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DATE:	AUGUST 15, 2013
TO:	ALL PARTICIPANTS
FROM:	PRODUCT MANAGEMENT, EQUITIES CLEARANCE
ATTENTION:	IT, OPERATIONS, PURCHASES & SALES (P&S), SETTLEMENT
SUBJECT:	OBLIGATION WAREHOUSE PROPOSES TO ENHANCES SERVICE WITH PAIR-OFF FUNCTION

Subject to required regulatory approval, the National Securities Clearing Corporation (NSCC) is proposing to enhance the Obligation Warehouse (OW) by adding a function that will “pair-off” certain eligible Open Obligations in the same CUSIP, and ultimately close those obligations. This proposal will provide Members with an automated service to help them remove certain Open Obligations from their books and records, and is expected to be implemented sometime during the first half of 2014.

Overview of Proposed Pair Off Function

Once the proposed pair-off function is implemented in production, NSCC Members will have the opportunity to designate certain Open Obligations in the OW to which they are a party to be eligible to be “paired-off”. An Open Obligation will only be eligible for the pair-off function if both counterparties to that transaction have marked “YES” in the pair-off eligibility indicator in the OW. Certain obligations will be excluded from the service, such as transactions where the underlying security is a mutual fund, when-issued security, or is part of a syndicate, or when the underlying transaction is subject to a corporate action or subject to Automated Customer Account Transfer Service (ACATS) delivery.

Once a day, the pair-off process will be run after the completion of the Continuous Net Settlement (CNS) eligibility check in the OW, or approximately at 17:30 ET.¹ The pair-off methodology will review and process the eligible Open Obligations based on the quantity of underlying securities, the final money amount, and the settlement dates of the underlying obligations.

Eligible Open Obligations will only be paired off if they are (1) in the same CUSIP and (2) have the same counterparties, where, in one eligible Open Obligation counterparty X holds a long

¹ NSCC may elect not to run the pair-off function daily, or on days on which Reconfirmation and Pricing Service (RECAPS) runs in the OW.

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position and counterparty Y holds a short position, and in the other eligible Open Obligation(s) being paired off, those same counterparties hold the opposite positions.

Where the pair off criteria are met, the Open Obligations will either be closed out of the OW or, where the quantity of securities underlying the paired off obligations were not identical, the obligation with remaining securities will be updated in the OW reflecting the reduced quantity of securities. That obligation will remain in Open status in OW. Where applicable, any cash adjustments resulting from a pair off will be reflected on settlement line code 22 in the Members' DTC settlement statement on the following business day.

OW is a real-time system so the results of each daily pair-off will be updated immediately on the OW Web and will be communicated to Members through MQ messaging. Daily pair-off activity files detailing that day's pair-off results will also be distributed as machine readable output (MRO) and posted as a report on OW Web Report Center. For reconciliation purposes, each pair-off will be assigned a unique OW pair-off control number. The OW Web Obligation Search Engine will be updated to allow queries using the OW pair-off control number and to display whether or not an obligation has been marked by the counterparties as eligible for pair-off on the results screens, i.e. whether the "pair-off" indicator has been set to "YES" or "NO".

Timeline for Implementation of the Proposed Pair-Off Function

Subject to regulatory approval, the pair-off function is expected to be implemented during the first quarter of 2014. Consistent with this time frame, the following documentation, which defines the pair-off methodology, processing rules, and outlines the MQ messaging and file layouts, is available in the DTCC Learning:

- OW MQ Messaging specification, version 7.0
- OW Position File Layout, version 7.0
- OW Pair Off Activity File Layout, version 1.0
- OW User Guide, Pair Off update, version 1.0

The "Clearance" section of the DTCC Learning website contains all the documentation related to the Obligation Warehouse, including information regarding the proposed pair-off function. Access to this website is available to NSCC Members, by following these instructions: (1) visit <https://dtcclearning.com/learning/clearance>; (2) click "Create an Account"; (3) complete the required fields, and click "Register"; and (4) DTCC will send an e-mail within one business day either approving your registration or requesting additional information.

Members will be able to test the new function during the fourth quarter of 2013. The dates of this testing period and information regarding the required regulatory filings will be announced by separate Important Notices.

Questions regarding the proposed Pair-Off function can be submitted via the WINS inquiry screen for Obligation Warehouse, to the undersigned at JDiTore@dtcc.com, or your DTCC Relationship Manager.

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