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June 26, 2008

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary:

The Depository Trust & Clearing Corporation ("DTCC") applauds the Department of Treasury's efforts to improve the U.S. regulatory structure relating to financial market participants as reflected in the proposals contained in the Blueprint for a Modernized Financial Regulatory Structure. The Blueprint is comprehensive, important and timely. We share the Treasury's view of the need for regulatory reform.

We respectfully request your consideration of certain issues that the Blueprint proposals potentially raise for DTCC. DTCC has particular interest in the intermediate-term proposals of the Blueprint that relate to payment and settlement systems. In the Blueprint, the Treasury states that such systems are the "critical underpinning of the financial services sector, and the economy as a whole." The payment and settlement systems offered through several of DTCC's subsidiary companies actively contribute to the safety and soundness of their respective marketplaces and the containment of systemic risk. DTCC and its subsidiaries are user-owned and governed, and operated, as a practical matter, on a "not for profit" basis, with excess revenues refunded throughout each year to the financial institutions that are DTCC's user/members. We believe that DTCC brings to bear considerable expertise on the role of the nation's payment and settlement systems, and would welcome the opportunity to work with you and your staffs as you develop the Blueprint's proposals in this area into legislation.

Background on the relevant DTCC companies

DTCC has three wholly-owned clearing agency subsidiaries, The Depository Trust Company ("DTC"), the Fixed Income Clearing Corporation ("FICC") and the National Securities Clearing Corporation ("NSCC"). These SEC-registered

Subsidiaries:
The Depository Trust Company
National Securities Clearing Corporation
Fixed Income Clearing Corporation
DTCC Deriv/SERV LLC
DTCC Solutions LLC

clearing agencies are described in Appendix D of the Blueprint. DTC, FICC and NSCC are part of the core infrastructure of the U.S. securities marketplace.¹

DTCC has also recently established a clearing organization in London. This entity, European Central Counterparty Limited, or EuroCCP, has received approval as a "recognised clearing house" by its regulator, the United Kingdom's Financial Services Authority. EuroCCP has been established to provide clearing and settlement services in Europe. We expect EuroCCP to begin operations during the second half of 2008.

Also of relevance is DTCC's Deriv/SERV LLC subsidiary, which supports certain over-the-counter ("OTC") derivatives markets through two key service offerings. First, Deriv/SERV's Trade Information Warehouse provides a comprehensive trade database containing the primary record of each contract and a central technology infrastructure that automates and standardizes post-trade processing for these instruments. The Warehouse currently supports credit default swaps, but is designed to be extended to other OTC derivatives products such as interest rate swaps or over-the-counter equity derivative contracts (such as total return swaps or variance swaps). Second, Deriv/SERV automates matching and confirmation for these OTC derivatives products, including credit, equity and interest rate derivatives. With respect to credit default swaps specifically, Deriv/SERV also currently offers bilateral payment calculation and netting; settlement for these payments occurs through a partnership with CLS Bank International. This and comparable payment processing services will be extended to other OTC derivatives in the coming months.

Finally, Omgeo, a joint venture between DTCC and Thomson Financial, plays a critical role in post-trade processing of institutional trades within the global securities industry, acting as a central information management and processing hub for brokers, investment managers and custodian banks. Omgeo handles allocations, confirmations and matching for institutional trades on a broad range of asset classes, automatically communicating the details between investment managers and broker/dealers.

Issues Raised by the Blueprint

1. The Treasury recommends the creation of a mandatory federal charter for systemically important payment and settlement systems and oversight of such

¹ DTC, a limited purpose trust company, is also supervised and examined by the Federal Reserve Bank of New York and the New York State Banking Department.

systems by a designated regulator (the Blueprint suggests this should be the Federal Reserve). We assume that this would apply to DTC, FICC and NSCC.

DTCC requests that strong consideration be given to having the designated regulator (whoever it may be) be the *sole* regulator having oversight responsibilities for such systems. A modernized regulatory structure calls for the establishment of a single supervisor that has a comprehensive understanding of the regulated entities and their structures and functions. A single regulator will facilitate helpful dialogue on issues and establish a clear understanding of regulatory expectations. Such a structure would eliminate the need for duplicative regulation – such as DTCC is subjected to today – which leads to conflicting pronouncements and interpretations and regulatory overburden in the form of multiple examinations and information requests.

2. As stated in the Blueprint, as the proposed primary overseer of systemically important systems, the Federal Reserve will have, in addition to examination and enforcement authority, the authority to establish regulatory standards.

DTCC would embrace a principles-based approach versus a specific rules-based approach to regulation, which would more readily address the differences among the possible payment and settlement systems that would be covered under the proposal. (We note that this approach is recommended in another section of the Blueprint that specifically addresses securities clearing agencies.) If the principles-based approach is adopted, existing statutes and regulations will need to be revisited and revised accordingly; the drafters of the new legislation will need to have a full understanding of the mission of each payment and settlement system, the manner in which we accomplish our mission, the risks against which we protect and the risks that we face. DTCC believes that the payment and settlement systems themselves are the closest to these issues and we believe we can be of assistance to your staffs as you develop the applicable regulatory standards.

We agree, as well, that any new legislation in this area should also address the rulemaking process of the securities clearing agencies. The Blueprint addresses this point in the section that covers self-regulatory organization (“SRO”) rule changes. We strongly agree with the Treasury’s view that, in many cases, the current requirement that SRO rule changes be filed with the regulator for prior approval does not accommodate the fast pace at which markets and financial products are evolving. As clearing agencies, we are called upon to support the clearance and settlement of these new products, and to develop and offer innovative services to extend DTCC’s safety and soundness benefits to additional aspects of securities processing. A more expedited filing and approval process for rule changes is necessary to enable us to adequately meet the needs of the changing marketplace. We would fully support the recommendation in the Blueprint for an

expansion of the types of rules deemed effective upon filing; further in this regard, consideration should be given to a "principles-based" filing process that permits immediate effectiveness of filings demonstrably in compliance with the applicable "core principles."

3. As noted in the Blueprint, globalization of the capital markets is a significant development. DTCC has responded to the increasingly global marketplace by establishing its London subsidiary, EuroCCP. EuroCCP will offer its services to European financial institutions, but will be leveraging aspects of DTCC's U.S. infrastructure and operations.

The Blueprint addresses situations where a systemically important system is headquartered abroad, yet has "important U.S. operations," and states that the "Federal Reserve should be authorized to license and to require such a federal license of foreign-based payment and settlement systems with U.S. operations so as to ensure that effective risk mitigation and containment procedures exist between the U.S. and foreign regulators." It is not clear from the Blueprint what this means for DTCC's EuroCCP, which, arguably, has "important U.S. operations". EuroCCP is fully supervised by a recognized authority (the Financial Services Authority) in its home country. EuroCCP will not be providing services to U.S. firms. Requiring a U.S. regulatory license for such an entity seems to imply that the clearing organization will be subject to comprehensive supervision in both jurisdictions, which would lead to the disadvantages of having more than one regulator noted in Section 1 above, and could greatly hinder global initiatives. We are concerned about conflicting regulations and standards, duplicative examinations and multiple reporting requirements with varying due dates. In view of the fact that EuroCCP will not offer its services to any U.S. entities, we don't see any reason why it should be subjected to U.S. regulation. At minimum – as a far less desirable outcome – we would strongly argue for coordination of regulatory oversight and some level of regulatory recognition.

When DTCC was establishing EuroCCP there was not a system of mutual regulatory recognition in place, requiring us to go through an arduous process of establishing and obtaining regulatory recognition of a European company. In view of the increasingly global nature of the securities industry, and, very specifically, of the creation of several trans-Atlantic securities markets – NYSE Euronext, Nasdaq OMX, the acquisition of the International Securities Exchange by Deutsche Borse – we believe it is imperative that, as part of any regulatory reform program, an appropriate form of "mutual recognition" be established. DTCC strongly believes that any mutual recognition standards governing listing and trading of securities should also extend to clearance and settlement of those trades, so that, for example, DTCC could provide those services in other jurisdictions without registration and others, such as LCH.Clearnet, could similarly provide them in the U.S.

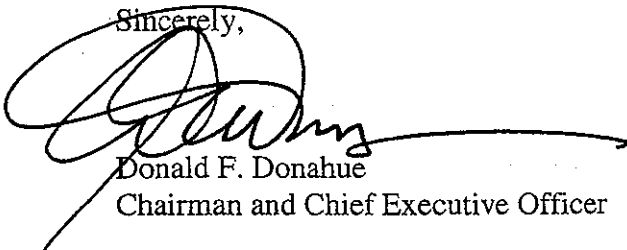
4. There is a footnote in the Blueprint that states that consideration should be given as to whether a "processing system and infrastructure" for OTC derivatives should come under the authority of the Federal Reserve.

DTCC's Deriv/SERV subsidiary is an unregulated entity. It is not clear why regulatory reach would now be necessary with respect to an entity such as Deriv/SERV solely because it provides services for OTC derivatives, given that Deriv/SERV is not a "payment and settlement system" as classically understood. Unlike some of the DTCC subsidiaries that have been discussed above, Deriv/SERV is neither a central counterparty nor a settlement guarantor. With respect to its Trade Information Warehouse, Deriv/SERV acts akin to securities registrars, which are generally unregulated. With respect to its other services, Deriv/SERV is essentially a matching engine;² even in the credit default swaps area, where Deriv/SERV offers bilateral netting of payments, the actual settlement of these transactions occurs at CLS Bank International, which is already subject to regulation by the Federal Reserve.

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Thank you for your consideration of these views. As stated above, we would appreciate the opportunity to work with your staff and others to frame legislative proposals on these matters, as we are confident we can be of assistance. If you have any questions regarding the foregoing, please do not hesitate to contact me at (212) 855-3800.

Sincerely,



Donald F. Donahue
Chairman and Chief Executive Officer

cc: Robert K. Steel
Under Secretary for Domestic Finance, Department of the Treasury

² The same is true of DTCC's joint venture, Omgeo, which provides confirmation and matching services for trades between broker/dealers and their institutional clients. Omgeo currently operates under an SEC exemption available to "electronic trade confirmation" services; Deriv/SERV's matching service provides analogous capabilities for electronic confirmation of over-the-counter derivative transactions.

David G. Nason
Assistant Secretary for Financial Institutions, Department of the Treasury

Ben S. Bernanke
Chairman, Board of Governors of the Federal Reserve System

Christopher Cox
Chairman, Securities and Exchange Commission

Walter Lukken
Acting Chairman, Commodities Futures Trading Commission

Timothy Geithner
President, The Federal Reserve Bank of New York