

AQS Middle Office, (“AQS:MO”) is an integrated set of middle office applications that support the AQS securities lending market activities. AQS:MO serves as a conduit between AQS, the Options Clearing Corporation (“OCC”) and Depository Trust Company (“DTC”), and allows for seamless end-to-end transaction processing. AQS:MO will maintain and store all loan and loan history details related to activity executed, cleared and settled through AQS.

### What services does AQS:MO provide to AQS Members?

AQS:MO receives all contracts from AQS in real-time. AQS operations staff work in conjunction with OCC/DTC, as well as with AQS Member firms, to ensure that settlement occurs on a timely basis. AQS:MO performs the following functions:

- Open borrow and loan maintenance throughout the life of the contract
- Corporate action and cash dividend processing for mandatory corporate actions
- Rebate, settlement and mark-to-market tracking
- Full overnight reconciliation
- Recall, return and re-rate processing
- Enhanced reporting capabilities, including standardized and custom reporting modules

### How are settlements processed?

Matched borrows and loans are sent from AQS directly to AQS:MO where the matched pair is validated before it is forwarded to OCC. OCC, as a clearing agent, passes the matched pair to DTC for settlement. DTC uses a ‘look-ahead’ accounting process to confirm that the shares and cash are available in the appropriate counterparty’s account before it settles the transaction. Upon confirmation of settlement by DTC, acknowledgment is sent to OCC and passed on to AQS:MO in the form of a “made” status. At this point in the transaction lifecycle, OCC novates itself into the transaction. Clients view the status of their transactions in AQS and AQS:MO on a real-time basis. Transactions may be in a “pending” status either in AQS, AQS:MO, OCC or DTC. All pending transactions are tracked and AQS operations staff will contact OCC/DTC and/or Member firm client operations staff in order to facilitate the timely settlement of the transaction in question.

### How are mark-to-markets processed?

All AQS contracts are marked at 102% of the notional trade value, rounded up to the nearest dollar. Marks-to-market (“MTM”) are calculated as part of the OCC overnight process and passed to AQS:MO. As the OCC is guaranteeing the MTM process, it will be responsible for assigning marks to each open contract. The MTM values are available to CMs and NCMs from the AQS:MO reporting platform. In addition, the marks are also reflected in the Loanet reporting platform and are published by the OCC reporting platform.

### **How are recalls and returns processed?**

Recalls requested by a lender are assigned to a borrower by the AQS Assignment Algorithm. Returns by a borrower are likewise assigned to a lender by the AQS Assignment Algorithm. The borrower has three days to return requested securities. If the borrower is unable or unwilling to return the securities, they will be subject to the AQS Buy-in Policy. Recalls, returns and rerates can be initiated in AQS through the AQS:GUI, AQS:API or through integrated third-party systems.

### **How does AQS:MO process and guarantee rebates?**

AQS:MO calculates rebates at the end of the day and forwards them to OCC on a nightly basis. Rebates are accrued daily and paid on the fifth business day of every month. All rebates are guaranteed by the OCC.

### **Will AQS:MO support corporate action processing?**

Yes. AQS:MO performs position reconciliation on upcoming dividend and corporate actions and projects the cash or stock entitlement to be processed on payable date. Using DTC's GCA Services data, AQS:MO monitors and reports all open positions with pending corporate actions. On record date, AQS:MO captures and reconciles all open contracts. For non-DTC tracked events, AQS instructs the OCC which Clearing Member accounts to adjust on the payable date. AQS and OCC update their records to ensure the proper mark-to-market is applied. Cash dividends and mandatory corporate action events are guaranteed by OCC. The corresponding debits and credits are processed by DTC on payable date. Stock adjustments are processed only upon DTC allocation date. Voluntary events are not guaranteed by OCC. As such, AQS does not accept elections from lenders and reserves the right to close out positions associated with voluntary events (e.g., tender offers).

### **Does AQS:MO support reconciliation processing?**

In addition to the corporate action reconciliation, AQS:MO also has automated end of day and end of month reconciliation processing. This module reconciles AQS:MO with transactions done on the AQS system on a trade and overall position basis. AQS:MO also reconciles with OCC on trade and position level. AQS will also reconcile with third-party firms who provide reconciliation and accounting services.

### How does AQS:MO monitor transactions?

AQS:MO provides the ability for operations personnel to track the status of all transactions done in AQS. The following table describes the various transaction statuses and their definitions.

| Transaction Status | Definition   |
|--------------------|--|
| Received           | Transaction has been received in AQS:MO from AQS                                       |
| Routed             | Transaction is flowing through AQS:MO as it is validated                               |
| Discarded          | Transaction fails at the AQS:MO level for failure to validate                          |
| Created            | Transaction is fully validated at AQS:MO and prepared to proceed to OCC                |
| Sent               | Transaction has been sent to OCC   |
| Accepted           | Transaction is accepted at OCC and prepared to proceed to DTC                          |
| Rejected           | Transaction is rejected at OCC for failure to validate and will not be passed onto DTC |
| Pending            | Transaction has been sent to DTC but is in a pending state (has not settled)           |
| Made               | Transaction is settled at DTC and the acknowledgement is forwarded to OCC/ AQS:MO      |
| Open               | Transaction is in an "on loan" status  |
| Closed             | Transaction has been fully returned  |



## AQS:MO Frequently Asked Questions



### **Does AQS:MO offer standardized and custom reporting functionality?**

Yes. AQS:MO offers full reporting functionality. A number of standardized reports are available for immediate consumption. AQS:MO also offers a custom report writing to address specific client needs.



### **Will AQS:MO integrate with third-party vendors?**

As a utility operator, AQS is committed to an open door partnership policy with industry vendors and market participants. Connectivity through those providers may provide AQS users an easier method of adoption.