

The Depository Trust Company

IMPORTANT

B#: 3733

DATE: August 21, 2002

TO: All DTC Participants

CATEGORY: Settlement/Underwriting

FROM: Settlement Department

ATTENTION: Settlement Manager/Managing Director/Cashier

SUBJECT: Memo Segregation Enhancements

On September 5, 2002, the following enhancements will be made to the Memo Segregation Process:

- A special reclaim reason code (100) will be created for free and valued deliver orders that will not affect Memo Seg. Therefore, free and valued reclaims processed with the new 100 reclaim reason code will not reduce the deliverer's Memo Seg.
- A special reclaim reason code (197) will be created for free and valued deliver orders that will reduce Memo Seg. Therefore, free and valued reclaims processed with the new 197 reclaim reason code will always reduce the deliverer's Memo Seg.
- Reason codes 100, 220, 260-268, 270-278 will be added to the list of exception reason codes for non-optional Memo Segregation procedures, i.e., free deliveries processed with these reason codes will not automatically reduce memo seg.
- Additional reason codes will be added to the following Memo Segregation indicators:
Indicator #1: 330, 340 & 390
Indicator #2: 331-338 & 341-348
Indicator #5: 261-268, 270-278, 330-338, 340-348, 390

- Same-day Matched Reclaims will automatically increase the memo seg of the receiver of the reclaim if the original delivery decreased memo seg regardless of the reclaim reason code.

Example: Participant A has indicator #1 & #2 activated and participant B is not a memo seg user (has no indicators activated). Participant A has 10 free shares and 10 Memo Seg shares and participant B has 0 free shares and 0 in Memo Seg. A delivers 10 shares free of value to B with reason code 40. A's free position and memo seg would decrease by 10 shares to zero. If B processed a same-day matched reclaim with a reason code 31, A's free position and memo seg would increase by 10 shares upon receipt of the reclaim.

- Pledges (activity codes 50, 51, 52, 54) will reduce Turnaround position.

The Memo Segregation table has been updated and is attached for quick reference (the enhancements addressed in this notice are bolded). An updated Indicator Request Form is also attached. Questions regarding this notice may be directed to the undersigned at (212) 855-5906 or your Relationship Manager.

Julie Krill
Manager
Settlement

Attachments

MEMO SEGREGATION PROCEDURES Effective 9/5/02

Action	Non-Optional (Applicable to all Participants)	Optional (Controlled by Indicator #1)	Optional (Controlled by Indicator #2)	Optional (Controlled by Indicator #3)	Optional (Controlled by Indicator #4)	Optional (Controlled by Indicator #5)
Automatic Decrease of Memo Segregation Counter	All Participants' MSEG counters are decreased when the following transactions are processed: WTs, CODs, Free deliveries except those processed with reason codes 10-29, 98, 100, 220, 260-268, 270-278 , 280-288, 290, 291, 600-619 and CNS short covers.					
Automatic Increase of Memo Segregation Counter	Same-day matched reclaims will automatically increase the memo seg of the receiver of the reclaim if the original delivery decreased memo seg regardless of the reclaim reason code (note: this logic overrides indicator #2 for valued same-day matched reclaims)	If this indicator is turned on, the Participant's MSEG counter is automatically increased upon the receipt of free and valued DOs with reason codes 40 & 99, 330, 340 & 390 , WT reversals, positions resulting from vol. & mand. reorganizations.	If this indicator is turned on, the Participant's MSEG counter is automatically increased upon the receipt of reason codes 41-48, 331-338, 341-348 .	If this indicator is turned on, the Participant's MSEG counter is automatically increased upon the receipt of CNS receives from the "E" account.		
Turnaround of Securities Positions					If this indicator is turned on, only positions received from DOs with reason codes 10, 30 and 600 can be turned around regardless of MSEG constraints.	If this indicator is turned on, positions received from all DOs, with the exception of DOs with reason codes 20-29, 40, 41-48, 99, 261-268, 270-278 , 290, 291, 330-338, 340-348, 390 , 610-619 and CNS receives from the "C" and "E" can be turned around (except stock loan returns - reason code 20) regardless of MSEG constraints.*

Note: Deliveries processed with reason codes 95, 97 and **reclaim reason code 197 (free and valued) always reduce memo seg.**

Deliveries processed with reason codes 98 and **reclaim reason code 100 (free and valued) never reduce memo seg.**

***Both Deliver Orders and Pledges reduce turnaround position.**



MEMO SEGREGATION REQUEST FORM (Effective 09/5/02)

Please process the following Memo Seg updates for account number(s):

Place a check next to the action to be taken for each indicator listed below. Participants may activate all indicators except #4 & #5 which are mutually exclusive (one or the other):

Indicator #1 *Activate* ____ *Deactivate* ____ *Leave active* ____ *Leave inactive*

When this indicator is activated, the Participant’s Free position and Memo Seg position is automatically increased upon the receipt of :

- DOs (free & valued) with reason code 40 (customer account transfer)
- DOs (free & valued) with reason code 99 (bulk transfer of customer account)
- DOs (free & valued) with reason codes 330 (direct rollover to IRA), 340 (direct rollover to Qualified Plan), 390 (direct registration transfer)
- Reversals of WT instructions
- Position resulting from a voluntary or mandatory reorganization

Indicator #2 *Activate* ____ *Deactivate* ____ *Leave active* ____ *Leave inactive*

When this indicator is activated, the Participant’s Free position and Memo Seg position is automatically increased upon the receipt of :

- DOs (free & valued) with reason codes 41-48 (account transfer reclaim reason codes)
- DOs (free & valued) with reason codes 331-338 (direct rollover to IRA reclaim reason codes), 341-348 (direct rollover to QP reclaim reason codes)

Indicator #3 *Activate* ____ *Deactivate* ____ *Leave active* ____ *Leave inactive*

When this indicator is activated, the Participant’s Free position and Memo Seg position is automatically increased upon the receipt of :

- CNS account E long allocations (customer fully-paid-for positions)

Please return this completed form to your Participant Services representative:

Participant Services Department

55 Water Street, 51st Floor

New York, New York 10041

FAX # (212) 855 - 4114

Attention:

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