

The Depository Trust Company

IMPORTANT

B#: 2501-07

DATE: November 14, 2007

TO: All Participants

CATEGORY: Settlement/Clearance

FROM: Settlement Product Management

ATTENTION: Settlement Manager/Managing Director/Director/Cashier

SUBJECT: Stock Loan and Repo Tracking Modifications

The Depository Trust Company (DTC), submitted on November 7th for SEC approval, enhancements to the existing Stock Loan and Repo process to aid participants in tracking Stock Loan and Repo transactions that will be effective November 30, 2007. DTC participants have stated that the majority of errors associated with the stock loan / repo process occurs when counterparties use the wrong reason code. To address these concerns, DTC has modified the system to provide warning messages that advise participants if they need to take corrective action when using incorrect reason codes. Please note that for Stock Loan and Repo related reclaims a transaction will be rejected if an incorrect reason code is used when reclaiming these items.

The proposed enhancements are as follows:

- If an incorrect reason code is used to reclaim an original transaction that has stock loan/repo reason code that reclaim request will be rejected. (See the list of error messages and types below*). As an example, a reclaim submitted with a reclaim reason code of 31 for a delivery versus payment, if matched to a repo delivery that has a repo reason code of 220, it will be rejected because the valid reclaim reason code options are 221-228. Another example is a reclaim is submitted with a reclaim reason code of 11 for a Stock Loan transaction, if the “original matched” DO is a delivery versus payment with reason code of 30, this reclaim request will be rejected. The list of valid reason codes that can be used for a stock loan/repo reclaim can be viewed on the PTS/PBS DORI function.
- For a stock loan/repo return transaction with an amount different from the existing open stock loan/ repo position a warning message will be displayed indicating that an insufficient position exists.

- If there is stock loan/repo position for the same major/contra/CUSIP already in existence a new warning message will be displayed in PTS/PBS only when a deliver order is entered. The PTS/PBS message will state that an open stock loan/repo position for contra/CUSIP exists.

In addition, the Stock Loan and Repo management (SLRM) system will be modified to:

- Display an informational message that will appear on the transaction line when a stock loan or repo transaction is submitted. The message will describe the impact that this transaction will have on the originator's stock loan/repo account and the related dividend/interest/principal payment.
- A help screen will be provided containing basic instructions to show the impact of an adjustment upon the deliverer/receiver participants' stock loan/repo accounts.
- The SLR Summary Screen will be modified to list outstanding adjustments for a period of twenty business days instead of the current span of five business days. This will give the participants more time to react to open stock loan/repo items so that they may be reconciled in a timely fashion.

*Below is a list of the messages/error codes that will be returned in the case of incompatible reason codes for matched or linked Stock Loan/Repo transactions:

PTS/PBS: RCLM REASON CODE UNRELATED TO ORIG REASON CODE
ICM Error Code: GAHL9CA3- RCLM REASON CODE UNRELATED TO ORIG REASON CODE
CF2 Error Code: 3- INCOMPATBL RSN CD.
 This new error code will be recognized and interpreted by the CF2 DO Report

The following is a list of original Stock Loan/Repo reason codes and their valid reclaim reason codes:

Stock Loan Reason Codes

10	Stock Loan
11-18	Stock Loan Reclaim reason codes
19	Stock Loan Recall
29	Stock Loan Recall Reclaim
20	Stock Loan Return
21-28	Stock Loan Return Reclaim reason codes

Repo Reason Codes

220	Repo Tracking
221-228	Repo Tracking Reclaim reason codes
230	Repo Tracking Return
231-238	Repo Tracking Return Reclaim reason codes
630	Repo with Memo Decrease
631	Repo Reclaim with Memo Decrease
640	Repo Return with Memo Decrease
641	Repo Return Reclaim with Memo Decrease

Other Stock Loan Reason Codes

600	Collateral DO
601-609	Collateral DO reclaim reason codes
610	Collateral DO Return

611-619 Collateral DO Return Reclaim reason codes

Participants should contact their Relationship Manager or the undersigned at jlaremont@dtcc.com or (212) 855-2414 for additional information.

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Settlement Product Management