e. Automated Customer Account Transfer Service (ACATS) transactions, NSCC provides DTC with a file of charges that reduce the start-of-day collateral monitor for each participant that has net ACATS short cover obligations. This collateral is replaced when a firm completes their ACATS deliveries.

As a result of the changes for this project, this file will no longer be needed because CNS ACATS transactions will no longer net and settle with guaranteed CNS settling obligations. CNS ACATS transactions will be processed through the new CNS sub-accounts and a new account at DTC. Members do not need to make any coding changes to support this change.

3. Two new CNS sub-accounts for ACATS settlement processing

CNS-eligible ACATS transactions will be removed from the existing netting process in the CNS sub-account "A" on ACATS Settlement Date. In this new process ACATS transactions will not be multilaterally netted: there will be two new CNS sub-accounts, one for ACATS long positions; the other, for ACATS short positions.

The following rules apply:

- A new “R” sub-account will be used for ACATS receives (longs)
- A new “S” sub-account will be used for ACATS sends (shorts)
- There will be no bilateral or multilateral netting of a broker’s CNS ACATS position in a security on ACATS settlement date.
 - ACATS will aggregate the receives for each broker to one long position per security
 - ACATS will aggregate the delivers for each broker to one short position per security
- The following CNS reports/files will be produced for these two sub-accounts. The market value for each security on all these reports/files will be \$0.00, because ACATS obligations settle free of value.
 - CNS Projection
 - CNS Nighttime and Daytime Settlement Activity
 - CNS Nighttime and Daytime Miscellaneous Activity
 - CNS Accounting Summary
 - CNS Position Prior to Night and Prior to Day Cycle
 - Note: there will be no preliminary or final cash reconciliation report/file produced because these sub-accounts will be excluded from the CNS general ledger process.

4. Two new sub-accounts excluded from various CNS processes

The new CNS sub-accounts ‘R’ and ‘S’ will be excluded from the following regular CNS processes:

- General Ledger process
- Stock Borrow process
- Buy-in process
- Reorganization process
- Fully-Paid For process
- Priority processing

There will be no priority processing for sub-account ‘R’. CNS will automatically reject any participant input for CNS priorities on sub-account ‘R’.

5. Two new CNS miscellaneous activity codes to process ACATS journal entries into and out of the new sub-accounts

Since the transactions from ACATS will include both CNS eligible and non-CNS DTC eligible securities, transactions for these new sub-accounts must be identified on the miscellaneous activity/report file with separate miscellaneous activity codes.

The following rules apply:

- Continue to use the current miscellaneous activity codes to identify ACATS CNS eligible securities:
 - ACATS one-day settling items - Miscellaneous activity code 35
 - ACATS two-day settling items - Miscellaneous activity code 65

- For non-CNS DTC eligible securities use the following new miscellaneous activity codes:
 - ACATS one-day settling items - New miscellaneous activity code 36
 - ACATS two-day settling items - New miscellaneous activity code 66
- After miscellaneous journals are applied to the new CNS sub-accounts, CNS will run another eligibility check before the night cycle to ensure securities are still eligible for the new process and are not undergoing a corporate action. If a security has changed eligibility or is undergoing a corporate action, CNS will exit the security from this new process using the same miscellaneous activity codes used to journal them in.
 - The exited security position(s) will be sent to the Obligation Warehouse (OW) system for processing.
 - NSCC will apply a new Federal Funds Settlement (FFS) money settlement code to each Member's ineligible security position(s). This new FFS money settlement code will be 014, on the NSCC portion of the participant's statement. The dollar value on the statement for each non-CNS DTC eligible item will be 100% of the ACATS market value.
 - CNS will produce two new files which include these new transactions:
 - CNS ACATS Ineligible Security Reject File (variable record type only)
 - CNS ACATS Ineligible Security Receive and Deliver Instructions

CNS will distribute these files to Members after the journal positions are exited. Member firms can use these files to set-up fails directly with the contra Member firm at the original ACATS Market Value. These files will include the original ACATS data such as control number, underlying customer information, and share quantity.

6. After the CNS Recycle cutoff time, NSCC will exit all open fail ACATS positions from CNS subaccount 'R' and CNS subaccount 'S'

Unless there is an extension, the CNS recycle cutoff time is 3:10 p.m. eastern time. As of the cut-off time, CNS will automatically journal failed ACATS obligations from subaccounts 'R' and 'S'.

The processing of these journals is outlined in the rules below. There is one set of rules for open failed positions that are eligible for CNS, and another set of rules for open failed positions that are not eligible for CNS.

Rules for Open Positions Eligible for CNS

- CNS will process journals for CNS-eligible failed positions from sub-accounts 'R' and 'S' to sub-account 'A' before the CNS Accounting Summary Report/File is created and distributed.
 - These journals should update the affected Member's Code 082 money settlement on the NSCC Participant Account Statement.
 - These journals will be included in the Member's end-of-day closing settlement balance.
 - CNS will apply 100% of the current CNS market value to each firm's code 82 money settlement for each failed position.
 - After settlement completes and all firms have paid, these positions will become guaranteed and netted with other settling trades in sub-account 'A' before the night cycle.

- Journals processed to CNS sub-account 'A' will use the same miscellaneous code that was used when the journals were originally processed into the 'R' and 'S' sub-account on the Miscellaneous Activity Code Report/File.
 - ACATS one-day settling items will be processed under miscellaneous activity code 35
 - ACATS two-day settling items will be processed under miscellaneous activity code 65
- The journals to sub-account 'A' will not affect buy-in or reorganization processing, nor will they relieve the short Member from its liability.

Rules for Open Positions Not Eligible for CNS

- Failed obligations that are not eligible for CNS will be journaled out of the 'R' and 'S' sub-accounts at the original ACATS Market Value (or pro-rated ACATS Market Value for partial shares). At this time the underlying ACATS detail information will be sent to the Obligation Warehouse (OW) system for processing.
- These exiting journal entries will use the same miscellaneous code used when they were originally processed into the 'R' and 'S' sub-accounts on the Miscellaneous Activity Code Report/File
 - ACATS one-day settling items will be processed under miscellaneous activity code 36
 - ACATS two-day settling items will be processed under miscellaneous activity code 66
- NSCC will send the netted ACATS Market Value for each Member's fail positions to Fed Funds Settlement (FFS) and apply to a new FFS money settlement code for the current settlement day. This new FFS money settlement code will be 014, on the NSCC portion of the participant's statement.
- CNS will produce a new CNS ACATS Interface Reject File and Receive and Deliver Instructions which includes these transactions.
 - CNS ACATS EOD Fail File (variable record type only)
 - CNS ACATS EOD Fail Receive and Deliver Instructions
 These files will be distributed to Members after the journal positions are exited. Member firms can use the files to set-up fails directly with the contra Member firm at the original ACATS Market Value. The files will include the original ACATS data such as control number, underlying customer information, and share quantity.

7. ACATS long and short allocation transactions will be processed against a new CNS ACATS account at DTC

ACATS long and short allocations will be processed via a new account at DTC, account number 8902. Similar to the current processing through the CNS sub-account 'A', CNS will provide instructions to the short broker to deliver shares to the new CNS account, and then instruct that account to deliver shares to the long broker. This process will continue through CNS recycle cutoff time.

When CNS creates an instruction to process a short allocation for a broker through the new CNS ACATS DTC account to the long broker, the long allocation will go to an original broker who was their contra-party in an ACATS transfer. The amount of shares could be equal to or less than the aggregated amount of shares the deliverer has with that contra-broker.

The DTC ATP system will process transactions through the new DTC account following these rules:

- The processing of these transactions between CNS and DTC will mirror the processing windows of the existing CNS regular transactions.
 - However, collateral controls will differ from those on transactions processed through the current CNS DTC account #888, as these are unguaranteed transactions.
 - A delivery from a Member to the CNS ACATS account will decrease the Member's collateral if the position is delivered from the Net Additions account (NA), but will not decrease if the position is delivered from the Minimum Amount (MA) account.
 - As a result, deliveries to the CNS ACATS account can recycle on the deliverer's side for insufficient position or insufficient collateral only.
 - Allocations to a long broker will update its Minimum Amount (MA) account, which is the broker's non-lien/non-collateral account at DTC.
- CNS ACATS obligations will always be prioritized before CNS transactions on the recycling queue. These transactions will settle free of value.
- Deliveries to and receives from the new account will be exempt from RAD, just as deliveries to and receives from the 888 account are currently exempt from RAD.
- CNS ACATS allocations will not be reversible.
- CNS ACATS deliveries may be partials.
- These transactions will follow the same processing schedule as other CNS transactions, even when there are settlement extensions.
- Holiday processing rules and schedules will mirror that of CNS.
- These transactions will be processed under activity code 026.
- Participants will not be permitted to PEND Cancel CNS ACATS transactions.
- Reintroduced drop functionality will not be extended to these transactions.

8. New IMS Transaction Type: 'CCAT' (CNS Customer Account Transfer)

There will be a new IMS Transaction Type, CCAT, which stands for CNS Customer Account Transfer. This new IMS transaction type will allow firms to control their CNS ACATS deliveries via the new DTC account. This transaction type will be incorporated into the IMS Notification and Authorization profiles. It will also be included in the IMS Inquiry screens, except for Drop profile, Color profiles, Recycle Order profile, Submission Order profile and PETS profile.

The following rules apply:

- These transactions will not be eligible for any reintroduced drop functionality within IMS.
- IMS processing windows will mirror that of other CNS instructions.
- Participants will be able to override the IMS default setting below:
 - Authorization profile: Default will be passive.
 - Recycle order: CCATs will receive the same priority as CNS except that within CNS, CNS ACATS will have the highest priority.
- Participants will be allowed to exempt/authorize CCAT transactions globally or on an individual transaction basis.

9. Participants will be allowed to process exemption Level 1 transactions and to override Level 1 instructions through either Settlement Web, Upload or current file format input

The following rules apply:

- The new process will allow for both regular and one-day exemption processing for short positions.
 - The exemption process for both will work the same as it does for CNS sub-account ‘A’, with the exception that for regular exemptions, there will be no Level 2 exemption allowed. CNS will reject any participant input for Level 2 exemptions.
 - For regular exemptions, a broker’s standing instructions will be used unless exemption overrides are processed.
- Current file format input will support the new CNS ‘S’ sub-account. The overrides for this account will be processed against the new NSCC CNS ACATS account #8902.

10. Participants will be allowed to search CCAT pending activity - longs and shorts

Pend Hold functionality for CCAT transactions will mirror CNS transactions, e.g., “hold”, “hold with blockage”, and “release”. These actions, if taken, will be included in the “Hold Summary” tab.

Participants will also be allowed to sort their CCAT transactions in descending market value order in the PEND inquiry function.

11. Optional MSEG profile indicator for CNS ACATS transactions

An optional MSEG profile indicator will be created for CNS ACATS Transactions. This indicator will allow participants to segregate their inventory on CNS ACATS receives. When elected, this indicator will increase a participant’s memo seg counter when CNS ACATS shares are received into their account at DTC.

12. CNS ACATS “Projected Balances” screen in the Settlement Web

DTC will create a CNS ACATS “projected balances” screen in the Settlement Web. The screen will display each participant’s net debits, net credits and net total for open transactions. This screen will allow participants to view their CNS and non-CNS DTC-eligible balances throughout the day.

CNS will calculate the outstanding balances of open transactions periodically and these balances will display on the Settlement Web screen for Member’s to view. CNS transactions will be sent via Code 82. Non-CNS DTC transactions will be sent to the new FFS money settlement code. This new FFS money settlement code will be 014 on the NSCC portion of the participant’s statement.

13. OW Interface for ACATS failed to deliver through CNS

The changes to the ACATS process have an effect on the users of Obligation Warehouse in that there will be two new obligation sources. The project requires MQ Message changes that will be specified in the OW Participant MQ Specifications document located in the DTCC Learning/ Equities Clearance/

Obligation Warehouse website. Look for further notification regarding this document change in a forthcoming Important Notice.

Below are some specific details about the new obligation sources related to the new ACATS processing.

The Obligation Warehouse (OW) will accept a new obligation source code of the ACATS failed to deliver through CNS (FCAT) and add obligations as compared obligations in an OPEN status and assign an OW Control number.

The following rules apply:

- OW will accept a new file daily from the ACATS settlement process that includes non-CNS DTC eligible obligations that have failed.
- There will be a new OW obligation source code for the ACATS settlement fails: 'FCAT'.
- OW will use the ACATS control and sequence number for the X-ref number in OW for all items sent on the FCAT file. (This processing is consistent with the current ACATS extract to OW.)
- OW Web will be updated to show the obligation source code of FCAT on obligation details and the Obligation Search Engine.
- OW MQ messaging output will be updated to reflect new obligation source code of FCAT. A new MQ message for FCAT messages will be introduced.
- The new obligation source code of FCAT will be shown on file output.

14. OW Interface with CNS Exits for ACATS sourced obligations

The Obligation Warehouse will receive a file of obligations from the new ACATS staging process including the obligations that are not eligible for CNS settlement (ECAT). OW will know the CNS Exits for ACATS as a new obligation source code (ECAT), add obligations as compared obligations in an OPEN status, and assign an OW Control number.

The following rules apply:

- OW will review each ACATS obligation that has been exited from CNS to determine if it meets both entity and security eligibility criteria for OW.
- OW will define a new obligation source code for the ACATS obligations no longer eligible for CNS as 'ECAT'.
- OW will use the ACATS control and sequence number for the X-ref number in OW for all items sent on the ECAT file. (This processing is consistent with the current ACATS extract to OW.)
- OW Web will be updated to show the obligation source code of ECAT on obligation details and the Obligation Search Engine.
- OW MQ messaging output will be updated to reflect the new obligation source code of ECAT. A new process will be introduced for ECAT MQ messages.
- The new obligation source code of ECAT will be shown on file output.

Member Testing

Tentatively, Member testing for this new process will begin in December 2013. More details about testing will be released in a separate notice.

Additional Information

A copy of this Important Notice can be obtained from the web site of NSCC's parent corporation, the Depository Trust & Clearing Corporation, at <http://www.dtcc.com>.

If you have any questions regarding these enhancements, please contact your DTCC Relationship Manager.