

THE DEPOSITORY TRUST COMPANY

IMPORTANT

B#: 4647

DATE: August 14, 1998

TO: All Participants

FROM: DTC's Product Management Department

ATTENTION: Managing Partner/Officer; Cashier; Operations; Syndicate, Data Processing, Underwriting and Stock Loan Managers

SUBJECT: Enhancement to Stock Loan Processing in the IPO Tracking System

In September 1998, DTC will implement changes to the way it processes stock loans of IPO tracked securities. These changes were requested by the IPO Tracking Industry Working Group (IWG). The major changes to processing are the following:

- All stock loans of IPO tracked securities must be done from the lender's Free account. Any broker Participant wishing to lend out IPO shares must first release those shares from its IPO Control account via the new Stock Loan Release function. These releases of shares will be reported to Lead Underwriters and Syndicate Members as being for stock loans. This is different from the existing release function used by broker Participants to release IPO shares for all other purposes and which DTC reports to Lead Underwriters and Syndicate Members as potential flips.

A broker Participant that inadvertently releases shares using the existing release function rather than the new Stock Loan Release function will have those shares reported to the Lead Underwriter and appropriate Syndicate Member as potential flips, not stock loans. **In all cases, once shares are released, regardless of the release function used, they cannot be moved back into the IPO Control account.**

- To avoid the possibility of a Participant using the new Stock Loan Release function to release IPO shares for a purpose other than stock lending, DTC will report to Lead Underwriters that excess quantity of IPO shares released via the Stock Loan Release function but not delivered by the releasing Participant as part of any Stock Loan Deliver Order.
- For bank lenders, DTC will attempt to satisfy the loan quantity first with the bank's Free secondary market shares and only if those shares are insufficient, will satisfy the remainder of the loan quantity with IPO shares. These loans of IPO shares will be reported to Lead Underwriters and Syndicate Members as being for stock loans.
- All stock loans of IPO tracked securities will be done on an omnibus level. That is, that no customer-specific information can be attached to the Stock Loan Release or Stock Loan Deliver Order. Any customer information submitted for this purpose will be ignored by DTC.
- All stock loan returns will be directed from the borrower's Free account to the lender's Free account. A borrower attempting to return shares during the tracking period must have a sufficient quantity of shares available in its Free account to do so.

The new Stock Loan Release function will be available over the *PTS* IPOU function and via CCF, CCF II and MDH. Machine-readable specifications are available by contacting DTC's William Southwick via e-mail at William.Southwick@DTC.org or by phone at (212) 855-2695.

PTS Procedures for the new function will be available in early September. An Important Notice announcing their availability will be distributed beforehand.

DTC's Stock Loan proposal, accepted by the IWG, describes in detail the new stock loan processing, reallocation bookkeeping concerns and effects on Flipping Activity Reports. A final version will be available shortly. Copies of the original proposal document are available by contacting DTC Product Manager Kurt Ilisije via e-mail at Kurt.Ilisije@DTC.org or at (212) 855-3212.

If you have any questions on the new processing method please contact DTC Product Managers Janet Jones via e-mail at Janet.Jones@DTC.org or at (212) 855-3811 or Kurt Ilisije at the above e-mail address or phone number, or your Participant Services representative.