

**Bold and underlined text** indicates proposed added language.

~~**Bold and strikethrough text**~~ indicates proposed deleted language.

## Settlement Service Guide

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### Payment Orders

#### About the Product

DTC's Payment Order service allows you to settle money payments for transactions that were processed separately. A payment order authorizes DTC to credit ~~the payee Participant's settlement account with the specified amount and to debit the payor Participant's settlement account for the same amount.~~ **All payment orders must satisfy the payor Participant's and debit corresponding payee and payor accounts at DTC based on Participant instructions and satisfaction of all applicable DTC risk management controls before ~~being~~the order is processed.**

#### How the Product Works

#### Premium Payment Order (PPO) and Securities Payment Order (SPO)

A Participant wanting to collect money (the payee Participant) from another Participant (the payor Participant) first contacts the payor Participant to reach agreement on the amount payable. The payee Participant then submits to DTC a premium payment order (PPO) or a securities payment order (SPO). The PPO is **typically** used to collect a net option contract premium for an opening writing or closing purchase transaction. The SPO is **typically** used to collect a mark-to-market payment based on the difference between the current and previous market value of an open securities contract.

The following are **typical sample** situations in which you ~~would~~**could** use PPOs and SPOs.

- A bank's customer writes an opening call option. Through DTC the bank deposits underlying securities with the Options Clearing Corporation (OCC). The bank (the payee Participant) submits to DTC a PPO crediting its settlement account for the amount of the net option contract premium and debiting the account of the broker (the payor Participant) for the same amount.
- A bank's customer purchases a closing call option. OCC releases underlying securities previously deposited with it through DTC. The broker (the payee Participant) submits to DTC a PPO crediting its settlement account for the amount of the net option premium and debiting the account of the bank (the payor Participant) for the same amount.
- A Participant delivers securities to another Participant through DTC in a stock loan transaction. Thereafter, the market value of the securities increases significantly. The lender (the payee Participant) submits an SPO to DTC crediting its settlement account for the amount of the difference between the original and new market values and debiting the account of the borrower (the payor Participant) for the same amount.
- **To facilitate the capability of a Participant delivering securities for value (the payee Participant) to make an intraday withdrawal of funds that the Participant receiving the securities for value (the payor Participant) would choose to fund with an SPP, as separately agreed between the Participants and DTC, (i) payor Participant would direct an**

SPP to credit a DTC designated account (the conduit account) instead of its own settlement account; (ii) payor Participant would initiate an SPO to debit the conduit account and credit its settlement account the same value as the SPP (as though the payor Participant had directed the SPP to credit its own account); (iii) payee Participant would have DTC process an SPO to debit the payee Participant's settlement account and credit the conduit account an amount not to exceed the lesser of (A) payee Participant's net credit balance and (B) payor Participant's SPP; and then (iv) payee Participant would have DTC facilitate an SPP Returns/P&I Withdrawal Request to withdraw the corresponding SPP amount from the conduit account, as though it were withdrawing an SPP from its own account.

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## Settlement Progress Payments

### About the Product

If you approach or reach your net debit cap or have insufficient collateral, you can continue to receive deliveries (and avoid having transactions recycle) by wiring Fed fund payments to ~~your~~ DTC ~~account~~. This procedure is called Settlement Progress Payments (SPP).

**Note-** SPPs must be received by prior to the valued recycle cutoff time, which normally occurs at 3:10 p.m. eastern time, in order to prevent valued transactions from dropping ~~at the 3:10 p.m. valued recycle cutoff.~~

### Submitting an SPP

Your SPP instructions should conform to the Fedwire formatting standards for Fed fund transfers. Participants should prepare and submit wire instructions in accordance with guidance updated and published by DTC from time to time.

### Returning an SPP

Using the SPP Returns/P&I Withdrawal Request, you can request ~~that DTC return~~ the withdrawal of all or a portion of an SPP, subject to DTC's risk management controls you submitted earlier in the day down to a zero balance. You can request that these payments be wired to your DTC Settlement Bank, or another designated bank agreed with DTC, intraday, before the settlement period. Contact your Relationship Manager to obtain access to this update capability. DTC must receive your request no later than 3:20 p.m. eastern time. When DTC receives your ~~reversal~~ request, it:

- ~~Debits the amount from your settlement account providing~~ reviews whether you have sufficient collateral and a credit balance. to process the request under DTC's risk management controls, and
- ~~Returns~~ if sufficient, sends the funds via Fedwire to your Settling Bank as indicated on your standing wire instructions with DTC or as otherwise agreed.

**Note-** DTC will not return the funds if doing so would put your account into a debit balance.

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