

The Depository Trust Company

IMPORTANT

B#: 5748R

DATE: March 22, 2004

TO: Participants

CATEGORY: Settlement/Underwriting

FROM: Product Management

ATTENTION: Settlement Manager/Managing Director/Cashier

SUBJECT: Inventory Management System (IMS) 2004 Update

This notice describes the planned 2004 enhancements and changes to the Inventory Management System (IMS).

IMS modifications scheduled to be introduced on Friday July 9, 2004 for the settlement date of Monday July 12, 2004 include the following:

- Expand authorization and exemption processing to include Night Deliver Orders (NDOs) and broker-to-broker Balance Orders
- Permit the re-introduction of dropped deliveries for NDOs, broker-to-broker Balance Orders and all other participant deliveries, e.g., delivery vs. payment Deliver Orders
- Accept and warehouse deliveries with future settlement dates through the automated or PTS NDO function
- Upgrade the authorization and exemption functionality of CNS transactions through IMS to permit partial and early (S-1) authorizations or exemptions for those securities which the participant has not previously exempted under NSCC exemption rules, i.e., those securities with a level 0 exemption.

Additional IMS modifications are planned for fourth quarter 2004. Notably, the following IMS functionality will be available, but only via **the Participant Browser Service (PBS)**:

- Control the order of all applicable night cycle deliveries using a “submission” profile
- Pre-populate a profile that allows users to dictate the desired recycle order for settlement related transactions. Although transactions will be attempted in the prescribed order, if there are insufficient shares for a high priority transaction, then transactions with a lower priority but sufficient shares will be processed (green profile) subject to other controls.

It is recommended that participants interested in using the IMS submission and recycle profile capabilities scheduled for fourth quarter contact their Relationship Manager to discuss gaining access to PBS.

Attached is a more detailed description of the modifications scheduled for July 9, 2004. Following NSCC’s implementation of the new CNS system, participants that plan to provide NSCC standing instructions to send their balance orders to DTC as delivery versus payment DOs, as well as those participants currently using NSCC’s PDQ muni bond process, should carefully review the section on balance orders and muni DOs. In addition, the PDQ muni bond process for municipal balance orders from NSCC will no longer be processed with Tradesuite deliveries.

The July 9 changes to IMS will coincide with NSCC’s implementation of the new CNS system. As the implementation date nears, another important notice will be issued.

Questions regarding this notice may be directed to the undersigned at (212) 855-3900 or your Relationship Manager.

John Kiechle
Product Management

July 9, 2004 IMS Modifications

CNS Position Updates

In connection with NSCC's re-write of the CNS system to provide for intra-day updates to participants' CNS positions (see NSCC Important Notice #5582 dated March 31, 2003), DTC currently provides and will continue to provide participants with their pending CNS delivery information through the PTS and PBS PEND function. In addition, as part of the IMS enhancements, a new CNS balance recap screen will be provided through IMS where a participant can see all of its NSCC and IMS exempted CNS shares, its made and pending CNS deliveries and made and pending long allocations.

Early (S-1) and Partial CNS Authorizations/Exemptions through IMS

In addition to a participant's ability to control deliveries to CNS via NSCC's exemption procedures, a participant may also elect to use IMS to process CNS exemptions for their non-NSCC exempt deliveries (level 0).

IMS will be upgraded to accept early (S-1 – sometimes referred to as pre-authorizations/exemptions) and partial CNS authorization/exemption instructions via PTS, PBS and 15022 messages. A participant whose CNS authorization profile is set to active would use pre-authorization messages. Conversely, pre-exemption instructions would be applicable to participants whose CNS authorization profile is set to passive. These messages will be accepted from midnight on S-1 until start-of-day processing or approximately 7 PM on S-1. Once the CNS delivery (level 0) has been processed through IMS at the start of the night cycle, pre-authorization and exemptions will be dropped by IMS. If a CNS delivery has been exempted or is awaiting authorization (for participants who choose to be active for CNS), a partial authorization or exemption instruction can then be processed throughout the processing day on S. For debt transactions, partial authorizations will only be accepted in multiples of 1,000.

Broker-to-broker Balance Orders and Muni Deliver Orders

As part of the implementation of the CNS re-write, participants will be able to elect, through standing instructions to NSCC, to have their broker-to-broker balance orders, muni deliver orders and special trades automatically sent to DTC from NSCC as delivery versus payment DOs. These new NSCC standing instructions will cover **all** of an electing participant's NSCC balance orders and special trades. As a result, if a participant wishes to control or exempt the delivery of any such individual deliver order, it will only be able to do so through the IMS system.

DTC will receive three deliver order files from NSCC; one file containing the bulk of balance orders will be received early on S-1, another file will be received at approximately 11 PM on S-1 and a third file will be received at approximately noon on S. These deliveries will flow through IMS and be available for authorization/exemption. Participants can control the flow of these deliveries by using the authorization profile. For example, a participant can be passive on S-1 and authorize or exempt their deliveries as they await processing and be active for the balance orders received intraday. Balance orders will be processed as follows:

- The default IMS authorization profile for balance orders will be active
- Without participant profile updates, balance orders will be submitted after matched institutional deliveries in the night cycle with a source code of "BALO". The new default submission of

deliveries in the night cycle will be re-introduced deliveries, CNS deliveries, automated ACATS deliveries, matched institutional deliveries, balance orders and Night Deliver Orders

- IMS authorization/exemption for balance orders can only be conducted via PTS/PBS and 15022 messages
- A new DTC settlement bucket (26 07) will be created to display balance orders
- A new reason code 620 will identify balance orders; reclaims associated with balance orders will include new reason codes 621 – 628

NSCC generated DOs for municipal securities (under NSCC's PDQ muni bond process) currently flow into the Matched Institutional Delivery (MITS) trade stream and are considered MITS deliveries for authorization and exemption and reporting. On July 9, 2004, however, these deliveries will no longer be processed as MITS transactions. Instead they will be included and processed with all other automated DO balance orders received from NSCC. Therefore, participants that presently authorize or exempt these deliveries through automated communications, CCF or MDH, must use IMS and its PTS/PBS or 15022 messages. The municipal Balance Orders will also no longer be on the T+3 receive and deliver report nor displayed in their current settlement bucket (19 00) in the PTS SETP function. They will now be included in the new Balance Order settlement bucket.

Re-introduced Drops

Currently, participants can re-introduce their Tradesuite (Omgeo) and Automated ACATS transactions. On July 9, all non-MMI incomplete or "dropped" deliveries (activity codes 26, 47, 48 and 49) will become eligible to be re-introduced by changing the IMS drop profile (except CNS deliveries). The re-introduced drops profile can be populated based on a specific asset class, and within asset class, by activity and reason code. In addition, a participant can choose between free or valued drops to be re-introduced. For example, a participant may only want its equity, free, ACATS DOs (reason code 40) re-introduced.

Drops will include immediate drops, such as prevent pend deliveries, recycle drops, both free and valued, and unapproved deliveries in RAD. Re-introduced drops will be subject to the participant's authorization profile in IMS. The default profile for drops will be "passive".

Participants selecting electronic notification for deliveries to be re-introduced must receive 15022 messages and select these messages from their IMS notification profile (option 11).

Re-introduced drops will be available for authorization/exemption as the drops become available throughout the processing day. For example, valued drops generally occur at 3:10 PM and should be available for review and update in IMS shortly thereafter. Free drops occur at approximately 6:35 PM and will be placed on the reintroduced drops authorization queue for authorization/exemption. Re-introduced matched reclaims that dropped for position on day one will be applicable to RAD rules and will not override controls on the day it is re-introduced, similar to any other original delivery. Re-introduced drops that are cancelled (pend kill) before the applicable recycle cutoff will not be reintroduced.

Night Deliver Order (NDO) Transactions

The authorization profile default for NDOs will be passive. A participant will select an "active" profile for NDOs to control the timing of submission. Deliveries in the night cycle will no longer be subject to Night Receiver Authorization Delivery (NRAD) and will instead be routed to the day RAD system.

Future DOs via the NDO function

Deliver orders with future settlement dates are not currently permitted. On July 12, IMS will accept and warehouse any future deliveries via the Night Deliver Order (NDO) computer-to-computer or PTS/PBS functions.

Note: Night secondary offering deliver orders (reason code 89) will be sent directly to the SYND system and will not be part of the authorization process. Future delivery dates will be accepted. However, because the SYND system drops deliveries after 3:00 p.m. the following day, these deliveries will likely drop before the issue closes.

Receiver Authorized Delivery (RAD) Approval

Users that have update capability in IMS (options 9 – 12) will also automatically receive RAD approval and cancel capability.

Other Modifications:

IMS PTS option 3 “Transaction Authorization Inquiry” will no longer offer a made and drop include type. Instead, these transactions will be displayed in the “authorized” include type. The status of the transaction, i.e., pending, made or dropped will still be displayed for each transaction. Option 1 in IMS, “Total Recap by Transaction Type” will now keep item counts in the authorized category regardless of whether the transaction is pending, made or dropped.

The deliver date from/to fields will also change to permit a user to inquire upon a transaction(s) by settlement date or delivery date, i.e., all transactions that are eligible for delivery except previously exempt deliveries.

Attached is the form to receive transaction (IMSU) or profile (IMSP) update capabilities in IMS.

To: The Depository Trust Company Fax Number (212) 855-4095

From: Participant Name _____ **Participant Number** _____

Contact Name _____ **Contact Number** _____

Participant Terminal System (PTS) or Participant Browser System (PBS) Form to Receive Access to DTC's IMS inquiry (IMS), update (IMSU) or profile (IMSP) capabilities via the IMS function

Providing a user with **IMSI** will permit them to access the following inquiries through the IMS function:

- A recap of the status, e.g., authorized, unprocessed, etc. of each transaction type. Also provided is the number of transactions, share quantity and dollars with a total. A more detailed breakdown by transaction type/asset class can also be selected.
- A browse by delivery date inquiry that displays the number of transactions and their status for all deliveries in the authorization system by delivery date.
- A transaction authorization inquiry which offers inquiry capability by a host of optional fields, e.g., contra, from/to dates, specific transaction status, etc.
- Authorization profile inquiry for "today only" and "standing instructions" for an asset class.
- An audit trail and current profiles for the drop profile and the notification profile.

Providing a user with **IMSU** will permit them to access the following inquiries and transaction update capabilities through the IMS function:

- Authorize, exempt, or cancel (CNS deliveries can't be cancelled) eligible IMS transactions,
- Make today only authorization changes that take immediate effect,

Providing a user with **IMSP** will permit them to access the following inquiries and transaction/profile update capabilities through the IMS function:

- Changing the authorization option, active or passive, for each asset class for each transaction type for an effective date,
- Inputting, if desired, the time an authorization mode change should take place, e.g., active to passive at 9:00 am.
- Changing authorization modes for immediate update, for "today" only
- Creating a "drop profile" for specific deliveries that should be re-introduced the following date to the authorization system
- Creating a notification profile of the types and lengths of messages a Participant wants to receive in 15022 format.

Check all that apply:

Name	Sign-on	IMSI	IMSU	IMSP
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Authorized Signature _____ Title _____ Date _____