



# Securities Financing Transaction (SFT) Clearing

## FREQUENTLY ASKED QUESTIONS (FAQS)

MAY 28, 2024

### OVERVIEW

#### What is the Securities Financing Transaction (SFT) Clearing service?

- A.** The Securities Financing Transaction (SFT) Clearing service is a National Securities Clearing Corporation (NSCC) product offering central clearing and settlement services for overnight borrows and loans of equity securities (collectively “SFTs”). To this end, the SFT Clearing service:
- Supports central clearing of clients’ equity SFTs intermediated by Sponsoring Members or Agent Clearing Members.
  - Supports central clearing of equity SFTs between NSCC full-service members.
  - Maximizes capital efficiency and mitigates systemic risk by introducing more membership and cleared transaction opportunities for market participants.

## What are the benefits of the SFT Clearing service?

- A. The SFT Clearing service provides NSCC members with the ability to offset on their balance sheets their obligations to NSCC on novated SFTs, including those with third-party NSCC members and those with their institutional clients. Through novation to NSCC, members may also be eligible to take lesser capital charges on their SFTs than would be required to the extent that they engaged in the same activity outside of a central counterparty.

By potentially alleviating balance sheet and capital constraints, participation in the SFT Clearing service may afford NSCC members and their clients increased lending and borrowing capacity.

Additionally, the need for Agency Lending Disclosure (ALD) reporting is no longer applicable for SFTs novated to NSCC.

## What is the NSCC security lending model?

- A. To capture maximum capital and balance sheet efficiencies, all SFTs are required to be executed as overnight term transactions. However, to minimize the operational burden of settling overnight obligations, settlements are allowed to pair off daily against new activity, with NSCC calculating and processing Price Differential, that is price differences/mark-to-market (MTM), that are created by the daily pair off.

NSCC novates and guarantees the off-leg/return of an SFT (i) when delivery of underlying SFT security completes at DTC, (ii) at the point of validation in the case of a bilaterally settled SFT or an SFT with a Sponsored Member client or (iii) when the daily pair-off occurs, in the case of a rolled SFT.

## Can I use my existing NSCC account for SFT activity?

- A. No, CNS<sup>®</sup> activity cannot be commingled with SFT activity. New NSCC accounts must be opened for SFT activity. For more information, see the **Separation of Accounts** section in the [SFT Clearing General User Guide](#).

## Does NSCC collect margin on the SFT business?

- A. For **NSCC full-service members**, SFT activity in the member's proprietary account is margined on a net basis. For example, offsetting SFT positions within the member's proprietary account in the same CUSIP are netted down for margining purposes.

For **Sponsoring Members** and **Agent Clearing Members**, SFT activity for their clients are margined on a gross basis. This includes the sum of the stand-alone volatility charges for each client's novated SFT activity calculated separately. For more information, see the **Separation of Accounts** section in the [SFT Clearing General User Guide](#) available in the DTCC Learning Center.

## Who do I contact to obtain more information about the SFT Clearing service?

- A. For SFT Clearing questions, contact **John Vinci** by email at [jvinci@dtcc.com](mailto:jvinci@dtcc.com) or by telephone at 212-855-5271 or **Tom Price** by email at [tprice@dtcc.com](mailto:tprice@dtcc.com) or by telephone at 212-855-5453. You can also use the following NSCC contacts for information about the SFT Clearing service:

For...	Contact...
General questions and product support	Email NSCC Support at <a href="mailto:NSCCSupport@dtcc.com">NSCCSupport@dtcc.com</a> .
Setup and testing	Email NSCC Integration at <a href="mailto:NSCCIntegration@dtcc.com">NSCCIntegration@dtcc.com</a> .
Issues with logging on to the system	<p>Contact <b>DTCC Client Support</b>. Call the following number, and then follow the prompt for product support.</p> <ul style="list-style-type: none"> <li>For US and Canada, call 1 888-382-2721.</li> <li>For the UK, Europe, and Asia, call +1 212-855-8099.</li> </ul>

For more information, see [Learn More](#). You can also login to the DTCC Learning Center to access the [SFT Clearing Users](#) section.

## ACCESSING THE SFT CLEARING SERVICE

### How do I begin the application process for accessing the SFT Clearing service?

- A. To begin your SFT application process, contact **John Vinci** by email at [jvinci@dtcc.com](mailto:jvinci@dtcc.com) or by telephone at 212-855-5271 or **Tom Price** by email at [tprice@dtcc.com](mailto:tprice@dtcc.com) or by telephone at 212-855-5453.

### How much onboarding time is required for the SFT Clearing service?

- A. The time required to onboard into the SFT Clearing service varies from firm-to-firm depending on a number of factors, including how many and what type of memberships or statuses your firm seeks to establish in the SFT Clearing service and completion of all related documentation and testing, if applicable.

### Are there testing guidelines and test cases available?

- A. Yes, there are testing guidelines. DTCC is currently finalizing the document that will be posted shortly in the [SFT Clearing Users](#) section of the DTCC Learning Center.

# PARTICIPANT ROLES IN THE SFT CLEARING SERVICE

## What are the different participant roles and responsibilities in the SFT Clearing service?

- A. The following table outlines the roles and responsibilities for each type of participant in the SFT Clearing service:

*SFT Clearing Service Roles and Responsibilities*

Role	Description
<b>Approved SFT Submitter</b>	<p>Submits a matched SFT to NSCC on a locked-in basis. May be an NSCC member or a third-party vendor. All data submitted into the SFT Clearing service must come through an Approved SFT Submitter who has been authorized to submit SFTs to NSCC on behalf of one or more NSCC members.</p> <p>Prior to submitting an SFT to NSCC, the Approved SFT Submitter is expected to:</p> <ul style="list-style-type: none"> <li>• Perform matching functions.</li> <li>• Determine eligibility for central clearing services.</li> <li>• Submit the data to NSCC in near real-time and support subsequent actions on novated SFTs.</li> </ul> <p>All Approved SFT Submitters, regardless of whether or not they are an NSCC member, are expected to adhere to specific participation requirements, such as proven operational capabilities and other requirements as outlined in the <a href="#">NSCC Rules &amp; Procedures</a> and the Approved SFT Submitter Agreement.</p>
<b>NSCC Full-Service Member</b>	<p>Any NSCC full-service member that files a W-9 with the IRS can apply to participate in the SFT Clearing service. As described above, participation requires opening a separate SFT Clearing account at NSCC that will be eligible only for the clearance of SFT activities. The SFT Clearing account must be linked to a DTC settling account.</p>

*SFT Clearing Service Roles and Responsibilities*

Role	Description
<b>Sponsoring Member</b>	<p>An NSCC full-service member permitted to novate to NSCC its principal SFTs with its Sponsored Members. The Sponsoring Member is responsible to NSCC for:</p> <ul style="list-style-type: none"> <li>• Posting all Clearing Funds associated with the SFT activity of its Sponsored Members.</li> <li>• Providing a backup guaranty to NSCC for its Sponsored Members' settlement obligations. This means that in the event that one or more of its Sponsored Members default and do not satisfy their settlement obligations to NSCC, the Sponsoring Member is required to satisfy those obligations.</li> <li>• Responsible for any default loss allocated to its Sponsored Members and its own loss allocation as an NSCC full-service member.</li> </ul>
<b>Sponsored Member</b>	<p>Eligible institutional client of a Sponsoring Member. A Sponsored Member is permitted to engage in two-directional SFT activities, meaning it can borrow or lend securities through a linked account of its Sponsoring Member on the books of NSCC.</p>
<b>Agent Clearing Member</b>	<p>An NSCC full-service member permitted to novate to NSCC SFTs that it has executed as agent on behalf of its customers with a third-party NSCC member. The Agent Clearing Member is responsible to NSCC for:</p> <ul style="list-style-type: none"> <li>• Posting all Clearing Funds associated with the activity of its customers.</li> <li>• Covering any default loss allocatable to its customers, as well as its own default loss allocation as an NSCC full-service member.</li> </ul> <p>However, unlike a Sponsoring Member, an Agent Clearing Member is not required to provide a backup guaranty to NSCC for its customers' obligations. This is because the Agent Clearing Member is liable as a principal on all activities the Agent Clearing Member submits to NSCC on behalf of its customers.</p>

## Can I bring in my existing book of stock loan business into NSCC?

- A.** Yes, NSCC allows lenders and borrowers to submit pre-established bilaterally settled SFTs into the SFT Clearing service. When NSCC receives a message from an Approved SFT Submitter regarding a pre-established bilaterally settled SFT, it immediately generates an off-leg position that novates to NSCC (no shares need to move because they are already with the borrower). Members receive acceptance of the submitted on-leg instruction through the Universal Trade Capture (UTC) system and receive the PEND of the off-leg instruction through the Securities Financing Accounting System (SAS) after receiving the on-leg instruction from the UTC system.

It is important that any memo positions related to a bilaterally settled SFT (from Stock Loan DO reason codes 10s and 20s) need to be updated or deleted from tracking at DTC by the two

counterparties directly using the Stock Loan REPO Adjustment Menu (SLRM) function.

## SFT Clearing Account Numbers

### Why is my SFT Clearing account number different from my regular NSCC account number?

- A. Members are required to obtain new account numbers for SFT Clearing activity. This is necessary so that NSCC can perform margining separately from the member's regular street-side cash activity.

### Why do I need DTC membership to participate in the SFT Clearing service?

- A. DTC membership is required to participate in the SFT Clearing service because all street-side SFTs will settle at DTC.

### How does the linkage between the NSCC and DTC account numbers work?

- A. To support settlement of the SFT activity, each NSCC full-service member is required to identify a DTC account that will be associated with its SFT activity. For more information about the NSCC and DTC account linkage, see the [SFT Clearing General User Guide](#) available in the DTCC Learning Center.

### How many different SFT Clearing account numbers can a firm have?

- A. Firms can have multiple SFT Clearing account numbers, each pertaining to a different role that it takes on to play within the SFT Clearing service. For example, in its capacity as an Agent Clearing Member, an NSCC member could have a customer omnibus lending account and a separate customer omnibus borrowing account. It could also have a Sponsoring Member account and a proprietary account.

# SYSTEM AND OPERATIONAL FLOWS

## Why do I need to interact with multiple NSCC and DTC systems to participate in the SFT Clearing service?

- A. NSCC operates the input interface for the two systems that handle the life cycle of an SFT. The UTC system accepts the SFT from the Approved SFT Submitter and SAS, used for SFT Clearing, warehouses the SFT and keeps track of status changes. DTC performs the function of moving securities and cash based on instructions from SAS. SAS is responsible for maintaining the settlement status of an SFT and acts as a hub between UTC and DTC. It determines what to send to DTC for settlement and when to send it. It also updates NSCC's risk systems of settlement events to make sure the most current status of an obligation is provided to the risk systems for risk management. For more information about the SFT Clearing service processing, see the [SFT Clearing General User Guide](#) available in the DTCC Learning Center.

## How can I reconcile transactions novated to NSCC through the SFT Clearing service?

- A. As a part of their output, members will be provided DTCC Reference IDs for their SFTs. These are 14-byte unique identifiers created for each transaction processed in the UTC system. All messaging referencing a particular SFT (whether from UTC, SAS, or DTC) will use or will necessitate the use of this identifier. In addition, as a part of your input, you can include other reference IDs, such as your firm specific IDs. Although NSCC will not do any processing on these reference IDs, they are carried over and passed through on the output.

## How do SFTs settle at DTC?

- A. SFTs are settled on a deliver-versus-payment (DVP) and receive-versus-payment (RVP) basis.

## Are there any circumstances where my SFT could be exited from the SFT Clearing service by NSCC?

- A. At times, a security underlying an SFT may, for reasons outside of NSCC's control, become ineligible for processing at NSCC. An example is if the security is undergoing a corporate action that cannot be supported through central clearing processing. In these circumstances, NSCC may need to exit the obligation from its systems.

NSCC will provide the affected members with as much notice as possible that such an action is anticipated to allow them to attempt to close out the SFT or, otherwise, exit it from central clearing prior to an NSCC-initiated exit. However, in the unlikely event an NSCC-initiated SFT exit must occur, NSCC will mark-to-market the position to the end of day price from the prior business day (collect/pay the difference in end-of-day settlement) and update the SFT as settled on NSCC's books.

## Where can I locate information about different message scenarios?

- A. Login to the DTCC Learning Center, and then view the **Message Flows** section in the [SFT Clearing General User Guide](#) to obtain scenario descriptions and diagrams about the message flows.

## Does SFT Clearing use CUSIP or ISIN?

- A. The SFT Clearing services uses both CUSIP and ISIN in the messages. However, due to the limitations of various ISO messages, only one identifier may be used. For more information about formats, see the [SFT Clearing Technical Resources](#) available from the DTCC Learning Center.

## Is corporate actions processing supported in the SFT Clearing service?

- A. NSCC supports the following mandatory dividends and corporate actions as part of the SFT Clearing service:

Dividends and Corporate Actions	Code
Cash Dividend	08
Forward Stock Split	02
Reverse Stock Split	73
Name Change	91
Cash Merger	72
Stock Merger	71
Cash and Stock Merger	90

All other corporate actions, either voluntary or mandatory, are not supported. Corporate actions, where there is a conversion of one security into multiple securities or a convergence of multiple supported corporate actions on the same day, are not supported. Moreover, proxy (assignment of proxy votes) are not supported in the SFT Clearing service.



## Does the SFT Clearing service support recall and buy-in processing?

- A.** Yes. Lenders can use the SFT Clearing service to process recalls and buy-ins. Lenders can submit recall messages at any time during the business day between 8:00 AM and 11:59 PM Eastern Time for any outstanding off-leg return. A Recall can be for full or partial shares of a DTCC Reference ID. If a Recall message exceeds the number of shares already recalled for a DTCC Reference ID, it is rejected. When a Recall message is submitted, NSCC generates a unique Recall ID that is used to track the Recall.

When the Allowed Buy-In Execution Date has been reached, the lender is allowed to process a buy-in execution equal to or fewer than the total number of shares of all Recalls for that DTCC Reference ID which has reached the Allowed Buy-In Execution Date.

For more information, including cutoff times, examples, and processing details, see the [SFT Clearing General User Guide](#) available in the DTCC Learning Center.

## What securities are eligible for processing through the SFT Clearing service?

- A.** CNS eligible equity securities with a per share price of at least \$5 are eligible for processing through the SFT Clearing service. NSCC would accept a new SFT only when the underlying CNS-eligible equity security is priced at \$5 per share or more. However, daily rolls of existing SFTs will continue to be accepted by NSCC even if the current price falls below \$5 per share, but NSCC will impose 100% margin for those rolled SFTs where the per share price of the underlying equity is below \$5.

## How do I obtain information about my SFT activity?

- A.** In addition to messages, you can view information about your business using the Securities Financing Transaction (SFT) Clearing service or accessing the MRO output files. For more information about the service or MRO output files, see the [SFT Clearing Users](#) section of the DTCC Learning Center.

## Cutoff Times and Holidays

### **Q. What Are The SFT Clearing Service Daily Cutoff Times?**

- A.** The output from the UTC system is based upon how the input was submitted. The following table provides a description of all the SFT Clearing message types along with the cutoff times:

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#### **Note**

All times are in Eastern Time (ET).

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Message Type	Input availability:	Cutoff
New Loan (Street-side)	4:00 AM - 3:00 PM ET	A new SFT between two SFT members where the on-leg (shares and settlement value) is processed to settle through the NSCC Clearing account at DTC. After that transaction settles, the off-leg that is set to be returned the next business day will be novated to NSCC.
Pre-established Bilateral Loan	4:00 AM - 3:00 PM ET	A new SFT between two SFT members where the on-leg (shares and settlement value) already settled directly between the SFT members at DTC. Upon receipt, the off-leg that is set to be returned the next business day will be novated to NSCC.
Roll	4:00 AM - 11:30 AM ET	A new SFT between two SFT members that instructs NSCC to net the new SFT against an off-leg SFT that is set to be returned the current business day. This results in NSCC processing a Price Differential charge that will settle between the SFT members through the NSCC Clearing account at DTC.
Send-to-Settle	4:00 AM - 3:00 PM ET	<p>A transaction message between two SFT members submitted against an existing off-leg return. Depending on the status of the DTCC Reference ID, it does the following:</p> <ul style="list-style-type: none"> <li>• Accelerates the full share return of the off-leg before 11:30 AM ET on the original (or current) settlement date of the off-leg SFT return.</li> <li>• Accelerates the full or partial share return of the off-leg from the original (or next) settlement date to the current settlement date.</li> </ul>

Message Type	Input availability:	Cutoff
Cancel Message	4:00 AM – 3:00 PM ET	<p>A transaction message between two SFT members submitted against an existing on-leg or off-leg return. Depending on the status of the DTCC Reference ID, it does one of the following:</p> <ul style="list-style-type: none"> <li>• Cancels the on-leg DO transaction that is <i>Pending</i> at DTC (from receipt of a New Loan Message).</li> <li>• Cancels the on-leg Price Differential charge that is <i>Pending</i> at DTC (from receipt of a roll transaction).</li> <li>• Cancels a Pending DO off-leg return at DTC after a Send-to-Settle message was submitted that accelerated the return of shares from the next business day to the current business day.</li> </ul>
Rate Modification	4:00 AM - 3:45 PM ET	<p>A transaction between two SFT members submitted against an existing DTCC Reference ID. This informs NSCC that either 1) the lending interest rate on the outstanding SFT has been updated or 2) the party who is getting paid the interest has been updated. NSCC will use this updated lending rate to calculate the overnight rebate interest.</p>
Loan Termination	4:00 AM - 4:30 PM ET	<p>A transaction between two SFT members submitted against an existing DTCC Reference ID. This instructs NSCC to remove the outstanding DTCC Reference ID from clearing.</p>
Buy-side	4:00 AM - 3:00 PM ET	<p>An SFT between an SFT member, such as a Sponsoring Member and their Sponsored Members. The Sponsoring Member may enter into a back-to-back trade when they are taking on a principal lending or principal borrowing relationship with a Sponsored Member. The back-to-back trade has NSCC in the middle of all obligations and, as such, NSCC is the central counterparty to all parties of the transaction. There is no DTC settlement on the transaction.</p>

## How does the SFT Clearing service work across NSCC and DTC during a holiday?

A. The following table shows the holiday closures:

Closure	Description
Bank holiday	No settlement occurs for SFT activity and no new SFTs or Roll messages are accepted by the UTC system. New SFTs/Rolls processed on the day before a bank holiday expire on the business day after that bank holiday.
Good Friday	No settlement occurs for SFT activity and no new SFTs or Roll messages are accepted by the UTC system. New SFTs/Rolls processed on the day before Good Friday expire on the business day after Good Friday.
Unexpected Close	No settlement occurs for SFT activity and no new SFTs or Roll messages are accepted by the UTC system. New SFTs/Rolls processed on the day before an unexpected closure expire on the business day after the unexpected closure.

## NSCC/DTC BILLING FOR SERVICES AND TAX REPORTING

### How does NSCC billing work?

- A. You will see the new SFT section in your NSCC monthly bill. After it is finalized, the NSCC billing structure for the SFT Clearing service will be available in the [NSCC Rules & Procedures](#) and the [NSCC Fee Guide](#).

### Do I get any DTC bills when using the SFT Clearing service?

- A. Your firm's street-side activity in the SFT Clearing service will trigger DTC billing activity. This is shown on your DTC monthly invoice. For more information, see the [DTC Fee Guide](#).

### What are the tax implications for using the SFT Clearing service?

- A. NSCC members that participate in the SFT Clearing service are subject to the pertinent U.S. tax laws, including, but not limited to, U.S. federal tax withholding taxes and reporting requirements. These taxes are generally imposed on all payments that are treated as U.S. sourced payments under the U.S. Tax Code and U.S. Treasury Regulations. For example, certain credits processed in SAS on behalf of participating members and the interest earned on the clearing funds deposited with the NSCC may be subject to withholding, reporting, or both.

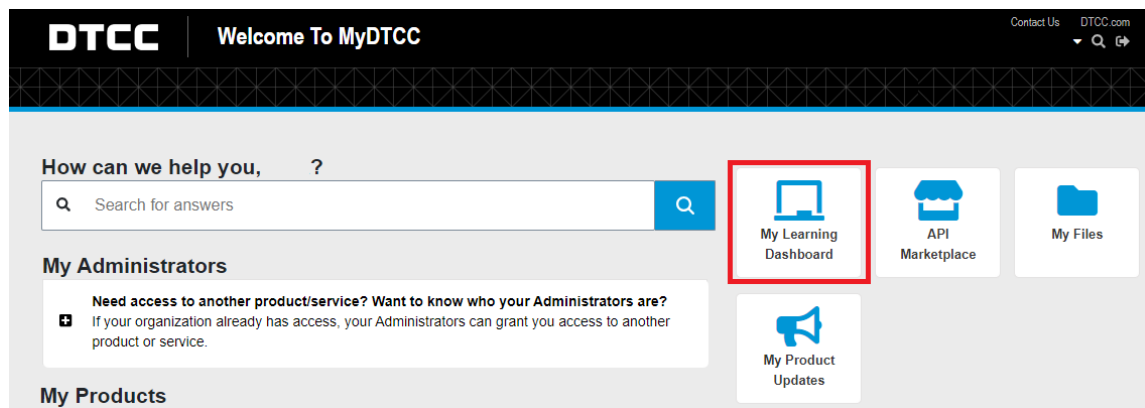
# LEARN MORE

## Where can I view information about the SFT Clearing service?

- A. For more information, see the [Securities Financing Transaction \(SFT\) Clearing](#) section of the DTCC Learning Center. You can access the General User Guide, NSCC file formats, and MRO specifications available in the [SFT Clearing Users](#) and [SFT Clearing Technical Resources](#) sections.

**To access the DTCC Learning Center:**

- From [MyDTCC Portal](#), select **My Learning Dashboard**.



- After registering with the [DTCC Learning Center](#), you can access the product-specific section in the Equities Clearing menu for helpful resources.

**DTCC | LEARNING CENTER**

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# Securities Financing Transaction (SFT) Clearing

December 03, 2021

Welcome to the SFT Clearing section of the Learning Center! The Securities Financing Transaction (SFT) Clearing service provides central clearing for equity lending and borrowing transactions, leveraging the clearing capabilities, risk management, and efficient infrastructure of the DTCC equities clearing subsidiary, National Securities Clearing Corporation (NSCC). Locate the content that you need by using **Search** to filter or access **Resources** to navigate to all of the SFT Clearing content.

**OVERVIEW** **RESOURCES**

QUICK LINKS

- SFT CLEARING USERS
- TECHNICAL RESOURCES
- CONTACT US

NAVIGATION TIPS

The SFT Clearing service introduces central clearing for equity securities financing transactions, including lending, borrowing and Repo to:

- Support central clearing of institutional clients' equity SFTs intermediated by sponsoring members.
- Support central clearing of equity SFTs between full service NSCC members.
- Maximize capital efficiency and mitigates systemic risks by introducing more membership and cleared transaction opportunities

## Where can I access SFT Clearing important notices?

- A. Visit <https://www.dtcc.com/legal/important-notice?q=sft&subsidiary=NSCC&pgs=1>

## Where are the NSCC Rules & Procedures located?

- A. See <https://www.dtcc.com/legal/rules-and-procedures.aspx?subsidiary=NSCC&pgs=1>

## Contact Us

For...	Contact...
General questions and product support	Email NSCC Support at <a href="mailto:NSCCSupport@dtcc.com">NSCCSupport@dtcc.com</a> .
Setup and testing	Email NSCC Integration at <a href="mailto:NSCCIntegration@dtcc.com">NSCCIntegration@dtcc.com</a> .
Issues with logging on to the system	<p>Contact <b>DTCC Client Support</b>. Call the following number, and then follow the prompt for product support.</p> <ul style="list-style-type: none"> <li>For US and Canada, call 1 888-382-2721.</li> <li>For the UK, Europe, and Asia, call +1 212-855-8099.</li> </ul>

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## For More Information

DTCC Client Center: [www.dtcc.com/client-center](http://www.dtcc.com/client-center)

DTCC Learning Center: [www.dtccllearning.com](http://www.dtccllearning.com)

