IMPORTANT NOTICE

DTCC Deriv/SERV LLC

DTCC
The Depository Trust & Clearing Corporation

#: 589
DATE: August 10, 2007
TO: Distribution
FROM: Yana Granovskiy
SUBJECT: **DTCC Deriv/SERV to Implement Credit Event Processing and other Trade Information Warehouse Enhancements on August 16, 2007**

Release 2.3 of the DTCC Deriv/SERV Trade Information Warehouse (TIW) will be implemented on August 16, 2007. Key components of this release include the following enhancements:

1. Support for Credit Event (CE) Processing

Release 2.3 will add functionality to help process CE on the underlying reference entities related to trades in the TIW. The CE functionality will be used by Participants to notify the TIW which trades should be adhered to a CE. The CE functionality allows firms to automate a significant portion of the CE processing for trades covered by an ISDA Protocol. (*Please note that a separate digital certificate is required to access CE functionality and related reporting. Firms are encouraged to procure this access in advance of their intended usage. Please send all requests for the new Adherence certificate to*: derivserv_implementation@dtcc.com)

CE processing will include the following steps:

a) Record a CE

When requested by a User pursuant to procedures established by Deriv/SERV, Deriv/SERV Operations will establish a Credit Event Master Record for this event in the TIW. Each CE will have a unique name (i.e. "*Co123*") that Participants will use when adhering a TIW trade to this event.

b) Firm Adherence to the CE

Firms will continue to follow the existing ISDA® (ISDA is a registered trademark of the International Swaps and Derivatives Association) process for Firm adherence to the CE. Deriv/SERV Operations will monitor ISDA publications for Firm adherence to a CE and record ISDA Firm adherence, by DTCC Participant number, within the TIW system.

c) Trade Adherence to the CE

Participants will indicate which individual TIW trades should be adhered to the CE by using one of the following methods:

- CSV Spreadsheet upload
- Web GUI screens

Trade adherence is bilateral, therefore both Parties to the trade must adhere the trade to the CE for CE Processing to occur.

d) CE Processing

The TIW will calculate the effects of a CE according to the ISDA protocol for every trade that was bilaterally adhered where the trade calculations can be made[1]. The financial effects of these calculations will result in one or more payments between the Parties to the adhered trade. Release 2.3 expands the TIW payment processing by adding payment types and automatic payment processing for CEs.

CE processing will be automated for adhered trades and will include the following steps:

- Cancel previously generated coupon payments as applicable.
- Generate replacement coupon payments for the period up to and including the event determination date.
- Generate payments for net recovery amounts.
- Adjust applicable factors for Credit Default Index (CDX) trades.
- Process automatic Exit transactions for all Credit Default Single Name trades processed for CE.

e) CE Reporting

The following CE reports will be available to assist participants with the CE processing:

1. Adherence Status Report by Trade

   This report displays a complete list of participant trades where the participant has adhered to a Credit Event as of the report request date. The adherence status is referenced in three categories:
   1. Trades where "my firm" has adhered, but the counterparty has not
   2. Trades where the counterparty has adhered, but my firm has not
   3. Trades where both "my firm" and the counterparty have adhered

   This report is generated "on request" by Participants via the Deriv/SERV web application.

2. Adherence Status Report by Account

   This report displays a list of accounts that adhered to one or more CEs. The report will contain a list of all DTCC accounts that currently adhere to the CE.

   This report is generated "on request" by Participants via the Deriv/SERV web application.

3. Credit Event Exception Report

   This report displays a list of Participant Trades that failed CE Processing for any reason. It will list all the trades for which there has been adherence both at the firm level and trade level by both parties to the trade, but the TIW could not process the CE either because there was not enough information for the Credit Event or the TIW status was Uncertain

   This report will be automatically generated for each of the participant accounts at the end of day.

2. Factor application at the trade level for Credit Default Indices

Release 2.3 will introduce an enhancement to CDX logic by setting the factor for CDX transactions at the Trade level for all the confirmed trades based on Markit data when the trade was first confirmed. A Trade level factor applied at the time of trade confirmation will be the most current and only applicable

[1] Trades may be adhered, however due to the nature of the trade details in limited cases, CE payment processing cannot be calculated.

factor for that trade at any given point of time. Once the factor has been set by the TIW from the Markit Data, at the time of confirmation, the Index factor can only change by means of a CE.

As a precursor to this overall feature, Deriv/SERV updated all CDX TIW records with the latest version of the factor (on June 28th). This factor will be based on the appropriate factor assuming that all possible credit events within the Index were settled. The latest factors will also be applied to the Backloaded index trades once they confirm.

In the future, transactions entering the TIW through the backload process will have their factor set at the latest factor, regardless of the annex date. This is because some firms are backloading their transactions using the original annex date while others are backloading the transactions using the latest date. If a firm determines that the TIW has the wrong factor, they may utilize the no-calculation functionality described below.

3. Calculation Flag ("Calc Flag")

Release 2.3 introduces functionality allowing participants to notify the TIW to stop (or start) automatic coupon payment calculation and processing of coupon payments for a trade. Participants can use the Deriv/SERV web application to change the setting of a TIW "Calc Flag" setting associated with a TIW trade. The Calc Flag setting is only applicable to the coupon payments for Credit Default Single Name or Credit Default Index Trades. The Calc Flag setting starts or stops DTCC TIW payment calculations for coupons. The Calc Flag has no affect on one-time payments and does not affect automatic Payment processing for any amount explicitly included in the Warehouse record confirmation.

For every TIW trade where DTCC has calculated a current coupon payment, the "Calc Flag" will automatically be set to Yes and the TIW will continue to calculate coupon payments for this trade.
For every TIW trade where DTCC has not calculated a current coupon payment, the "Calc Flag" will automatically be set to No and the TIW will not calculate coupon payments for this trade.

Firms may unilaterally switch the "Calc Flag" to "Yes" or "No". Each time a TIW record's "Calc Flag" setting is changed, an MQ messages will be transmitted to the affected firms.

The Deriv/SERV Position Reconciliation Report will be updated to include the "Calc Flag" field.

No Calc Report

This report will list all trades for which the "Calc Flag" is set to "No" (either via the manual or automatic setting). This report is generated daily for each participant during the EOD batch cycle.

4. Coupon Payments Calculations for ABX/CMBX Transactions

Release 2.3 introduces support for payments for ABX and CMBX trades.

The TIW uses a data feed from Markit (the "RCD" file) to obtain the payment date and factors per million of notional to calculate payments for the following payment types:

- Fixed rate (i.e. the 'coupon')
- Interest shortfall
- Interest shortfall reimbursement
- Principal shortfall
- Principal shortfall reimbursement
- Write-down
- Write-down reimbursement

The TIW will use the appropriate trade notional and RCD file per million factor to calculate payments.

The Warehouse uses the trade reference entity name to search against the ABX/CMBX RCD file to obtain these factors. In the event a mapping match is not found, Deriv/SERV will be unable to generate ABX/CMBX payment calculations.

In very rare cases the RCD file contains Fixed Rate Correction or Floating Rate Correction factors. The TIW will not process payments for these two payment types.

The messaging, GUI, and reporting functions for ABX/CMBX transactions are equivalent to CDX trades which are detailed in the functional specifications available at the derivserv.dtcc.com website

5. Fees and One-time Payments on All Trades and Post-Trade Events

Prior to the 2.3 conversion, the TIW did not produce payment messages for fees and one-time payments when the TIW could not produce the coupon for the trade. After the 2.3 conversion the TIW will produce payment messages for fees and one-time payments for all product types (whether or not the coupon is calculated by the TIW.) The manual Gold-NoCalc flag does not prohibit TIW payment generation for fees and one-time payments.

As part of the conversion the TIW will produce payment messages for fees and one-time payments on trades and post-trade transactions previously confirmed where the *fee payment date is after August 16, 2007.* These payment messages will only be for 'missed' fees and one-time payments (i.e. fees on Tranches); previously transmitted payments for fees and one-time payments will not be resent.

Ongoing after the conversion, payment messages for fees and one-time payments will be sent for all supported versions of the Payment messages (i.e. both payment message versions 6.0 and 6.1).

6. Claims Report

A TIW report is available listing all payments (coupon and one-time payments) where the Scheduled Valued Date is greater than the original payment date and the scheduled valued date falls during the week of the generated report. This report is automatically generated at the end of week for a Participant's entire family of participant accounts for claims affected during that week.

16 August 2007 Release 2.3 Timeline

1. D/S applications (Mainframe and GUI) will be unavailable for 6 hours (6:00 PM – 11:00 PM EST 16 August 2007 / 11:00 PM 16 August 2007 – 4:00 AM 17 August 2007 GMT).

2. Release 2.3 Conversion Jobs will start at 3:00 PM EST (8:00 PM GMT). The conversion has the following affects on MQ messaging:
    - From 3:00 PM - 11:00PM EST / 8:00 PM – 4:00 AM GMT existing MQ *payment* messages outbound from DTCC will be suspended.
    - From 3:00 PM – 6:00 PM / 8:00 PM -11:00 PM GMT normal trade *confirmation* message processing will occur.
    - From 6:00 PM – 11:00 PM EST / 11:00 PM – 4:00 AM GMT outbound trade confirmation message processing will be suspended
    - All inbound queues to DTCC will remain open. Upon completion of the conversion all queued transactions will be processed

3. Starting approximately 6:30 PM EST (11:30 PM GMT) D/S will start sending Release 2.3 *new payment messages* applicable for the 2.3 Release which are:
   a. ABX/CMBX payments
   b. GNC messages

   } Please note these messages are only available in version 6.1 of TIW payment messages.

   c. Fees on Gold No Calc (GNC) trades where the *Fee Payment Date is after August 16, 2007*

   } Please note fees will be supported in versions 6.0 and 6.1 of TIW payment messages.

4. Starting approximately at 11:00 PM EST (4:00 GMT) the TIW will transmit TIW Payment messages for trades that were submitted between 3:00 PM – 11:00 PM EST (see # 2 above). The system will also generate TIW Payment Reports.

5. Starting approximately at 11:00 PM EST (4:00 GMT) the TIW will process and transmit TIW trade confirmation messages for trades submitted between 6:00 PM – 11:00 PM EST (see #2 above.)

6. August 17, 2007 7:00 PM EST (00:00 GMT) D/S will start generating the updated Position Reconciliation Report that will include the "Calc Flag" indicator, the No Calc report, and the entire suite of Credit Event reports.

Any questions or comments regarding this release or DTCC Deriv/SERV in general should be directed to your relationship manager or DerivSERV_RMs@dtcc.com