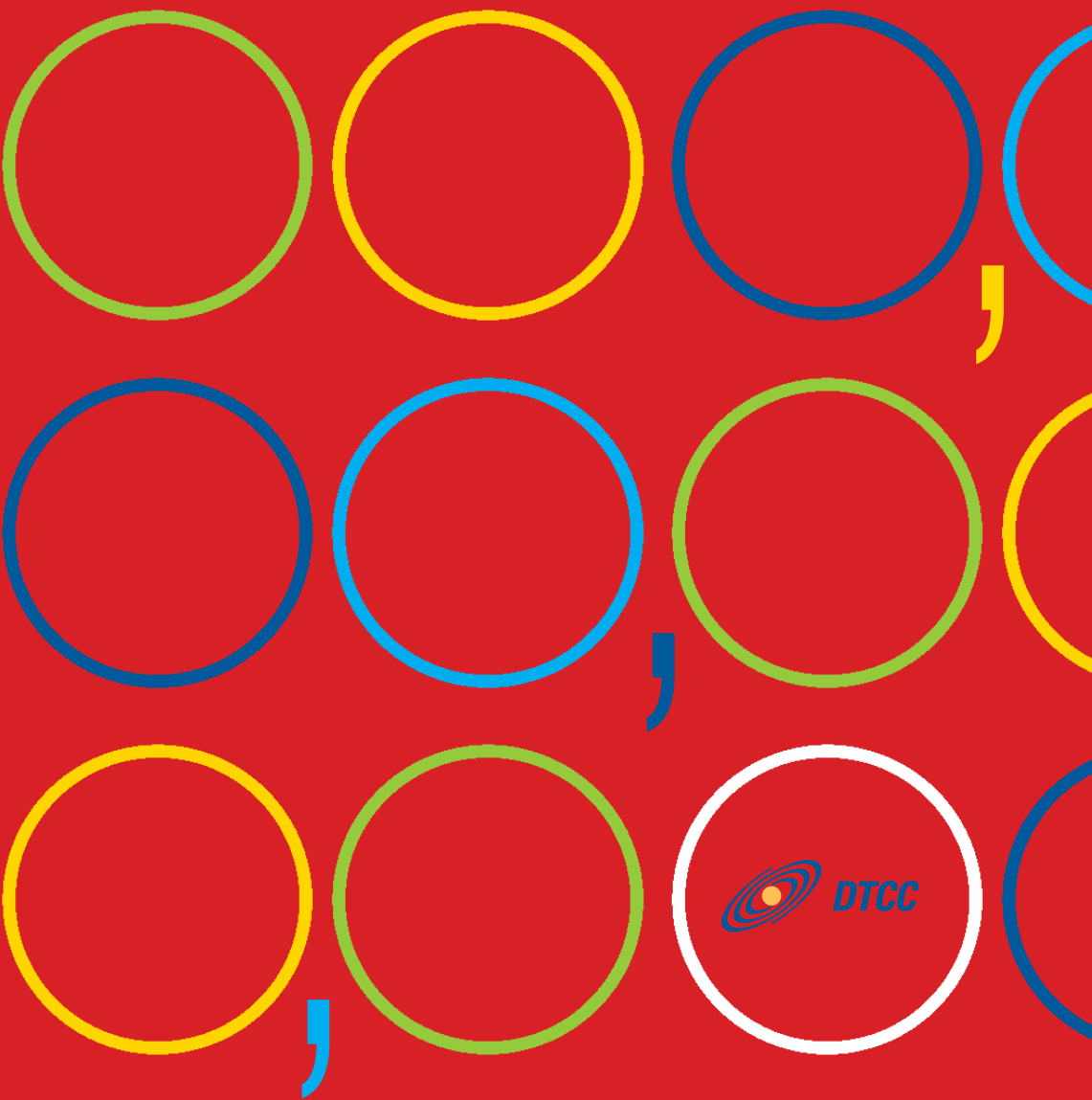


# Following A Trade

1,000

A Guide to DTCC's Pivotal Roles in How Securities Change Hands



In today's U.S. capital markets, billions of shares of securities change hands every day. Brokers, banks, investment managers, fund managers, exchanges and many others play prominent roles in this daily drama. And all rely on the behind-the-scenes expertise of the subsidiaries that make up The Depository Trust & Clearing Corporation (DTCC), the world's largest financial post-trade infrastructure organization.

DTCC ensures the **capacity, certainty** and **reliability** required to clear and settle today's enormous trading volumes.

Clearance and settlement is a process, which, at the end of the day, ensures that sellers are paid for the securities they sold, and buyers receive the securities they bought. How this process works is not always easily understood.

This booklet describes the role of two of DTCC's subsidiaries that support post-trade processing and money settlement for two types of trades: (1) **a broker-to-broker trade** and (2) **an institutional trade**.

**Broker-to-broker trades** are processed by our National Securities Clearing Corporation (NSCC) subsidiary, which handles post-trade processing for virtually all equity, municipal and corporate bond transactions in the U.S. market.

**Institutional trades** are high-value trades made by an investment manager for an institutional investor, such as a mutual fund, pension fund, hedge fund, bank trust department or insurance company. Our Depository Trust Company (DTC) subsidiary handles the securities and money settlement, while Omgeo, our joint venture with Thomson Financial, acts as a communications hub for the exchange of information among key parties to an institutional trade.

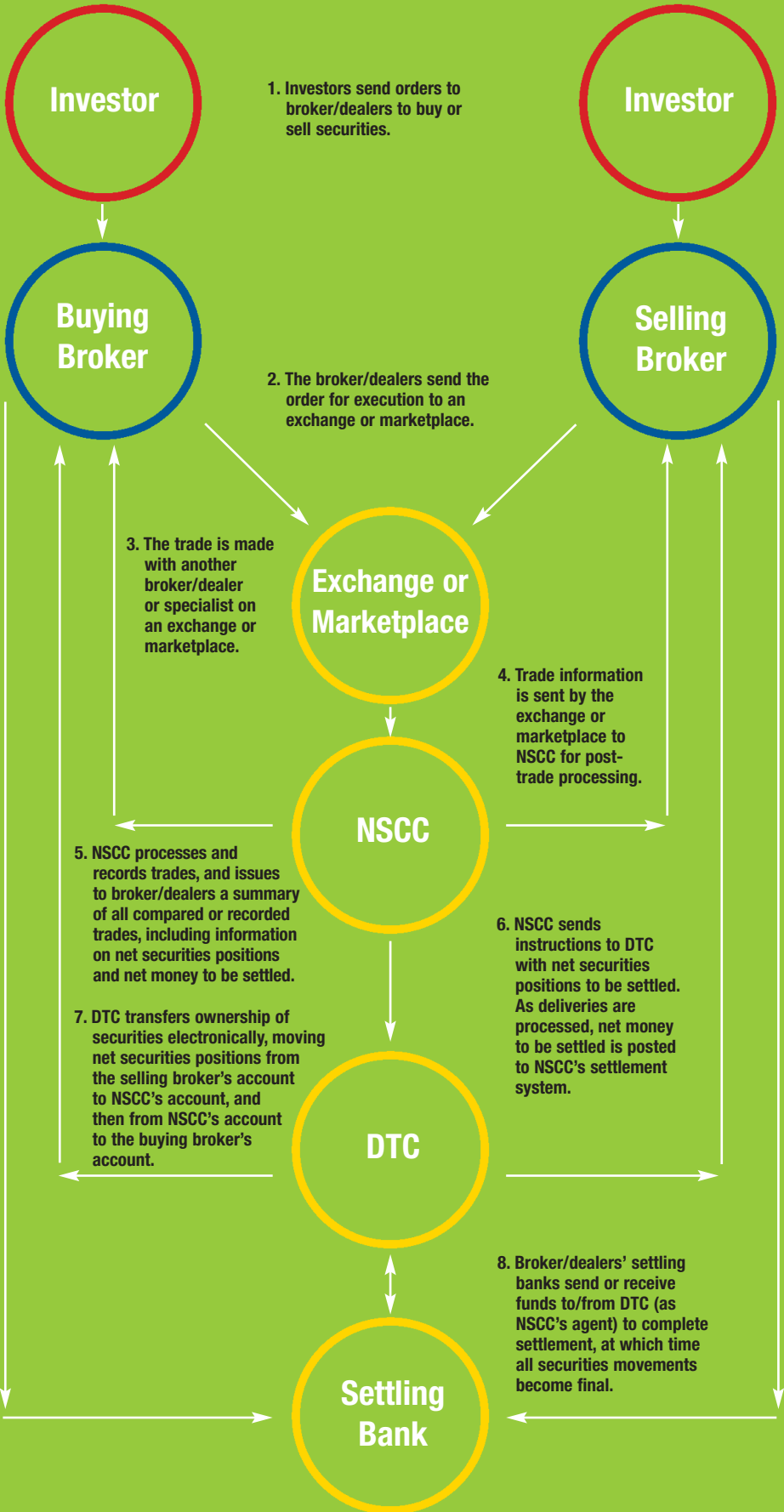
In addition to supporting these types of trades, post-trade processing services are also provided for U.S. Government and mortgage-backed securities, money market instruments, mutual funds, insurance products and over-the-counter derivatives.

# A Broker-to-Broker Trade

For broker-to-broker trades, NSCC performs three critical functions, helping the industry reduce risk, lower cost and optimize capital:

1. It ensures post-trade processing **capacity** to handle not only average trading volumes, but also the unpredictable spikes that can occur in the market.
2. It offers a **guarantee** that, if a participant defaults for any reason, all transactions that have entered NSCC's system with the details confirmed and that have reached the guarantee stage, will settle.
3. Through a process called **netting**, it reduces the total number of trading obligations requiring financial settlement by an average of 97%.

## A Broker-to-Broker Trade



# T+3 Settlement Cycle

## Trade Date (T)

The clearance and settlement cycle begins on the date the trade is executed. On this date, trade details are electronically transmitted to NSCC for processing, the majority of which are in real-time. Of equity transactions, 99.9% are sent as “locked-in” trades, which means that the marketplace has already compared them at the time of execution, confirming all details, including share quantity, price and security. NSCC sends to participants automated reports, which are legally binding documents that show trade details. These reports confirm that transactions have entered the clearance and settlement processing stream.

## T+1

NSCC’s guarantee of settlement generally begins midnight between T+1 and T+2. At this point, NSCC steps into the middle of a trade and assumes the role of central counterparty, taking on the buyer’s credit risk and the seller’s delivery risk. This guarantee eliminates uncertainty for market participants and inspires public confidence.

## T+2

NSCC issues broker/dealers summaries of all compared trades, including information on the net positions of each security due or owed for settlement.

## T+3

T+3 is settlement – the delivery of securities to net buyers and payments of money to net sellers. Broker/dealers instruct their settling banks to send or receive funds (through the Federal Reserve System) to/from DTC as NSCC’s agent. Securities generally do not change hands physically. DTC transfers ownership between broker/dealers’ accounts by book-entry electronic movements.

## Available DTCC Services

### **Clearance and Settlement**

Automated Customer Account Transfer Service (ACATS)  
Custom Index Share Processing  
Money Market Instrument Processing  
Trade Reporting and Confirmation  
Underwriting Services

### **Fixed Income**

Real-Time Trade Matching/RTTM Web  
Government Securities Net Settlement Services  
Mortgage-Backed Securities Clearing Services  
GCF Repo Services  
Electronic Pool Notification Services

### **Asset Services**

Custody & Safekeeping Services  
Deposit & Withdrawal Services  
Direct Registration Service  
Dividend & Reorganization Services  
Restricted Securities Family of Services

### **Mutual Funds**

Defined Contribution Clearance & Settlement  
Fund/SERV®  
Fund/SPEED<sup>SM</sup>  
Mutual Fund Profile Service  
Networking

### **Insurance**

Annuity Applications  
Financial Activity Reporting  
Licensing and Appointments  
Positions and Valuations  
Subsequent Premiums

### **Information-Based Services**

Cost-Basis Reporting Service  
Global Corporate Action Validation Service  
SMART/Search for Archived Reports  
SMART/Source  
SMART/Track for Stock Loan Recalls

### **OTC Derivatives**

Credit Default Swaps Matching and Confirmation  
Equity Derivatives Matching and Confirmation  
Interest Rate Derivatives Matching and Confirmation  
Payments Matching, Netting and Settlement  
Portfolio Reconciliation

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**The Depository Trust &  
Clearing Corporation**  
[www.dtcc.com](http://www.dtcc.com)

# An Institutional Trade

Institutional investors such as mutual funds, insurance companies, hedge funds, bank trust departments and pension funds buy and sell large blocks of securities, typically through investment managers. To help maintain confidentiality and/or avoid triggering a major impact in the marketplace, a trader either arranges for an institutional buyer for the entire amount, or breaks the block down into a number of pieces. The trade may even be executed over a period of several days.

The parties involved in an institutional trade include the institutional investor, the investment manager, the buying broker, the marketplace, the selling broker, custodian banks, DTC and Omgeo.

**DTC** is responsible for completing the **money and securities settlement of institutional trades**. The money settlement systems of DTC and NSCC are unified, providing customers with one consolidated, end-of-day netted payment obligation for both DTC and NSCC trades.

**Omgeo**, through its links with investment managers, broker/dealers and custodians, acts as **a central communications hub for institutional post-trade processing** in 40+ countries. Omgeo's systems automate and streamline the process from execution notification and trade allocation, through affirmation or matching and trade reporting services.

Omgeo's systems communicate details of the trade, show how securities should be allocated to different custodians and accounts, provide account level trade confirmations and facilitate automated affirmation by investment managers.

As an alternative to matching and affirmation by the investment manager, Omgeo also provides real-time central matching capabilities, electronically comparing trade details and notifying parties of any exceptions to streamline the process.

Omgeo services institutional trades settled in depositories throughout the world. The example illustrated is a trade settling in the U.S. market.

# An Institutional Trade

