



NATIONAL  
SECURITIES  
CLEARING  
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

**Underlined and boldface** text indicates new text

**~~Strikethrough and boldface~~** indicates deleted text

## PROCEDURE II A. OBLIGATION WAREHOUSE

### A. Introduction

The Obligation Warehouse (the “OW”) is a service available to Members for (i) comparison of transactions that are not otherwise submitted by Members, Self-Regulatory Organizations, or Qualified Special Representatives on behalf of Members for trade comparison or recording through other services of the Corporation, (ii) tracking, storage and maintenance of obligations either compared through the service or forwarded to it from other services of the Corporation in accordance with the Rules and Procedures, and (iii) the repricing and updating of fail obligations.<sup>1</sup>

Other than Balance Order Contracts and obligations that have been forwarded to CNS from the OW, which shall continue to be subject to the Rules, all Buy-Ins; deliveries, receives and reclamations; adjustments for corporate actions, whether mandatory or voluntary; and transactions of a Member that have been DK’ed, shall be remain subject to the rules of the appropriate marketplace.

Members may submit to the Corporation trade data relating to securities eligible for OW processing as provided in this Procedure. Obligations eligible for submission must have a valid CUSIP or ISIN and be denominated in U.S. Dollars or such other currencies as the Corporation determines from time to time. NSCC will designate certain security or transaction types as eligible for the OW process from time to time.<sup>2</sup> Comparison of items submitted directly by Members to the OW shall occur daily on a real-time basis in accordance with the OW Comparison process set forth below. Each OW Obligation shall be assigned a unique “OW Control Number” to facilitate tracking the obligation through its settlement, cancellation or closure. OW Obligations (as defined in Rule 51) will be tracked, stored, and maintained until settled or otherwise cancelled by Members or otherwise removed by the Corporation in accordance with the Rules and Procedures. In addition, for those Members participating in the OW Service, transactions exited from CNS, ACATS Receive and Deliver transactions (e.g., ACATs deliveries that settle outside of CNS) Balance Orders, and Special Trades shall automatically be entered by the Corporation into the OW for storage and for Reconfirmation and Pricing Service (“RECAPS”) processing, as set forth below. In addition, the Corporation will cause CNS-eligible OW Obligations to be entered into the CNS Accounting Operation on a regular basis.<sup>3</sup>

---

<sup>1</sup> Members should note that in accordance with MSRB rules, NSCC reports transactions in municipal securities matched through its Real-Time Trade Matching (“RTTM”) service to the MSRB on behalf of Members. Transactions submitted through the OW will not be reported to the MSRB. In order to remain compliant with MSRB reporting requirements, transactions subject to MSRB rules should continue to be submitted by Members to NSCC’s RTTM service.

<sup>2</sup> The Corporation may determine from time to time, and shall announce by Important Notice, which items are eligible for the ~~Operation~~ **Obligation** Warehouse service.

<sup>3</sup> ~~This functionality will be made available to Members at a date no less than 10 business days following announcement of its implementation by Important Notice.~~

## B. OW Comparison

The following steps will apply with respect to transactions submitted to the Obligation Warehouse for comparison:

1. Transaction data as submitted by Members for processing in the Obligation Warehouse is compared by the Corporation to ensure that the matching criteria of each obligation are in agreement between the purchaser and the seller.
2. Data may be submitted during the timeframes and in such form as may be specified by the Corporation from time to time. Data required for a valid submission will include quantity, which party is deliverer or receiver, security identification, contra-broker, deliverer's final money, settlement date, unique reference number ("x-ref"), market participant identification (MPID), where applicable, whether a transaction should be excluded from CNS processing and other identifying details as NSCC may require or permit, and shall be in such formats as specified by the Corporation relative to the method utilized for submission. Criteria which must match between contra-parties to effect a comparison of transaction details includes quantity, an indication as to which party is deliverer or receiver, security identification, contra-broker, deliverer's final money, settlement date, whether a transaction should be excluded from CNS processing and other identifying details as NSCC may require or permit (collectively referred to herein as the "Required Matching Fields").
3. Upon receipt and validation by the Corporation of obligation information from the initiating party, the contra side will receive an Advisory, to which they must respond by submitting like details to facilitate a compared obligation or they can DK the obligation entry. Any submission of a DK must include the applicable reason code pertaining to the Member's disagreement with the transaction.
4. A Member against which a DK is submitted may respond with modifying details of the applicable transaction within the timeframes specified by the Corporation from time to time, otherwise the item will be deleted from processing in accordance with timeframes specified by the Corporation from time to time. If a Member submits modifying details in response to a DK from a counterparty, the item will be treated as a new submission pursuant to Section B(1) of this Procedure.

5. A Member may modify trade details of, or cancel, a transaction, that it has submitted and is designated by the Corporation as uncomparing by forwarding the appropriate instruction to the **Operation Obligation** Warehouse by the time specified by the Corporation from time to time, so long as notification of settlement of the uncomparing transaction has not been received by the **Operation Obligation** Warehouse prior thereto. If a Member submits modifying details, the item will be treated as a new submission pursuant to Section B(1) of this Procedure.
6. If the deliverer and receiver submit trade data that matches in all required respects, the trades will be deemed comparing if it meets money tolerances as announced by the Corporation from time to time, and deemed an OW Obligation.
7. The Corporation may delete trade input which is not matched by such timeframes as determined by the Corporation from time to time.
8. The Corporation shall have no responsibility for determining whether any trade submission is duplicative of an earlier trade submission. Any such input shall be treated as a separate submission for all purposes of these Rules and Procedures.

C. Obligation Warehouse Storage, Tracking, Maintenance and Settlement

1. The Corporation will track, store and maintain each OW Obligation until settled or otherwise cancelled by the Members party to the obligation or otherwise closed by the Corporation.
2. The Corporation may adjust comparing OW Obligations with respect to the following mandatory reorganization events: forward stock splits, name changes, ~~redemptions~~, mergers (both cash and stock) and full calls with respect to bonds.<sup>34</sup> In the case of such an event, at such time on or after the effective date of the event as the Corporation shall determine it has all relevant information, the affected OW Obligation will be adjusted

---

<sup>34</sup> ~~This functionality will be made available to Members at a date no less than 10 business days following announcement of its implementation by Important Notice. Prior to the date of implementation, and at any time if the Corporation determines that corporate actions adjustments will not be offered with respect to a particular security or event, Members may adjust OW Obligations subject to such events by cancelling and resubmitting them as new obligations under the comparison process described above. Please note, however, that the processing of dividends and interest will not be done for OW transactions and remain the responsibility of the parties outside the facilities of the Corporation.~~

in accordance with the terms of the reorganization event.<sup>45</sup> With respect to name changes and forward stock splits, OW positions in the subject security shall be converted into the equivalent positions of the new securities and/or cash and a new obligation will be created automatically as part of the processing for OW. Any cash adjustment associated with a mandatory reorganization will be included as part of the Member's daily money settlement with the Corporation and will appear on reports generated in the OW.

3. On a regular basis, the Corporation will review all OW Obligations for CNS eligibility.<sup>6</sup> Unless otherwise excluded by a Member through its submission of an appropriate instruction, the Corporation will cause all CNS-eligible OW Obligations: (i) that have not reached their scheduled settlement date to be reported on the CNS Miscellaneous Activity Report the night prior to Settlement Date (SD-1) and entered into the CNS Accounting Operation for the night cycle on SD (i.e., the evening of SD-1), and (ii) that have reached or passed their scheduled settlement date to be reported on the Miscellaneous Activity Report on the evening of the date they become CNS-eligible and entered into the CNS Accounting Operation for settlement on the next Settlement Day (i.e, the night cycle which runs on the same evening of the Miscellaneous Activity reports covering the obligations is issued). Such items shall be subject to Rule 11 and other provisions of these Rules and Procedures; provided, however, that subject to any rights the Corporation may have as provided in these Rules generally, the Corporation will guarantee the settlement of any such OW Obligation only to the extent that the Member pays the Corporation its full settlement obligation on the date the obligation is scheduled to settle in the CNS Accounting Operation. To the extent that such Member fails to pay in full its settlement obligation, in the sole discretion of the Corporation, OW Obligations which have been sent to the CNS Accounting Operation may, in whole or in part, be removed from the CNS Accounting Operation by reversing all credits and debits for the Member relating to OW Obligations that have entered the CNS Accounting Operation. Settlement of such item shall be effected between the Receiving and Delivering Member and not through the facilities of the Corporation.

---

<sup>45</sup> If the Corporation determines that it does not have the relevant information, Members may adjust OW Obligations subject to such events by cancelling and resubmitting them.

<sup>6</sup> ~~This functionality will be made available to Members at a date no less than 10 business days following announcement of its implementation by Important Notice.~~

4. The Corporation will update OW Obligations for which deliveries have been made through a Qualified Securities Depository to reflect their status as settled, in accordance with instructions received from the Qualified Securities Depository.<sup>57</sup> The Qualified Securities Depository's instructions shall use the OW Control Number and contain such other information as the Corporation determines from time to time. In the event of a partial delivery through a Qualified Securities Depository, the Corporation, in accordance with proper instructions from the Qualified Securities Depository, will update the records of the respective OW Obligation accordingly.<sup>8</sup>
5. In order to reflect the settlement of a transaction effected otherwise than through a Qualified Securities Depository, one party must submit the relevant obligation details, similar to the data required for OW comparison (including the actual settlement date, quantity and amount settled), as specified by the Corporation. At that point, the counterparty will receive an advisory, to which they must respond by submitting like details, or by notification that it does not accept the submitted settlement details. If the parties submit settlement data that matches in all required respects, the obligation will be updated to reflect the amount so settled, if it meets money tolerances as announced by the Corporation from time to time. If the counterparty responds to an advisory that it does not accept the submitted settlement details, however, the initiating party may submit modifying details to the applicable transaction, in which case the item will be treated as a new update of the settlement details.
6. Obligations that have been reflected in the OW as settled in accordance with these Procedures may be re-opened (either partially or fully), as a result of a delivery reclaim message sent by either party to the obligation to OW. Updates to reflect reclaims of settled transactions will be made once one party enters details of the original transaction, and the original transaction's OW Control Number. Once these details are submitted, an advisory of the reclaim will be sent to the counterparty, who must either submit identical transaction details to facilitate the reclaim and re-open the obligation in OW, or submit notification that it does not accept the reclaim details

---

<sup>57</sup> In order to effect such an update, Members must provide the Qualified Securities Depository with instructions in accordance with the Procedures of the Qualified Securities Depository.

<sup>8</sup> ~~Members should note that transactions settled through NSCC's Envelope Settlement Service are not automatically updated. This functionality will be made available to Members at a date no less than 10 business days following announcement of its implementation by Important Notice.~~

entered by the initiating party. Updates for reclaims may only be submitted to the OW for a period of two business days following the actual settlement date of the relevant obligation. If the reclaim message is not accepted by the counterparty, it will be deleted from the OW, and the parties will need to generate a new reclaim message in OW. If the original obligation has been settled for longer than two business days, any reclaim message will be rejected.

#### D. Reconfirmation and Pricing

##### 1. Introduction

The OW system includes a reconfirmation and pricing service (“RECAPS”) which will be run from time-to-time as established by the Corporation for such securities in the OW system as the Corporation shall determine. The system provides an opportunity to reconfirm and reprice transactions that already have been compared.<sup>69</sup> The time on the day that the Corporation determines to commence a cycle of the RECAPS process shall be referred to as “R”.

##### 2. RECAPS Processing

###### (a) Eligibility

OW Obligations (i.e., items that have either: (i) been matched pursuant to this Procedure, or (ii) forwarded to the OW from other NSCC systems or services as provided in this Procedure) and have a settlement date of at least two days prior to the date of R will be considered for the RECAPS process; however, such OW Obligations can be excluded from the RECAPS process if so designated by the Member or the Corporation. **In addition, X-CNS items (i.e. CNS-eligible items that the parties have designated to settle on a trade-for-trade basis) will be excluded from the RECAPS process.** Fail items not already in the OW but which are eligible for RECAPS processing must have been submitted to, and matched in, OW prior to R. Any such submission is subject to the eligibility and matching provisions of subsections A and B of this Procedure.

###### (b) RECAPS Processing

On R, except as provided below, each eligible OW Obligation will be repriced, if appropriate, netted and allotted, if appropriate, the settlement

---

<sup>69</sup> Obligations initially compared through the OW service, or forwarded to the OW from other NSCC systems or services, will not be reconfirmed; however, pre-existing fail obligations submitted by Members will be reconfirmed upon their submission to the OW subject to the matching process outlined in subsections A, B, and C above.

date updated to the next business date and opened as a new obligation. ~~Those securities that are not CNS-eligible or are designated to settle on a trade-for-trade basis will not be netted and allotted.~~ Certain securities, including securities that are not CNS-eligible, securities that are designated to settle on a trade-for-trade basis, municipal securities and securities for which the current market price is not available, may not be netted and allotted.

In the event that the current market price for a security is not available, the fail obligation will be priced at the amount at which the obligation previously was compared and assigned a new settlement date; **however, and** such items **will may** not be netted and allotted.

(c) Cash Adjustment

The difference between the aggregate value of a Member's original fails and the aggregate value of the Repriced RECAPS positions (i.e., the current market price of the reconfirmed trades) is known as the net cash adjustment. The net cash adjustment will settle on the Business Day following the date on which the RECAPS process is run and will be included as part of the Member's daily settlement with the Corporation.<sup>740</sup>

(d) Adjustment of Settlement Date

For the purposes of the Corporation's Buy-In Rules and Procedures the RECAPS Settlement Date shall be considered to be the original RECAPS Settlement Date for transactions processed through RECAPS.

E. Notifications and Reports

Members will be informed in real-time of status changes with respect to obligations submitted to the OW.

The Corporation shall make available to each Member a report which reflects the end-of-day status of OW activity which took place for such Member during each Business Day.

Activity relating to RECAPS processing will be separately identified on such reports.

Each Member participating in the OW service shall have an affirmative obligation to monitor status updates and reports issued by the Corporation with respect to its OW activity, and immediately inform the Corporation of any discrepancies between its OW activity and the contents of such updates and reports.

---

<sup>740</sup> Such net cash adjustments will be separately identified on Members' money settlement statements.

F. Non-Guaranteed Service

The Obligation Warehouse shall not be a guaranteed service of the Corporation. If the Corporation Ceases to Act for a Member pursuant to Rule 18 it may: (i) close all open activity relating to that Member from the OW, (ii) reverse all credits and debits for the Member relating to OW Obligations that have entered the CNS Accounting Operation, and (iii) reverse any cash adjustments forwarded to settlement pursuant to this Procedure.

G. Applicability of Marketplace Rules

It is intended that Buy-In executions, good delivery requirements for physical deliveries, reclamation rights and transactions of a Member that have been DK'ed shall be remain subject to the rules of the appropriate marketplace, notwithstanding that such requirements would not otherwise apply to a transaction processed in the OW, unless the relevant process is otherwise specifically provided for in these Rules & Procedures (e.g., such as the buy-in process for CNS transactions).