

DTCC Deriv/SERV TODAY

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Markit and DTCC Launch MarkitSERV

Markit and DTCC recently launched MarkitSERV, a new company that combines the two organizations' electronic trade confirmation and workflow platforms to provide a single gateway for over-the-counter (OTC) derivative trade processing.

Jointly owned by DTCC and Markit, MarkitSERV combines the DTCC Deriv/SERV and Markit Wire trade confirmation platforms to cover all major asset classes

including credit, interest rate, equity and commodity derivatives. The new company includes the Markit and DTCC flagship trade processing services for affirmation, confirmation, novation, allocation and reconciliation.

The initiative was first announced in July last year, subject to completion of due diligence, regulatory filings and approval by relevant global regulators. In August, Markit and DTCC announced that due diligence

(continued on page 7)



DTCC Provides Further Market Transparency On OTC Credit Derivatives

DTCC recently brought further transparency to the global credit default swaps (CDS) market, worth more than \$31 trillion, by expanding its public release of CDS data maintained in its Trade Information Warehouse to include historical information on those contracts.

The Warehouse is the only comprehensive global repository for the OTC credit derivatives market. DTCC gathers and stores information on OTC credit derivatives in its repository and performs critical post-trade processing functions such as automated calculation, netting and central settlement of payment obligations, as well as settlement of credit events such as bankruptcies. In addition to the data for the current week the expanded data release will now show information on the legally binding records from the previous week, month and year.

DTCC first began publishing the CDS information from its global registry on November 2, 2008. Initially, DTCC will use the first week of data posted in November 2008

(continued on page 2)

DTCC Provides Further Market Transparency

(continued from page 1)

for the “year ago” data until actual “year ago” information becomes available in November 2009. This expansion will allow market participants, regulators and the public to gain a greater perspective on trends and changes in the value of these instruments.

“Because nearly all credit derivatives transactions are registered and maintained in the Warehouse’s global repository, the industry and regulators worldwide are able to

Warehouse, which we release publicly on a weekly basis.”

The Warehouse proved critical a year ago this month, when Lehman Brothers declared bankruptcy. When rumors sent shockwaves through the market predicting that potential net liabilities on credit default swaps on outstanding Lehman CDS obligations could top \$400 billion, DTCC was able to step in and dispel this misinformation by publicly

management and collateral systems by leveraging the infrastructure already available in the Warehouse to provide other services. Three CCPs, ICE Trust US, ICE Clear Europe and Eurex are currently processing CDS trades. The Warehouse provides asset servicing such as payment reconciliation, centralized settlement, name change processing and credit events processing, among others.

The Warehouse historical data will not include information on the more customized trades which were added into the Warehouse in July by major firms involved in CDS trading. Those trades are too customized to be stored in the Warehouse in their full, legal form (like most other CDS data), but basic data on the contracts are available to provide regulators with a better view of the total CDS risk being taken on by key firms.

DTCC updates its website weekly on Tuesdays, after 5:00 p.m. ET (10 p.m. GMT). The data is available at www.dtcc.com/products/derivserv/data.

The total value of the legally confirmed credit derivatives held in DTCC’s Warehouse generally has been trending down, mostly as a result of efforts by the industry to eliminate offsetting trades to the extent possible. As of September 11, the gross notional value of those CDS trades in the Warehouse was \$26.9 trillion, down from \$33.56 trillion when DTCC first began publishing its data in 2008. An additional \$5.7 trillion in customized trades are also in the Warehouse.

Although the overall value is down, the value of trading in specific indices and single-name reference entities has shown significant changes over time. ■

assess the value and risk exposures of the market from a central vantage point, which is essential in times of crisis,” Stewart Macbeth, DTCC managing director and head of the Trade Information Warehouse, said. “Transparency has also been enhanced in the marketplace, as the repository is able to provide the investing public and regulators with a view of the data registered in the

releasing data from the Warehouse showing that the actual amount would be less than \$6 billion. This had an immediate calming effect on the market.

The Warehouse has also allowed for the rapid rollout of central counterparties (CCPs) in both the U.S. and Europe, since those CCPs were able to focus on developing risk

The screenshot shows the DTCC website interface with a search bar and navigation menu. The main content area displays 'Trade Information Warehouse Data (Section I)' with a table titled 'Table 1: All Credit Products by Customer Type and Breakout by Product Type'. The table data is as follows:

TOTAL FOR ALL CREDIT PRODUCTS						
		Dealer		Non Dealer/Customer		Totals
		Gross Notional (USD EQ)	Contracts	Gross Notional (USD EQ)	Contracts	Gross Notional (USD EQ) / Contracts
Buyer Type	Dealer	21,682,425,901,836	1,863,204	2,546,204,850,124	191,469	24,228,630,751,960 / 2,054,673
	Non Dealer/Customer	2,808,413,004,381	228,428	42,836,481,845	3,299	2,851,249,486,226 / 231,727
	TOTAL	24,491,038,906,217	2,091,632	2,609,041,311,969	194,768	27,100,080,220,186 / 2,286,400

TOTAL FOR ALL CDS (Credit Default Single Names)						
		Dealer		Non Dealer/Customer		Totals
		Gross Notional (USD EQ)	Contracts	Gross Notional (USD EQ)	Contracts	Gross Notional (USD EQ) / Contracts
Buyer Type	Dealer	12,937,342,110,148	1,742,058	1,240,405,418,248	167,669	14,177,747,528,396 / 1,909,727
	Non Dealer/Customer	1,403,002,196,125	204,240	29,443,526,091	2,899	1,432,445,716,216 / 207,139
	TOTAL	14,340,344,306,273	1,946,298	1,269,848,944,339	170,568	15,610,193,244,612 / 2,116,866

New Custom Contracts in Warehouse Valued at \$5.7 Trillion

DTCC reported in August that 216,765 credit default swaps (CDS) contracts valued at approximately US\$5.7 trillion in gross notional value, were entered into its Trade Information Warehouse (Warehouse) by market participants in the global over-the-counter (OTC) derivatives market. These trade submissions met, in part, industry commitments made to the Federal Reserve Bank of New York and other global regulators to have all CDS contracts registered into a global repository by July 17.

“We are pleased to be able to verify and now report on CDS data based on what we’ve seen from firms’ initial submission of contracts into our global registry to meet their July 17 deadline,” said Stewart Macbeth, DTCC managing director and general manager of the Trade Information Warehouse. “There was a small percentage of CDS trades which were not previously held in the Warehouse because of the tailored nature of the contracts. In registering these CDS trade positions, the goal of ensuring that risk could be seen from a central vantage point at a central repository has now been achieved for the CDS market.”

These contract submissions represent more customized contracts that are not confirmable on an electronic platform such as the automated service provided by DTCC Deriv/SERV (now a part of MarkitSERV). Data registration was received using 30 different currencies from a customer base that spans 35 countries. The submission of these customized trades are for repository and reporting purposes only and do not confer a legal binding agreement in the Warehouse as do electronically confirmed trades that are maintained in the global repository. As of July 24, there were about 2.2 million electronically confirmed contracts with a gross notional



“In registering these CDS trade positions, the goal of trying to ensure that risk could be seen from a central vantage point at a central repository has now been achieved for the CDS market.”

– Stewart Macbeth

value of about US\$26.5 trillion registered in the Warehouse’s repository. These new submissions represent less than 10% of the

total contracts and 17% of the total gross notional value of contracts registered in the repository.

Details on these customized contracts are generally expected to remain fairly static. DTCC will nevertheless publicly release statistical data on these contracts from time-to-time, though not necessarily as part of its weekly releases of data relating to more standardized contracts, particularly significant changes in gross notional value or total contracts be determined. DTCC will provide global regulators with information on these contracts, also known as “copper” records, as appropriate and upon request.

DTCC currently operates the industry’s only centralized global repository for the OTC credit derivatives market, supporting global dealers and 1,400 buy-side firms from 35 countries who trade these instruments. ■

DTCC CEO Stresses Importance of Single Trade Repository for OTC D

Donald F. Donahue, Chairman and Chief Executive Officer of DTCC, stressed that a single trade repository for over-the-counter (OTC) derivatives contracts is essential to mitigating risk and enhancing transparency in the market. Donahue made his remarks as part of his keynote address at a U.S. Chamber of Commerce discussion titled “Modernizing Derivatives Oversight: Developing Policy for the 21st Century” in July.

“DTCC strongly urges Congress and regulators to codify into law the contin-

ued operation of a central global repository for OTC credit derivatives,” Donahue said. “We believe that having all of this information residing in a single place is a crucial contribution to reducing risk and promoting market efficiency. When markets are in turmoil, it is critical that regulators have the ability to see the full details on the underlying trading positions of derivatives contracts from a central vantage point to quickly assess systemic risk across the financial system — and to bring greater transparency to the market. This snapshot of the market can only be provided by a single global repository.”

DTCC operates the Trade Information Warehouse — the only comprehensive repository and post-trade processing infrastructure for OTC credit derivatives in the world. The Warehouse handles the calculation, netting, and central settlement of payment obligations between counterparties, and automates the processing of “credit events” — situations where the protection against default provided by a credit default swap is activated.

In addition, DTCC’s Deriv/SERV matching engine, which electronically captures, confirms and matches over 95% of all credit

U.S. Chamber Event Sparks Debate On OTC Derivatives Regulation

Speaking before an audience of approximately 150 corporate executives at a recent U.S. Chamber of Commerce briefing on regulation of the over-the-counter (OTC) derivatives market, Larry E. Thompson, DTCC managing director and general counsel,

said, “Congress is reviewing a variety of ways to create transparency and reduce risk in the OTC marketplace. This includes standardizing OTC contracts as much as possible so that trades can be cleared through a central counterparty or CCP, but also leaving some flexibility for the

trading of non-standard contracts designed for individual company needs.”

The July 21, Washington D.C. event, “Modernizing Derivatives Oversight: Developing Policy for the 21st Century,” was organized by the Chamber’s National Chamber Foundation (NCF). NCF is a non-profit affiliate of the U.S. Chamber of Commerce dedicated to identifying and fostering public debate on emerging critical issues. Donald F. Donahue, DTCC Chairman and CEO, gave the keynote address at the conference, which brought together experts from diverse sectors to educate and engage the public about the use of OTC derivatives and their role in the markets.

Transparency and systemic risk

Thompson participated in a panel discussion, “Examining Derivatives and Systemic Risk.” Other participants included Kevin



(continued on page 6)

Derivatives

derivatives traded globally, supplies the Warehouse with more than 41,000 transaction sides daily. The Warehouse connects and services over 1,400 global dealers, asset managers, and other market participants in 35 countries. The trade repository is also designed to be extended to other OTC derivative asset classes.

DTCC has publicly stated that it will support all efforts to create central counterparty (CCP) services planned in the U.S. and overseas, on a non-discriminatory basis.

“We believe that when central counterparties and a global repository work in tandem to support each other’s functions, risk can be significantly mitigated, and transparency enhanced in the marketplace,” Donahue said. “This powerful combination is what is needed to ensure the business community has the necessary risk benefits and financing flexibility, and our policy makers have the assurance that the integrity of the financial system will be maintained.

“If we consider that globally there are about six CCPs planned to be launched either in Europe or in the U.S., we can recognize the potential for fragmentation of data about the market, if there’s no central repository storing all the data in one place,” Donahue said. “If



we recognize that these CCPs will only clear a portion of the market, the need for a central repository is further emphasized.”

Since last year, DTCC has seamlessly processed or is processing, through the Warehouse, more than 40 credit events, including the Lehman Brothers and Washington Mutual bankruptcies as well as the conservatorships for Freddie Mac and Fannie Mae. Because the industry had a robust, centralized infrastructure for the CDS market in the wake of last year’s financial turmoil, market participants were able to manage the multiple processing and operational challenges they faced with a greater degree of certainty and efficiency.

DTCC has been working closely with market participants and regulators to achieve that vision. Since November 2008, DTCC has been publishing weekly on its website, key

statistics and data from the Warehouse on the size and turnover of the CDS market.

Following the Lehman bankruptcy last year, DTCC played a significant role in unwinding over \$500 billion in open trading positions from trades in equities, mortgage-backed and U.S. government securities, without any loss to the industry — and avoiding additional burden on taxpayers.

DTCC General Counsel, Larry E. Thompson, who recently testified before the Capital Markets Subcommittee of the House Financial Services Committee, served as a panelist during the Chamber of Commerce event. ■

To view the entire text of Donahue’s speech, go to <http://dtcc.com/downloads/leadership/speeches/DONAHUE%20-%20Chamber.pdf>

U.S. Chamber Event Sparks Debate

(continued from page 4)

Gould, Markit North America president and global head of fixed income; Theo Lubke, Federal Reserve Bank of New York senior vice president; Cynthia Meyn, PIMCO senior vice president; John Shay, International Derivatives Clearing Group LLC founder and chief marketing officer; and Don Thompson, managing director, JPMorgan Chase & Co. Sharon Brown-Hruska, Ph.D. and vice president, National Economic Research Associates, Inc., moderated the session, which focused on the operational issues related to improving oversight and transparency in OTC derivatives trading and how that falls within the broader goal of reducing systemic risk.

“We now have an opportunity to comprehensively reform regulation of our capital markets – and we must get it right,” said David Chavern, U.S. Chamber of Commerce executive vice president and COO, during his opening remarks for the event. “The Administration and the Chamber agree on many common goals, including more comprehensive oversight of systemic risk, greater transparency, and improved customer and investor protections. Of critical importance is how to regulate complex financial instruments such as over-the-counter derivatives.

“Businesses from diverse sectors use OTC derivatives not to take speculative positions, but to hedge against legitimate business risks, including fluctuations in materials prices, commodities, fuel, interest rates and foreign currencies. The policy question to be addressed is this: how can we enhance transparency and oversight of the derivatives markets while maintaining an over-the-counter market and the important risk management function it serves for companies of all kinds? This question is fundamental to



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– Larry Thompson

a return to well-functioning capital markets,” Chavern added.

Market soundness

A separate panel session, “Fostering Efficiency and Transparency,” consisted of representatives from the key regulatory bodies and corporate investors in derivatives products. This group focused on developing policies that will protect the soundness of the capital markets while upholding the important risk-management function these financial instruments perform for companies and market participants.

Panelists included Megan Ivory Carr, 3M Company, manager, Federal Government Services; Michael Cosgrove, GFI Group, Inc. managing director and head of Commodities and Energy Brokerage, North America; Elizabeth

King, U.S. Securities and Exchange Commission associate director, Division of Trading and Markets; Michael Shapiro, Zimmer, Inc. associate director, Treasury; and Ananda Radhakrishnan, Commodity Futures Trading Commission, director, Division and Intermediary Oversight. The panel moderator was Russell B. Mallett, III, PricewaterhouseCoopers LLP, Financial Services Technical Leader, National Professional Services Group.

“As Congress looks at the value of creating a systemic risk regulator, there is always a need for a strong and robust infrastructure like the one DTCC has provided, ensuring that risk can be viewed from a central vantage point,” Thompson advised during his panel session. “We believe DTCC should continue to serve as a lynchpin of the regulatory reforms under consideration.” ■

Macbeth: Double, Double Toil and Trouble

Stewart Macbeth, DTCC's new head of DTCC's Trade Information Warehouse for OTC credit derivatives, made the case for a single trade repository for credit derivatives in a recent article that appeared in *Global Investor* magazine.

Noting in the article that while central counterparties (CCPs) were creating a more fully established environment for credit derivatives, "the need for a centralised global repository to maintain cleared and uncleared CDS transactions is not diminished. With the likelihood that there will be multiple CCPs operating in

the global market, there will be fragmentation of data if there's no central repository storing all trade details in one place."

Macbeth said that fragmentation "would impede the ability of regulators to protect investors and the integrity of the financial services system as a whole."

He noted that "in a market where a European firm might trade with a U.S. firm on an Asian underlying security, it would be extremely difficult to divide up a repository's responsible area without omission,

and when reported across jurisdictions, without duplication. Given a repository is not a principal to any transactions or transaction flows, there is not a strong need for localised instances; rather it suits a collaborative regulatory scheme, where each regulator has access to relevant data, and there is transparency and collective input to the operation of the service." ■

The full text of Macbeth's article can be read in the October issue of Global Investor magazine and on the Global Investor website at www.globalinvestormagazine.com.

Markit and DTCC Launch MarkitSERV

(continued from page 1)

was complete and MarkitSERV had received regulatory approval from the U.K. Financial Services Authority and the U.S. Department of Justice.

MarkitSERV was created in response to calls from regulators, politicians and market participants for greater cooperation within the industry over electronic trade confirmation to reduce risk in the OTC derivative markets. More than 50 banks, 50 inter-dealer brokers and 1,200 funds are already connected to the service, which is expected to handle in excess of 15 million confirmations in its first year.

"We believe the launch of MarkitSERV will be transformational for the financial community that has been looking for more streamlined and automated confirmation of OTC derivative instruments globally," said Michael C. Bodson, Executive Managing Director of DTCC Business Management and Strategy, and Chairman of MarkitSERV. "We've listened to our customers and by combining the expertise of these two very

successful organizations, we will be able to further extend benefits to a wider user base and across a more diverse range of financial instruments."

Lance Ugla, Chief Executive Officer of Markit, said: "MarkitSERV combines the individual strengths of Markit and DTCC's trade processing services to provide a single electronic platform for the OTC derivative markets. This initiative represents an important milestone at a time of significant change in the financial markets, and will provide the industry with the framework it needs to improve efficiency and reduce risk."

Jeff Gooch, Chief Executive Officer of MarkitSERV, said: "MarkitSERV is now live, providing market participants with a single electronic gateway for trade processing across asset classes. We look forward to working with the buy-side and sell-side to help them reduce operational risk and adopt clearing in the OTC derivative markets, in line with their commitments to global regulators."

Ric Okun, Executive Vice President of PIMCO, said: "In the current economic climate, having a robust derivative processing capability has become more essential than ever before for buy-side institutions. At PIMCO, we are very excited about the enhanced workflow platform being offered by MarkitSERV and see it as an integral solution to meet the increasing demands of our business."

MarkitSERV will rationalize costs by removing the need for users to connect to numerous, asset-class specific trade processing systems. Instead, clients will be able to use their existing connectivity to access a wider variety of combined services. The new company will be industry-governed and will have a global presence, with offices in London, New York and Tokyo.

Markit's data and valuation services, and DTCC's Trade Information Warehouse's, life-cycle event processing and centralized settlement and payment netting services will remain part of their respective parent companies. ■

DTCC Processes Record Volume in OTC Derivative Transactions

DTCC's over-the-counter (OTC) derivatives service seamlessly processed a record 183,409 transactions (or sides) on August 6. This figure represents more than four times the average 41,000 daily transaction volume processed on DTCC's Deriv/SERV automated matching and confirmation platform.

A major portion of the volume involved "compression" activity, in which multiple offsetting contracts are "torn up" and new, single contracts are issued. The activity does not change the overall net values of the compressed contract positions. Industry participants noted that by streamlining the total number of counterparties' outstanding contracts, "compression" reduces operational risk and enhances processing efficiency for market participants.

"DTCC is constantly working with the OTC derivatives community to enhance the market's infrastructure, enabling market participants to handle unpredictable jumps in trade activity such as we experienced on August 6, as well as better manage their contract positions," said Stewart Macbeth, managing director. "Because of the industry's efforts with DTCC to improve its processing practices, there was virtually no latency in transaction processing on this recent record volume day. We believe this reflects the maturity that the processing for OTC derivatives has reached in just a relatively few short years."

Among the improvements made recently to Deriv/SERV's systems was a separation of processing for different trade types, implementation of vendor-initiated termina-

tions, and revisions in programming to allow processing to run in parallel rather than sequentially.

The bulk of the transaction activity involved credit derivatives, but equity and interest rate transactions are also processed through DTCC's matching and confirmation systems. There were 93,975 new credit default swap (CDS) contracts matched and registered into the Warehouse's global repository on August 6 and 79,803 partial terminations. The remainder of the transactions involved such transactions as full or partial assignments, amendments, increases and exits in CDS, and similar transactions for equity and interest rate derivatives. In addition, for new contracts, confirmations were made on more than 80% of the new submissions on trade date.

DTCC's systems process more than 95% of the credit derivatives electronically matched and confirmed globally. The Warehouse is the only central global repository and post-trade processing infrastructure for the OTC credit derivatives contracts. DTCC Deriv/SERV's customer base includes all major dealers and more than 1,400 buy-side firms and other market participants based in 35 countries.

In addition, many of the major firms involved in credit derivatives have recently voluntarily loaded details of their highly customized credit derivatives contracts into DTCC's Trade Information Warehouse, so that information can also be made available to regulators globally for risk assessment. ■

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DTCC's purpose is to help grow the world economy by furthering the development of low-cost, efficient capital.

Our mission is, by 2010, to be the acknowledged world-class provider of servicing solutions to financial markets through leadership, innovation, technology, risk management and strategic alliances.

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