

The Corporate Actions SOURCE is an electronic newsletter produced by The Depository Trust & Clearing Corporation (DTCC) to provide the latest information on the reengineering of DTCC's corporate actions for customers, vendor partners and other market participants.



SECURITIES ORIENTATION, UNDERWRITING & RELIABLE CORPORATE ACTION ENVIRONMENT

Customer Feedback Prompts Key Adjustments to Corporate Actions Reengineering Plan

The reengineering of the corporate actions system is on schedule to roll out in 2009, but based on recent discussions with many customers, DTCC has made several important adjustments to give firms more time and flexibility when transitioning to the new corporate actions system.

“Our strategic vision for corporate actions remains the same – to produce a unified end-to-end processing system for the entire asset servicing lifecycle for all asset types and event classifications,” said Patrick Kirby, DTCC managing director, Asset Services. “However, to allow for an easier transition for our customers, we have deferred several proposed features of the new system until a later date and extended the timeframes for customer uptake.”

Key changes

Three of the most important changes on the corporate action front resulting from customer feedback are:

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DTCC: Complying with Industry Standards and Market Practice

As part of the reengineering of its corporate actions processing, DTCC has adopted industry standards and worked to unify corporate action standards and market practice across the corporate action lifecycle.

As part of this initiative, all of the current proprietary legacy files will be replaced with a single publication ‘feed’, which will be made available in two formats: the industry standard ISO 15022, and Extensible Markup Language, or XML. For the most part, both will contain the same data and cover the entire lifecycle of a corporate actions event, from ‘Announcement’ to ‘Payment’:

- Announcement, via ISO 15022 MT564 / MT568, and XML messages;
 - Entitlement via ISO 15022 MT564 / MT568, and XML messages;
 - Instruction via ISO 15022 MT565 and XML messages;
 - Instruction Status via ISO 15022 MT567 and XML messages;
- and
- Payment via ISO 15022 MT566 and XML messages.

Why ISO 15022 and XML?

DTCC strongly supports global standards and recognizes the importance of sweeping initiatives, such as the industry-wide project to remove barriers to market integration and to promote straight-through processing (STP), as suggested by the Giovannini Group. One of the key recommendations of this initiative is the adoption of ISO 15022 and ISO 20022 standards; this is why DTCC's reengineering project is adopting ISO 15022.

Where representation in ISO 15022 is possible, the standard has

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Customer Feedback

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- Contra-CUSIPs will not be eliminated in the new system. The Depository Trust Company (DTC) will continue to provide contra-CUSIPs within the announcement and use contra-CUSIPs to segregate positions for processing purposes.
- While DTC will continue to move from a function code to an event-based system, it has extended the timeframes for the elimination of legacy files – which organize data reporting using the old function code methodology. This will give customers more time to make the transition to the new system file layouts, which organize data reporting using the new event-based announcement methodology.

As part of the project, DTC will implement ISO 15022 and XML message formats, which customers will be able to migrate to at their own pace. Once the new system is completely implemented, DTC will support existing legacy files for an additional two years, after which they will be discontinued and customers can choose to use either the ISO 150222, or XML message formats.

- As DTCC moves from the Participant Terminal System (PTS) to a Web-based browser with the corporate actions reengineering, it will work with customers to define data feeds that could replace functionality currently provided via “screen scraping.” (Screen scraping is a technique in which a computer program extracts data from the display output of another program.)

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Comments from DTCC Customers

DTCC met with customers throughout the summer to discuss the adjustments to the reengineering of its corporate actions system and find out what customers were thinking as well. The feedback covered a variety of issues ranging from message structure and standards to the planned implementation schedule for the reengineering. Some of the issues raised by customers included:

- The elimination of “screen scraping”: Screen scraping, a technique in which a computer program extracts data from the display output of another program, is used by some DTCC customers to monitor intra-day announcements and payments. DTCC plans to introduce new functionality that will eliminate the need to screen scrape.
- Multi-currency processing: Several customers asked about the impact of the acquisition of Euronext by The New York Stock Exchange and Project Turquoise. (DTCC, through its EuroCCP subsidiary, has been selected to provide clearing and settlement services for Turquoise, the consortium of seven global investment banks working to develop a pan-European trading platform.) DTCC’s new system will be designed to handle announcements, entitlements and instructions in any multi-currency, but will initially focus on the euro in support of Euronext and Project Turquoise.
- Impact on Global Corporate Actions: Concerns were raised that a new message structure would impact customers who also used Global Corporate Actions Validation Service (GCA VS). The new message structure in both ISO and XML will be very similar to the current GCA VS proprietary publications message which is based on the ISO standard. As a result, the migration from the current GCA VS output to the new system will be less complicated than the conversion from the existing DTC function code structure to the new ISO/XML messages.
- Training resources: Asked about what training will be available for the new system migration, DTCC said extensive e-learning programs will be available for both internal DTCC users and end-clients. There will also be online help tools built into the applications itself, as well as a robust pilot test environment to allow for user acceptance testing.
- Transition schedule: DTCC said the transition would begin in the second half of 2009 beginning with proxy, with the next phases implemented in 2010.
- Early adopters. Several customers said they planned to be early adopters of the new system and suggested that DTCC provide incentive pricing to encourage other firms to do the same. DTCC explained how fees are reevaluated annually and as the migration period approach, incentive pricing would be considered.

Transition Document Coming in September

DTCC will issue the IT transition strategy document for corporate actions reengineering at the end of September 2007. This will help customers plan and budget for the transition which will begin in 2009 and continue into 2010.

Topics covered in the transition strategy document will include:

- Revised message formats
- Processing guide for:
 1. Life cycle component changes
 2. Data field changes
 3. Benefits
 4. Optional versus required functionality
- Technical transition plan (legacy to new platform)
 1. Impacted PTS applications
 2. Impacted legacy files
 3. Timeframes for transition
 4. Timeframes for legacy support
 5. Frequency and timing of messages
 6. Batch files vs. “real time” messages
 7. Communication protocols
- Legacy CCF file to new message field mapping in ISO and XML
- Data element reference guide

Complying with Industry Standards

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been adopted in its entirety. Despite being the industry standard, however, there are a number of situations where ISO 15022 cannot, in its purest form, represent all the necessary data. Where this ‘non-compliance’ with the standard occurs, DTCC will use ‘fielded text’ or a ‘data source schema’, as described below.

The data tagging language XML represents a viable alternative when ISO 15022 cannot meet all messaging needs. Although the ISO 15022 standard, when coupled with ‘fielded text’ a ‘data source schema’, is able to represent all of the necessary information, its structure is not simple and straightforward. With XML, these structural issues do not arise. (The extensible business reporting language [XBRL] variant of XML is also being pushed as an appropriate future framework by the Securities and Exchange Commission (SEC)).

Handling ‘Non-Compliant’ Data with ‘Fielded Text’

The reengineering initiative has identified a number of situations where the ISO 15022 Data Dictionary does not support all of the necessary data, both at the event type level and also at the data field level. Using ‘fielded text’ as ‘structured narrative’ and a ‘data source schema, all of the necessary information can be stored in ISO 15022.

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STP remains a priority

“Ultimately, the goal is to develop our corporate actions system so that the industry benefits from the upgraded technology; at the same time, we want to make the cutover to the new system as transparent as possible to our customers,” Kirby said. He added that the reasoning behind the reengineering adjustments was similar to that which guided DTCC after the industry postponed the move from T+3 to T+1.

“When the industry decided in 2002 to postpone moving the trade settlement time to T+1, DTCC redoubled its efforts toward STP. We recognized that achieving STP goals would substantially benefit our customers by creating greater efficiencies in post-trade processing and further reducing risk. We also knew it would position the industry for future decisions about a shortened settlement cycle.

“In the same way, we’re moving ahead as planned with the implementation of the new corporate action system in 2009, knowing that it will bring major STP efficiencies and reduce cost and risk to the industry. However, we have made some adjustments to the original plans in order to give customers more time and flexibility in making the transition. But the sooner they move to the new system, the sooner they will start enjoying its benefits.”

Fall Schedule for Corporate Actions Reengineering Seminars

DTCC will hold 18 Corporate Actions Reengineering seminars during October and November at its New York and Tampa facilities and other locations including, Minneapolis, Chicago, San Antonio, St. Louis, Boston, Atlanta, Charlotte, Dallas, San Francisco and Jersey City.

Each seminar has a morning and afternoon session:

9 a.m. to Noon – Overview and Business Impact: Designed for project managers, operational staff, and service providers, this segment will focus on the business changes outlined in the processing guide. It will be broken into three sub-sections; Dividends, Redemptions, and Reorganizations.

1 p.m. to 4 p.m. – Technical Impact: Designed for project managers, IT staff, and service providers, this segment will review DTCC's plan to migrate off existing DTC systems, with details on the impact to customers. It will specifically address the migration from current user-interfaces and legacy files.

To register for one of these sessions, please see the calendar below and email dthieke@dtcc.com with your name(s), e-mail address, firm and the session you want to attend.

October-07						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5	6
				DTCC - 55 Water Street		
7	8	9	10	11	12	13
				Wells Fargo - Minneapolis, MN	DTCC - 55 Water Street	
14	15	16	17	18	19	20
BDUG Conference - San Antonio	BDUG Conference - San Antonio	BDUG Conference - San Antonio		DTCC - Tampa, Florida (ASAB)	DTCC - Tampa, Florida (#3)	
21	22	23	24	25	26	27
		DTCC - 55 Water Street		North Trust - Chicago, IL		
28	29	30	31*			
		Stifel Nicolaus - St. Louis Missouri				

* Halloween Hosted by DTCC Off-site

November-07						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	2	3
					State Street - Boston, MA	
4	5	6	7	8	9	10
		Sun Trust - Atlanta, GA		Wachovia - Charlotte, NC		
11	12*	13	14	15	16	17
				JP Morgan Chase - Dallas, TX	Union Bank - San Fran, CA	
18	19	20	21	22 **	23	24
25	26	27	28	29	30	
		Lehman Brothers - Jersey City, NJ		DTCC - 55 Water Street		

* Veterans Day ** Thanksgiving Hosted by DTCC Off-site

Customer Feedback

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Based on the modifications to the corporate actions system, DTC will be adjusting business requirements and specifications. As a result, the technical migration plan originally scheduled for release in June will now be released at the end of September.

Underwriting status

The reengineering project also encompasses DTC's underwriting system. The new, reengineered underwriting system will launch internally at DTC in September and, following testing with customers and service vendors, will be rolled out to the industry in October. The new system will automate and streamline the process by which underwriters submit new-issue eligibility requests.

This system will also introduce the New Issue Information Dissemination Service (NIIDS), which will fundamentally change how information about new issues is disseminated. NIIDS will distribute information in real time, making trade confirmation, clearing and reporting easier, faster and more accurate.



For more information on reengineering, go to DTCC's reengineering Web site at: www.dtcc.com/reengineering. Questions or comments on corporate actions reengineering should be addressed to Lorraine Morrison at lmorrison@dtcc.com or (212) 855-5310.