



SMART/Track for Agency Lending Disclosure

Proposal to the International Securities Lending Association

Overview

SMART/Track for Agency Lending Disclosure provides a central communications hub for the transmission of open loan data between agent lenders and borrowers on a daily and periodic basis. The Depository Trust Company (“DTC”), a registered clearing agency subsidiary of The Depository Trust & Clearing Corporation launched this service in 2006 to help the U.S. securities lending community meet regulatory requirements regarding transparency in securities lending transactions.

SMART/Track acts as a communications hub providing inter-operability between lenders and borrowers and vendors by routing the files to the appropriate counterparty. By providing a single point of access to all parties, SMART/Track ensures that agent lenders, borrowers or vendors do not have to build bilateral links to their counterparties to transmit loan information. SMART/Track facilitates the disclosure of loan data between agent lenders and borrowers including:

- Periodic data files that enable borrowers to do a credit pre-qualification of principal lenders they choose to borrow from; and
- Daily open loan files that enable borrowers to analyze their capital requirements and to adjust, if necessary, any collateral posted for securities borrowed.

In addition to supporting the transmission of periodic and daily loan files between agent lenders and borrowers, SMART/Track also provides a web application that enables agent lenders to request the creation of unique identification numbers. These are nine-digit numbers used to identify principal lenders in the loan files. Users can also view the status of file transmissions from the web application.

Updated June 2008
The Depository Trust & Clearing Corporation
Confidential



Proposal

DTCC proposes to make SMART/Track for Agency Lending Disclosure available to ISLA members through a DTCC subsidiary¹ for the transmission of daily and periodic loan files. DTCC made the web application of SMART/Track for creating unique identifiers available to ISLA members in December 2007.

Use of Unique Identifiers for Principal Lenders, Agent Lenders and Borrowers

DTCC and its subsidiaries are required to comply with certain U.S. regulations including requirements administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"). OFAC requires financial institutions to block or reject transactions and accounts with OFAC-sanctioned countries, individuals and organizations

To make SMART/Track available to non-U.S. entities and remain compliant with OFAC requirements, DTCC would require ISLA members to obtain and utilize the unique identifiers generated by SMART/Track to populate the principal lender field in their loan files. DTCC screens the database of unique identifiers against OFAC's Specially Designated Nationals and Blocked Persons list ("SDN list") and sanctioned countries on a regular basis. The unique identifier, used within the file to identify the principal lender, will be continuously screened, and DTCC will not be required to conduct any additional screening of actual transmissions. In addition to facilitating DTCC's OFAC obligations, the use of a single unique identifier for each principal lender will provide consistency amongst the ISLA members by providing one common identification number type and format. Given the consistency and OFAC benefits of using a SMART/Track-generated unique identifier, DTCC requests that ISLA require its members using SMART/Track for Agency Lending Disclosure to certify to DTCC that they will only use SMART/Track-generated unique identifiers to identify principal lenders in the loan files and only transmit information within the encrypted files that contain principal lenders with a U.S. tax ID or SMART/Track-issued unique identifier.

The trailer record for the files includes the DTCC participant number of the sender and receiver as well as the tax IDs for the sender and receiver. DTCC only validates the participant numbers, not the tax IDs. However, since the vendors read the tax IDs in the trailer, agent lenders and borrowers, in addition to

¹ DTCC proposes to provide the service out of one of its subsidiaries. For purposes of this document, the entity providing the SMART/Track for Agency Lending Service will be referred to as DTCC until such time as the subsidiary designated.



principal lenders, may be required to have SMART/Track-generated unique IDs for use in the tax ID field on the trailer record of the files.

Entitlements

ISLA members that are not members/participants of DTCC would be required to sign a non-member agreement prior to using the service. Once the non-member agreement is signed and returned to DTCC, DTCC will assign the entitlements to access the web application to create unique identifiers and to send daily and periodic loan files through SMART/Track.

Connection to SMART/Track

ISLA's members would be able to connect to SMART/Track for Agency Lending Disclosure either directly or through a vendor relationship. DTCC requires firms that opt to connect to a vendor to complete a third-party authorization letter to notify us of their vendor relationship. Firms that want to connect directly have to establish connectivity to DTCC, which requires lead time to complete, or they can send files over the internet.

File Transmission Processing

SMART/Track reviews the header and trailer information on the files to ensure that it can successfully deliver the files to the designated counterparty and to verify that the file contains the number of records indicated. SMART/Track does not edit or validate the data contained in the files: It does not have the ability to read the data records contained in the files.

Agent lenders, borrowers or vendors can send files via DTCC's standard file transfer capabilities: Connect:Direct (formerly Network Data Mover or NDM) or File Transfer Protocol (FTP). Firms that want to connect directly and do not want to establish a dedicated circuit to DTCC can send files via the internet using FTP.

Transmitting files directly to SMART/Track

ISLA members that want to send loan files directly to SMART/Track must establish connectivity to DTCC if they do not already connect for other products and services. Connectivity is established through DTCC's Participant Interface Planning group and requires lead time.



Transmitting files through a vendor

Participants using a vendor must provide DTCC with a third-party authorization letter that identifies the vendor so that DTCC can set the participant up in SMART/Track with the appropriate vendor relationship.

Features of SMART/Track

In its role as a communications hub, SMART/Track:

- Notifies the sender that it has received the file and that it has made the file available to the receiver.
- Creates a receipt record for the sender or generates an error code if it cannot deliver the file.
- Provides a web application for agent lenders, borrowers and vendors to browse the status of files being processed and to request the creation of unique identifiers for principal lenders.

Data Security and Retrieval

Each agency lending data file transmitted to SMART/Track must contain a security record with the transmitter's signon ID and password. The data is stored in DTCC's mainframe which is a secure site with redundant back-up. Users can retrieve the agency lending data for seven days using an authenticated signon ID and password.

Only registered users can access the SMART/Track for Agency Lending Disclosure website to view unique identifiers and the status of file transmissions. Users access the website with an authenticated ID and password.

DTCC successfully passed an external audit of its information security program against the BITS/FISAP requirements conducted by the Enterprise Risk Management division of Churchill Harriman in August 2007. Potential users seeking more information about data security may contact Diane L. Brennan Director, Legal & Compliance, DTCC- General Counsel's Office (dbrennan@dtcc.com).

Proposed Launch Date

DTCC proposes to make SMART/Track available to ISLA's members that are not members/participants of DTCC at the end of 2008. DTCC has a test facility for SMART/Track for Agency Lending and strongly encourages ISLA members test prior to sending production data. The testing facility will be available at the end of 2008.



Existing users of SMART/Track for Agency Lending Disclosure for US data reporting can begin to use the system for their European data reporting now on the terms set out in the paper, including mandatory use of the SMART/Track unique identifiers for all underlying principals.