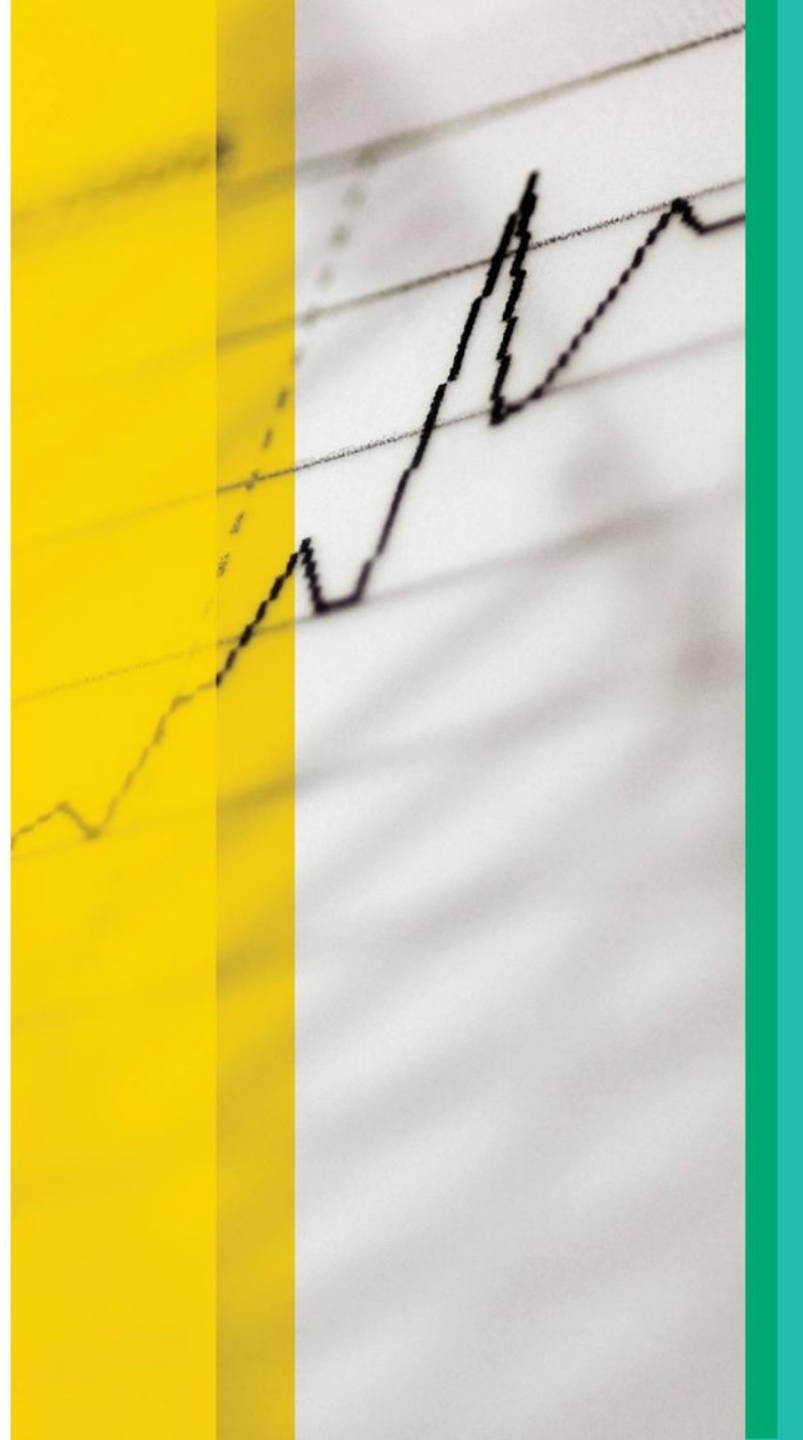




BNY MELLON

Securities & Processing

GET Training iNautix



Course Outline

- Securities Industry Terms and Functions
- Trading accounts, trade positions / types, order types
- Orders and execution – order management
- Overview of clearing & settlement
- Life of U.S Trade and Global Trade

Custodian/Custody

- Responsible for safekeeping a client's assets
- Acts on the direction of the owner of the assets or their advisor/manager
- Does not have legal ownership of the assets

As your custodian, I promise to safekeep your assets.



Trust/Trustee

- Responsible for a person or group (trustee)
- Assumes a fiduciary responsibility for the assets of another person or group (beneficiary)
- Holds title to the assets held in trust for the benefit of someone else.

As your trustee, I will monitor your assets.



Question

A trustee has legal ownership of the assets held in trust for a beneficiary/client.

- A. True
- B. False

Answer

A trustee has legal ownership of the assets held in trust for a beneficiary/client.

- A. True**
- B. False

Question

A custodian is legally obligated to monitor all trust related decisions.

- A. True
- B. False

Answer

A custodian is legally obligated to monitor all trust related decisions.

A. True

B. False

Global Custodian Functions

- Asset Safekeeping
- Trade Processing
- Trade Clearance
- Trade Settlement



Global Custodian Functions

- Income Collection
- Tax Reclaim
- Corporate Action Processing
- Accounting and Recordkeeping



Investment Industry Key Players



Client



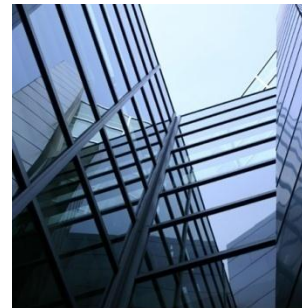
**Investment
Advisor/Manager**



**Trading
Broker**



**Clearing
Broker**



Depository



Subcustodian

Client

- Corporate
- Individual



Client

Investment Advisor/Manager

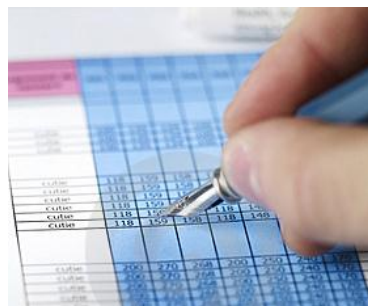
- Provides investment advice to clients
- Executes investment decisions



Investment Advisor/Manager

Trading Broker

- Intermediary between the buyer and seller of a security
- Charges a commission for arranging trade
- Must be a registered agent of the exchange on which the securities are traded



Trading Broker

Clearing Broker

- Located in country where trade is settling
- Receives commission
- Makes security/cash exchange with subcustodian



Clearing Broker

Depository

- Centralized securities location
- Utilized by custodians/brokers/dealers/leading banks
- Computerized bookkeeping system



Central Securities Depositories

- Local Depositories
 - Depository Trust Company – U.S.
 - Federal Reserve Bank – U.S.
 - Crest – U.K.
 - JASDEC - Japan
- International Depositories
 - Euroclear
 - Clearstream



Depository Functions

- Asset safekeeping
- Trade settlement
- Income and Tax collection
- Corporate actions processing
- Transaction documentation



Subcustodian

A subcustodian functions as a custodian in global markets where BNY Mellon does not have a presence.



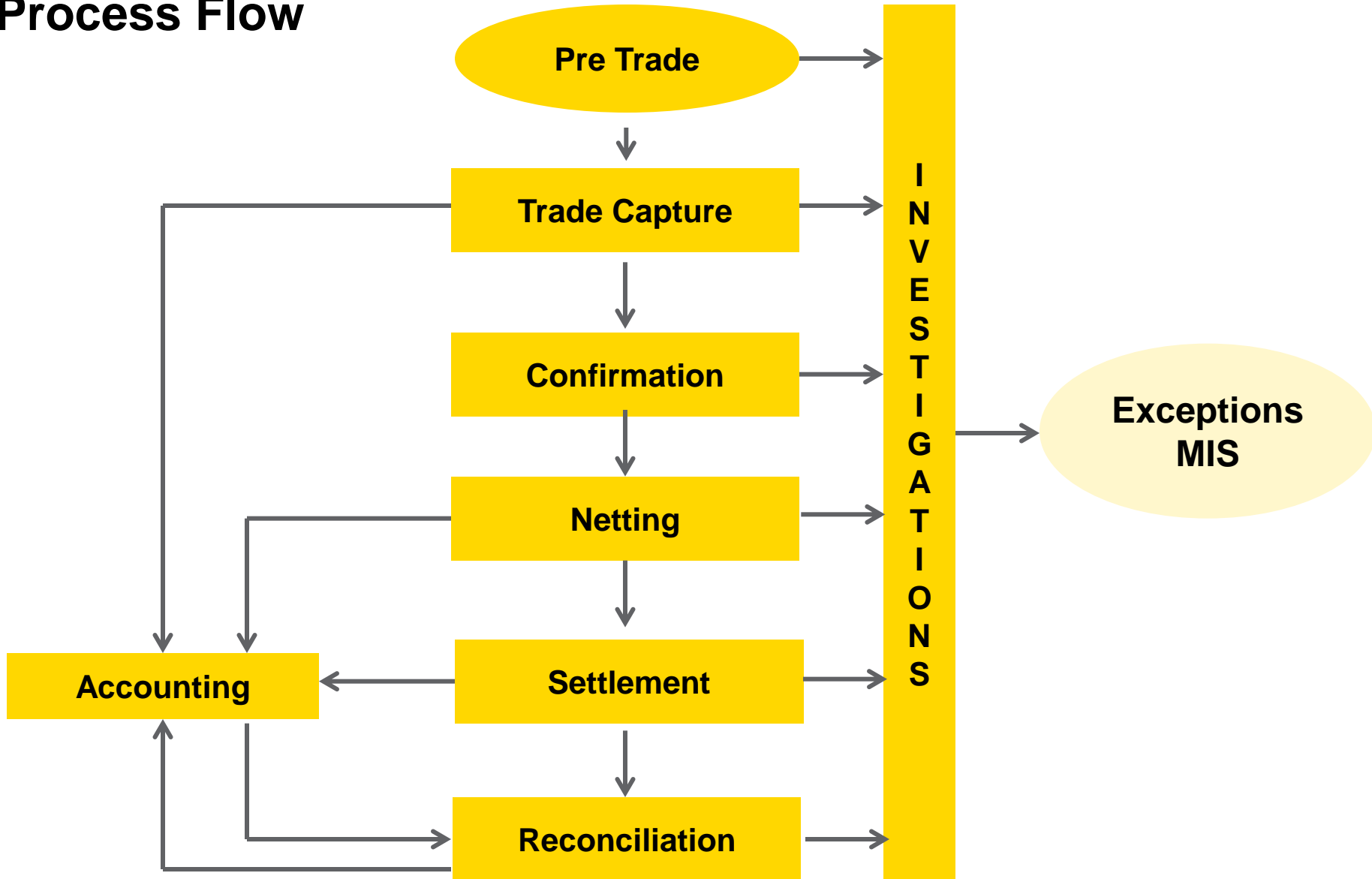
Subcustodian



The subcustodian performs all required custodian services based on local market practices.

TRADE & TRADE PROCESS

Process Flow



Trading Account Types

- Four major choices when opening an account
- **Cash Account:** The basic account where you deposit cash to buy stocks, bonds, mutual funds, etc
- **IRA account:** For people looking to setup an individual retirement account
- **Margin Account:** allows the investor to borrow from broker against cash and securities in their account
- **Option Account:** for seasoned investors. This type of account allows investor to trade in options, which are much riskier than stocks or bonds

Trade Positions and Types

TRADE POSITION

- **Long position** - Indicates securities owned by an investor but held with the broker
- **Short Position** - Indicates securities sold by the investor by borrowing it from the broker

TYPES OF TRADES

- **Normal Buy / Sell**
- **Selling Short** - The sale of a security that the investor does not own in order to take advantage of an anticipated decline in the price of the security
- **Closing a position** - Elimination of an investment from a portfolio

Order Types

- **Market Order** – order to buy or sell a stock as soon as possible at the best price available
- **Limit Order** – order to buy or sell a stock only at the specified price (the limit price) or better
- **Stop Order** – order to buy or sell a stock when the price reaches or passes a specified point (the stop price). When that happens, a stop order automatically becomes a market order
- **Stop-Limit Order** – Like a Stop Order but after activation becomes a limit Order instead of Market Order

Market Order

CUSTOMER	SIZE	BIDS (BUYERS)
Hard Line Brokerage	30,000	\$ 60.00
Top Notch Advisors	15,000	\$59.95
Reckless Securities Inc	25,000	\$59.89
Lighting Execution Inc	20,000	\$59.81
Rumor Mill Brokerage	10,000	\$59.73
HI IQ Capital	30,000	\$59.65

“Sell 100,000 Shares at the Market”

Order to buy or sell a stock as soon as possible at the best price available

Market Order

CUSTOMER	SIZE	Offers (Sellers)
Blue-Chip Brokerage	30,000	\$60.00
EZ Trade Corporation	15,000	\$59.85
Walck Discounters	5,000	\$59.80
Klick Quick Trade	35,000	\$59.60
Halasy Investors	15,000	\$59.55
Murphy Retail Investors	30,000	\$59.40

“Buy 100,000 Shares at the Market”

Order Format - XYZ, Sell, 100

Price , Time, Quantity – Order of Preference for any trade

All Fall in Line

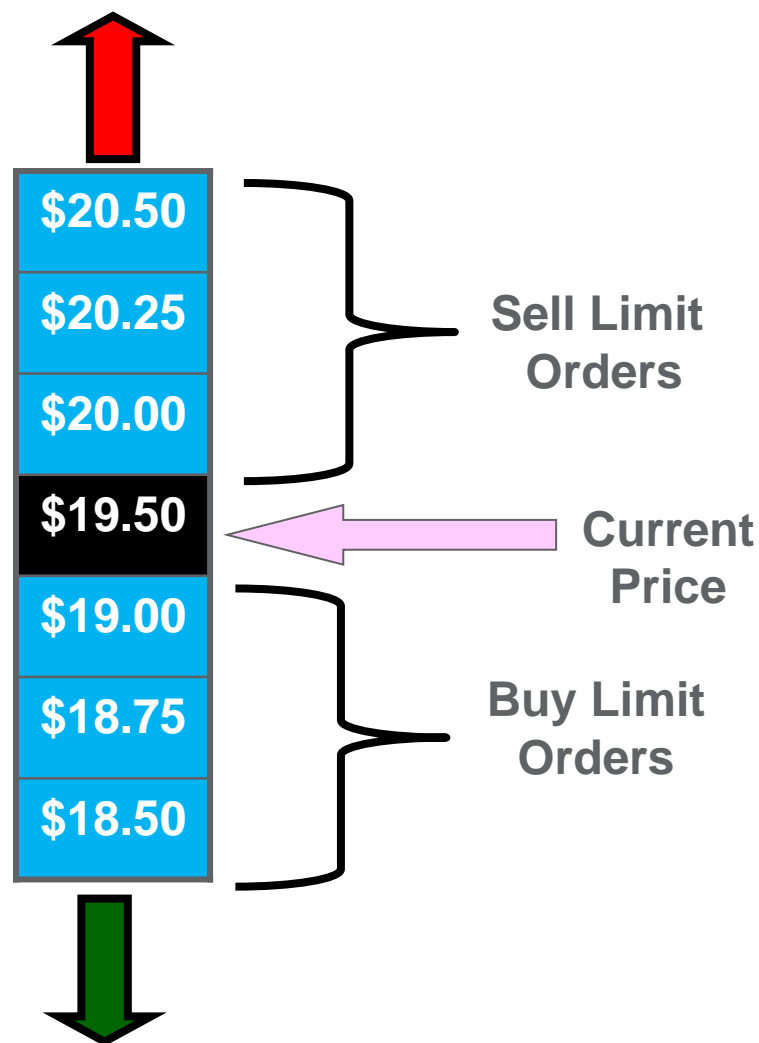
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- **Someone records and tracks order information to ensure the best deal for everyone**

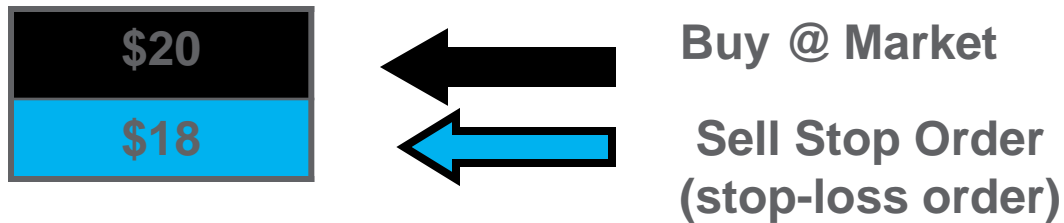
Building Block for a stock exchange

Limit Orders

- Placing a price parameter on order
- Not guaranteed execution, but if executed, will receive a better price than the current market price.
- Order to buy or sell a stock only at the specified price (the limit price) or better; Safer way for trading
- Format for order
 - XYZ, Sell, 100, \$20.25



Sell Stop Order



- Used to protect a long position
- Placed below the market
- Two Step Process:
 1. “Activation price” or “Trigger price”
 2. Once “activated”, it becomes a market order
- Order Format – XYZ, Sell, 100, \$18
- Market Price could be \$ 20

Sell Stop Order

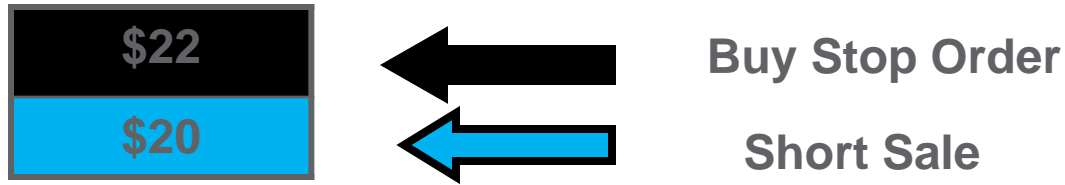
1. Buy 100 XYZ @ the market price of \$20.00 (long position)
2. Places the following order to protect his long position:
Sell 100 XYZ \$18.00 stop GTC

Three days later the following trades take place:

\$18.25 Open	\$18.15	\$18.05	\$18.00	\$17.90	\$17.85	\$17.75
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Activation Price / Execution Price ?

Buy Stop Order



- Used to protect a short position
- Placed above the market
- Two Step Process:
 - “Activation price” or “Trigger price”
 - Once “activated”, it becomes a market order
- Order Format – XYZ, Buy, 100, \$22
- Market Price could be \$ 20

Buy Stop Order

1. Sell Short 100 XYZ @ the market price of \$20.00 (Short position)
2. Places the following order to protect short position:
Sell 100 XYZ \$22.00 Stop GTC

Three days later the following trades take place:

\$21.75 Open	\$21.85	\$22.00	\$22.10	\$22.15	\$22.25	\$22.30
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Activation Price / Execution Price ?

Stop-Limit Order- Like a stop Order but after activation becomes a limit Order instead of Market Order

More Order Types

- **All-or-None Order (AON)**
 - No partial executions
 - Broker has all day to execute order (no urgency)
- **Immediate-or-Cancel Order (IOC)**
 - Partials are acceptable
 - Fill immediately (urgency), and cancel unfilled balance
- **Fill-or-Kill Order (FOK)**
 - Fill immediately
 - No partials
 - If entire order cannot be filled immediately, then cancel order

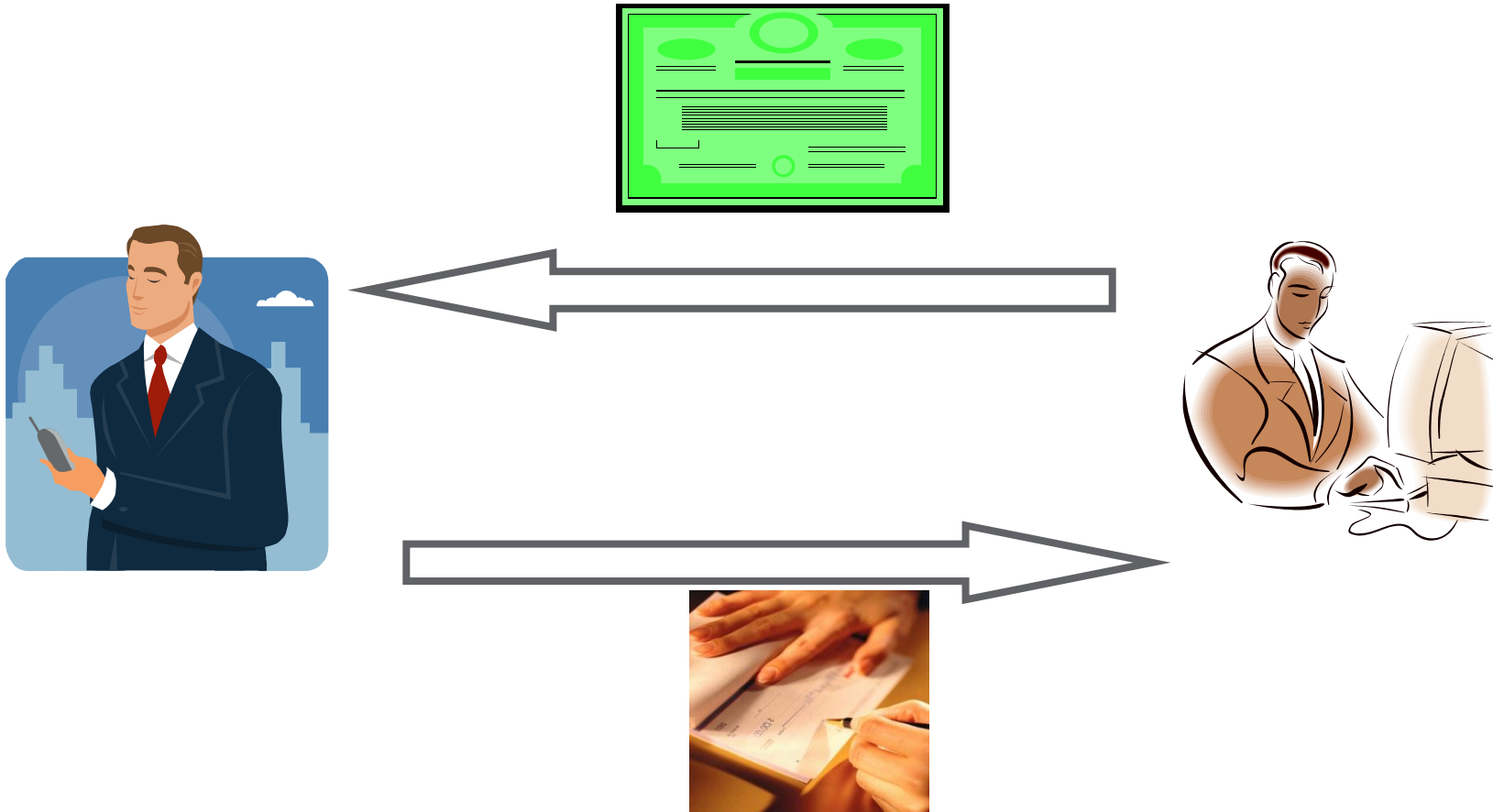
More Order Types (contd..)

- **Day Order**
- Good for the day
- If not executed within the course of day, order is canceled.
- **GTC Order**
- Also known as an “open order”.
- Order is in effect until executed or canceled by the customer

Brokerage Operations

- Execution Processes
- Clearing Processes
- Settlement Processes
- Post Settlement Processes
- Benefits of Outsourced Clearing

Stock Trading : A Client Perspective



What's so difficult about buying and selling stock?

The Reality

- Trade processing is complex
- Many different areas of a firm are involved in a trade
- Trade processing methodologies grew up in a paper-driven environment.
- Complex system of checks, double checks and triple checks to safeguard the firm and client
- Today: Intermediaries (e.g. Pershing; DTCC)

■ Old World

- Examination of trade processing in a paper-based environment
- Low volume
- Trade by trade settlement
- Firms deals directly with one-another
- Slower and volume sensitive

■ Modern World

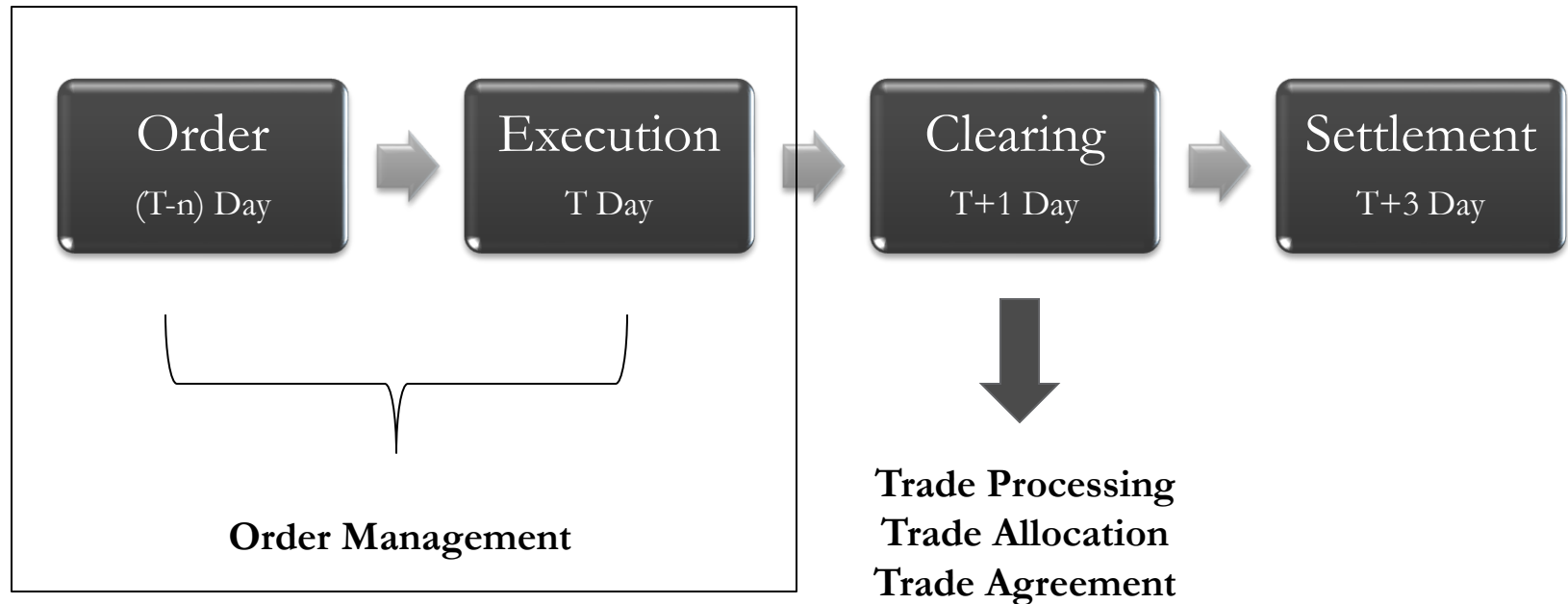
- Examination of trade processing in an electronic environment
- High volume
- Net settlements
- Firms deal with Centralized Counter party
- Volume insensitive and high speed

Brokerage Services is a multi-billion dollar industry

Life of a Trade



Life of a Trade



Order Ticket Information

- Purchase or Sale
- Long sale vs. Short Sale
- Security
- Quantity
- Type of order (market/limit/stop)
- RR Identifier
- GTC or day

ORDER TICKET					
Broker Identifier 7246314			Contra Broker Identifier 8256174		
BUY	SELL	Quantity 200		Security Symbol A x P	
MARKET			Price		
GTC	Day	Not Held	IOC	AON	FOK
Customer Account # 734-61624-19					
Discretion Exercised <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			Solicited <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

Obtaining correct information is critical for execution and other subsequent activities

CLEARING & SETTLEMENT

Overview of Clearing & Settlement

- **Clearing:**

Clearing is the process of determination of obligations, after which the obligations are discharged by settlement.

The clearing function of the clearing corporation is designed to work out:

- what counter parties owe and
- what counter parties are due to receive on the settlement date.

- **Settlement:**

Settlement is a two way process which involves legal transfer of title to funds and securities or other assets on the settlement date.

Overview of Clearing & Settlement

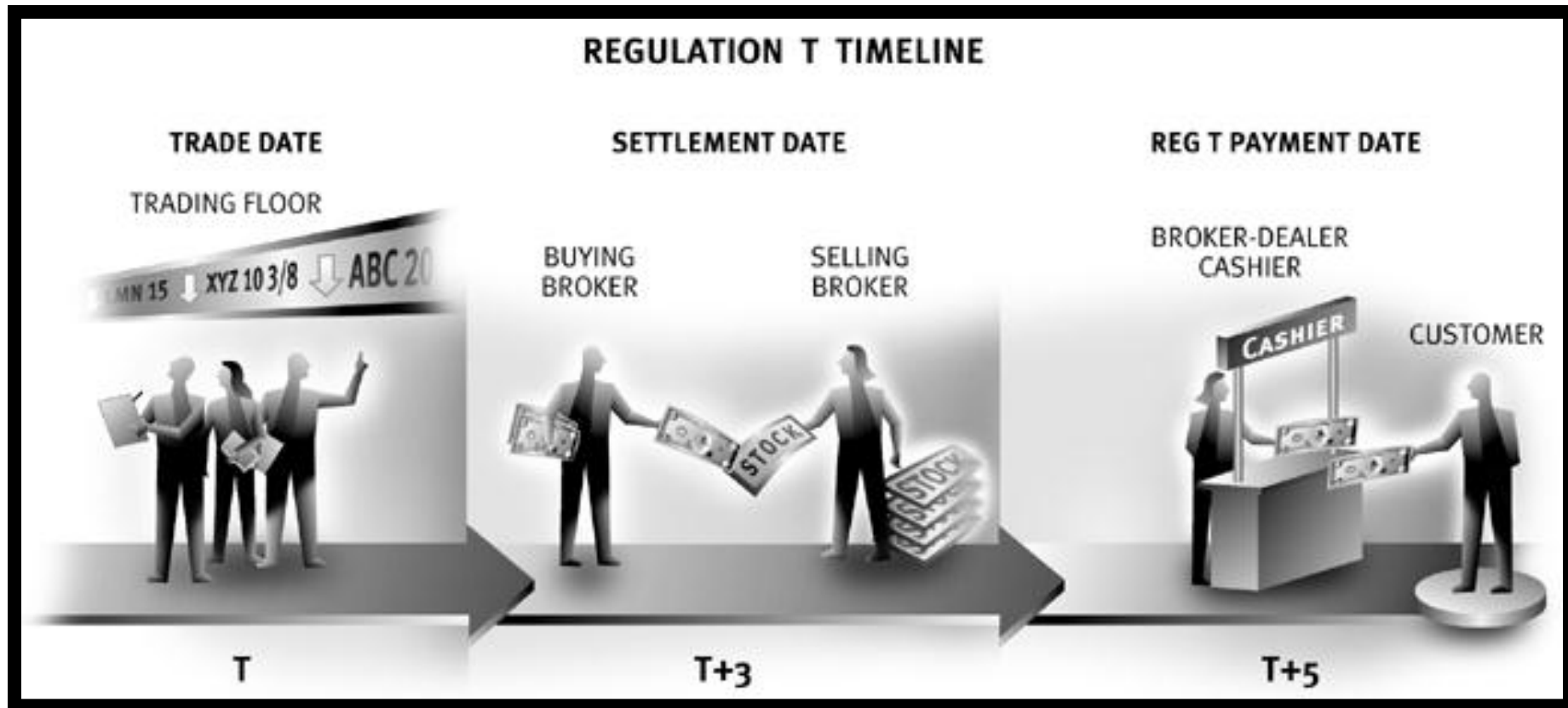
SETTLEMENT CYCLE

- At the end of each trading day, concluded or locked-in trades are received from exchange by clearing corporation. Clearing corporation determines the cumulative obligations of each member and electronically transfers the data to Clearing Members.
- On the securities pay-in day, delivering members are required to bring in securities to NSCC. On pay out day the securities are delivered to the respective receiving members.

Overview of Clearing & Settlement(contd)

- On the cash pay-in day, delivering members are required to bring in cash to NSCC. On pay out day the cash is delivered to the respective receiving members
- Exceptions may arise because of short delivery of securities by clearing members, bad deliveries or company objections on the pay-out day.

If Trade Clears: Goal = Settlement



Settling Compared Trades

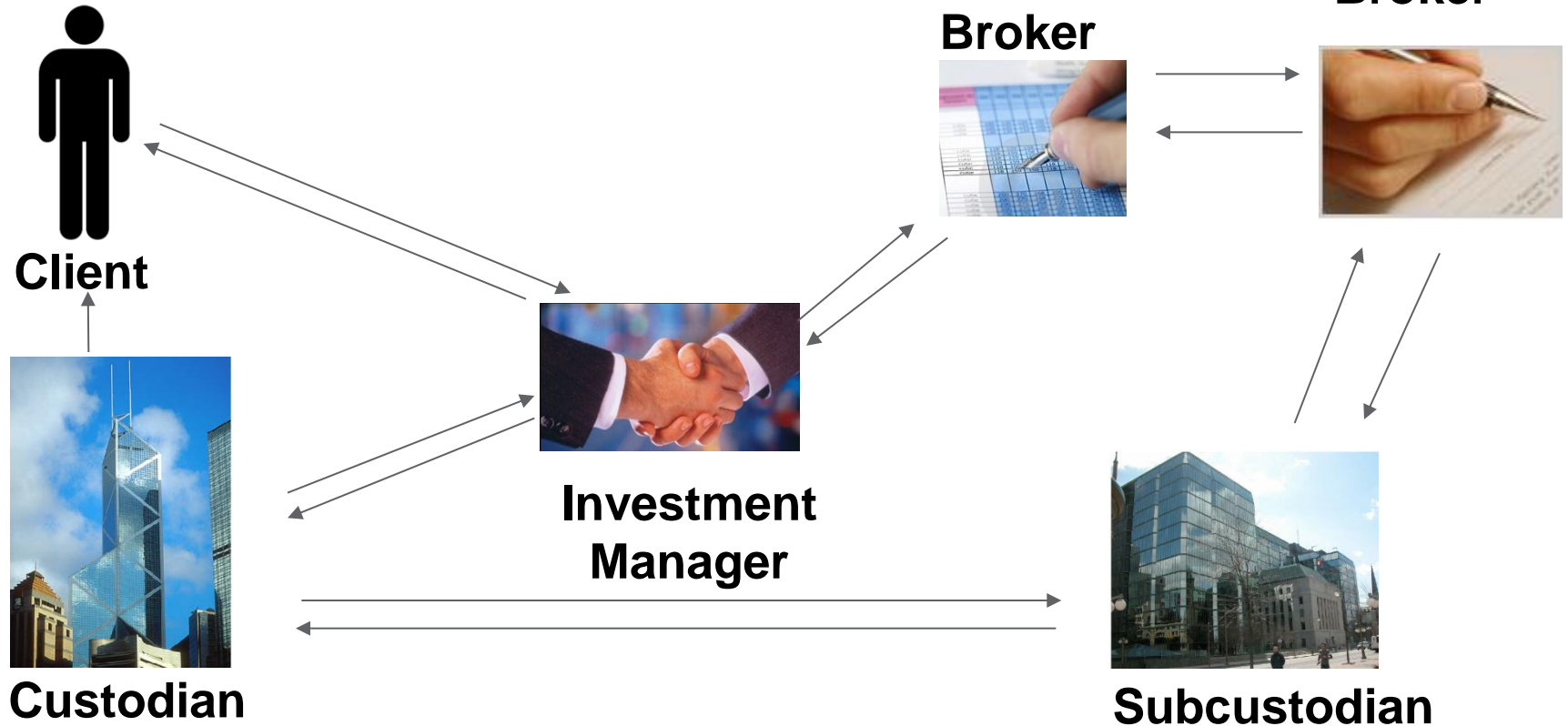
1. On settlement date, the selling broker delivers to the buying broker and gets paid (formerly trade-by-trade)
2. Firm to Firm transfer
3. \$ vs. securities

Life of a U.S. Trade



1. Client contacts Investment Manager to invest
2. Investment Manager makes a decision based on a strategy and analysis of the market
3. Investment Manager coordinates a trade with the broker
4. Broker finds a buyer/seller and executes a trade (Trade Date)
5. Investment Manager notifies Trustee/Custodian (Trade Specialist, if a manual entry) **OR**
6. Broker sends confirm (trade details) to DTC IID system. CMS/ASP interfaces with the DTC IID system.
7. Investment Manager affirms trade details with DTC
8. On T+3, Depository updates broker's and Trustee/Custodian's Accounts
9. Trustee/Custodian and Broker ensure transaction occurred as scheduled
10. Client's account is updated to reflect trade

Life of a Global Trade



1. Client contacts Investment Manager to invest
2. Investment Manager makes a decision based on a strategy and analysis of the market
3. Investment Manager coordinates a trade with the broker
4. Trade Broker finds a Clearing Broker in the local market to execute a trade (Trade Date)
5. Investment Manager notifies Trustee/Custodian (Trade Specialist)
6. Custodian sends trade details via SWIFT to the Subcustodian
7. On Settlement Date, BNY Mellon's Subcustodian and Clearing Broker make an exchange
8. Subcustodian and Clearing Broker ensure the transaction occurred, as scheduled, and the Client's account is updated

Q&A