



As part of its effort to continue to transform and automate the over the counter (OTC) derivatives market, The Depository Trust & Clearing Corporation (DTCC) announced that it has successfully launched key enhancements to its payment matching and netting service, providing real-time input and matching and bilateral netting.

While initially being used for credit default swaps, the new enhancements allow DTCC to also provide payment processing for the entire OTC derivatives market. The new features [continued on page 4]

FICC's RTTM Service Ushers in Real-Time Price Transparency For Municipal Bonds

By Rosalie Jenkins

The Real-Time Trade Matching (RTTM) service of the Fixed Income Clearing Corporation (FICC) subsidiary of DTCC has enabled the Municipal Securities Rulemaking Board (MSRB) to bring price transparency to the municipal bond marketplace. The RTTM service is supporting real-time price reporting for some 30,000 municipal trades a day, along with [continued on page 5]

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Inventory Management System Provides New Functionality in Phase II

By Edward C. Kelleher

New enhancements to The Depository Trust Company's (DTC) Inventory Management System (IMS) now offer customers even greater control over the order and timing of their trade submissions for settlement and provide them with a new, customized capability to determine how their deliveries should recycle in the settlement system.

The enhancements, which represent Phase II of IMS, were approved by the Securities and Exchange Commission (SEC) and implemented in January 2005.

"With this implementation, brokerage firms and other financial institutions that buy and sell stocks, bonds and other financial instruments will have new inventory management tools to enhance delivery efficiency and help ensure certainty in the settlement process," said Thomas Costa, DTCC managing director and general manager for Equity Clearance and Settlement. "IMS continues to transform the

way financial transactions are processed and settled in the United States and moves the financial services industry closer to straight-through processing."

IMS

DTCC began implementing IMS in 2003. IMS provides customers with:

- Greater control over the order and timing of their trade submissions for settlement, including broker-to-broker balance orders, Automated Customer Account Transfer Service (ACATS) and Continuous Net Settlement (CNS) deliveries.
- The ability to automatically authorize institutional deliveries for settlement.
- The re-introduction of deliveries for settlement.
- Expanded authorization and exemption processing to include Night Deliver Orders (NDOs) and broker-to-broker Balance Orders.
- The capability to warehouse deliveries

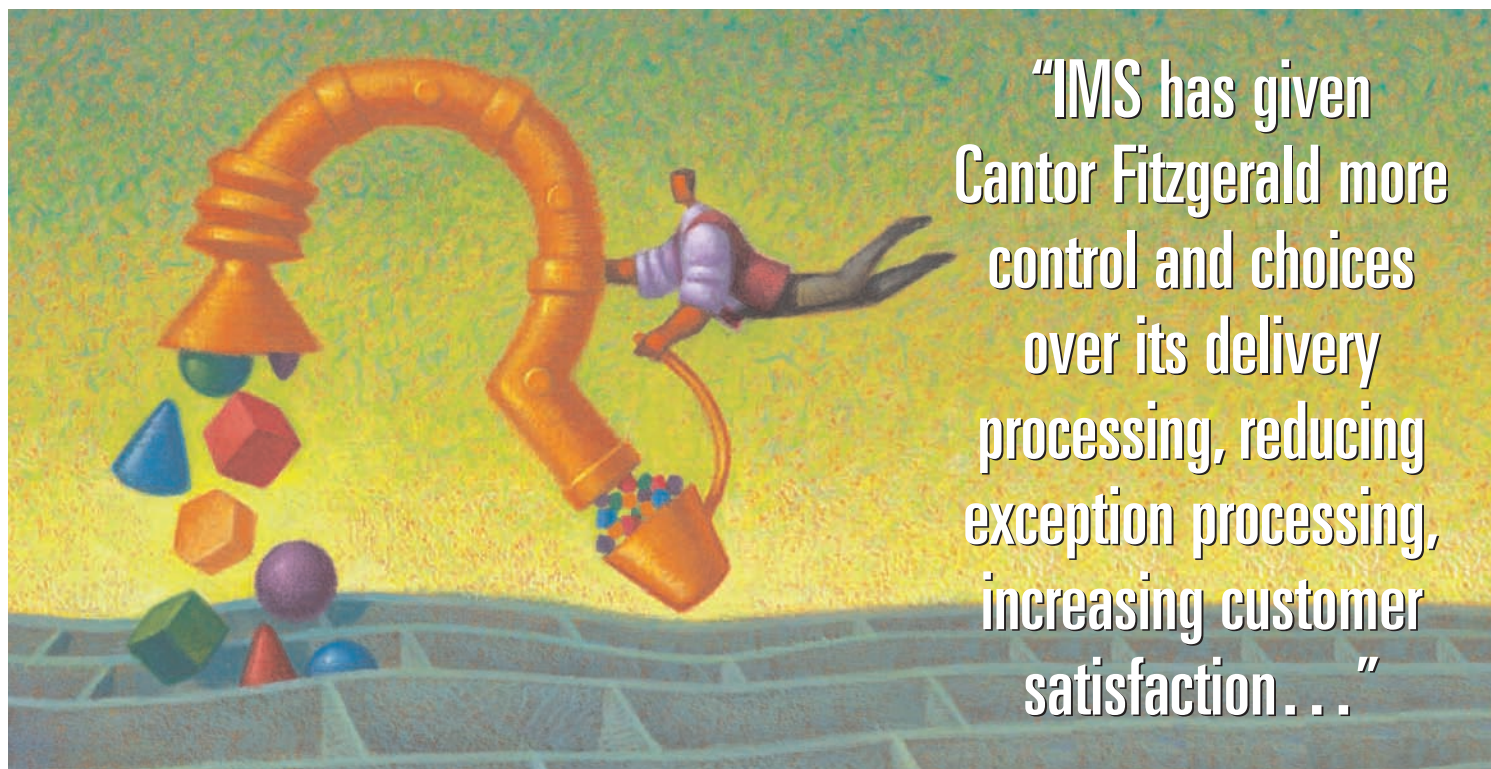
with future settlement dates.

"Phase II permits participants to have their night deliveries submitted in the precise order and at the precise time to maximize customer deliveries, while introducing new controls for recycling instructions," said John Kiechle, director, DTCC Product Management. "We have essentially given customers the controls they need to stop withholding their deliveries outside of DTC in order for those deliveries to complete in the sequence that makes the most sense for their organization."

Submission

During Phase I, IMS customers used a submission profile based on submitting deliveries at a specific time during the night cycle. If the night cycle was delayed for any reason, the profile may not have achieved the customer's desired result. With Phase II, however, IMS offers a new submission profile that submits night cycle deliveries into the system based on a pre-determined,

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"IMS has given Cantor Fitzgerald more control and choices over its delivery processing, reducing exception processing, increasing customer satisfaction..."

Banks and ACATS: Solving the Trust Transfer

By Edward C. Kelleher

N SCC's Automated Customer Account Transfer Service (ACATS) is gaining increasing ground in getting banks to begin participating in this automated customer transfer service.

"ACATS is becoming increasingly important to banks, not only because of the automated transfer capabilities it offers customer accounts, but because of its ability to track and transfer cost-basis information – something vital when you're dealing with trusts," said John Cusumano, president of the Customer Account Transfer Division of the Securities Industry Association (SIA).

And in the past year, bank officials, members of the Customer Account Transfer Division of the SIA, and DTCC have paid special attention to ACATS, preparing for the first time a "Bank ACATS Best Practices" reference guide, as well as a new "Non-standard Transfers User Guide for Banks." These are in addition to DTCC's ACATS Fund/SERV User Guide, which assists banks and trusts with the re-registration process for mutual fund assets.

Since DTCC introduced ACATS for banks in 1999, 25 banks, including State Street Bank, Bank One Trust Co. NA, Citigroup Private Bank/Trust, Mellon Trust, Wachovia Bank, N.A., and National City Bank have signed on for the service.

"More banks are inquiring about ACATS than ever before," said Edlyn Meringolo, vice president, Product Marketing and Development. "And their inquiries involve both the account transfer capabilities as well as the cost-basis transfer service.

"Usage of ACATS among banks was up substantially in 2004, compared to the previous year, and our customers tell us that they're increasingly satisfied with ACATS performance," she said. "Our annual customer survey shows that



"ACATS has been a customer satisfaction tool for us. A transfer generally takes no more than eight days, and our customers like the speed and efficiency." –BOB BECKER, NATIONAL CITY BANK

satisfaction with ACATS for banks jumped to 71% in 2004. That's up from 54% the previous year."

ACATS enables banks, broker/dealers and other financial organizations to submit, review and settle account transfers in a standardized, automated environment; it can transfer equities, corporate bonds, municipal bonds, U.S. government securities, mutual funds and cash, and will shortly be able to transfer annuities and other insurance products. Since its launch in 1985, it has become the industry standard and transfers between 3.2 and 3.5 million accounts each year.

The New York Stock Exchange and NASD first mandated that ACATS be used by member brokerage firms for full account transfers in 1986. Since then, additional functions such as partial transfers, fail reversals, reclaims and mutual fund cleanup have also been made mandatory.

DTCC and the SIA began looking at transferring cost-basis information in 2001. At that time, the SEC also reported that account transfers were the number one client complaint it received.

"And cost-basis was one of the main targets of these complaints," said Cusumano.

Cost-basis is both a broker/dealer and a bank issue. Brokers need this information for their clients. According to one broker/dealer, it is "something they expect to get from their brokers and financial advisors when tax time rolls around." But it's also a banker's issue.

"When trusts are transferred, the cost-basis information has to go with them...and I think you will see many more banks using the new electronic transfer once they understand the benefits and efficiencies it brings to the process," said Cusumano.

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DTCC's Payment Processing *Continued from cover*

facilitate bilateral payment netting, which is the adding and subtracting of all financial obligations between two trading parties, resulting in a single net payment. In addition, the enhanced service also provides an on-line, real-time inquiry and electronic messaging facility that can help accelerate the investigation and resolution process for unmatched trades.

“With the increased automation of OTC derivatives, these enhancements help simplify the way derivative transactions are handled and are bringing more cost efficiency to what has historically been a very manual and error-prone process,” said Richard Ingram, global head of OTC Derivatives Settlements at Morgan Stanley. “In addition, by providing a central payments database and ultimately multi-currency settlement, DTCC is helping add

further risk management and tighter controls to a rapidly growing industry.”

These enhancements follow November's announcement that DTCC has brought into initial production an OTC equity derivatives matching service. A plan to launch an interest rate derivatives matching and confirmation service is also slated for later this quarter.

Through DTCC's central payments system, the 30 leading dealers and buy-side firms now using the payments system can input and reconcile their payments at any time, for any transaction, whether originally matched and confirmed by DTCC's Deriv/SERV trade confirmation services, or confirmed elsewhere. It also leverages trade and account information captured in the Deriv/SERV trade system enabling the service to find and match payments more quickly, thereby increasing the level of efficiency of the cash flow matching process.

“DTCC also plans to help reduce settlement risks further by introducing full value-date settlement of transactions in multiple currencies, management and matching of Standing Settlement Instructions and buy-side specific features such as payment affirmation, in 2005. Features such as rate reset notices for interest rate-related

payments, as well as features for other OTC derivatives asset classes, are also in the development schedule,” said Peter Axilrod, DTCC managing director, New Business Development. “Working closely with ISDA [International Swaps and Derivatives Association] and representatives from all aspects of the OTC derivatives community, our goal is to provide an end-to-end, straight through processing environment from trade confirmation to settlement, helping further reduce operational risk in the OTC derivatives market.”

DTCC's original payment reconciliation service, launched in February 2004, required all firms to submit to DTCC batch files of all payment data related to their credit default trades six weeks prior to the quarterly payment date for these transactions. The service has been growing at an extremely rapid rate, over 50% quarter to quarter, with in excess of 530,000 payments processed in the first quarter of 2005. DTCC expects the recent enhancements to increase industry adoption even further, because it adds flexibility to the service by allowing parties to enter and match payment data at any time after a trade is agreed upon. These services are offered by DTCC Deriv/SERV LLC, a wholly-owned subsidiary of DTCC. @



RTTM Service Ushers in Real-Time Price *Continued from cover*

matching interdealer trades, with a matching rate of over 96%.

Working collaboratively with another DTCC subsidiary, National Securities Clearing Corporation (NSCC), which operates the netting and settlement services for municipals, and with the MSRB, the service began providing support for the MSRB's mandatory 15-minute price reporting requirement for all municipal bond trades that went into effect on January 31.

FICC's interactive real-time messaging functionality allows broker/dealers to submit municipal trade data to RTTM using a single interactive message that serves two purposes – it forwards the data to the MSRB in real time for price reporting, and it continues to accept data for processing by NSCC.

In other words, upon receipt of municipal trade data, RTTM immediately forwards a report of the trade to MSRB, while simultaneously passing the data onward internally for matching, comparison and, ultimately, clearance and settlement of municipal bond trades by NSCC. The combination of interactive messaging and 15-minute reporting gets trades into RTTM closer to trade execution, automatically leading to a higher matching rate for munis.

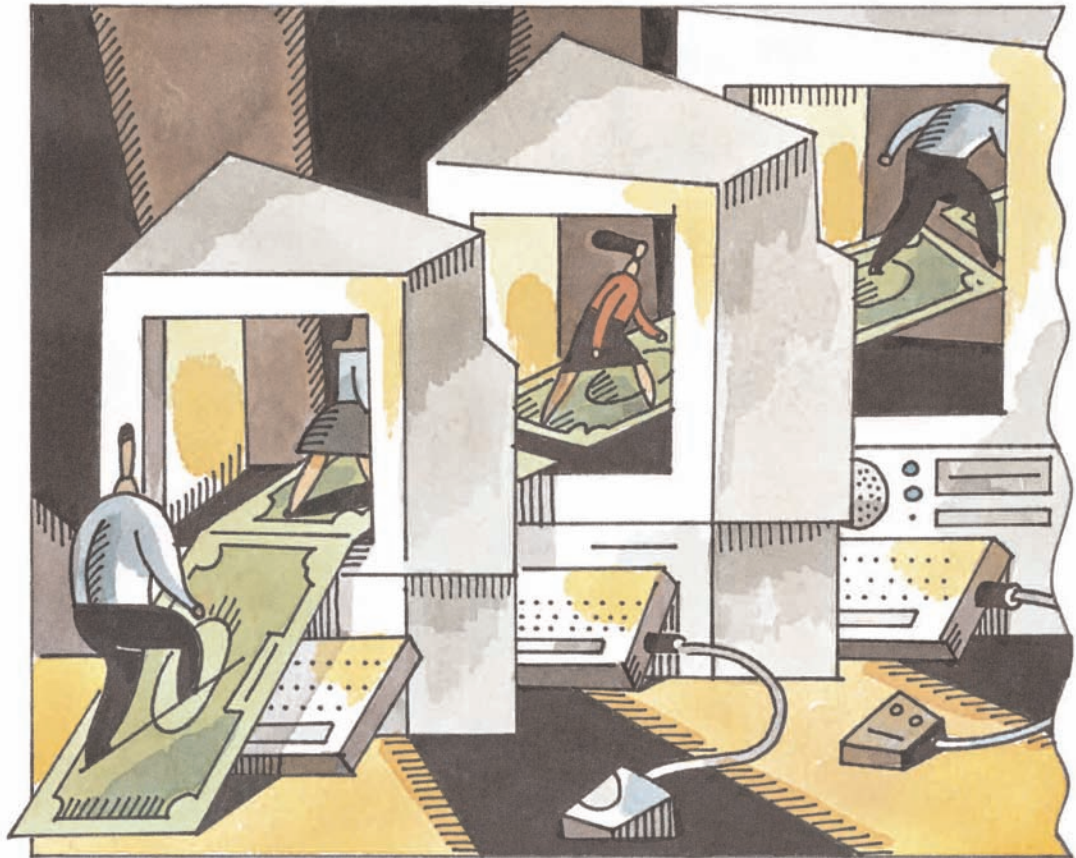
"This represents a new era for municipal bond trading," said DTCC's Fixed Income General Manager Jeff Ingber. "We're pleased to help NSCC participants meet the challenges of the MSRB's new reporting deadline. It helps the regulators, bolstered by real-time communications capabilities, to bring more efficient pricing and enhanced investor confidence to this \$2-trillion marketplace."

SEC Chairman William H. Donaldson characterized the startup on January 31 as

an "historic moment for all municipal bond investors" because "for the first time, investors have ready access to real-time price data for municipal securities."

The RTTM service matches and compares trades in corporate and municipal bonds and unit investment trusts (UITs) in real time with an average daily value of \$13 billion for some 250

through NSCC in batch mode at end of day. As such, all trade data was made publicly available on a day-after basis. Using RTTM's interactive messaging capabilities, this price data can now be forwarded within seconds on to the MSRB, which performs automated error checking and then electronically disseminates prices, providing near real-time transaction



member firms. Once matched by the service, the trades are processed by NSCC for clearance and settlement along with equity trades. NSCC clears and settles most equity and corporate, municipal bond and UIT trading in the U.S., averaging about \$400 billion daily.

Since RTTM was implemented for corporate and municipal bonds and UITs in June 2004, DTCC's Fixed Income group has closely coordinated testing with NSCC participants and the MSRB over the last six months to prepare for the 15-minute reporting rule. Prior to January 31, price reporting to the MSRB was accomplished

price transparency.

"Our price reporting system is moving a large volume of muni trade data almost instantaneously," said Susan Tysk, DTCC managing director. "I think our collective success was facilitated by the fact that we had a number of months to test and fine-tune the price reporting functionality with our customers and the MSRB."

Tysk reported that feedback on the price reporting capability from NSCC municipal bond customers has been positive.

For instance, Alan Bartlett, director of Customer Trading at Pershing LLC, said, "I have been very [continued on page 8]

Naked Short Selling and the Stock Borrow Program

In recent months, there has been a fair amount of media coverage of naked short selling, Regulation SHO and even DTCC's role in that via the Stock Borrow program operated by DTCC subsidiary National Securities Clearing Corporation (NSCC). Because there has been much confusion about these issues, and much misinformation, @dtcc sat down with DTCC First Deputy General Counsel Larry Thompson to discuss these issues.

@dtcc: *Let's start with the question, what is naked short selling and why has it suddenly become an issue?*

Thompson: Short selling is a trading strategy where a broker/dealer or investor believes that a stock is overvalued and is likely to decline. It is an integral part of the way our capital market system works. Basically, it involves borrowing stock that you don't own and selling it on the open market. You then buy it back at a later date, hopefully at a lower price, and as a result, making a profit.

Naked short selling is selling stock you don't own, but not borrowing it and making no attempt to do so. While naked short selling occurs, the extent to which it occurs is in dispute.

@dtcc: *DTCC and some of its subsidiaries have been sued over naked shorting. What has been the result of those cases?*

Thompson: We've had 12 cases to date filed against DTCC or one of our subsidiaries over the naked shorting issue. Nine of the cases have been dismissed by the judge without a trial, or withdrawn by the plaintiff. The other three are pending, and we have moved to dismiss all those cases as well. While the lawyers in these cases have presented their theory of how they think the system works, the fact is that their theories are not an accurate reflection of how the capital market system actually works.

@dtcc: *One of the allegations made in some of the lawsuits is that the Stock Borrow program counterfeits shares, creating many more shares than actually exist. True?*

Thompson: Absolutely false. Under the Stock Borrow program, NSCC only borrows shares from a lending member if the member actually has the shares on deposit in its account at the DTC and voluntarily offers them to NSCC. If the member doesn't have the shares, it can't lend them.

Once a loan is made, the lent shares are deducted from the lender's DTC account and credited to the DTC account of the member to whom the shares are delivered. Only one NSCC member can have the shares credited to its DTC account at any one time.

The assertion that the same shares are lent over and over again with each new recipient acquiring ownership of the same shares is either an intentional misrepresentation of the SEC-

approved system, or a profoundly ignorant characterization of this component of the process of clearing and settling transactions.

@dtcc: *Another allegation is that the Stock Borrow program has become "a reliable source of income" for NSCC? Some articles have said we make almost \$1 billion from it.*

Thompson: This statement is purposely misleading. One billion dollars represents our total revenue from *all* our operations of *all* subsidiaries. The fact is that there are NO separate fees for transactions processed through the Stock Borrow program. There is just the normal fee for delivery of the shares, which is 30 cents per delivery. If you assume we make an average of 22,000 deliveries through Stock Borrow a day, there would be about \$6,600 extra a day in revenue over 253 trading days, or about \$1.67 million a year in additional revenue, out of \$1 billion.

All of our members know that DTCC and all its subsidiaries operate on a "not for profit" basis. What that means is that we aim to price our services so that our revenues cover our expenses.

@dtcc: *Just how big is the fail to deliver, and how much of those fails does the Stock Borrow program address?*

Thompson: Currently, fails to deliver are running about 24,000 transactions daily, and that includes both new and aged fails, out of an average of 23 million new transactions processed daily by NSCC, or about one-tenth of one percent. In dollar terms, fails to deliver and receive amount to about \$6 billion daily, again including both new fails and aged fails, out of just under \$400 billion in trades processed daily by NSCC, or about 1.5% of the dollar volume. The Stock Borrow program is able to resolve about \$1.1 billion of the "fails to receive," or about 20% of the total fail obligation.

The Stock Borrow program was created in 1981 with the approval of the SEC to help reduce potential problems caused by fails, by enabling NSCC to make deliveries of shares to brokers who bought them when there is a "fail to deliver" by the delivering broker. However, it doesn't in any way relieve the broker who fails to deliver from that obligation. Even if a "fail to receive" is handled by Stock Borrow, the "fail to deliver" continues to exist, and is counted as part of the total "fails to

deliver.” If the total fails to deliver for that issue exceeds 10,000 shares, it gets reported to the markets and the SEC.

@dtcc: *If the volume in the Stock Borrow program is so small, why are these companies suggesting it is a major issue?*

Thompson: Frankly, we believe that the allegations are attempting to purposely mislead those who are not familiar with this program. A number of small OTCBB and so-called “pink sheet” companies have contended that this practice is driving down the price of their shares and driving them out of business.

According to their own 10K and 10Q reports financial auditor’s disclosure statements, many of these firms have admitted that “factors raise substantial doubt about the company’s ability to continue as a going concern.” They have had little or no revenue, according to their financial reports, and substantial losses, for periods of seven or eight years. One of these companies has been cited for failing to file financial statements since 2001. Another has been cited by the SEC for press releases that misled investors on expanding business contracts that didn’t exist. They will do anything they can do that takes people’s attention off that kind of record, especially if they can convince a law firm to take the case on a contingency basis, which is what has happened.



Larry Thompson

@dtcc: *Who are the law firms bringing these suits?*

Thompson: The main law firms engaged in these lawsuits, and they have been behind virtually all of them, were principally involved with the tobacco class action lawsuit. They like to bring suits in multiple jurisdictions in an attempt to find any jurisdiction where they might be successful in winning large judgments.

@dtcc: *What causes a fail to deliver in a trade? Is it all naked short selling?*

Thompson: There can be any number of reasons for a “fail to deliver,” many of them the result of investor actions. An investor can get a physical certificate to his broker too late for settlement. An investor might not have signed the certificate, or signed in the wrong place. There may have been human error, in that the wrong stock (or CUSIP) was sold, so the delivery can’t be made. Last year, 1.7 million physical certificates were lost, and sometimes that isn’t discovered until after an investor puts in an order to sell the security. There are literally dozens of reasons for a “fail to deliver,” and most of them are legal. Reg SHO also allows market makers to legally “naked short” shares in the course of their market making responsibilities, and those obviously result in fails. We can’t do

anything about them but what we are doing: that is, report all fails of more than 10,000 shares in any issue to the marketplaces and the SEC for their action.

@dtcc: *What happens then?*

Thompson: The markets check to see if the amount of fails to deliver is more than ½ of 1% of the total outstanding shares in that security. If it is, then it goes on a “Threshold List.” If it is then on the Threshold List for 13 consecutive settlement days, restrictions on short selling then apply. The “close-out” requirement forces a participant of a registered clearing agency to close out any “fail to deliver” position in a threshold security that has remained for 13 consecutive settlement days by purchasing securities of like kind and quantity. If the participant does not take action to close out the open fail to deliver position, the participant is prohibited from making further short sales in that security without first borrowing or arranging to borrow the security. Even market makers are not exempt from this requirement.

@dtcc: *So Reg SHO doesn’t force them to close out the position, but if they don’t, they are prohibited from making any additional short sales without borrowing the shares first?*

Thompson: That’s right.

@dtcc: *Does DTCC have a regulatory role in naked short selling? What authority does it have to force companies to settle a fail?*

Thompson: Naked short selling, or short selling, is a trading activity. We don’t have any power or legal authority to regulate or stop short selling, naked or otherwise. We also have no power to force member firms to close out or resolve fails to deliver. That power is reserved for the SEC and the markets, be it the NYSE, Nasdaq, Amex, or any of the other markets. The fact is, we don’t even see whether a sale is short or not. That’s something only the markets see. NSCC just gets “buys” and “sells,” and it’s our job to try and clear and settle those trades.

@dtcc: *Why won’t you reveal the number of fails to deliver in each position to the issuer of the security?*

Thompson: There are a couple of reasons. First, we provide that information to regulators and the SROs so they can investigate fails and determine whether there are violations of law going on. Releasing that information might jeopardize those investigations, and we feel they are the appropriate organizations to get that information since they can act on it. Second, NSCC rules prohibit release of trading data, or any reports based on the trading data, to anyone other than

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RTTM Service Ushers in Real-Time Price *Continued from page 5*

impressed with the speed and efficiency of the MSRB Real Time Trade Reporting System working in tandem with the Real-Time Trade Matching system. The systems' turnaround times, providing rapid and complete trade status reporting, are remarkable."

Another customer, John Lynch, executive vice president of Hartfield, Titus & Donnelly, L.L.C., noted the "excellent cooperation between the MSRB, DTCC and the street that resulted in the best example of price transparency in the fixed income market. DTCC and MSRB deserve the highest praise for the extensive work they have done to make this endeavor so successful. I also think that, although The Bond Market Association was not part of the street side development, it has played

a pivotal role in making municipal prices available to the public at no cost."

The RTTM implementation for corporate and municipal bonds and UITs last June marked the final stage of FICC's multi-year effort to bring RTTM to all fixed income products. The DTCC subsidiary rolled out RTTM for U.S. Government securities in 2000, followed by mortgage-backed securities (MBS) in 2002. Today, about 98% of all U.S. Government securities trades representing an average daily value of some \$2.4 trillion, and about 87% of MBS trades representing an average daily value of \$274 billion, are submitted daily in real time to RTTM.

DTCC is currently working with the National Association of Securities Dealers (NASD) to reduce the current 30-minute

reporting time for corporate bond trades to 15 minutes by mid-year 2005. For NSCC participants using RTTM to report to the NASD, this will be accomplished by enhancing the interface between the RTTM service and the NASD's Trade Reporting and Compliance Engine (TRACE). @



Inventory Management System *Continued from page 2*

customer-defined order that will be maintained regardless of the time the night cycle begins.

Recycle Profile

DTCC's depository currently recycles deliveries for insufficient position in a prescribed order based on transaction type and settlement value. This rigid recycling order often would cause participants to manually or systemically create ways to determine which deliveries should be sent or authorized for delivery.

IMS now offers customers the ability to develop a profile that customizes their recycle order at a very granular level, said Kiechle. For example, a profile can be updated to have specific reason codes indicating which deliveries should recycle at the top of the delivery queue.

Furthermore, the profile can be updated so that deliveries with different reason codes

can be commingled and treated the same for recycling purposes in what is called a priority group. Within a priority group, a user has other options; for example, deliveries may be further ordered by settlement date, quantity and settlement value. This permits customers to have their oldest deliveries on the top of the recycling queue so that these items can be closed out.

"For now, transactions will be attempted and processed in the prescribed order if there are sufficient shares," said Kiechle. "If there are insufficient shares to complete a high priority transaction, then transactions with a lower priority but sufficient shares will be processed, subject to other controls such as a customer's net debit cap and collateral requirements. In September, we plan on expanding IMS to offer other profiles that will process deliveries in strict profile order. Participants will be able to route their deliveries to the different profiles

depending upon the unique processing needs of each CUSIP."

All IMS features are optional and customers can use any or all of the IMS capabilities.

Clients continue to respond positively to IMS and the enhancements.

"IMS has given Cantor Fitzgerald more control and choices over its delivery processing, reducing exception processing, increasing customer satisfaction, maximizing settlement credits and reintroducing failed deliveries," said Joe Ribaudo, vice president, Global Operations for Cantor Fitzgerald.

Currently, DTCC customers are using IMS to alter the submission or recycling order of more than 140,000 deliveries a day. More than half of these are institutional deliveries, representing an estimated 37% of all institutional deliveries processed on an average day @

RTTM Web-based Interface to Go Live for All MBS Trades

By Rosalie Jenkins

In another step to leverage Real-Time Trade Matching (RTTM) technology for the fixed income markets, Fixed Income Clearing Corporation (FICC) converted in March the last 40 of the 76 clearing participants in its Mortgage-Backed Securities (MBS) Division to its RTTM Web service.

The move follows the successful completion of a more than year-long beta test of RTTM Web with a pilot group of member firms.

This rollout marks the second implementation of the RTTM Web capability. FICC, a DTCC subsidiary, first introduced it for corporate and municipal bonds and unit investment trusts in June 2004. RTTM Web provides members with a secure, real-time, web-based trade entry and trade management tool for MBS

products. The product offers sophisticated search capabilities and statistical reporting, and readily identifies exception items in a manner designed to facilitate the trade reconciliation process through a series of interconnected windows.

RTTM Web for MBS products currently does not support Notification of Settlement (NOS) entry and reconciliation or cash management, collateral and margin related functionality. This will be addressed in future enhancements.

“RTTM Web is a much more user-friendly and efficient front-end system,” said Jeff Ingber, general manager of the DTCC Fixed Income Group. “It’s another demonstration of how DTCC is committed to giving customers a better approach to processing through innovative and cost-effective technology.”

After the implementation of the enhanced version of RTTM Web, DTCC plans to retire both the existing RTTM Terminal Service and MBS CICS-based terminal service. In the interim, the new RTTM Web for MBS will run in tandem with the existing terminal services.

“We strongly encourage members to familiarize themselves with this new interface by downloading and reviewing a copy of the MBS RTTM Web User Guide from the FICC Web site,” said Dennis Paganucci, managing director in DTCC’s Fixed Income Group: “We are in the process of contacting members to coordinate the connectivity and security requirements necessary for them to gain access to RTTM Web.” @



Money Market Funds Become Eligible for Collateral Loan Services at DTC

By Edward C. Kelleher

DTCC has made a group of select, open-ended institutional money market instrument (IMMI) mutual funds eligible for limited processing at The Depository Trust Company (DTC), DTCC's depository subsidiary.

In the past, open-ended mutual funds have not been considered for any DTC services. The eligibility comes about following a rule change, adopted by the Options Clearing Corporation (OCC) and approved by the Securities and Exchange Commission (SEC), which allows OCC to

expand the acceptable forms of margin collateral on deposit at the clearing corporation, including shares of certain money market mutual funds.

In its filing with the SEC, OCC stated that "the professional, asset management, liquidity and stable principal value typically associated with money market funds make shares in such funds an attractive collateral alternative for all OCC clearing accounts."

"To facilitate the use of open-ended IMMI shares, DTC has made the first group of IMMI funds offered by the OCC

eligible for collateral purposes only," said John Abel, director, Product Management. He said DTC will not perform asset servicing on IMMI funds.

The first five funds made eligible on February 22, include:

- Federated Prime Obligations Fund
- Federated Prime Cash Obligations Fund
- Federated Prime Management Obligation Fund
- Federated Government Obligations Fund
- Federated Treasury Obligations Fund. @

Banks and ACATS: Solving the Trust Transfer

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DTCC introduced its Cost-Basis Reporting Service (CBRS) in 2003, and today the majority of brokerage firms, including Merrill Lynch, Bear Stearns Securities Corporation, UBS Financial Services, Inc., Citigroup/SmithBarney, and Pershing use CBRS.

Banks had been somewhat slower to adopt ACATS because of a dual entry issue. "First the account information had to be entered into the bank's trust accounting system, and then it had to be entered a second time for ACATS via PCWeb Direct," said Bill Kapogiannis, director, Product Management.

That problem should be remedied this year when two vendors – SEI and Sungard – introduce links between the banks' trust accounting systems and ACATS, said Kapogiannis. Once the information is entered into the trust accounting system, the links will automatically enter the same information into ACATS.

Bob Becker, a senior vice president at National City Bank, said his bank never let the dual entry issue get in their way. "ACATS has been a customer satisfaction tool for us. A transfer generally takes no more than eight days, and our customers like the speed and efficiency," he said.

National, which averages about 2,000

transfers a month, has been using ACATS for the last three years. Becker said he believes that an ACATS link will make a difference and convince more banks to start using ACATS.

Kapogiannis also pointed out that NSCC was enhancing PCWeb Direct to offer ACATS' cost-basis application early this year. He said banks would "most likely use this interface to capture and transfer cost-basis information."

Editor's Note: For more information, contact Bill Kapogiannis at (212) 855-5667 or via email at bkapogiannis@dtcc.com. @

DTCC Subsidiaries Financials Distributed

The annual financial reports for 2004 from DTCC subsidiaries, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC) and Emerging Markets Clearing Corporation (EMCC) were completed and mailed to all participant firms on February 28.

The financial reports, which provide audited financial data about the performance of each organization in calendar year 2004, will also be available for download in Adobe PDF format on the DTCC corporate Web (www.dtcc.com) under "About DTCC – Annual Reports." Hardcopy versions are available by email request to info@dtcc.com.

The financial data, in consolidated form, will be part of the DTCC 2004 Annual Reports, due out in May. @

CSFB Chooses DTCC's GCA Validation Service

By Lisa Argento

DTCC recently announced that Credit Suisse First Boston (CSFB), a leading global financial services company, has selected the Global Corporate Action (GCA) Validation Service to drive efficiency and automation for its corporate action announcements.

The GCA Validation Service gives customers access to a centralized source of “scrubbed” information about tender offers, conversions, stock splits, and more than 100 other types of corporate actions for securities traded in Europe, Asia and the Americas. The service delivers comprehensive and timely information, as well as substantial economies of scale to banks, broker/dealers, investment managers and others worldwide. It is provided through Global Asset Solutions LLC, a DTCC subsidiary.

“By signing on to GCA Validation, we’re looking to eliminate the time-consuming, manual process of reconciling corporate action announcements and streamline our operation globally,” said Joseph Porcello, director of Asset Servicing for CSFB in the U.S. “DTCC has a proven track record in the corporate actions space, and extensive experience working with these complex financial transactions.”

In addition to CSFB, five major global financial institutions already use the GCA Validation Service, and a number of leading broker/dealers, banks and hedge funds are in negotiations with DTCC to begin using the service over the next several months.

“We are committed to being the worldwide market leader providing global corporate actions information,” said James Femia, managing director and head of DTCC’s Global Corporate Actions business unit. “We’re investing substantial resources to expand

and enhance our service to achieve this goal.”

Last year, the GCA Validation Service became the first service of its kind to provide customers with worldwide reach when it opened a service center in Shanghai, providing round-the-clock coverage. This Asian presence complements GCA Validation Service centers in London and New York. The GCA Validation Service was launched in 2003

to allow customers to offload functions that are largely manual and non-standardized, and thus error-prone, risky and costly.

Corporate actions are one of the last significant areas of risk associated with largely manual and non-standardized processing in the securities industry. According to a 2004 study sponsored by DTCC and conducted by Oxera, an economics consultancy in Europe, the risk from just one complex corporate action event could run into tens of millions of euros for individual securities firms – and multi-billion euros for the global securities industry.

Editor’s Note: For more information on the GCA Validation Service, please contact Warren Eastman at (212) 855-5663 or weastman@dtcc.com. @



Naked Short Selling

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participant firms, regulators, or self-regulatory bodies such as the NYSE or Nasdaq. We do that for the obvious reason that the trading data we receive could be used to manipulate the market, as well as reveal trading patterns of individual firms.

@dtcc: *How does DTCC respond to claims that shares from cash accounts and/or retirement accounts and/or institutional accounts are being put into the lending pool of the Stock Borrow program?*

Thompson: It is our broker and bank members who control their DTC accounts. They can and do segregate shares that they are not permitted to lend out. Neither NSCC nor DTC monitor or regulate that activity. It is done by the SROs and the SEC. However, there is no requirement that brokers or banks

participate in the Stock Borrow program, and neither DTC nor NSCC can take shares from an account unless those shares are voluntarily offered by the broker or bank member.

@dtcc: *Do you think there is illegal naked shorting going on?*

Thompson: Certainly there have been cases in the past where it has, and those cases have been prosecuted by the SEC and other appropriate enforcement agencies. I suppose there will be cases where someone else will try to break the law in the future. But I also don’t believe that there is the huge, systemic, illegal naked shorting that some have charged is going on. To say that there are trillions of dollars involved in this is ridiculous. The fact is that fails, as a percentage of total trading, hasn’t changed in the last 10 years. @

CSD8 Conference to Focus on Dialogue and Advancing Issues

By John Celock

The Eighth Conference of Central Securities Depositories (CSD8), scheduled for April 27-29 in New York, is expected to focus on topics including globalization and corporate actions challenges, paralleling securities and payment systems, managing operational risk, and an open dialogue with the various industry assessment bodies.

The conference, expected to draw more than 100 central depositories' senior executives from around the world, is being co-hosted by DTCC and The Brazilian Clearing and Depository Corporation (CBLC)

"Every two years, this conference of CSDs, held in a different region each time, serves as the nexus of debate on the current issues in our industry," said Mary Ann Callahan, DTCC managing director, International and co-chair for the conference. "This

time, the conference's host region is the Americas, and our goal with CSD8 is to share best practices across the industry and make this a highly interactive conference."

An international consultative committee created by Callahan and her CBLC counterpart, Amarilis Sardenberg, developed all conference topics. The committee, consisting of seven industry experts, met over a series of conference calls and e-mails since last summer to discuss CSD issues and decide on a series of topics for conference deliberation.

Marcelo Trindade, chairman of the Brazilian regulatory commission, CVM, and current chair of COSRA, the Committee of Securities Regulators of the Americas, will address the CSD8 conference.

Delegates will also be updated on private law issues impacting securities clearing, settlement and custody by Christophe Bernasconi, convenor of the Hague Securities Convention, and Philipp Paech, who serves as secretariat for the Unidroit initiative.

Complementing these and the other events, CBLC and DTCC have invited the six regional depository associations from Asia, Europe, Central Europe, Africa and the Middle East, the Americas, as well as a newly formed CSD group from the Eurasian region, to convene their own

meetings on the eve of CSD8's formal opening. Similarly, to capitalize on the attendance of its members at CSD8, the global group of central counterparty clearing organizations, CCP-12, will hold a risk management working group session as well.

"It has been our pleasure to work closely with DTCC during the planning process," Sardenberg said. "CSD8 is truly an international conference, and I know delegates will find it to be an informative and enlightening couple of days."

The first CSD conference was held in Paris in 1991, following a series of meetings aimed at creating a loose, non-corporate association of CSDs. The CSD7 conference was hosted in Lucerne, Switzerland and attracted 150 senior industry representatives from more than 90 countries.

Sardenberg said a goal is to have the results from CSD8 influence the actions and ongoing plans of depositories. To accomplish this, she said, they plan to use

a dedicated Web site, www.csd8.com, to publish CSD8 presentations shortly after the event.

"While this is a focused initiative for CSDs only," she said. "we will be inviting our speakers, panels and discussion leaders to share their presentations on the Web site afterwards." @



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

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