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DATE:	JANUARY 28, 2014
TO:	ALL MEMBERS
FROM:	PRODUCT MANAGEMENT, EQUITIES CLEARANCE
ATTENTION:	MANAGING PARTNER/OFFICER, OPERATIONS PARTNER/OFFICER, MANAGER P&S DEPARTMENT, MANAGER DATA PROCESSING DEPARTMENT
SUBJECT:	ENHANCEMENTS TO CNS CORPORATE ACTION DATABASE – SMART/TRACK FOR CNS CORPORATE ACTIONS

Subject to approval from the Securities and Exchange Commission (“SEC”) of a proposed rule change, National Securities Clearing Corporation (“NSCC”) is proposing to make the following enhancements to corporate action processing through its Continuous Net Settlement (“CNS”) system. These enhancements would provide greater efficiencies by centralizing all CNS corporate action processing, expanding the voluntary offers the CNS system can support, and providing real-time output to Members. These enhancements should not require system coding changes for Members, and are expected to be implemented in a phased approach tentatively beginning in Q2 2014. Subsequent important notices will outline the training, implementation, and Member registration requirement of these changes.

I. Enhancements

The enhancements to the new CNS corporate action processing system are as follows:

1) SMART/Track for CNS Corporate Actions

There will be a new product created within the **SMART/Track for Corporate Action Liability Notification Service** specifically for CNS corporate action processing called **SMART/Track for CNS Corporate Actions**. This product will be a centralized location for Members to view corporate action information on mandatory and voluntary offers handled by CNS, submit new instructions on voluntary events, modify or cancel instructions on voluntary events, view potential/final liabilities as a short Member, view preliminary/final protects as a long Member, and research historical information. Additionally, as described below, the product will allow Members to submit election instructions on optional dividends.

When this new product is implemented, Members will no longer be able to submit instructions to participate in a CNS voluntary corporate action on the legacy **SMART/Track for Corporate Action Liability Notification Service**. Although the CNS input function will be removed from that menu, existing users will continue to use the legacy service to pass liability on firm to firm transactions.

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Furthermore, it will be mandatory that all CNS Members register for the new **SMART/Track for CNS Corporate Actions** product as it will be required for CNS corporate action processing.

2) Final Protect Submission and Final Liability Notification

Within the new service described above, CNS will report final protection and final liability on a voluntary corporate action event to Members via **SMART/Track for CNS Corporate Actions** on the same business day that final protection and final liability is assigned by NSCC. Currently, this information is reported via Auroroute output files and reports to impacted Members on the business day after CNS protect expiration date, and when there is no protect for that corporate action, on the business day after expiration date. To accommodate this change, NSCC will be discontinuing Autoroute # 02042253 (CNS Reorganization MRO) and #02040252 (CNS Reorganization Report) which includes the current CNS corporate action processing output information. The information on these reports will now be reported only on **SMART/Track for CNS Corporate Actions**. However, Autoroute # 02042500 (CNS Reorganization Master File Report) and # 02042251 (CNS Reorganization Master File MRO) will continue to be distributed by NSCC.

3) Same Day Payment on Voluntary Offers

With **SMART/Track for CNS Corporate Actions**, CNS will now be able to make payment on a voluntary offer on the same day DTC makes payment of the same offer only if that payment occurs before 2:45 p.m. eastern time. Currently, all voluntary offers are paid by CNS the day after DTC makes payment on the offer.

4) Support of Additional Voluntary Offers

With **SMART/Track for CNS Corporate Actions**, CNS will now be able to support tender/exchange offers that include an “offer to consent”. Currently, tender/exchange offers that include an “offer to consent” are exited from CNS and settle directly between the counterparties, outside of CNS. As with all corporate actions, CNS Operations will continue to review each of those events and determine which are capable of being supported by the system.

5) Optional Dividends

As previously described, **SMART/Track for CNS Corporate Actions** will allow long Members to electronically submit their election instructions on optional dividends. The system will also allow both long and short Members to view the output of those elections. The submission cutoff time on optional dividend elections will be 3:00 p.m. eastern time on the same day as DTC cutoff time (which is typically 8:00 p.m. eastern time via DTC’s Elective Dividend Service). This new cutoff time will provide short Member(s) with additional time to take appropriate action on the liability they will be accountable for in CNS. If the cutoff time on DTC’s Elective Dividend Service is **before** 3:00 p.m. eastern time, the CNS cutoff time will be 3:00 p.m. eastern time on the business day prior to the expiration of the DTC cutoff. As with normal processing, if no election is processed by the long Member to **SMART/Track for CNS Corporate Actions** before CNS cutoff time, CNS will automatically pay whatever the default option is for that offer. Once implemented, CNS Operations will no longer take manual or verbal instructions from Members to process elections.

6) Restriction of Movement of Positions between Non-Reorganization CNS Sub-Accounts

In order to protect Members, when a voluntary reorganization is being processed on a security, CNS will no longer permit the movement of positions for that security between non-reorganization sub-accounts (which include, for example a movement from the CNS General Sub-Account “A” to the CNS Fully-Paid-for Sub-Account “E” or vice versa) on CNS protect expiration date, and when there is no protect, on expiration date.

II. Fees

Since **SMART/Track for CNS Corporate Actions** will be a new product under the **SMART/Track for Corporate Action Liability Notification Service**, the same monthly fee will be applied to Members for use of either or both services. Additionally, the standard CNS voluntary input fee that is charged when a Member submits instructions to participate in a voluntary CNS corporate action will remain the same. Members will be charged a higher fee when they submit new instructions or add shares to a “protect” either on CNS protect expiration date or, when there is no “protect”, on expiration date of the offer by 12:00 p.m. (noon) eastern time.

III. Implementation

Subject to regulatory approval of proposed rule changes, NSCC is planning to implement these changes in a phased approach beginning in Q2 2014. The first implementation will include the implementation of **SMART/Track for CNS Corporate Actions** for Optional Dividends only. The second phase, currently scheduled for Q3 2014, will include the rest of the changes on **SMART/Track for CNS Corporate Actions** which includes the viewing of corporate events, the submission of corporate action instructions, the viewing of preliminary and final protect instructions, the viewing of potential and final liabilities, the supporting of additional voluntary offers, the processing of same day payments and the removal of CNS corporate action submission instructions from the existing **SMART/Track for Corporate Action Liability Notification Service**. More details about implementation will be further outlined in a subsequent important notice.

IV. Training

Training for the new **SMART/Track for CNS Corporate Actions** application will be made available via a dedicated online learning center at <https://dtcclearning.com/learning/clearance/topics/cns-corporate-actions.html>. Available training content will include videos, documentation, and an interactive learning tool that replicates the appearance, navigation, and functionality of the **SMART/Track for CNS Corporate Actions** application. An updated user guide will also be available in this learning center (coming soon!). More details about available training information will also be outlined in a subsequent important notice.

V. Registration for SMART/Track for CNS Corporate Actions

All CNS Members are required to have at least one staff person from their firm register for access to **SMART/Track for CNS Corporate Actions**. Entitlements for the service must be granted from the Access Coordinator at that Member Firm. NSCC will work with Members and their Access Coordinators on getting users registered for the product.

VI. 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 or CNS Operations at (888) 382-2721, Option 2, then 2.