

DTCC ITP Matching (US) LLC's (ITPM) Central Matching Service Provider (CMSP) Policy and Reporting Requirements - FAQs

WHAT IS THE OBJECTIVE OF THIS FAQ?

The SEC adopted rules to shorten the standard settlement cycle for most U.S. securities transactions from two business days after the trade date to one business day after the trade date (T+1). To facilitate a T+1 standard settlement cycle, the SEC also adopted new requirements for the processing of institutional trades by broker-dealers (Exchange Act Rule 15c6-2), investment advisers (Advisers Act Rule 204-2), and CMSPs, which are certain clearing agencies that provide a central matching service (Exchange Act Rule 17Ad-27).

This FAQ is intended to explain the new rules imposed on DTCC's CMSP, and what this means to Clients. In particular, ITPM, which operates CTM® and TradeSuite ID®, an affiliate of DTCC and DTCC ITP LLC, must implement new Client-facing policies and procedures and will be subject to new reporting requirements, each of which will go into effect on May 28, 2024.

WHAT IS A CMSP OR CENTRAL MATCHING SERVICE PROVIDER?

A Central Matching Service Provider (CMSP) is a clearing agency that provides a central matching service by assisting in the facilitation of communication among a broker-dealer, an institutional investor or its investment adviser, and the institutional investor's custodian to reach agreement on the details of a securities trade.

WHO WILL BECOME A CMSP AND WHEN WILL IT TAKE EFFECT?

ITPM will be subject to the new rules concerning CMSPs in Exchange Act 17Ad-27 upon the U.S. T+1 go-live on May 28, 2024.

WHY DID THE SEC ADOPT RULES FOR CMSPS?

As more fully described in the Adopting Release, the Commission added requirements for CMSPs to improve the efficiency of institutional trade processing, and to better position CMSPs to provide services that would not only reduce risk generally, but also help facilitate an orderly transition to a T+1 settlement cycle.¹

WHAT IS STP?

Straight-through processing (STP) means, generally, processes that allow for the automation of the entire trade process from trade execution through settlement without manual intervention, including to meet shortened settlement requirements.

¹Shortening the Securities Transaction Settlement Cycle, 88 F.R. 13873 (March 6, 2023) (the "Adopting Release") at 125 – 127. "As mentioned above and detailed in the T+1 Proposing Release, the rising volume of transactions for which CMSPs provide matching and other services have caused CMSPs to become increasingly critical to the functioning of the securities market. The Commission anticipates that a shortened settlement cycle may lead to further expanded use of CMSPs, as well as increased focus on enhancing the services and operations of the CMSPs themselves. In addition, some SRO rules currently require the use of CMSP services for institutional trade processing. The Commission believes that more could and should be done to ensure that CMSPs, as critical utilities in the securities market, are operating in a manner that improves the clearance and settlement of securities transactions through improvements in efficiency, risk reduction, and costs."

"Over the past decade CMSPs have become increasingly connected to a wide variety of market participants in the U.S. New Rule 17Ad-27 will require CMSPs, and by extension their users, to assess their processes and find solutions to reduce or eliminate reliance on services at CMSPs that involve manual or inefficient processes or otherwise do not further facilitate STP in the institutional trade processing environment. This in turn should better position CMSPs to provide services that not only reduce processing risk and costs, but also generally facilitate a more orderly transition to a T+1 standard settlement cycle in the near term, as well as potential further shortening of the settlement cycle in the future."

WHAT ARE THE MAIN REQUIREMENTS APPLICABLE TO DTCC'S AFFILIATE, ITPM, AS A CMSP?

Policies and Procedures

Under Exchange Act Rule 17Ad-27, CMSPs (and therefore ITPM) are required to establish, implement, maintain, and enforce written policies and procedures reasonably designed to facilitate STP.

Annual Report

Additionally, CMSPs (and therefore ITPM) are required to submit to the SEC annually, a report that includes:

- a summary of the CMSP's policies and procedures, current as of the last day of the 12-month period covered by the report,
- a qualitative description of the CMSP's progress in facilitating STP during the 12-month period covered by the report,
- a quantitative presentation of data that includes specified metrics, and organized in a specified manner, and
- a qualitative description of the actions the CMSP intends to take to further facilitate STP of securities transactions at the CMSP during the 12-month period that follows the period covered by the report.

The ITPM CMSP annual report will be made publicly available on the SEC's website via an "EDGAR" filing, to enable the public to review and analyze industry progress on achieving STP.

WHAT IMPACT DO THE CMSP POLICIES AND PROCEDURES HAVE ON ITP CLIENTS?

ITP Clients should be familiar with ITP's external CMSP policies and procedures which are part of the Procedures as defined in ITP's Master Services Agreement (MSA) with its Clients, which will be updated from time to time. Clients are obligated to comply with the Procedures.

Procedures include any documentation posted on DTCC.com (including the DTCC Learning Center) which is designed to guide clients on how ITP Services and related systems work and what is expected of Clients when using the Services. Specifically, Procedures include, without limitation:

- Policies and procedures communicated to Clients (see below);
- Service-Specific Terms Addendum (an addendum to the MSA, which covers specific terms of use for particular Services);
- DTCC's security, privacy, and general web access terms and conditions; and
- Service Guides (client-facing user terms, operating materials and best practices, and similar operational and instructional information about the Services).

WILL NEW POLICIES AND PROCEDURES BE IMPLEMENTED TO MEET CMSP REQUIREMENTS?

Yes. ITP has created two new Client-facing policies to support ITPM's adherence to CMSP requirements that will go into effect on May 28, 2024:

- The *DTCC ITPM Central Matching Service Provider (CMSP) Policy* serves as the primary and overarching policy for how ITP establishes, executes against, governs and oversees compliance with its CMSP requirements. It describes, for example, how ITP, to advance STP:
 - positions Service offerings,
 - captures input from the industry,
 - establishes ITP Strategy and execution plans,
 - incentivizes/disincentivizes behavior, and
 - communicates to Clients and potential Clients.
- The *ITP Client Requirements Policy* explains what contractual, onboarding and eligibility requirements ITP Clients must comply with prior to an upon becoming a Client of ITP². This document outlines and describes eligibility requirements, terms, and Procedures applicable to Clients.

See question directly above for a list of all of the Procedures applicable to Clients.

²DTCC ITP LLC ("DTCC ITP") provides the Services pursuant to an intercompany licensing agreement with ITPM. While Rule 17Ad-27 is an SEC rule applicable directly to ITPM in the United States, any Clients of ITP, whether U.S. based or foreign, who use DTCC ITP as their service provider as set forth in the MSA, must comply with this Policy.

WHERE CAN I FIND ITPM'S CLIENT-FACING CMSP POLICIES AND PROCEDURES?

The policies and procedures can be found on <https://dtcclearning.com/products-and-services/itp.html>.

DTCC's security, privacy, and general web access terms and conditions can be found at <https://www.dtcc.com/terms>.

WILL CLIENT INFORMATION (I.E. CLIENT NAMES, FIRM AFFIRMATION RATE, ETC.) BE PROVIDED IN THE ANNUAL REPORT SUBMITTED TO THE SEC?

The qualitative and quantitative data provided in the annual report will be anonymized and aggregated. As per the Adopting Release, "The Commission does not believe the annual report requires the inclusion of proprietary information, trade secrets, or personally identifiable information. To the extent that an annual report includes confidential commercial or financial information, a CMSP could request confidential treatment of those specific portions of the report."

ITPM is committed to complying with its regulatory requirements. ITPM will cooperate with the SEC to the extent requested or required pursuant to Exchange Act Rule 17Ad-27 and its other regulatory requirements, which could include client specific information.

HOW ARE AFFIRMATION RATES CALCULATED?

Affirmation rates are based on CTM and TradeSuiteID volume which is DTC/NSCC-eligible. The denominator is the number of DTC/NSCC-eligible confirmations, less cancels. The numerator is the number of all affirmations.

WHAT TIME-STAMPS WILL BE INCLUDED ON THE QUANTITATIVE SECTION OF THE ANNUAL REPORT?

ITPM will provide metrics at the following time intervals for total trades, allocations and confirmations submitted:

- by 4PM ET on trade date
- between 4PM-7PM ET on trade date
- between 7PM – Midnight ET on trade date, and
- in total on trade date

Affirmation rates will be provided by:

- affirmed by 9PM ET on Trade Date
- affirmed on Trade Date

WHEN WILL THE FIRST REPORT BE SUBMITTED?

The first report will be submitted by March 1, 2025. Each subsequent annual report must be filed within 60 days of the end of each 12-month period, which commences on January 1 of the calendar year.

WILL THE ANNUAL REPORT BE PUBLIC?

As required under adopted Rule 17Ad-27(b), ITPM's annual report will be available on the SEC's website for the public to review and analyze the progress achieved in facilitating STP by ITPM.

WHO DO I CONTACT FOR MORE INFORMATION?

For additional questions regarding ITPM's CMSP requirements, please contact your relationship manager or the Client Contact Center via MyDTCC.

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