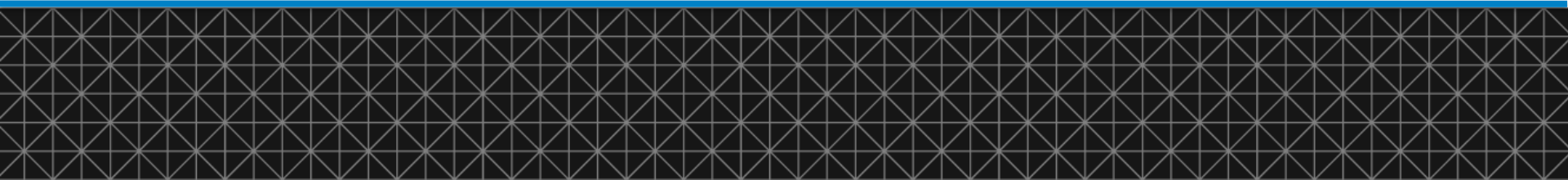


Reducing Risk And Promoting Stability in the Settlement of Money Market Instruments

Bank Depository User Group

Bob Cavallo

September 22, 2014



Agenda

- MMI Finality through Optimization
- Future Model Flow
- MMI Life Cycle and Statistics
- Communication Plan
- Industry Feedback
- Next Steps
- Questions

Introduction

- Systemic Risk mitigation and further adherence with CPSS IOSCO recommendations is a DTCC strategic objective:
 - Promotion of Intraday Settlement Finality
- A White Paper (“A Roadmap for Promoting Intraday Settlement Finality in U.S. Markets”) was published in December 2012, to provide the industry with a number of major structural modifications to the U.S. settlement process. One of the modifications is to Reduce Risk and Enhance Intraday Finality in the Settlement of Money Market Instruments.



Key MMI Risks Summary

- Working with the SIFMA Blue Sky Task Force since 2009, DTC has or is in the process of addressing the following key risks:
 - IPA Credit Risk (Implemented June, 2012):
 - DTC accelerated valued issuance and receiver approval cutoffs to provide IPAs with more transparency on the net issuer funding amount for that day and eliminated reclaims that could change those funding amounts late in the day overriding risk management controls.
 - DTC Credit and Liquidity Risk (Implemented March, 2013):
 - Increase the provisional net credit control to withhold the net credits of the 2 largest potential issuer failures versus the single largest to increase protection from multiple issuer defaults.
 - Modify the largest provisional net credit (LPNC) process to no longer withhold credits when an issuer's issuances are greater than its maturities for that day.
 - DTC Credit and Liquidity Risk: (Targeted for Q2 2016):
 - Longer term structural changes to the MMI process to promote intraday settlement finality by eliminating reversals related to an issuer failure.
 - Published industry whitepaper in December 2012
 - Published detailed service description in December 2013

MMI Finality through Optimization

Objective:

- Eliminate the credit and liquidity risk associated with reversals of completed transactions related to an issuer failure.

Benefits:

- Eliminates DTC credit and liquidity risk associated with issuer failure reversals that override controls.
- Increases intraday settlement finality.
- Enhances intraday liquidity recycling at DTC through the elimination of the 2 Largest Provisional Net Credits (LPNC2) control since MMI transactions will no longer be eligible for reversal.
- Preserves the IPA's ability to notify DTC of an issuer default.
- Minimizes participant technology changes.
- Maintains the current throughput in the expected model.

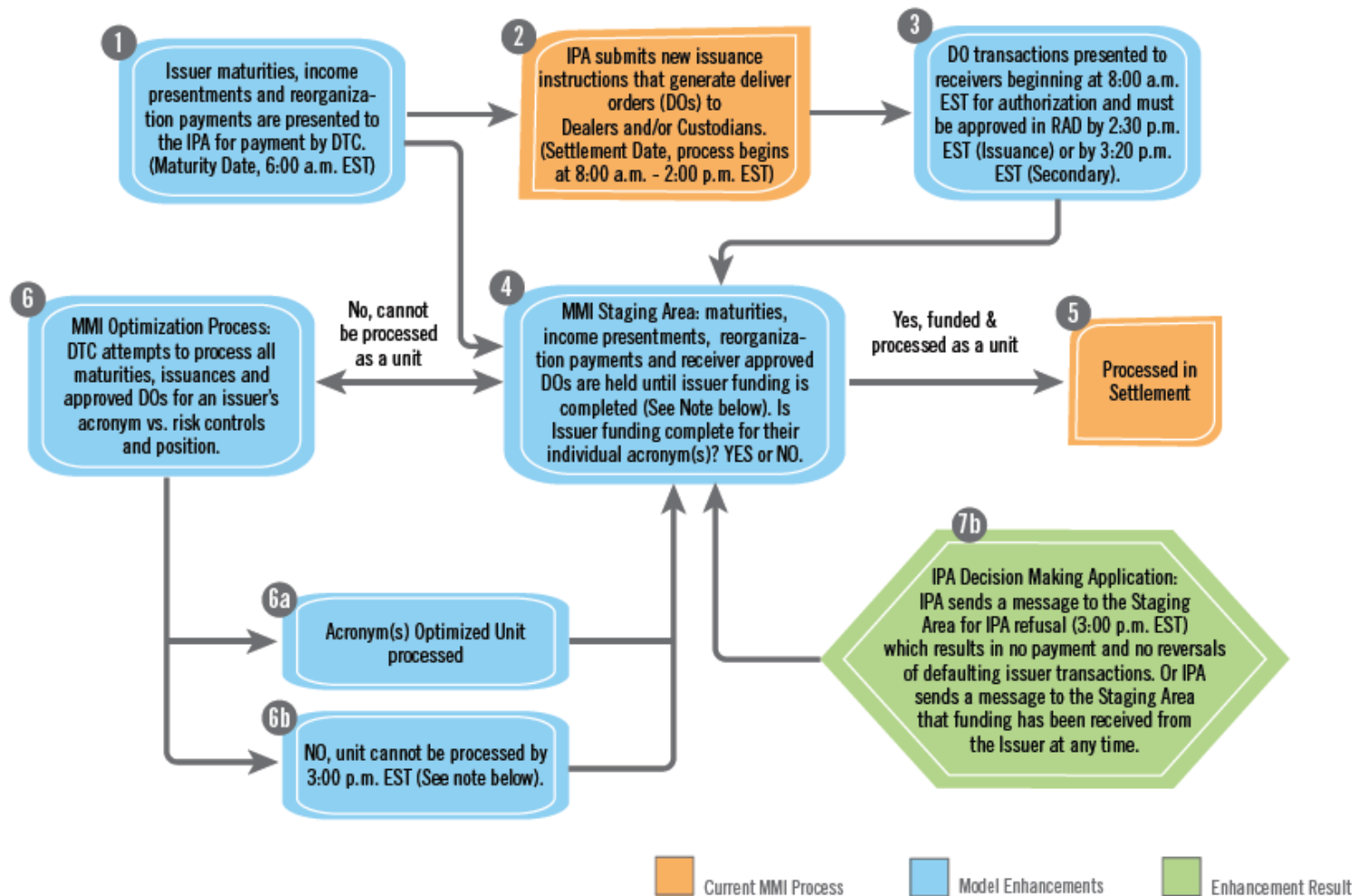
How will MMI Finality through Optimization work?

- All MMI issuances and deliver orders (DOs) will continue to be presented to DTC's Receiver Authorized Delivery (RAD) system for approval.
- All transactions approved by receivers of MMI issuance and deliver order transactions, along with maturity presentments (MPs), income presentments (IPs) and reorganization payments (RPs), will be "held" pending acknowledgement to process, which will be based on issuer funding as follows:
 1. Once the aggregate value of new issuance transactions that are approved by the receiver exceed the settlement value of the maturing obligations, IPs and RPs for that acronym of an issuer. These transactions must also pass DTC's risk management controls.
 2. Once the IPA has indicated to DTC that it has been funded for the difference between the value of the MPs and new issuances. This can occur in one of two ways:
 - The IPA has been fully funded for the total value of the maturing obligations of the issuer regardless of any offsetting issuance instructions being processed; or
 - The IPA has indicated to DTC that it has been partially funded directly from the issuer and the remaining financing will come from the receiver-approved issuance instructions processed by the IPA.
 3. Once the IPA has indicated to DTC that they will fully fund the total value of IPs and RPs, if there are no MPs associated with the acronym.
- Once funded, DTC will simultaneously check all transactions for an issuer, i.e., issuances, DOs and maturities, against each participant's DTC position and risk controls.
 - If able to complete, these transactions will be final, i.e., no reclaims or reversals.

How will MMI Finality through Optimization work?

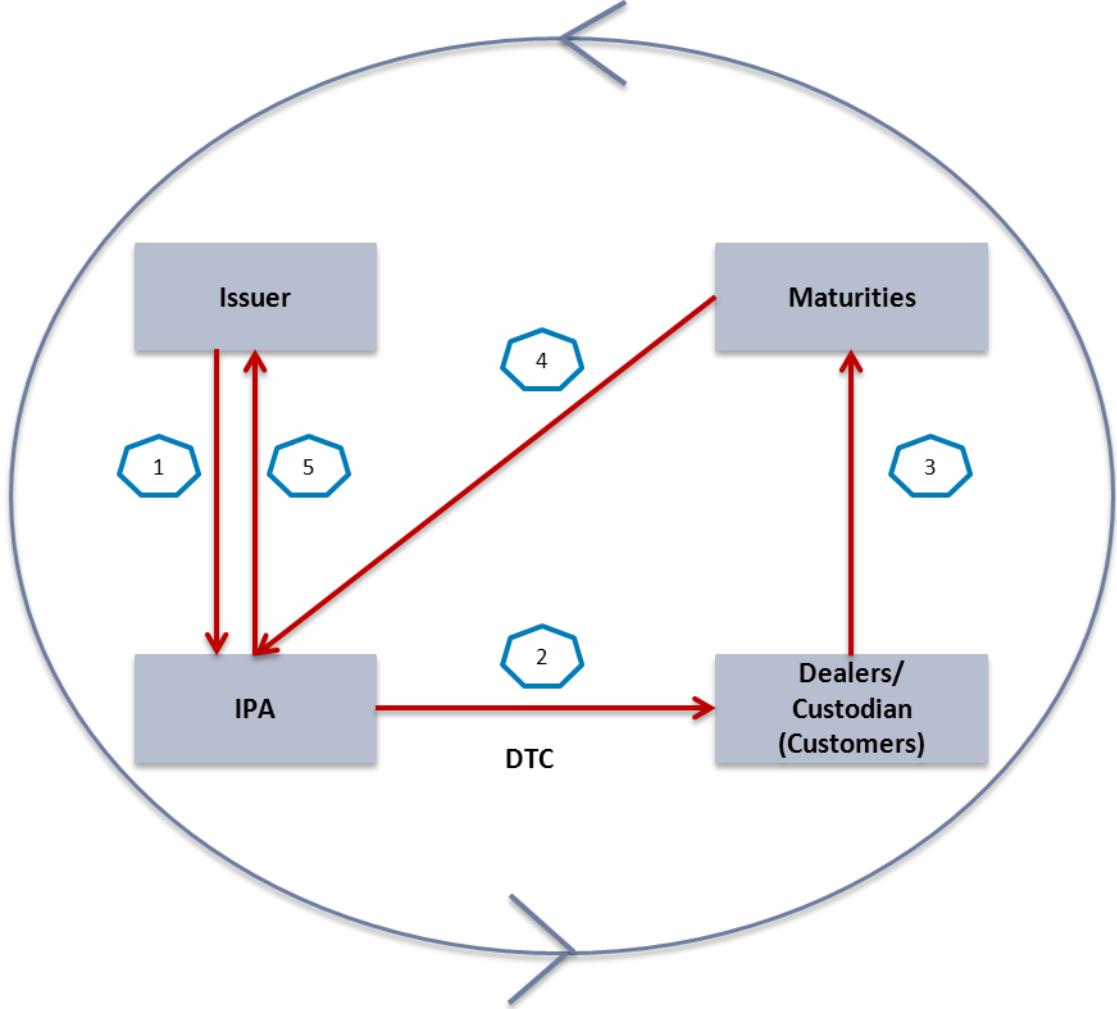
- Periodically throughout the day the transactions associated with acronyms that have been funded and not completed will be attempted for processing with other pending MMI “units” and staged to the “new MMI Optimization” process.
- MMI Optimization will attempt to maximize the settlement of transactions by looking at the net effects of transactions across multiple issuers on the receiving and delivering participants’ position and risk controls.
- Once the optimal combination of transactions is amassed, the transactions will be processed and then settled.
 - Participants will continue to be required to fund their accounts intraday when they have debits that will exceed their net debit caps or if there is a collateral shortfall.

New Model Flow for MMI Settlement



Note: The optimization algorithm is configured to optimize the settlement of these transactions by calculating the net effects of transactions across multiple programs of an issuer on the positions of receiving participants and their risk controls. If a receiver has collateral or debit cap constraints and those transactions make the difference as to whether or not and issue is funded or not, then the IPA must decide if it will still perform a refusal or not.

MMI Life Cycle



MMI Acronym and MMI Program

Acronym

The four character DTC identifier for the issuer of the MMI.

Product Type

The type of money market instruments (MMI). There are 14 different MMIs which include:

Corporate Commercial Paper

Municipal Commercial Paper-Tax-Exempt

Municipal Commercial Paper-Taxable

Bankers' Acceptance

Discount Note

Bank Note-Short-Term

Medium-Term Note

Bank Note-Medium-Term

Deposit Note-Medium Term

Institutional Certificate of Deposit

Preferred Stock (in commercial paper-like mode)

Corporate Variable Rate Demand Obligation (VRDO) for Commercial Paper (CP)

Municipal Commercial Paper-Tax-Exempt (VRDO/CP) and

Municipal Commercial Paper-Taxable (VRDO/CP).

Program

The section of the Securities Act of 1933 for which an MMI is exempt. Examples include SEC 3(a) 2; 4(2); 144A; and Reg S. Unless selected the default is none.

Base Number

The first 6 digits of the CUSIP issuance also referred to as the issuer or CUSIP base number.

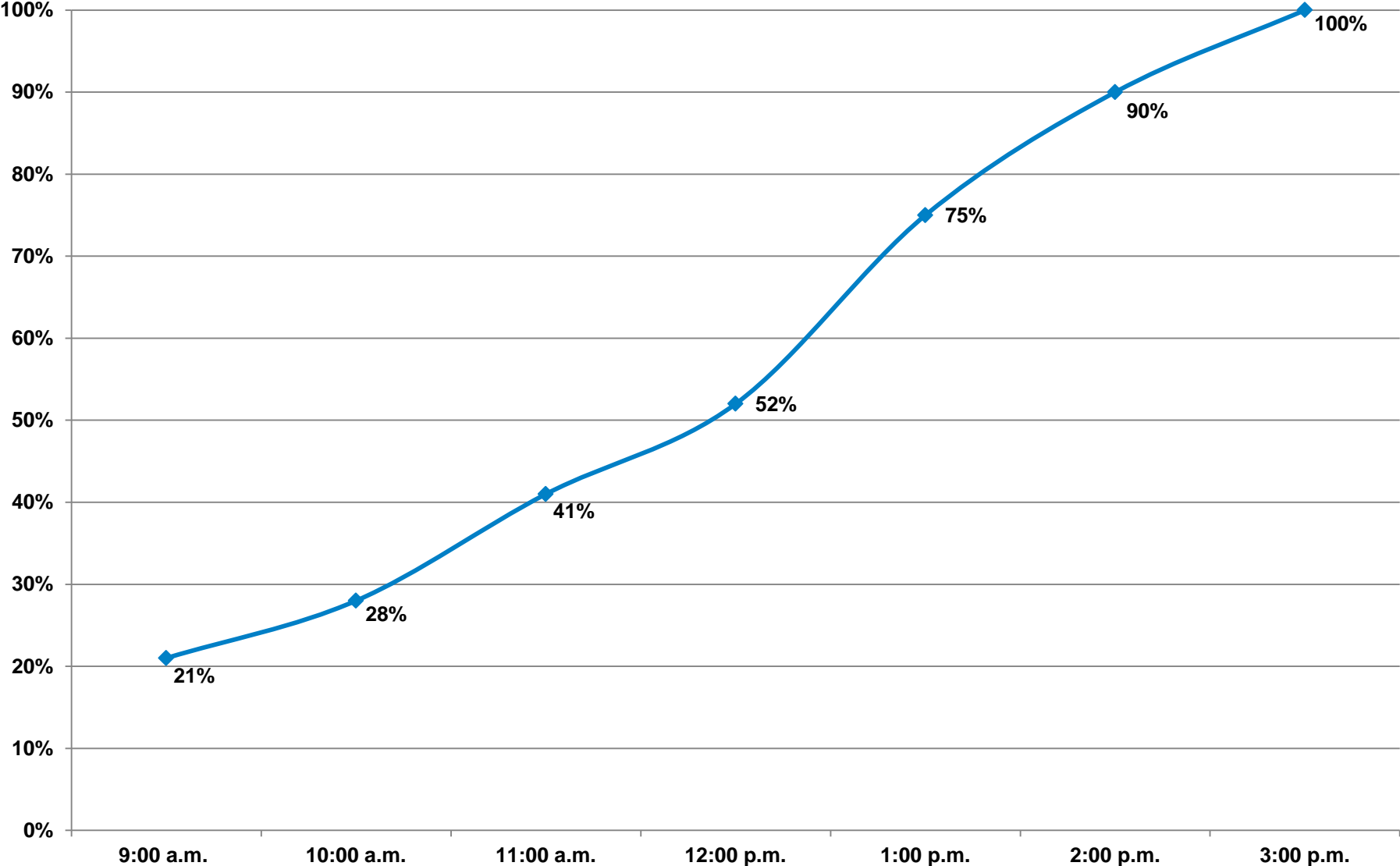
MMI and Non-MMi Settlement Activity for 2014

ACTIVITY	2014 ITEMS	2014 VALUE
MMI TOTALS	4,057,204	\$ 53,065,992,103,191
NON-MMi TOTALS	148,552,954	\$ 43,450,146,092,474
TOTALs MMI & NON-MMi	152,610,158	\$ 96,516,138,195,664
MMI PERCENTAGE	3%	55%
NON-MMi PERCENTAGE	97%	45%

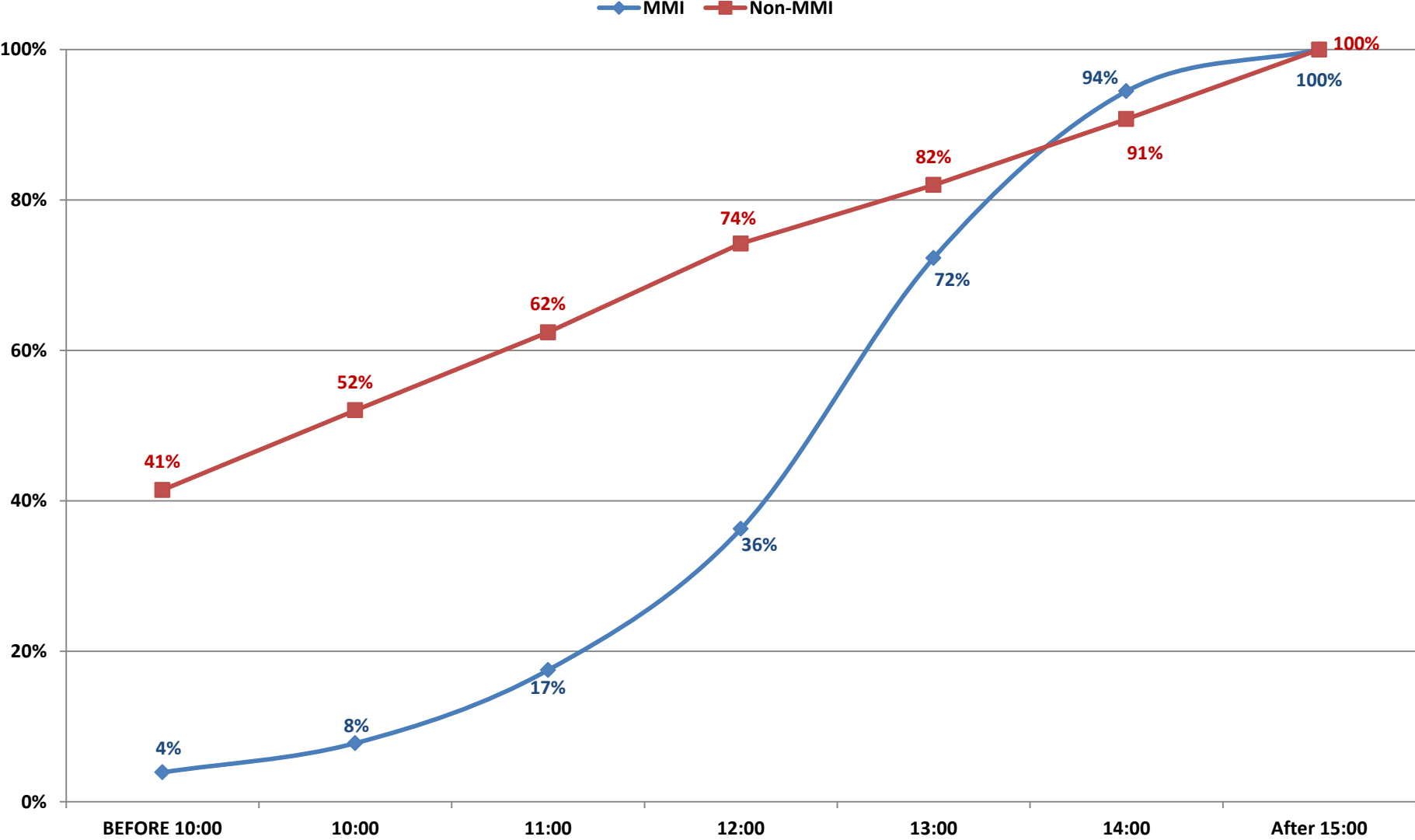
Impact of the new MMI model on LPNC2

- In today's environment, DTC holds an average \$150 billion of LPNC in the system daily across all clients. With the new MMI model, it will no longer be necessary to withhold this \$150 billion of credits.

Issuer Funding When Maturities Exceed Issuances at Every Hour



Percentage of MMI vs. Non-MMI Settlement Value at Every Hour



Communication Plan

- Working with the DTC Corporate Communications Group and DTC Relationship Management Team we have published the MMI Detailed Service Description Document on 12/19/13 to the industry, which included the following groups:
 - IPAs, Custodians, Issuers, Dealers (Participants)
 - Regulators (FED, SEC, NYSB)
 - Bank Depository User Group (BDUG) Members
 - CPIWG Members
 - SIFMA Blue Sky Task Force
 - SIFMA Money Market Committee
 - SIFMA Securities Operations Section Committee
 - American Bankers Association
 - AGC
 - DTCC Settlement and Clearing Services Cost Centers
 - DTCC Management Committee
 - DTCC Settlement Advisory Board (SAB) Members
 - DTCC Legal
 - DTCC Regulatory Relations Group

MMI Long Term Structural Model

- DTCC published a MMI Detailed Service Description in December 2013 “Reducing Risk and Promoting Stability in the Settlement of Money Market Instruments.”



- Milestone Timeline

Simulation of the Model	Q3/Q4 2014
Submit Rule Filing (Tentative)	Q4 2015
Testing Available	Q1 2016
Implementation	Q2 2016