

The Depository Trust Company

IMPORTANT

B#: 0532

DATE: September 13, 2000

TO: All DTC Participants

CATEGORY: Settlement/Underwriting

FROM: Settlement Department

ATTENTION: Managing Partner/Officer, Cashier, Operations Manager

SUBJECT: Pend Cancels/Holds/Hold Releases through MDH

Effective Immediately, participants may submit Pend Cancels/ Pend Holds/ and Pend Hold Release actions through the Mainframe Dual Host (MDH) input facility. Currently, these actions can only be processed through the Pending Transactions (PEND) function on the Participant Terminal System (PTS)¹. Participants wishing to submit Pend actions through MDH should request eligibility for the PCL1 function. File layouts for the PCL1 function are outlined in the "PCL1 Function User's Guide" in the CCF/CCF-II/MDH Transmissions Manual. Requests for eligibility and copies of the guide should be directed to the Participant Interface Planning Department at (212) 855-2693.

Background

Each transaction presented to DTC for processing is evaluated to ensure that the processing of the transaction will not result in a violation of DTC's controls. That is, before processing a transaction, DTC ensures that the delivering participant has sufficient available position, the delivering and receiving participants have sufficient excess collateral, and the transaction can be completed within the limitations of the receiver's net debit cap. Transactions that cannot be completed, for any of the above reasons, are recycled (pending) by DTC and are continually reattempted until the transaction can complete within the controls, or the transaction is dropped at the end of the processing day. The order in which DTC attempts to

¹Pend Cancels may also be processed through the PTS Automated Transaction Activity Menu (ATAM) function.

process recycling transactions is determined by the order in which pending transactions are maintained on DTC's recycle queues.

To provide participants with control over the order in which their pending transactions are processed, DTC has developed two recycle options for transactions that recycle for insufficient position. Recycle option *I* is twofold: First, DTC automatically orders transactions recycling for insufficient position based on the type of transaction being attempted, e.g., DTC attempts to process pledges before deliver orders. Second, within transaction type, DTC automatically orders valued transactions in descending settlement value order followed by free transactions in descending market value order. By contrast, recycle option *II* does not prioritize transactions pending for position by transaction type or size of transaction. Instead, the order in which transactions are maintained on the position recycle queue is the order in which transactions are submitted to DTC's main processing system (FIFO ordering). To help ensure FIFO ordering, DTC has incorporated a "blockage" feature into recycle option *II*. The blockage feature means that if DTC is unable to complete the first transaction on the position recycle queue, it will not complete any other transactions on the queue even though sufficient position may be available to do so.

One of the mechanisms developed to notify participants of their recycling transactions is the PTS Pending Transaction Inquiry (PEND) function. From the PEND function, participants can input a CUSIP number and view all transactions in the specified CUSIP for which the participant does not have sufficient position to complete. Participants may also type "COLL" in the CUSIP field in order to view their transactions recycling for insufficient collateral monitor or they can type "DEBIT" in the CUSIP field in order to view their transactions recycling for insufficient net debit cap². The PEND function displays pending transactions in the order in which the transactions are maintained on the recycle queues.

Pend Cancels

Participants are permitted to cancel most pending (recycling) deliver orders (DOs) except for Continuous Net Settlement (CNS) DOs. Delivering participants are permitted to cancel deliver orders recycling for insufficient position, insufficient other NA³, insufficient collateral monitor, and insufficient net debit cap which do not have the Pending Transaction Account (PTA)⁴ indicator activated. The delivering participant may also cancel PTA DOs (those with the PTA indicator activated) which are recycling for position. Deliver orders with the PTA indicator activated which are recycling for insufficient other NA, insufficient collateral monitor, and insufficient net debit cap can only be canceled by the receiving participant. In addition, PTA pledges recycling for insufficient other NA, insufficient collateral monitor, and insufficient net debit cap can only be canceled by the receiving pledgee.

²By placing a "Y" in the "Contra" field, participants may view their transactions which are recycling due to an insufficiency on the contra participant's part.

³Redeliveries of Money Market Instrument (MMI) positions that were received versus payment will recycle for insufficient other NA if they are free of value or for an amount which is substantially undervalued (less than 10% of the market value).

⁴Participants should reference Important Notice #7239 dated June 16, 1999 for more information about the Pending Transaction Account (PTA).

To view all of their Pend Canceled transactions, participants may access the PTS Pend Cancel (PENC) function and type “all” in the CUSIP field. Participants can also view their canceled transactions by recycle reason through the PEND function (the word “canceled” appears next to each canceled transaction).

Like Pend Cancels processed through PTS, those processed through MDH will be displayed as new transactions in the PTS ATAM screens and the original transaction will be marked “PNDC” to indicate that the pending transaction was subsequently canceled. In addition, cancel tickets will be sent to both the deliverer/pledgor and the receiver/pledgee for each canceled transaction processed. Automated reporting of Pend Cancels will remain unchanged.

DTC will charge \$.45 for each Pend Cancel processed through MDH. This is the same rate as Pend Cancels processed through PTS. The Pend Cancel charges will be included in the “Cancel Pending DO” line of the “Automated Deliver Order” section of DTC’s bill.

Pend Holds and Hold Releases

Participants are permitted to hold and “unhold” (release) recycling transactions through the PTS PEND function. Held transactions are not processed by DTC until the hold is released by the holding participant. Participants are permitted to hold pending deliver orders and pledge transactions, including reclaims of deliveries, deliveries of Initial Public Offering (IPO) positions, and pending deliveries to CNS (CNS short covers). However, Pend Holds may not be placed on deliver orders and pledges which have the PTA indicator activated. In addition, only the initiator (the deliverer or the pledgor) of a transaction is permitted to hold or release a pending transaction and only transactions that pend for insufficient position may be held. To provide participants with additional flexibility, DTC developed two types of hold capabilities: “Hold with blockage” and “Hold without blockage.” A transaction that is held with blockage automatically holds all the transactions that follow on the position recycle queue. By contrast, the hold without blockage holds only a specific transaction. As transactions are held, participants can view the status change through the PTS PEND function. A transaction’s status will be changed to “HELD W/B” for transactions held with blockage and “HELD” for transactions held without blockage. Like Pend Cancels, Pend Holds and Holds with Blockage are displayed as new transactions on the PTS ATAM screens and the original transaction is marked “PNDB” for transactions held with blockage and “PNDH” for transactions held without blockage to indicate that the pending transaction was subsequently held.

Participants should be advised that DTC maintains separate logical recycle queues for transactions pending for insufficient position and transactions pending for insufficient IPO position. As a result, placing a hold with blockage on a transaction pending for IPO position will block only pending IPO transactions. Likewise, placing a hold with blockage on a transaction pending for insufficient non-IPO position will block only pending non-IPO transactions.

Newly introduced transactions, including CNS exemption overrides, in CUSIPs that contain held with blockage transactions will be processed in accordance with DTC’s current recycle logic. That is, new transactions introduced by participants utilizing recycle option *I* will be processed upon receipt of the transaction. Those transactions that can complete will do so. Those transactions that cannot complete because the initiating participant does not have sufficient position will be moved to the position recycle queue and intermingled (in transaction type/settlement value order) with other transactions already on the recycle queue. New transactions introduced by participants utilizing recycle option *II* will not be processed upon receipt. Instead, such transactions will be forwarded directly to the initiating participant’s position recycle queue. Since DTC’s recycle option *II* procedures maintain transactions pending for position in

FIFO order, newly introduced transactions are placed at the bottom of the position recycle queue. Regardless of the recycle option elected, newly introduced transactions that are placed below a transaction that is held with blockage are subject to the blockage feature. Newly introduced transactions that are placed above a transaction held with blockage are not subject to the blockage feature. DTC's hold procedures do not alter the current process of placing deliver orders with reason codes 540, 560, and 570 and deliveries to CNS at the top of the position recycle queue.

To view held transactions, participants may input the CUSIP number contained on the held transaction or the word "HOLD" in the CUSIP field on the PEND screen. When a specific CUSIP number is entered, all transactions, whether held or not, that are pending for position are displayed with a transaction status that indicates the reason the transaction is pending. When the word HOLD is entered (and the PF12 key is pressed), a list of all CUSIPs with a hold status is displayed. This list of held CUSIPs also provides participants with the type of hold that is in place (hold with blockage or hold without blockage).

Only the participant that initiated a hold instruction is permitted to release the hold. Once a held transaction is released, it is immediately reattempted by DTC. Those transactions that can complete will do so, those transactions whose completion would result in a violation of DTC's controls will continue to pend. Participants should note that hold and hold release instructions are processed by DTC in the order in which they are maintained on the position recycle queue. As a result, participants wishing to release a hold with blockage instruction and hold subsequent transactions should ensure that all hold instructions are processed prior to the processing of a hold with blockage release instruction. Any held transaction not released by the appropriate recycle cutoffs (generally 3:10 p.m. for valued transactions and 6:35 p.m. for free transactions) will be dropped by DTC and reported as dropped for insufficient position on all DTC drop reports. **DTC does not automatically release any held transactions.**

Participants that utilize recycle option *II* should be advised that the reordering of pending transactions on the position recycle queue that normally occurs when DTC takes its recycle option *II* cutoff (generally around 1:15 p.m.) does not occur for held transactions. Instead, transactions held over the recycle option *II* cutoff remain on the position recycle queue in FIFO order until released and completed or dropped by DTC. All transactions submitted to DTC after the recycle option *II* cutoff and all non-blocked transactions on an option *II* participant's position recycle queue are ordered in transaction type / settlement value order.

As with Pend Cancels, DTC will charge \$.45 for each hold and hold release transaction processed through MDH or PTS. The hold/hold release charges will be included in the "Cancel Pending DO" line of the "Automated Deliver Order" section of DTC's bill.

Your questions regarding this Notice may be directed to John Abel, Settlement Director, at (212) 855-8434, Julie Krill, Settlement Manager, at (212) 855-5906, or your Relationship Manager.

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