

Bold, Underlined text indicates additions

~~Bold, Strike-through~~ text indicates deletions

DTC SETTLEMENT SERVICE GUIDE

Memo Segregation

About the Product

Memo Segregation allows you to protect fully-paid-for customer securities using the function MSEG. MSEG is similar to the SEG function, which allows you to protect fully-paid-for customer securities by moving them from a free position to a protected (segregated) position. However, whereas SEG allows you to move only existing positions, MSEG allows you to create memo-segregated positions within your free positions, thus allowing you to protect anticipated, fully-paid-for customer securities.

How the Product Works

You can have your Memo Segregation counter automatically increased upon receipt of certain transactions. You can also allow positions resulting from certain transactions to be available for redelivery (turnaround) regardless of Memo Segregation constraints. DTC gives you two options for creating Memo Segregation positions:

1. Provide DTC with specific Memo Segregation transactions using the MSEG function, instructing DTC to establish or adjust Memo Segregation positions.
2. Provide DTC with standing instructions to have certain types of transactions automatically increase Memo Segregation positions, and ignore Memo Segregation positions in order to allow redeliveries (turnarounds) to complete.

To provide DTC with standing instructions, submit a Memo Segregation Request form. To get a copy of this form contact your Relationship Manager.

Non-Optional Memo Segregation Transactions

Independently of the preceding options, the following transactions always reduce your Memo Segregation position:

- Withdrawals-by-transfer (WTs) Certificates-on-demand (CODs)
- Free deliver orders (DO), except those processed with reason codes 10 - 29, 98, 100, 220, 260 - 268, 270-278, 280 - 288, 290 – 291, 600-619, 704-708, and CNS short covers
- Deliveries processed with reason codes 95, 97, 630, 640 and reclaim codes 197, 631, and 641 (free and valued).

When one of these transaction types is processed against your account with a Memo Segregation position, the system checks the free account. If sufficient shares exist, both the free position and the Memo Segregation position are reduced by the amount of the transaction.

Note- If the free position is greater than the Memo Segregation position, and the transaction is for the entire free amount, the Memo Segregation position is reduced to zero; it does not become a negative value.

Optional Memo Segregation Indicators

You can activate any of five Memo Segregation indicators by providing DTC with a standing Memo Segregation instruction. When you activate a Memo Segregation indicator, your free position and Memo Segregation position are automatically updated according to the indicators that you have elected.

Activate Indicator	To
1	<p>Automatically increase your Memo Segregation counter upon the receipt of:</p> <ul style="list-style-type: none"> • Free and valued DOs with reason codes 40, 99, 330, & 340 • WT reversals • Positions resulting from voluntary and mandatory reorganizations.

Activate Indicator	To
2	Automatically increase your Memo Segregation counter upon receipt of transactions with reason codes 41-48, 331-338, 341-348.
3	Automatically increase your Memo Segregation counter upon the receipt of CNS receives from the Fully-Paid-For Securities or "E" account.
4	Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from DOs with reason codes 10, 30, and 600, except those with reason codes 10, 20, 260, 270, 280, or 290.
5	Turnaround securities positions, regardless of Memo Segregation constraints, for positions received from: All DOs, except those with reason codes 20-29, 40 - 48, 99, 261-268, 270-278, 290, 291, 330-338, 340-348, 390, 610-619, 705-707 and CNS receives from the "C" and "E" accounts except if the turnaround is a reason code 10, 20, 260, 270, 280, or 290.
<u>6</u>	<u>A Participant may elect to increase automatically its Memo Segregation counter by the units of securities credited to the Participant's account in any ACATS transfer to that account.</u>

Memo Segregation indicators 4 and 5 control the capability that allows certain positions to be used for turnarounds up to the amount of the received position, regardless of Memo Segregation constraints.

Even if you have no pending deliveries at the time a position is received from a DO with reason code 10 or 30, DTC retains,

throughout that day's processing cycle, a notation of the number of shares received from such deliveries. DTC also processes any deliveries regardless of when they are submitted that day, up to that number, regardless of your Memo Segregation position.

Associated Functions

The Memo Segregation product is used in association with the MSEG function, which allows you to create or adjust Memo Segregation positions for specific transactions. Use POSM to view your Memo Segregation position on a CUSIP level.

Note- Memo Segregation is also available using Message Queuing (MQ) or Computer-to-Computer Facility (CCF).

Memo Segregation Contact Number

For more information about Memo Segregation, call DTC's Customer Support Center at (888) 382-2721.

Continuous Net Settlement (CNS)

About the Product

Continuous Net Settlement (CNS) is the primary clearing mechanism for the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), National Association of Securities Dealers (NASD), and other marketplaces. The National Securities Clearing Corporation (NSCC) operates CNS, which is the securities industry's largest trade clearance and settlement system.

How the Product Works

For each security, CNS nets down to one net buy and/or sell on all trades expected to settle on the next settlement day, including trades unable to settle on the previous settlement day. After the trades are netted, free book-entry movements at DTC to or from Omnibus Account 888 allow NSCC participants to deliver short covers to NSCC and receive long allocations.

After the trades are netted, free book-entry movements at DTC to or from Omnibus account 888 allow NSCC participants to:

- Deliver short covers to NSCC (for those participants obligated to deliver securities)
- Receive long allocations from NSCC (for those participants entitled to receive securities).

To process transactions smoothly between DTC's system and the CNS system, DTC and NSCC have put in place certain collateralization arrangements and financial guarantees to ensure that:

- Debits created in DTC's system continue to be collateralized when the securities serving as collateral are delivered as CNS short covers, and
- Long allocations, or approximate values of long allocations, are made available to NSCC to cover certain exposures.

Short Covers

When short covers are delivered from your DTC account, NSCC guarantees that:

- The value of securities received versus payment that are used for CNS short covers will be equal to the prior day's closing price, **and**
- The value of securities not received versus payment that are used for CNS short covers will be equal to the prior day's closing price less an applicable haircut.

In either case, your ~~collateral monitor~~ **Collateral Monitor** is increased by the amount guaranteed by NSCC. Without these guarantees, deliveries to CNS may not be permitted under DTC's collateralization rules because DTC would have neither the securities nor the collateral in the event of a failure to settle.

Note- The NSCC settlement credit generated from short covers cannot be used to offset your DTC settlement balance intraday. DTC and NSCC legal entity balances will be cross-endorsed before final **net settlement** figures are published ~~through cross-endorsement~~. **The short cover guaranty does not apply to ACATS transactions because there are no funds settlement obligations related to ACATS transfers.**

ACATS Short Covers

~~To offset NSCC's risk of providing a guarantee to DTC for CNS deliveries that do not generate credits in NSCC's system such as Automated Customer Account Transfer Service (ACATS) transactions, NSCC provides DTC with a file of charges that will reduce the start-of-day collateral monitor for each participant with net ACATS short cover obligations. This collateral will be replaced as you complete your ACATS deliveries.~~

~~Where a Participant holds securities in its DTC account as minimum amount (MA) and not as net additions (NA) (i.e., not as collateral) and such securities are the subject of an ACATS transfer through CNS DTC will not have any lien on such ACATS securities as they are delivered to CNS to satisfy the Participant's CNS ACAT delivery obligation.~~

Long Allocations

DTC guarantees to NSCC replacement collateral for any long allocations which may be redelivered in the DTC system intraday. Therefore, DTC will only process the redelivery if the Participant has substitute collateral available. The purpose is that collateral will be available if the Participant fails to settle at NSCC.

The collateral treatment of long allocations received into a Participant account is as follows:

1. The Participant does not receive credit for the delivery in its Collateral Monitor; and
2. The securities are classified as collateral (net additions).

~~When your account receives long allocations, the collateral monitor is not updated, but the securities (other than those transferred through NSCC's Automated Customer Transfer Service (ACATS) are classified as collateral (net additions [NA]). If securities are redelivered, DTC guarantees NSCC that it will maintain collateral equal to the prior day's closing price less the applicable haircut. In doing this, DTC ensures that non-ACATS long allocations (if not redelivered) or other collateral in your account are available if you fail to settle your NSCC settlement obligation. When securities are credited to a receiving Participant's account as a result of an ACATS transfer through CNS, those securities will be deemed to be designated~~

~~by the receiving Participant as minimum amount (MA) ("Deemed MA"), DTC will not have any lien on such AGATS securities as they are received from CNS and such securities will not be classified as collateral (unless and until the receiving Participant affirmatively designates any such securities as net additions (NA) in accordance with the DTC rules and procedures).~~

~~Any AGATS transfer will be deemed to be null and void and of no effect, if, on any day, NSGC determines that: (i) the NSGC Member which is the delivering Participant has not delivered to NSGC the securities constituting the AGATS transfer and (ii) both the delivering Participant and receiving Participant, as NSGC Members, default in payment of their settlement obligations to NSGC. In that event, the Deemed MA securities will cease to be Deemed MA and will be deemed to be released to NSGC by the receiving Participant, in partial satisfaction of its settlement obligations to NSGC.~~

CNS Look-Ahead Processing

DTC recognizes that the net effect of a receive and a turnaround delivery might permit the completion of those transactions, whereas in some cases attempting to complete the receive by itself would not allow the transactions to complete because of collateral constraints. Because the CNS account (888) has no ~~net debit cap~~ **Net Debit Cap** or ~~collateral monitor~~ **Collateral Monitor** constraints, DTC's system can perform look-ahead processing to determine whether the net effect of your receive-versus-payment (RVP) transaction (which is recycling for insufficient collateral), and the turnaround CNS transaction (for example, short cover), allows you to remain collateralized. If so, DTC will complete both transactions.

Look-ahead processing helps maximize the smoothness of transactions and limits infusions of collateral by participants. Although this situation is rarely encountered in transactions daily, DTC provides automated look-ahead processing so that each receive pending for insufficient collateral that has a corresponding turnaround to CNS is checked by this process (unless you place the CNS transaction on hold).

Associated PTS Functions

The following PTS functions are used in association with CNS Processing.

Use this function	To
ART	View and inquire on CNS transactions.
CNSE	Place exemptions on CNS short cover obligations.
CNSP	Place priorities on CNS long allocations.
CNSR	Place priorities on CNS long allocations undergoing voluntary reorganizations.
DO	Override a level 1 or level 2 exemption.
PEND	View pending CNS transactions.
PEXB	Browse the system for buy-in orders.
PEXM	Input a CNS or NSCC buy-in order.
PEXR	Reply to a buy-in order.

CNS Processing Contact Number

For more information on CNS Processing, call DTC's Customer Support Center at (888) 382-2721.

NSCC ACATS Settlement Accounting Operation - Processing at DTC

NSCC's Rules & Procedures establish the NSCC ACATS Settlement Accounting Operation which interfaces with DTC's system to move securities from the account of one Participant to another. NSCC maintains an account at DTC with respect to the associated securities movements.

When securities that are the subject of an ACATS transfer are credited to a receiving Participant's Account at DTC, those securities will automatically be designated as Minimum Amount (MA), as defined in the DTC rules. Accordingly, when such securities are credited to the receiving Participant's account, DTC will not have any security interest, lien or other claim on those securities and those securities will not constitute Collateral or be counted in the Collateral Monitor of the receiving Participant.
