



B #:	1952-13
Date:	November 13, 2013
To:	All Clients
Category:	Settlement
From:	Settlement Product Management
Attention :	Managing Directors/Vice Presidents/Managers
Subject:	Settlement Matching – Phases 3 and 4

Important notice 1768-12, published November 26, 2012, announced DTC’s plans, to promote intraday settlement finality and reduce credit and liquidity risk associated with reclaims by implementing a pre-settlement matching requirement. Since announcing the service, DTC has worked closely with the industry to understand the demands and complexities faced by our varying client base and to define processes that would meet the needs of all industry members. In March of 2013, DTC published a Detailed Service Description providing an outline of key changes by implementation phase and the changes to file specifications used for the input and output of settlement transactions. On July 26, 2013, Phase 1 was implemented, lowering DTC’s Receiver Authorized Delivery RAD default limits to \$7.5 million for deliver orders (DOs)¹ and \$500,000 for payment orders (POs). On October 25, 2013, Phase 2 was implemented, allowing for a stock loan/return asset class profile in the RAD function.

The purpose of this notice is to provide a high level outline of Phases 3 and 4 of the Settlement Matching Initiative (subject to SEC approval), confirming changes previously communicated and highlighting new updates resulting from industry discussions. DTC will confirm dates and changes regularly via Important Notice as we approach milestones and key deliverables.

Clients are reminded that automating an approval process, both with DTC (RAD) and internally is strongly recommended and that this automation can be completed in advance of any of the dates below. DTC’s U test region is available and it is recommended that clients interested in testing any of the changes outlined in this notice begin the onboarding process as outlined in important notice 1152-13, published July 11, 2013.

Phase 3 – “RAD Zero”

When DTC reduces its RAD default limits to zero, all valued RAD eligible deliver orders² and payment orders will be subjected to the settlement matching requirement. The impact of this implementation is that clients may see a significant increase in transactions that are eligible for RAD processing. This change will

¹ This applies to equities, corporate bonds, and municipal bonds. Money Market Instrument (MMI) transactions were all subject to settlement matching in 2012.

² DTC’s threshold for ID receives will not be lowered to zero until phase 4.

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reduce the need to reclaim or “return” transactions. In addition, reclaims will no longer bypass DTC’s risk management controls and will be subject to the receiver’s RAD profile.

DTC plans to reduce implementation risk by lowering its RAD default thresholds via 3 weekly ‘step downs’ from their current limits, allowing time for all parties to manage these changes in a controlled fashion. Each weekly reduction will increase by approximately 1/3 the available number of transactions requiring matching. The targeted timeline for the step downs is as follows:

Date	Transaction Type	Old Threshold	New Threshold
7/11/2014	Payment Orders	\$500,000	\$0
	Deliver Orders	\$7,500,000	\$100,000
7/18/2014	Deliver Orders	\$100,000	\$20,000
7/25/2014	Deliver Orders	\$20,000	\$0.01

DTC recognizes that clients will have different ways of managing their increased RAD volumes. It is important to note that client-defined global and/or bilateral RAD limits will still be supported, i.e., clients will be allowed to define RAD limits in excess of DTC’s default limits, allowing receives to be processed to their account without active approval being granted (passive authorization). Additionally, several changes will be made to assist clients with the ability to approve items. Many of these changes will be implemented in advance of July when DTC begins to lower its RAD default limits³. These changes were chosen to be introduced in a controlled manner in favor of a single implementation to allow industry members time to familiarize themselves with the changes and ensure industry readiness. Appendix A highlights each of these changes, the projected testing dates, projected implementation dates and whether or not processing changes will be required. Appendix A also serves as a confirmation of the changes outlined in the aforementioned Detailed Service Description, but also highlights additional changes being made resulting from industry feedback.

Phase 4 – Matching for Affirmed Institutional Deliveries (ID):

Today, Omgeo submits “affirmed” institutional transactions in real-time to DTC where they await deliverer authorization prior to DTC processing. Deliverers of ID transactions manage their ID authorizations through the IMS Authorization and Exemption (ANE) system. ANE allows deliverers to provide global or individual authorizations or exemptions of their ID deliveries through automated messages or manually via PTS or PBS. Cancellations can also be made but on an individual transaction basis. At noon of S-1, DTC applies an ID Authorization Profile which allows deliverers of ID transactions to choose between providing an active or passive authorization for their unprocessed ID deliveries (the default setting is active). Subsequent deliverer updates are allowed until the night cycle begins. Deliveries authorized as a result of this profile and subsequent deliverer updates are prepped for night cycle processing which begins at approximately 9:00 P.M. on S-1. It is at this time that that DTC routes transactions to RAD or its settlement system depending on applicable “ID Trades” profiles and makes output available to clients.

³ DTC will allow participants to set global and bilateral limits below its current thresholds in advance of the step down, although **DTC’s thresholds will still apply.**

With the Phase 4 implementation, DTC, in addition to requiring deliverer authorization, will begin to require receiver authorizations of the ID transaction prior to settlement⁴. To facilitate the receiver match, DTC will enhance existing RAD functionality. ID receiver capabilities in RAD will mirror those of ID deliverer capabilities available as outlined above through ANE. ID receivers will be able to provide an active or passive authorization for their expected ID receives. ID receivers will be able to provide authorizations or exemptions on an individual transaction basis or via a global command. Cancellations will also be available, but only on an individual transaction basis.

Appendix B, similar to appendix A, highlights the key phase 4 changes, their projected testing dates, projected implementation dates and whether or not processing changes will be required. Appendix B also serves as a confirmation of the changes outlined in the aforementioned detailed service description, but also highlights additional changes being made resulting from industry feedback.

Questions regarding this important notice may be directed to your Relationship Manager, the Client Account Representative Team at 212-855-4270 (option 2) or rmsupport@dtcc.com, or to Chris Nolan at 212-855-2352 or cnolan@dtcc.com.

⁴ Please note that DTC expects to reduce its RAD thresholds for ID receives in a step-down approach similar to Phase 3, and will verify these timelines in a subsequent important notice.

Appendix A – Changes for RAD Zero:

Making Night Deliver Order (NDO) output available earlier:

- Targeted for testing beginning February 21st, 2014
- Targeted implementation June 13th, 2014

Currently, DTC makes available NDO output regarding a delivery's status at approximately 9:00 P.M. on S-1. With this implementation, the timing of NDO output will be accelerated by making a delivery's status known as early as 5:00 P.M. on S-1. No client changes are required. DTC will accomplish this by simply moving the timing of deliverer and receiver authorization profiles. Profile, i.e., delivery authorization and receiver RAD profile limits, will continually be applied in real-time to any additional NDO instructions received after noon on S-1. **However, clients may need to make coding changes to accommodate the new timing of NDO output availability.**

RAD Output Changes

To assist automated clients with processing additional NDO receives requiring approval; DTC will repurpose existing filler space within the RAD output file layout into two new fields - an "intended delivery date" and "settlement date". The intended delivery date will allow clients to filter NDO activity due to settle on the following business day from day cycle RAD transactions. The settlement date will provide clients with another field which may be used as part of their matching criteria.

An additional change to RAD output will be the inclusion of a "Transaction Type Indicator". This new field will allow clients to distinguish between ID transactions, NDOs, ID Net transactions or other same day settling transaction types.

Settlement Output Changes

To further assist clients with the settlement matching requirement, DTC will repurpose existing filler spaces within its settlement outputs to include the IMS TID⁵. Making the IMS TID available through settlement output will allow clients to link transactions approved in RAD to the actual output record.

DTC has either repurposed existing filler space, or introduced a new indicator to an existing field in the case of transaction indicator, within its file specifications for each of the new data elements outlined. These fields are optional but clients are advised to verify that each of the current filler spaces being modified as part of this initiative do not drive any internal programming as these fields are being repurposed.

Modified file specifications can be accessed from the link below and expanding the ISO or CCF tabs <http://www.dtcc.com/products/documentation/cs/cs.php>

⁵ In RAD, the IMS TID is referred to as the "RAD Sequence Number".

Allowing clients to make updates earlier:

- **Targeted for testing beginning February 21st, 2014**
- **Targeted implementation June 13th, 2014**

Accelerating the timing of NDO output to 5:00 P.M. of S-1 means that RAD input processing windows will also be extended allowing receivers to provide authorizations of their NDOs earlier in the settlement cycle. With this implementation, DTC will begin accepting NDO RAD updates at the latter of 5:00 P.M. of S-1 or the receipt of the delivery, through either the Settlement Web or automated messages. **This is an optional change** for clients, i.e., there is no requirement to approve receives during the expanded window, but DTC strongly recommends that clients take advantage of the additional processing time to approve receives as early as possible. **Please note that DTC will not accept RAD instructions on an NDO receive before the receiver gets the initial RAD message.**

While expanding the NDO receiver authorization window will allow clients to provide authorizations earlier in the settlement cycle, it also introduces the potential need for a receiver to reverse an approval that may have been provided in error. Manual reversals of approved receives will be allowed in the Settlement Web only⁶, but the status change will be made available through existing output specifications. Reversal commands received prior to the start of the night cycle will change the transaction status from ‘receiver approved’ to ‘pending receiver authorization’ (a new messaging sequence for which delivers should be prepared). Approval reversals will not be allowed once a transaction is submitted for settlement at approximately 9:00 P.M. However, if the transaction pends in DTC’s settlement system, receivers will be allowed to submit “Pend Cancels”, as deliverers can today. DTC will consider the cancellation as a final transactions status and no longer attempt to process the delivery.

Changes to the RAD “Drop” file:

- **Targeted for testing beginning February 21st, 2014**
- **Targeted implementation June 13th, 2014**

Today, DTC’s RAD drop file is processed at approximately 6:45 P.M. each day and includes both valued and free transactions dropped from RAD. DTC is not making changes to this file, however, a new optional valued RAD drop file will be made available shortly after the valued RAD Approval Cutoff which occurs at approximately 3:30 P.M. each day (or later if there is an extension of the cutoff). The creation of this file is a direct result of industry feedback regarding the need to reset client records reflecting failed transactions in a more timely fashion. Clients taking the earlier RAD drop file should note that the 6:45 P.M. RAD drop file will contain all RAD drops, i.e., DTC will not remove valued drops already communicated from the 3:30 P.M. RAD drop file.

ID Net RAD output changes: (applicable to stage 4 or for any client with an active ID trades profile)

⁶ Please note that customers will be able to process “bulk unapproval” entries via the Settlement Web in the **Grid** Display Type.

- **Targeted for testing beginning February 21st, 2014**
- **Targeted implementation June 13th, 2014**

When an ID net transaction is submitted to RAD for receiver approval, RAD output reflects the ID net receiver omnibus account (#919) and not the underlying broker stored in the third party field of the transaction. DTC will modify its proprietary RAD output messages for ID net transactions by switching the 919 deliverer account with the actual delivering client's participant account number in the third party field. This change will allow ID net receivers to provide their RAD approvals based on the underlying broker rather than the generic omnibus account.

Allowing comments on RAD ISO commands:

- **Targeted for testing beginning February 21st, 2014**
- **Targeted implementation June 13th, 2014**

RAD ISO commands (MT530 messages) will be modified to include an optional comments field for when a receiver approves or cancels a transaction from RAD.

Billing Change:

- **Targeted for testing beginning N/A**
- **Targeted implementation August 1st, 2014**

Today, DTC makes no determination as to which party is responsible for the need to reclaim a transaction, and as a result, both parties are charged \$0.45. With the settlement matching requirement, receiver approval of deliveries will be required prior to DTC processing, and once the transaction settles it will be considered final. DTC recognizes the need to return completed transactions (reclaim) will still exist in a settlement matching environment, but because the return is being treated as an original transaction, it will no longer be assessed a reclaim surcharge of \$0.45. Instead, returns will follow the existing delivery and receive fees. This fee change is expected to occur as of August 1st, 2014, and will include both ID and non-ID transactions.

As previously mentioned, receivers will be allowed to initiate pend cancels. The DTC fee for processing receiver pend cancels will be included in DTC Fee ID 410, the fee charged to deliverer pend cancels, and will begin to be charged when receiver pend cancels become available, which is targeted for June 13th, 2014.

Expanding Excel downloads in RAD:

- **Targeted for testing beginning February 21st, 2014**
- **Targeted implementation April 25th, 2014**

RAD Excel downloads will be expanded from 2,000 to 5,000 records.

Adding a RAD comments lens:

- **Targeted for testing beginning February 21st, 2014**
- **Targeted implementation April 25th, 2014**

A new RAD display will be introduced allowing users to see transaction comments without “drilling down” into the transaction details.

RAD Drop Tickets:

- **Targeted for testing beginning N/A**
- **Targeted implementation April 25th, 2014**

DTC will no longer support tickets for RAD drops. This change will coincide with DTC’s initial reduction to the current RAD default limits in July. Clients leveraging tickets today are advised to convert to automated RAD output or to download these transactions via the Settlement Web.

Overvalued deliveries:

- **Targeted for testing beginning N/A**
- **Targeted implementation June 13th, 2014**

DTC automatically routes substantially overvalued deliveries with a settlement value greater than the current default limits of \$7.5 million to RAD⁷ regardless of any client defined bilateral or global RAD limits. This logic will remain unchanged as DTC lowers its RAD default limits, i.e., the substantially overvalued logic will not apply to transactions with settlement values less than \$7.5 million.

New transaction types will be routed to RAD:

- **Targeted for testing beginning February 21st, 2014**
- **Targeted implementation June 13th, 2014**

Today, the following transactions types bypass RAD:

- Valued deliver orders using syndicate reason codes 49, 50, 560, 570
- ACATS auto deliver orders (reason code 88 and source code DCAT) and payment orders (source code PCAT)
- Reintroduced balance orders

With this implementation, the above valued transactions will require receiver approval prior to settlement.

Reintroduced Drops will be subjected to RAD:

- **Targeted for testing beginning February 21st, 2014**

⁷ See the Settlement Service guide for specific criteria.

- **Targeted implementation June 13th, 2014**

Deliverers may elect to have their failed transactions automatically submitted for processing on the following day by instructing DTC to reintroduce their failed transaction. Certain transaction types, when reintroduced by DTC, are allowed to bypass receiver authorization. With this implementation all valued reintroduced drops will require receiver approval prior to settlement.

Appendix B – Changes for Matching ID:

Since ID transactions are received from Omgeo and not directly from DTC's client or their service provider, DTC requires that deliverers of ID transactions authorize DTC to attempt delivery⁸. Clients use DTC's Authorization and Exemption (ANE) system to manage their ID deliveries by either exempting or authorizing each transaction prior to DTC processing them. In addition to accepting manual and automated ID exemptions and authorizations, deliverer's can create a standing profile instruction which allows them choose between providing an active or passive authorization for their unprocessed ID deliveries. The profile runs at noon of S-1 and the default for deliverers is active meaning that any ID deliveries in an unprocessed (neither previously exempted or authorized) will remain in an unprocessed state until DTC receives an explicit authorization to attempt to deliver the transaction. Passive profiles users will have all of their unprocessed ID deliveries authorized automatically and prepared for night cycle processing.

This process is not changing for deliverers of ID, nor will any output files that clients receive from Omgeo. However, because DTC will require receiver authorization through RAD prior to settling ID transactions, ID deliverers that want to know the status of their ID deliveries may need to code to capture new status messages. Today, DTC's ANE system does not produce output messages for ID deliveries statuses because ID deliveries are not subjected to receiver approval. Deliverers of authorized ID transactions receive settlement status messages only, i.e., whether their ID delivery "made" or "pending". With this implementation, ID deliveries may be routed to the receiver's RAD where they will await an action. This "stop" in RAD introduces a new process flow for ID deliveries for which ID deliverers may need to code to in order to know the status of their ID deliveries not automatically approved in RAD. ID deliverers needing these transaction statuses will need to begin, if not already doing so, to receive RAD output.

Below is a list of changes being made for stage 4 along with their targeted testing and implementation dates.

Serial vs. Parallel authorizations:

- **Targeted for testing beginning June 2014**
- **Targeted implementation September 2014**

⁸ DTC receives deliver instructions for all other valued DOs and POs directly from its customers or their service providers and, as such, considers the delivery to be an authorized instruction from the deliverer's perspective.

Originally, and as outlined in the Detailed Service Description, DTC proposed using a parallel approval process allowing the receiver to authorize, exempt or cancel an ID delivery in RAD regardless of deliverer action taken. **DTC is amending these plans in support of industry feedback and in favor of a serial authorization process**, i.e., receivers will only be able to provide a receiver authorization for ID deliveries that have been authorized by the deliverer. Please note that if a deliverer exempts a transaction after the receiver has authorized it, and the deliverer subsequently authorizes the transaction, the receiver will need to re-authorize the transactions. Exemptions and cancellations will continue to be accepted in a parallel process.

ID receiver transaction updates:

- **Targeted for testing beginning June 2014**
- **Targeted implementation September 2014**

Virtually all ID transactions do not require the receiving client to take an action today. For the few that do⁹, they are routed to the receiver's RAD at approximately 9:00 P.M. on S-1. With this implementation, DTC will begin to require receiver authorization, whether authorization is active or passive, for all ID transactions. The impact of this implementation is clients may see a significant increase in the number of transactions that require an active approval. To assist with processing these transaction volumes, DTC will begin to accept receiver exemptions and cancellation updates to their ID receives earlier in the settlement process. ID receivers will have the same transaction update options as deliverers of ID. ID receivers will be able to submit global or individual authorizations or exemptions of their ID receives through automated messages or manually via PTS, PBS or the Settlement Web. Cancellations will also be allowed but only on an individual transaction basis.

All ID receiver updates and all output messages reflecting receiver updates will be communicated through RAD¹⁰.

- Exemptions: DTC will allow ID receivers to submit exemptions at any time throughout the settlement cycle regardless of whether the deliverer has taken an action. The primary reason for this is to allow ID receivers with passive authorization profiles (see the following section) to exclude receives that they do not want DTC to process against their account.
 - ID deliverers should note that a receiver exemption means that their delivery has not been matched and is still awaiting receiver authorization.
- Cancellations: DTC will allow ID receivers to submit individual cancellations at any time throughout the settlement cycle regardless of whether the deliverer has taken an action.
 - A receiver cancellation would be treated by DTC as a final state and no longer eligible for processing.
- Authorizations: DTC will make receivers of ID aware (and begin to accept receiver authorizations) of ID deliveries requiring their approval upon deliverer authorization of the ID delivery. This change to a serial approval process, resulting from industry feedback, significantly reduces the number of output messages and helps reduce potential mismatches between ID deliverers and receivers.

⁹ Customers have the ability to route ID receives with a settlement value greater than DTC's RAD default limits

¹⁰ The exemption command is new to RAD and is being offered as some customers prefer to exempt a transaction as opposed to leaving it in an unprocessed state. To reflect an exempted status on RAD output, DTC will add another value to the "RAD action code" field within the existing RAD output file specifications.

The ID Receiver Authorization Profile:

- **Targeted for testing beginning June 2014**
- **Targeted implementation September 2014**

In addition to accepting receiver updates as outlined above, DTC will create an “ID Receiver Authorization Profile”. This profile will function based on the same logic as the ID deliverer authorization profile in that it will allow ID receivers to apply a passive or active authorization standing instruction to any ID delivery that was previously authorized by the delivery. The default setting for the ID receiver authorization profile will be passive and be applied at 5:00 P.M. on S-1 after the majority of deliverer exemptions have already been entered through the ANE system. Generally, ID receivers must choose between the two processing options below:

- A passive profile with the use of exemptions to withhold authorizations
- An active profile with explicit authorizations being provided

Regardless of the profile setting chosen, DTC will continually apply the profile settings to newly authorized ID deliveries as they are received into DTC.

Providing authorizations using the Omgeo control number:

- **Targeted for testing beginning June 2014**
- **Targeted implementation September 2014**

DTC will modify its RAD input file specifications to include a new field for the ID control number. The addition of this field will allow ID receivers to approve, exempt or cancel an ID transaction using the Omgeo control number.

Rather than modifying the existing RAD input file specifications to accommodate these changes and potential forcing all clients to make coding changes, DTC will create another version (Version 2) of the layout and make it available to interested parties. DTC will continue to support version 1 of the RAD input for those clients who have already coded to approve their ID receives in RAD using the “RAD Sequence Number”, but clients who want to use the new input capabilities outlined above must use Version 2.

Manual updates for ID receives:

- **Targeted for testing beginning June 2014**
- **Targeted implementation September 2014**

DTC will continue to support PTS and PBS deliverer authorization, exemption and cancellation capabilities of ID transactions, but receiver updates will be available in the Settlement Web only. Clients will be offered an option allowing them to isolate their ID transactions requiring action from other “non-ID” transactions. The new functionality in the Settlement Web will provide receivers and

deliverers of ID transactions the same update capabilities available to deliverers of ID in PBS and PBS today, i.e., global update options will be available for approvals (provided the deliverer has authorized the delivery) and exemptions, but cancellations will be permitted for individual transactions only.

End of day processing change:

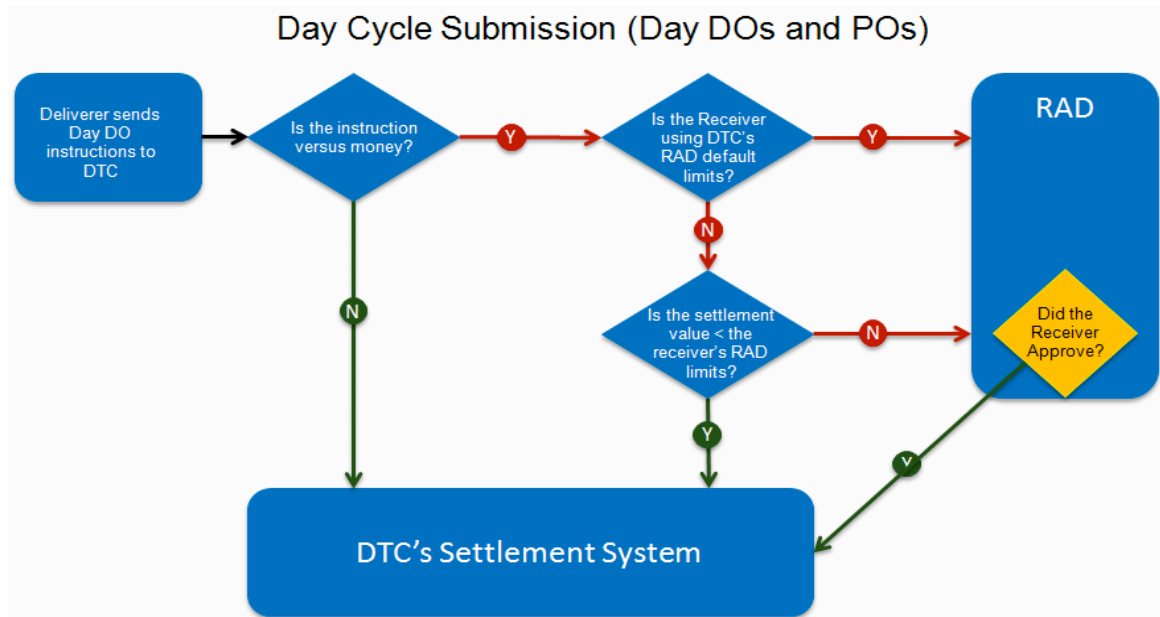
- **Targeted for testing beginning June 2014**
- **Targeted implementation September 2014**

When an ID delivery ends the day in an unprocessed status, DTC changes its status from unprocessed to exempt. DTC warehouses all deliveries with an exempted status for 21 business days allowing the deliverer to authorize the delivery at any time. In practice, however, the vast majority of clients do not utilize this capability. Rather than authorize an exempted delivery through ANE, clients instruct a DO as a new transaction either for day or night cycle processing. When this occurs, maintaining the exempted status and allowing for subsequent authorizations supports a mechanism to potentially duplicate deliveries.

With this implementation, DTC will no longer warehouse exempted transactions for 21 business days after the intended settlement date has passed. Instead, DTC will switch the status from exempted to cancelled, effectively dropping the instruction from DTC's systems.

“RAD Zero” Processing Flows:

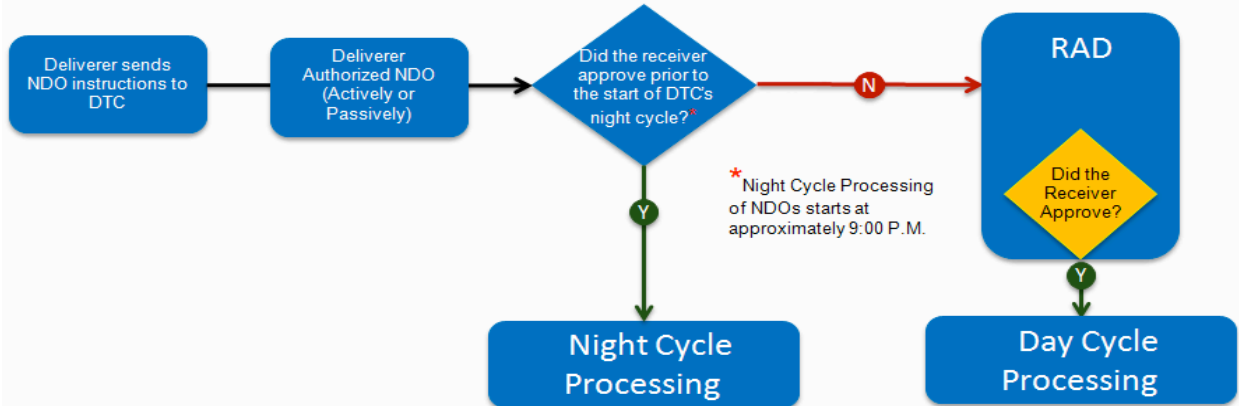
The process flow below highlights how DTC processes all valued day cycle transactions today. When DTC reduces its RAD limits to zero, all valued DOs and POs will become RAD eligible and all will require receiver approval, and additional transactions will be routed through this process. Receiver approval may be granted actively via an explicit instruction or passively by virtue of a client defining RAD limits in excess of DTC’s default limits. Once receiver approval has been recorded, the instruction will be submitted to DTC’s settlement system for further processing where it will be subjected to the same risk management controls and cutoffs that exist today, i.e., the transaction will either make, pend, be cancelled or dropped at the end of the processing cycle. As DTC lowers its RAD thresholds to \$0, more transactions will be routed through this process.



Night deliver orders (NDOs) differ from day cycle processing only in terms of timing and cutoffs, i.e., all NDOs are routed through the same decision points highlighted above and all require receiver approval – either active or passive. As previously outlined, DTC will accelerate the timing of NDO output and extend input processing windows to assist receivers of NDOs with providing RAD approvals earlier in the

settlement cycle.

Night Cycle Submission (NDOs and POs)



Affirmed ID Process Flows:

Regardless of how receiver authorization is provided (actively or passively), the process flow for settlement is the same, i.e., DTC will only attempt to settled matched transactions. It is the timing of the match that determines whether the ID transaction is attempted for settlement in the night cycle on S-1 or on S during the day cycle. The process flow below should be viewed from the receiver's perspective and begins with the assumption of deliverer authorization.

