

<b>B #:</b>	3743-16
<b>Date:</b>	January 23, 2017
<b>To:</b>	All Clients
<b>Category:</b>	Settlement /Asset Servicing
<b>From:</b>	Settlement Product Management
<b>Attention:</b>	Managing Directors/Vice President/Directors/Managers
<b>Subject:</b>	<b>Updated:</b> MMI Finality Through Optimization – Phased-In Implementation beginning March 8 <sup>th</sup> , 2017

DTC has worked with our clients to develop a model that would eliminate intraday reversals, improve intraday settlement finality and reduce credit and liquidity risk of MMI transactions in the DTC settlement system<sup>1</sup>. On March 8<sup>th</sup>, 2017, DTC will commence the phased-in implementation plan that will migrate MMI issuer acronyms for Issuing and Paying Agents (IPA) to the enhanced MMI platform. These changes will also provide for a more efficient and transparent money market settlement process.

**Prior to the phased-in implementation, the IPA Decision Making Application (IPA DMA) within Settlement Web will be moved into production on Friday, January 27<sup>th</sup>, 2017. This will allow IPAs, with the proper roles referenced in Important Notice B3742-16<sup>2</sup>, access to the new MMI Finality Through Optimization screens. Client data will not be populated within these screens until your firm is migrated.**

**The purpose of this notice is to inform clients of the revised start date of the implementation plan and highlight the key changes clients should be aware of throughout the migration period.**

Today, IPA banks, who act on behalf of issuers, can instruct DTC to issue a Refusal to Pay (RTP) for the issuer's maturing obligations up to 3:00 PM EST when the IPA has not received adequate funding from the issuer. This RTP poses intraday risk to DTC, its clients and the larger financial industry as a whole as the RTP action effectively reverses all valued transactions processed for the designated acronym on the current business day. To mitigate the credit and liquidity risk of RTPs, DTC withholds the two Largest Provisional Net Credits (LPNC2) from each client. DTC has worked closely with clients and various industry groups to develop structural changes to the MMI settlement service that simultaneously increase settlement finality and eliminate DTC's need to withhold settlement credits (LPNCs) from clients.

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<sup>1</sup> MMI Finality Through Optimization web page <http://www.dtcc.com/en/news/2013/december/19/mmi-finality-through-optimization.aspx>

<sup>2</sup> Important Notice – MMI Finality Through Optimization – User Testing  
<http://www.dtcc.com/~media/Files/pdf/2016/7/26/3742-16.pdf>

## **Testing – IPA/Broker/Dealer/Custodian**

Testing began on August 22<sup>nd</sup>, 2016. Clients can test their MMI processing in DTC's UTOR region (user testing) for the MMI Finality Through Optimization initiative. We strongly encourage clients to test all scenarios during an MMI processing life cycle. The user testing region will be available to clients throughout the phased-in implementation. The steps to get access to DTC's user testing region are outlined in Important Notice B3742-16<sup>3</sup>.

IPAs only - Please note when testing that all acronyms must be fully funded at the end of each business day unless you would like to test a passive RTP scenario in that a decision is not made. If a passive RTP scenario is enacted, the acronym will be frozen and no further testing for that acronym can be completed. Any questions regarding this important notice can be directed to your Relationship Manager and the parties mentioned in Important Notice B3742-16.

## **Phased-In Implementation**

DTC, in conjunction with the IPAs, will migrate acronyms onto the enhanced MMI platform starting on March 8<sup>th</sup>, 2017 through Q3 2017. As a result, some acronyms will be processed in the current environment versus the enhanced process. During this bifurcated state, the LPNC2 controls will only be applicable to acronyms that are in the current process. Once they are moved to the enhanced process, the migrated acronyms will no longer be subject to the LPNC2 controls and a funding acknowledgement from the IPA will be required to route the receiver approved issuances, maturity and income presentments and applicable Deliver Orders of the acronym to settlement. Please review the other key changes your firm should expect below:

<b>Industry Role</b>	<b>Key Changes</b>
Broker/Dealer & Custodian	Deliver Order Reclaims, Cancelling Transactions, LPNC2, RVPNA Control, New Reason Code, RMCI Screens, Automated Messaging, Notification Profile
IPA	Acronym Activation, Funding, IPA Held, Dropped Items, Deliver Order Reclaims, Cancelling Transactions, LPNC2, Unknown Rates, Multiple IPAs, RMCI Screens, Targeted SPP, Funding Profile, Automated Messaging, E-mail alert subscription, Notification Profile

## **Broker/Dealer & Custodian**

### **Deliver Order Reclaims**

The DTC reclaim process including messages will continue to be available as it is today. Clients still retain the option to accept or reject a reclaim. If the IPA has made a decision to fully fund an acronym and a transaction is reclaimed, the IPA cannot reverse its funding decision.

### **Cancelling Transactions**

Once transactions are in the optimization engine (i.e., pending optimization), the transactions cannot be cancelled. Transactions can only be cancelled pre or post optimization.

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<sup>3</sup> Important Notice B3742-16 <http://www.dtcc.com/~media/Files/pdf/2016/7/26/3742-16.pdf>

## **LPNC2**

During the migration period, DTC will eliminate the LPNC control acronym by acronym. Acronyms in the enhanced platform will no longer be subject to LPNC2 controls since there will be no reversals of settlement credits in the event of an issuer failure. It is expected that all acronyms will be migrated to the new platform by the end of Q3 2017. In addition, once the LPNC2 control is eliminated, LPNC2 will no longer be included in the net debit peaks used to determine a collateral group's net debit cap.

This key change is expected to reduce risk control blockage intraday, which should in turn, allow more transactions for our clients (IPAs, Dealers and Custodians) to be processed earlier in the processing day. LPNC2 will be removed in the following client displays:

- Risk Management Control Inquiry (RMCI)
- MMI Tracking

## **New Reason Codes**

There will be two new reason codes available for clients who are processing secondary market trades. These reason codes will allow deliver orders to go straight to settlement processing and bypass the DMA and optimization process. These reason codes can be used for MMI deliveries that are not reliant on an IPA funding decision for an acronym. The new reason codes will be available starting March 8<sup>th</sup>, 2017. The codes are:

- 134 – MMI Deliver Order bypass staging area
- 135 – Reclaim MMI Deliver Order bypass staging area

## **Risk Management Control Inquiry Screen (RMCI)**

Since the Largest Provisional Net Credits (LPNC2) control will no longer be needed as acronyms are migrated to the new platform, the Simulated Collateral Monitor Balance and Simulated Net Balances will be removed from the Collateral Monitor Balances and Net Balances section of the RMCI Screen once the IPAs have successfully completed the migration of all their acronyms to the new platform.

The ID NET – Net Collateral Credit, ID NET – Net Credit Balance and View Debt Peaks link which are populated in a separated column in the current RMCI Screen will be aggregated into a single column in the modified RMCI Screen.

An additional line for items that are pending and are part of the optimization process will be displayed – MMI Pending Issuer Funding and Pending Optimization. Clients will be able to select an item to determine the pending status of that item.

## **Automated Messaging**

If clients plan to send and/or receive the new automated status messages, they should ensure with the Connectivity Activation Production Support group (CAPS) they are connected to MQ/ISO in DTC's production environment by e-mailing [MMITEST@dtcc.com](mailto:MMITEST@dtcc.com).

## **Notification Profile (ISO users only)**

Clients will need to go into IMS to update a notification profile to determine which message they would like to receive regarding the proposed MMI changes. A new section will be added to the screen before

the “Submitted/Recycling” section. The new section is named “MMI Processing.” The states would be Pending Issuer Funding and Issuer Funding Accepted.

The message options to choose from are:

- Full – All messages will be sent
- Short – Only mandatory messages will be sent
- None – No messages will be sent

**Receive Versus Payment Settlement Counter (RVPNA)**

The RVPNA counter tracks MMI shares received in versus payment and does not permit these shares to be redelivered free. If the delivery has no value, the system will not permit the deliveries until LPNC2 has been turned off at 3:05 PM EST. Because of the elimination of issuer failure reversals, the RVPNA counter for a free delivery will no longer be necessary.

The RVPNA control will be eliminated once all acronyms have been migrated onto the enhanced platform which is expected to be completed by the end of Q3 2017.

**IPAs**

**Acronym Activation**

The DTC Settlement Operations team will work with IPAs to activate acronyms that will be migrated to the enhanced MMI platform. DTC’s Settlement Product Management team will communicate details of your firm’s go live date closer to the implementation timeframe.

**Funding**

IPAs need to make a fully funded decision for each acronym’s maturing obligations that are migrated to the new process by 3:00 PM EST utilizing the IPA DMA or by sending an ISO/MQ message to DTC.

If the IPA takes no action to ensure that an acronym has been funded by 3:00 PM EST, DTC will by default, consider this acronym to be unfunded and the RTP process would be initiated for that acronym (this process would also include unknown rates that have not been updated). Interest rates for income presentments need to be submitted into DTC’s Paying Agent Money Market (PAMM) system by 2:00 PM EST. If an IPA submits an RTP and elects to reverse the RTP after funding cutoffs, DTC will process this reversal on a best efforts basis.

The funding cutoffs below will be used in the enhanced MMI process. IPAs will need to make funding decisions for migrated acronyms in the new platform.

MMI Processing Cutoffs	
Time	Comments
2:00 PM EST	Submit rates for income presentments on PAMM
2:55 PM EST	Partial Funding decision required
3:00 PM EST	Full Funding decision required
3:00 PM EST	RTP decision required or Automated RTP if no funding decision is made

## **IPA Held**

The existing IPA held tab on the IPA Pending Activity Inquiry application will eventually be removed; however, migrated acronyms will no longer be eligible for this functionality.

## **Dropped Transactions**

Transactions that are pending in the optimization engine that have not passed risk or position controls by 2:55 PM EST will drop. Maturity Presentments (MPs) that have dropped will automatically be processed the following business day and will not be part of the IPA DMA. These transactions will bypass the staging area and will not require another funding decision since they have been already deemed to have been funded. Drops for Income, Principal and Reorganization Presentments (IPs, PPs and RPs) that have new presentments for the following business day will be included in the IPA DMA. These items will not bypass the staging area and will be subject to a funding decision before being attempted for processing.

## **Deliver Order Reclaims**

The DTC reclaim process including messages will continue to be available as it is today. Clients still retain the option to accept or reject a reclaim. If the IPA has fully funded an acronym and an item is reclaimed within that acronym, the IPA cannot reverse a funding decision that has already been made.

## **Cancelling Transactions**

Once transactions are in the optimization engine (i.e., pending optimization), the transactions cannot be cancelled. Transactions can only be cancelled pre or post optimization.

## **LPNC2**

During the migration period, DTC will eliminate the LPNC control acronym by acronym. Acronyms in the enhanced platform will no longer be subject to LPNC2 controls since there will be no reversals of settlement credits in the event of an issuer failure. It is expected that all acronyms will be migrated to the new platform by the end of Q3 2017. Once the LPNC2 control is eliminated, LPNC2 will no longer be included in the debit peak value.

This key change will allow our clients (IPAs, Dealers and Custodians) to potentially process more items in both the MMI/Non-MMI space earlier in the settlement process. LPNC2 will be removed in the following applications:

- Risk Management Control Inquiry (RMCI)
- MMI Tracking

## **Unknown rates**

On the MP Funding tab in the IPA DMA, IPAs will have the ability to click on the status of the acronym that has an unknown rate. The “Pending Unknown Rate” status will be hyperlinked to a screen that lists the CUSIP(s) with the unknown rates and the par amount of that CUSIP(s).

The IPA needs to submit a rate for a transaction with an unknown rate to be eligible for a funding decision. Once a rate is set, the IPA can make a funding decision for that acronym.

The IPA can submit a rate through the PTS and PBS PAMM function.

DTCC Settlement Services

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Home Activity Positions Cash and Balances Transaction Submission Commands Profiles Help PDS Links Oct 1, 2013 - 3:17:00 PM EDT

IPA Decision Making Application

Summary Maturity Presentation Funding Income Presentation and Reorganization Payment Funding Refused To Pay Secondary Approval

Search Criteria \* = Required Field

Agent: 1250 Funding: All Acronym: Settlement Date: 06/07/2015 Display Type: List Excl

Search Results

Agent: 1250 Funding: ALL Acronym: ALL Settlement Date: 06/07/2015

Funding by Acronym

This is the last page of data that satisfies your search criteria.

Displaying 7 items Page 1

Action	Fully Fund	Partial	Acronym	Issuer Name	Funding Type	Maturity Obligations	Debts	Funded Amount	Pending Receiver Authorization	Authorized Credits	Net Amount (Unfunded)	Potential Net Amount	Status
<input type="checkbox"/>	<input checked="" type="checkbox"/>		ABC*	ABC CORP	Partial	4,000,000		1,000,000	3,000,000	1,000,000	-3,000,000	1,000,000	Decision Maker
<input type="checkbox"/>	<input type="checkbox"/>		DEF*	DEF INC	Full	4,000,000			3,000,000	1,000,000	0.00	4,000,000	ATP Processing
<input type="checkbox"/>	<input type="checkbox"/>		GHI*	GHI CORP	None	4,000,000		0.00	0.00	4,000,000	-4,000,000	0.00	Pend Optimizer
<input type="checkbox"/>	<input checked="" type="checkbox"/>		JKL*	JKL CORP	None	4,000,000		2,000,000	4,000,000	0.00	-4,000,000	0.00	Decision Maker
<input checked="" type="checkbox"/>	<input type="checkbox"/>		MNO*	MNO CORP	None	4,000,000		0.00	1,000,000	3,000,000	-4,000,000	0.00	Decision Maker
<input type="checkbox"/>	<input type="checkbox"/>		PQR*	PQR CORP	Full Profile	4,000,000		4,000,000	1,000,000	3,000,000	0.00	4,000,000	ATP Processing
<input type="checkbox"/>	<input type="checkbox"/>		REQ*	REQ CORP	None	4,000,000		0.00	1,000,000	3,000,000	-4,000,000	0.00	Pending Unknown Rate

Subtotal Reset Page 1

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Unknown Rate Details

CUSIP(s)	Description	Maturity Presentments	Reorganization Payments	Income Presentments
12345678	Test CUSIP One	350,000.00	0	
44445555	Test CUSIP Two	0	50,000.00	
ABC123DEF	Test CUSIP Three	250,000.00	0	Yes

Close

## Multiple IPAs

If there are multiple IPAs for an acronym, all IPAs who have maturing obligations for a business day must make a funding decision before the acronym will be processed and marked as funded. If only one IPA makes a decision, transactions will not be attempted for processing until all IPAs involved in that acronym make a decision. This can be done in multiple ways such as:

- Making a funding decision through the IPA DMA on DTC's Settlement Web
- Sending an automated message to DTC
- Updating the profiles screen on DTC's Settlement Web to specify which acronyms will be funded
- In the case where issuances exceed maturing obligations

On the MP and IP/PP/RP funding tab, if an acronym needs funding by multiple IPAs, the acronym will be hyperlinked to a pop up screen notifying the IPA a funding action is awaiting decision from other IPAs.

The summary tab will list all your firm's acronyms even if a funding decision is not required. This includes acronyms that have multiple IPAs. The acronym will show the status as either Ready for ATP or Ready for Optimizer if the acronym is shared. No funding decision is required from your firm if this acronym does not show in your MP and IP/PP/RP tabs.

**DTCC Settlement Services** | Welcome amoran@dtcc.com | Log Out | Change Password

Home | Activity | Position | Cash and Balances | Transaction Submission | Commands | Profiles | Help | PBS Links | Oct 1, 2013 - 3:17:00 PM EDT

### IPA Decision Making Application

Home > IPA Decision Making Application | Print Results

Summary | Maturity Presentation Funding | Income Presentation and Reorganization Payment Funding | Refusal To Pay | Secondary Approval

**Search Criteria** \* = Required Field

Agent: 1250 | Funding: All | Acronym: ABC | Settlement Date: 11/07/2013 | Display Type: List (selected) / Excel

Search | Reset

**Search Results**

Agent: 1250 / ABC IPA

**Funding by Acronym**

This is the last page of data that

Displaying 6 items

Action	Fully Fund	Partial	Acronym	Issu	Nan	Full Profile	4,000,000	4,000,000	1,000,000	3,000,000	Net Amount (Unfunded)	Potential Net Amount	Status
<input type="checkbox"/>	<input checked="" type="checkbox"/>		ABC*	AB	COF						-3,000,000	1,000,000	Decision Maker
<input type="checkbox"/>	<input type="checkbox"/>		DEF*	DE	INC						0.00	4,000,000	ATP Processing
<input type="checkbox"/>	<input type="checkbox"/>		GHI*	GI	COF						-4,000,000	0.00	Pend Optimizer
<input type="checkbox"/>	<input checked="" type="checkbox"/>		JKL*	JK	COR						-4,000,000	0.00	Decision Maker
<input checked="" type="checkbox"/>	<input type="checkbox"/>		MNO*	MN	COR...						-4,000,000	0.00	Decision Maker
<input type="checkbox"/>	<input type="checkbox"/>		PQR*	PQR	CORP...	Full Profile	4,000,000	4,000,000	1,000,000	3,000,000	0.00	4,000,000	ATP Processing

Submit | Reset

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### Risk Management Control Inquiry Screen (RMCI)

Since the Largest Provisional Net Credits (LPNC2) control will no longer be needed as acronyms are migrated to the new platform, the Simulated Collateral Monitor Balance and Simulated Net Balances will be removed from the Collateral Monitor Balances and Net Balances section of the RMCI Screen once DTC and all the IPAs have successfully completed the migration of all acronyms to the new platform.

The ID NET – Net Collateral Credit, ID NET – Net Credit Balance and View Debt Peaks link which are populated in a separated column in the current RMCI Screen will be aggregated into a single column in the modified RMCI Screen.

An additional line for items that are pending and are part of the optimization process will be displayed – MMI Pending Issuer Funding and Pending Optimization. Clients will be able to select an item to determine the pending status of that item.

### **Targeted SPP (Same process for non IPAs)**

IPAs can send targeted SPPS as they do today. Targeted SPPS will be used to fund a specific CUSIP base once the IPA has made a funding decision for that issuer and the transactions are pending in DTC's Account Transaction Processor (ATP). If the IPA sends the targeted SPP prior to a funding decision being made and the transaction is pending in ATP, the targeted SPP could be used for another transaction that is pending for the IPA.

### **Funding Profile**

Profile updates can only be made on Settlement Web. If the updates are made prior to 6:00 AM EST, the changes will be effective on that business day. If updates are made after 6:00 AM EST, the changes will be effective the following business day.

### **Automated Messaging**

If clients plan to send and/or receive automated messages, they should ensure with the Connectivity Activation Production Support group (CAPS) they are connected to MQ/ISO in DTC's production environment by e-mailing [MMITEST@dtcc.com](mailto:MMITEST@dtcc.com).

During the migration period, the new reason codes will be available for use once the acronym has been moved onto the enhanced MMI platform.

### **E-Mail Alert Subscriptions**

IPAs will need to create a subscription on Settlement Web to receive alerts via e-mail. The Settlement Alerts Customized Control screen is an existing screen where the user can customize new alert subscriptions. IPAs can subscribe to IPA DMA Alerts on this screen.

### **Notification Profile (ISO users only)**

Clients will need to go into IMS to update a notification profile to determine which message they would like to receive regarding the proposed MMI changes. A new section will be added to the screen before the "Submitted/Recycling" section. The new section is named "MMI Processing." The states would be Pending Issuer Funding and Issuer Funding Accepted.

The message options to choose from are:

- Full – All messages will be sent
- Short – Only mandatory messages will be sent
- None – No messages will be sent

Questions regarding this important notice may be directed to your Relationship Manager.