



DTCC to Automate, Streamline Buy-In Notification

By Edward C. Kelleher

DTCC is developing a new Web-based system that will standardize and automate the creation, delivery and tracking of buy-in notices for the securities industry and provide a single point of entry for brokers sending or receiving buy-in notices.

The new service, called SMART/Track for Buy-Ins, represents another important straight-through processing [continued on page 7]

DTCC Launches ACATS/IPS for Insurance Carriers and Broker/Dealer Customers

By Judy Inosanto

DTCC has launched an Insurance Processing Service (IPS) capability to its Automated Customer Account Transfer Service (ACATS), an enhancement that will bring greater speed and efficiency to the transfer of annuity account information from one broker/dealer to another.

[continued on page 9]

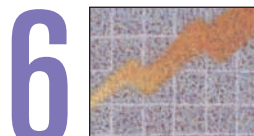
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DTCC Launches InsurExpress Pilot



How Merrill Lynch Saved Money with GCA



DTCC Proposes Increase in DRS Insurance

DTCC Global Corporate Action Validation Service Now Available via SWIFTNet

Move Gives Financial Services Firms Greater Access *By Lisa Argento*

Financial services firms around the world can now access The Depository Trust & Clearing Corporation's (DTCC) Global Corporate Action (GCA) Validation Service via SWIFTNet, the international, interactive, file-transfer messaging service.

DTCC announced the enhancement to its award-winning service in early September at Sibos 2005, SWIFT's annual industry conference, in Copenhagen.

GCA Validation Service provides a centralized source of "scrubbed" information about corporate actions, including tender offers, conversions, stock splits, and nearly 100 other types of events for equities and fixed-income instruments traded in Europe, Asia-Pacific and the Americas.

than 900,000 events across the globe. DTCC itself is the world's largest processor of corporate actions, with its depository subsidiary handling events valued at \$2.3 trillion in 2004 on more than 2 million securities issues in custody.

"DTCC and SWIFT share a similar goal: to help their customers achieve true, end-to-end STP globally. This effort demonstrates our mutual commitment to this goal in the corporate actions arena," said Francis Remacle, head of Securities Industry Division, SWIFT.

GCA customers include Credit Suisse First Boston, JP Morgan Securities, Inc., Merrill Lynch, UBS and other leading financial institutions including broker/dealers, banks and hedge funds. The service is provided through Global Asset Solutions LLC, a DTCC subsidiary.

As an IP-based messaging system, SWIFTNet provides the security of a private network while delivering the data-processing efficiency of ISO 15022 compliance. Subscribers automatically receive new and updated corporate action event messages without having to initiate downloading of large batch files.

In June 2005, financial professionals on five continents chose DTCC as the "Best Corporate Actions Solutions Provider" in Waters magazine's Annual Ranking Poll. This is the second year in a row that Waters' readers have selected DTCC as

number one on the delivery of high quality, timely and accurate corporate action information.

About SWIFT

SWIFT is the industry-owned co-operative supplying secure, standardized messaging services and interface software to over 7,800 financial institutions in more than 200 countries. The SWIFT community includes banks, broker/dealers and investment managers, as well as their market infrastructures in payments, securities, treasury and trade.

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



The ISO 15022-compliant GCA service delivers comprehensive, accurate and timely information, helping to optimize front-office trading and reduce operational losses.

"Expanding access to the GCA Validation Service via SWIFTNet will make it easier for banks, brokers, investment managers, hedge funds and insurance companies to access DTCC's rich, state-of-the-art information repository," said James Femia, DTCC managing director and head of the Global Corporate Action business. "We made the decision to broaden access based on customer requests in the global marketplace."

The GCA Validation Service provides global reach around the clock, every business day of the year, with more than 60 corporate actions specialists fluent in 16 languages. Last year, GCA Validation provided corporate action information on more

DTCC Launches Pilot Program for InsurExpress

By Judy Inosanto

As the next significant step in its efforts to automate the sales and processing of life insurance policies, The Depository Trust & Clearing Corporation (DTCC) recently launched its pilot program for InsurExpress.

Leveraging DTCC's infrastructure and established network of connectivity, InsurExpress integrates key insurance industry service providers to support communications between insurance companies and participating distributors of insurance products, providing all necessary functionality for life insurance application processing.

Firms participating in the initial pilot testing include Genworth Financial and Piper Jaffray. In the coming months, DTCC intends to expand the program to include multiple financial advisors in various geographical locations, together with an expanded product set and carrier list.

"Our goal with InsurExpress is to help insurance carriers and distributors increase life insurance revenue by simplifying the management of a life insurance application and significantly reducing the time needed to complete a policy sale," said Randy Grespin, managing director, DTCC Distribution Services.

InsurExpress is an extension of a comprehensive suite of automated services offered by DTCC Insurance Services that streamline the sale, servicing and processing of insurance and annuity products – and reduce processing costs for participants.

"InsurExpress expands what DTCC can offer to insurance carriers and distributors as part of our vision to deliver a complete cost-efficient, straight-through processing solution through all stages of the insurance sales life cycle," added Grespin.

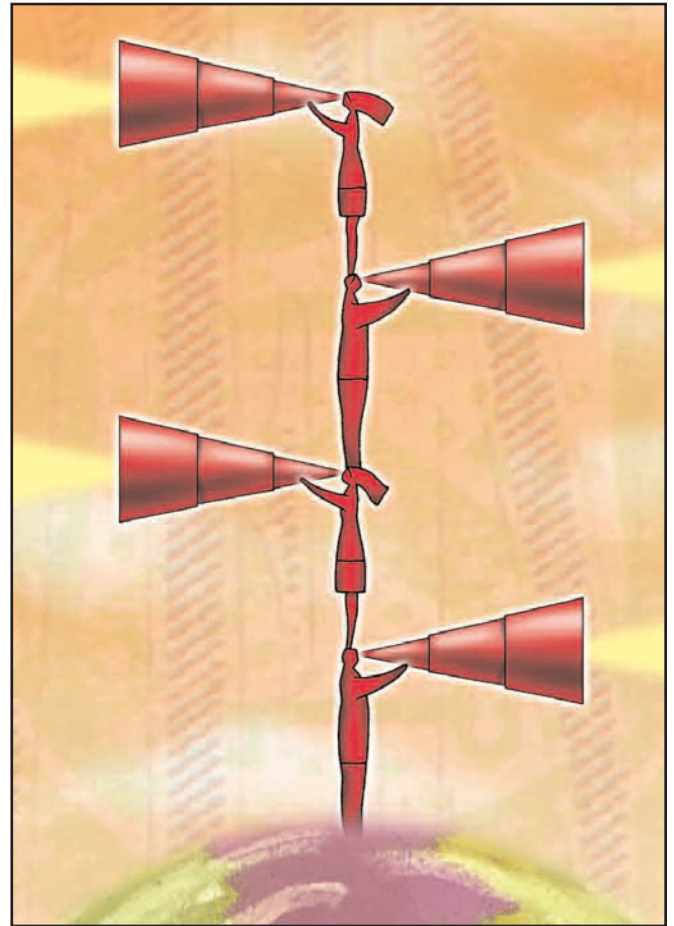
Historically, managing an application for

a life insurance policy has been a labor-intensive, cumbersome and manual practice, taking several weeks to complete.

InsurExpress aims to expedite and streamline this process by linking together all the necessary components to assist a financial advisor in initiating and completing a life insurance application, managing all the requirements necessary to produce an issued policy while keeping the advisor informed at all times.

These components include:

- **Quote engine:** Provides advisors the ability to view and select from a list of broker-dealer approved carrier products;
- **Electronic Submission:** Allows advisors to enter and submit a life insurance "ticket" and initiate the fulfillment/underwriting process;
- **Application Completion and Requirements Ordering:** Provided by a call center, it involves finalizing the application process by gathering all required customer information and underwriting requirements based on a carrier's individual rules resulting in a final package for the proposed insured's review and signature.
- **Case Processing:** Also performed by an independent service provider, offers complete assistance to the advisor in collecting all the necessary outstanding requirements and forms, submitting a complete application package to the



carrier and managing the underwriting process through policy issuance.

- **Status Reporting:** Delivers secure, 24x7 on-line access to the financial advisor of all cases pending with multiple carriers
- Other services DTCC expects to add to InsurExpress in the future include licensing and appointment validation, as well as all of DTCC's traditional post-transaction functionality such as premiums and commissions settlement.

Current strategic partners whose services have been integrated into InsurExpress include Examination Management Systems Inc. (EMSI), Internet Pipeline, Integrated Insurance Technologies (iIT), and AgencyWorks. Beyond this initial group, DTCC plans to work with other leading third party service providers and individual insurance carriers to add their services to the system as appropriate. [continued on page 6]

How Merrill Lynch Cut Costs by Putti

Merrill Lynch is one of the world's leading financial management and advisory companies, with offices in 36 countries and total client assets of approximately \$1.6 trillion. As an investment bank, it is a leading global underwriter of debt and equity securities and strategic advisor to corporations, governments, institutions and individuals worldwide. Through Merrill Lynch Investment Managers, the company is one of the world's largest managers of financial assets. Firmwide, assets under management total \$479 billion.

Merrill Lynch moved corporate actions to the top of its operations and services agenda in 2003 with the launch of the firm's Global Corporate Actions Renewal initiative. Among the primary objectives: establish a single global repository of quality corporate action announcements, provide the data to systems and users firmwide, improve the technology for notifying clients about corporate actions and lower the cost of managing corporate actions announcements.

Corporate actions are known to be among the most risky and challenging transactions to handle in the securities business. Every day, financial institutions are flooded with millions of faxes, phone calls, e-mails and letters carrying news of rights issues, tender offers, conversions, takeovers, mergers, early redemptions, optional dividends and other event types.

"Before this renewal initiative, Merrill Lynch had various departments worldwide

looking at different data from multiple information sources on the same corporate action event," said Brian Urkowitz, first vice president, Global Transaction & Custody Services, Merrill Lynch. "We knew we had to figure out a way to rationalize our disparate information sources and eliminate redundancies, while managing costs. Essentially, we needed to put everyone on the same page, and do it on a global basis."

A Big Win

In early 2004, the firm took a major step toward advancing its corporate actions initiative when Merrill Lynch



Brian Urkowitz, first vice president, Global Transaction & Custody Services, Merrill Lynch.

International, based in London, became the first user of a new corporate action event repository that is now used on a global basis across Merrill Lynch.

The primary source of information for the repository is DTCC's Global Corporate Action (GCA) Validation Service, which provides comprehensive, accurate

and timely corporate action information for equities and fixed-income instruments traded in Europe, Asia-Pacific and the Americas. The service analyzes data through an intricate process of comparing, consolidating, enriching and verifying information – generally referred to in the industry as "scrubbing."

"For Merrill Lynch, the big win has been switching to a centralized stream of comprehensive information, while ensuring the consistency and quality of information used across the organization," said Urkowitz. "With GCA Validation as

our single source of corporate action information globally, we've been able to reduce our expenses significantly by eliminating redundancies and manual, time-consuming processes. We've also been able to eliminate the internal disagreements that would result from our use of different information sources."

In June 2005, the project achieved a milestone when the repository went live across the core retail and institutional businesses of Merrill Lynch, Pierce, Fenner & Smith. Today, 22 major processing platforms in the United States, Europe and Asia-Pacific rely on the new event repository. This includes Merrill Lynch's prime broker business, trading desks, derivatives desks, processing systems and customer notification systems.

Straight Through to Trading

Timely and accurate corporate action information is invaluable for the front-office. And Merrill Lynch traders are one of the primary users of corporate action information.

Use of GCA information also ensures internally consistent data across Merrill Lynch's departments and offices globally. "Now, our traders are getting corporate action information from the same data source that is driving processing, which makes for a cleaner, straight-through process overall throughout the company," said Urkowitz.

Ease of access is another advantage. "We've been able to deliver corporate action information so it's more intertwined with their trading tools," added Urkowitz. "Traders don't have to go someplace else to look for information."

Risky and Complex

At the front end, there are two big risks around corporate action information,

ng Everyone on the Same Page *By Lisa Argento*

according to Urkowitz. “First is not finding out about an event until it’s too late to take action. The second is relying on incorrect data, whether it’s a wrong rate, date or some other misinformation.”

In terms of risk, the ripple effect of erroneous information

across Merrill Lynch’s large, diversified customer base creates an enormous challenge. “A problem with corporate action information does not impact just one client,” said Urkowitz.

“At Merrill Lynch, it’s multiplied by thousands of our customers, maybe even hundreds of thousands. A single

mistake has the potential to have an enormous impact – in terms of both financial risk and customer service.”

“We have to get the information right at the front end because deadlines are tight, and we’re processing a huge base of accounts,” said Joseph Covello, director, Product Development, Transaction & Custody Services, Merrill Lynch.

The sheer volume of corporate actions is increasing, says Urkowitz, but it’s the growing sophistication of events that is most challenging.

“Corporate actions are just harder these days – harder to understand, and harder to explain to our clients. And this complexity means there is more chance of making a mistake,” said Urkowitz.

Covello agrees, “When it comes to voluntary corporate actions, there are so many flavors. There are all sorts of terms, conditions, participation rights, holding restrictions and deadlines.”

“It used to be a company would issue

its shareholders rights to buy more stock at a lower price. The investor either chose to buy more shares at a specific price or not. Today, rights issues are much more complex, giving shareholders multiple options,” said Urkowitz. “And it’s up to us

to disseminate the information to clients in a way they can easily comprehend.”

Rationalizing Processes

Merrill Lynch is also leveraging the new repository system externally to streamline communications with customers. The firm uses the GCA information from the repository to drive client notifications, so that

an announcement record passes straight through to their clients.

“As part of this initiative, we reconfigured our entire notification system, and completely streamlined the process globally,” said Covello.

“Now, Merrill Lynch delivers information in a structured, standardized format. Before this, our process was fragmented.”

“We saw the GCA Validation Service as a tremendous opportunity to rationalize our process and our infrastructure,” said Urkowitz. “And the project dovetailed nicely into the renewal initiative we already had under way.”

Merrill Lynch did a comprehensive assessment and business case of the GCA offering, says Covello. “We considered continuing to do the work ourselves, but

our business case pointed us to going with the GCA Validation Service,” he added.

According to Covello, the “custodian compare” feature is a very attractive part of the GCA Validation Service. With this feature, the service compares the GCA composite record against announcement notifications from the broker/dealer’s custodians, eliminating this processing step and saving time for Merrill Lynch.

Cultivating Collaboration

Merrill Lynch was one of the first users to sign on to the GCA Validation Service, having worked with DTCC during the development phase.

“We worked side-by-side with Merrill Lynch and our other early customers, hammering out the details associated with the way certain corporate action events are announced,” said Chad Richman, DTCC GCA product management director. “We continue to have an open dialogue with our customers to ensure the GCA Validation Service meets their needs.”

“We’ve tackled some really tough issues,” said Covello, who’s been involved since day one of the effort with DTCC, “and invested a lot of time working with the GCA team. And now, we’re really starting to see the payoff in terms of GCA’s benefits.”

An advisory group, which counsels the GCA Validation Service on

overall strategy, continues to guide the service, while a working group focuses on the more specific aspects of it.

“What’s been unique about the GCA project is that it brought together key players that are [continued on page 14]



Joseph Covello, director, Product Development, Transaction & Custody Services, Merrill Lynch.



Chad Richman, DTCC

InsurExpress launch *Continued from page 3*

“To further strengthen our ability to deliver a more robust selection of services to our customers, InsurExpress has evolved from its initial conception to be designed as an open architecture platform which can easily integrate an expanding number of leading service providers at the request of our customers,” said John Ziambras, vice president and manager, DTCC Insurance Services.

Benefits to Users

In providing an efficient, centralized point for processing insurance policies, DTCC Insurance Services is helping insurance carriers expand their product sales potential in new market channels through the broad network of distributors utilizing its platform. The service will enable distributors to reduce the operational costs related to managing an insurance policy and minimize risk by offering an automated solution in a safe, secure compliant environment.

In addition, by offering individual sales representatives access via their desktop to a user-friendly system that provides complete access at any time to pertinent information related to a pending

policy, financial advisors will be able to expedite life insurance sales and focus on selling products and servicing customers.

Leveraging its years of experience in bringing better efficiencies to the operational processing for equities, fixed income and mutual funds, DTCC entered the insurance market in 1997 to provide similar benefits to carriers and distributors of annuity, life insurance and long-term care products. Its current roster of services include: Applications & Subsequent Premiums, Asset Pricing, Commissions, Financial Activity Reporting, Licensing & Appointments and Positions & Valuations.

“By streamlining, automating and centralizing the processing and management of insurance applications, InsurExpress is helping insurance carriers and distributors connect more efficiently,” said Ziambras. “We see this as a strong value proposition for our customers as this service is intended to make the processing of a life insurance trade as easy for the financial advisor as that of a stock, bond or mutual fund.”

Editor’s Note: For more information on InsurExpress, contact Lana Macumber, lmacumber@dtcc.com, (515) 462-3488 or visit Insurance Services’ Web site at <http://insurance.dtcc.com>. @

DTC Proposes Supplemental Insurance For Processing Large, Paperless Transactions *By Jim Conmy*

In response to the growing use of the Direct Registration System (DRS), which is one of the industry’s principal tools to help eliminate the practice of issuing physical securities, DTCC’s securities depository has proposed a way for participants and transfer agents to procure insurance in connection with specific DRS Profile Modification transactions for up to \$25 million each.

Under the depository’s current rules, users initiating a transaction in the DRS Profile Modification System are required to take part in a surety bond program that provides protection of up to \$3 million, which would be applicable if a transfer agent or broker/dealer did not meet its transaction obligations. Coverage for the year as a whole is limited to \$6 million.

However, because the volume of securities now issued in paperless DRS format has grown considerably, there is a strong possibility that the value of a single

DRS transaction may easily exceed the \$3 million surety protection which agents and other DTCC customers are required to carry.

SEC Rule Change Sought

To overcome this problem and encourage the use of the highly automated DRS procedures, the depository has filed a rule change with the Securities and Exchange Commission to provide for higher, more flexible insurance coverage.

While the depository plans to continue its \$3 million surety bond program, it is proposing optional insurance that would allow coverage of up to \$25 million per occurrence, thus permitting larger transactions to be covered under one policy. The aggregate limit per year would be \$100 million.

Under the proposal before the SEC, depository participants who make heavy use of the DRS Profile System could retain

the current surety for routine business, but also obtain the additional coverage when needed for large transactions. On the other hand, participants who only occasionally use the DRS Profile System could avoid the annual \$3,150 premium for the surety program and instead use the insurance option on an as-needed basis.

More Flexible Coverage

“This lets our customers routinely cover themselves at the \$3 million level, which is sufficient for most transactions, but also have immediate access to coverage of up to \$25 million for larger transactions,” said Joe Trezza, DTCC senior product manager.

Trezza said the company issuing the insurance could be either a company DTC selects, or if customers prefer, they can chose another carrier, provided it meets the terms and conditions established by the depository. @

Buy-In Notification *Continued from cover*

initiative for the industry that will streamline and speed up communications between senders and receivers, helping to eliminate the current manual process of sending buy-ins by fax and messenger. The service replaces an older system that served as a messaging facility only and did not track or save buy-in notices.

Buy-ins are executed when a broker fails to deliver securities in time for settlement. The broker expecting the securities sends a buy-in notice to the delivering broker, saying that they will go elsewhere to buy the securities and hold the delivering broker liable for any price variation or difference. In other words, if the stock was first promised at \$10 a share by the broker, and now sells for \$12 a share, the receiving broker will hold the sell-side broker accountable for the \$2 a share difference.

"DTCC began working with the Ad Hoc Buy-in Committee of the Securities Industry Association (SIA) last year, obtaining input from the industry and discussing what would be required to automate the buy-in process," said Margaret Koontz, vice president, Product Development for DTCC. "We've since finalized the business requirements and completed a prototype of the system."

The system will provide a central information point, sending notifications and tracking the life of a buy-in notice. It will retain data for seven years for both broker-to-broker and broker-to-bank buy-in notices, which includes Continuous Net Settlement (CNS) buy-in notices, as well as non-CNS buy-ins. The system will be browser-based and will replace the Participant Exchange (PEX) service, which currently serves as a messaging facility for buy-ins.

On-line Notification

"The online notification of CNS Executions helps eliminates the delays found in today's buy-in process. This enhancement brings us a step closer to straight-through processing for buy-ins," said Robert Santangelo, co-chair of the SIA's Buy-in Committee. "Participants getting bought in will receive information much sooner with the automated service, which will minimize the risks associated with getting prices either late in the day or early the next morning, as it sends buy-in information to allocated brokers in real time."

Santangelo also said that "the new service is much more user friendly" than the PEX service "and that it has the potential to do a lot more for the buy-in industry in the future," as additional enhancements eliminate manual steps.

"The new system will enable participants to manage their exposure to open buy-ins since, in addition to providing a communications facility, it will provide tracking functionality with online reporting and status information of open buy-ins," said Koontz

Participants will be able to view the status of an open buy-in and accept or reject a buy-in notice. They will also be able to transmit an extension for a non-

CNS buy-in, according to Vincent McDevitt, manager, DTCC Product Management.

"Thousands of buy-in notices are routinely sent out by firms in the course of a day," McDevitt said. "During an eight-day period in February, an average of almost 2,300 CNS buy-in notices per day were transmitted via PEX. During the same period, more than 2,000 non-CNS buy-ins were transmitted per day through PEX as well. And buy-ins are also delivered between counterparties outside of PEX," said McDevitt. "One of the other great benefits of the system is that it will retain information, so participants won't have to maintain a buy-in archive of their own."

Phase one for the implementation of SMART/Track for Buy-Ins will be implemented in the fourth quarter of 2005 and will automate CNS buy-ins, requiring all DTCC participants who want the new service to register for it. Phase two, which will automate all non-CNS buy-ins, will be completed in mid-2006.

Editor's Note: For more information on SMART/Track for Buy-ins, contact Margaret Koontz at (212) 855-5695 or e-mail mkoontz@dtcc.com, or Vincent McDevitt at (212) 855-5694 or e-mail vmcdevitt@dtcc.com. @



Corporate Action Liability Notices Move into Full Production

By Edward C. Kelleher

DTCC's new Web-based system that automates the creation, delivery and tracking of corporate action liability notices has gone into full production with more than 49 customer firms, including broker/dealers and custodian banks, signed on for the new service.

The Corporate Actions Division of the Securities Industry Association (SIA) has already asked the New York Stock Exchange (NYSE), Nasdaq and the American Stock Exchange (Amex) to require that its members use the service in lieu of the current manual process.

The new service, called SMART/Track for Corporate Actions Liability Notification Service, is offered through The Depository Trust Company, a DTCC subsidiary, and represents an important straight-through processing initiative for corporate actions.

"This service will help streamline and standardize the communication process between senders and receivers of liability notices," said John Wagner, president of the SIA's Corporate Action Division. "By standardizing the process, the service will bring major benefits to the industry by boosting efficiencies, reducing costs and risk and eliminating the hours involved in

manually sending and tracking notices."

Corporate action liability notices are sent out when a firm owes securities to another firm or counterparty during a voluntary corporate action such as a tender offer. The notification alerts the delivering broker/dealer or bank of its failure to deliver the securities and notifies it of its liability in a voluntary corporate action.

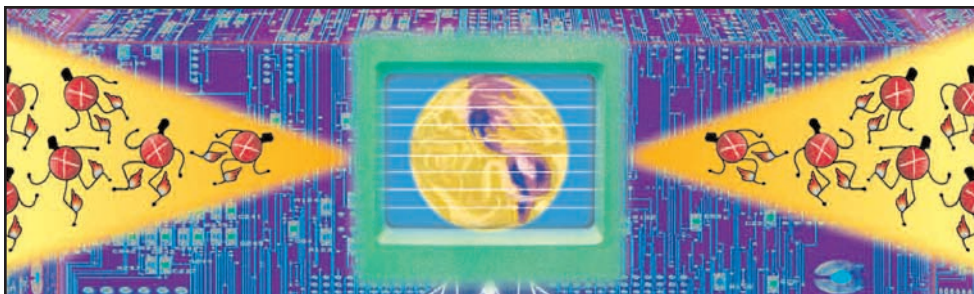
"Corporate actions liability notices have traditionally been a paper-intensive, time-consuming, manual process without any standardization in either the terminology or communication process itself," said Margaret Koontz, vice president, DTCC's Product Management and Development.

"Traditionally, a firm will fax a liability notice to a counterparty and then follow up with a phone call to make sure they received the notice," said Koontz. "The new notification service eliminates the manual process and replaces it with a single automated, standardized communication procedure."

Other advantages of the new notification system are that it:

- provides a single point of entry for all customers, thereby replacing the need for multiple connections to multiple parties.
- establishes standards for the communication of liability notices, so that all parties are speaking the same language.
- provides online access to archived notices for seven years.

DTC worked closely with the SIA's Corporate Action Liability Working Group to develop requirements for the new system. Earlier this year, the Corporate Action Division of the SIA called on the NYSE, Nasdaq and the Amex to mandate the service for [continued on page 18]



Tracking the Notice

Each notice has a control number for tracking purposes and an audit trail that provides a record of actions taken regarding the notice, including the time, date and person taking the action. Customers will have online access to archived notices for seven years.

The service has a link to DTC's Reorganization Inquiry for Participants (RIPS) that will enable customers to select an existing offer in RIPS and have the system auto-populate the fields. Customers can also create their own notice by completing all of the required fields. The system also allows them to send a liability notice to multiple counterparties without re-entering the information for each one.

Additionally, the system will generate e-mail notifications to customers when the sender reduces the liability quantity or cancels the notice. E-mails are also sent if a change in RIPS has caused an alert to be generated. E-mail notifications are also generated at that start of the day indicating all notices for which action needs to be taken that day, and are also sent during the day for notices sent that day if the return date, DTC expiration date or DTC "protect date" equals that day's date.

If a customer created a liability notice using RIPS, the Corporate Actions Liability Notification Service will send an alert to notify both counterparties about any changes in the offer that affects the liability notice, such as a change in deadlines.

DTCC Launches ACATS/IPS for Insurance

Continued from cover

Following the successful completion of a pilot program initiated in December 2004, ACATS/IPS went live last month with a number of broker/dealer and carrier customers. DTCC expects several additional firms to join in the coming months and has received numerous adoption commitments for 2006.

Targeted to insurance carriers, broker/dealers and banks, ACATS/IPS leverages the technology of ACATS, which for 20 years has automated and standardized the transfer of financial assets in brokerage accounts between financial services firms.

The new service is the latest addition to DTCC Insurance Services' comprehensive line up of offerings that streamline insurance and annuity business processing. Both ACATS and ACATS/IPS are offerings of National Securities Clearing Corporation (NSCC), a DTCC subsidiary.

"The ability of ACATS/IPS to streamline annuity account information changes is vital, as it gives us a clearer picture of our client accounts and allows us to manage their total portfolios more efficiently," said Jim Deats, head of Asset Transition Services, Merrill Lynch Insurance Group. "Helping clients move assets quickly and easily is a key measure of customer service. When customers move their brokerage account from one firm to another, they want it done seamlessly, with little or no follow-up on their part, and they expect their total portfolio, including annuities, to be incorporated."

Until now, annuity account information was not automatically transferred to the new broker/dealer of record when a customer changed firms, because the information is generally managed by the insurance carriers, not

the broker/dealers. As a result, customers needed to advise their new brokers that they have annuities, and that they want the information added to their brokerage accounts. This has resulted in a time-consuming and inefficient series of phone calls and faxes between broker/dealers and the insurance carriers.

"We are eager to start using the service, as we expect it to significantly enhance our operational excellence by reducing the time and effort we spend going back and forth with broker/dealers on annuity account information transfers," said Michael Hicks, vice president, investment product services, The Hartford.

"By automating the transfer of customer account information between financial services firms, DTCC is working to address our clients' needs to automate and expedite the management of information that was previously processed with

cumbersome, manual methods," said John Ziambras, vice president, DTCC Insurance Services. "By bringing ACATS/IPS to market, we are helping our clients gain greater flexibility on how they service clients and manage their accounts."

Customers currently implementing ACATS/IPS include leading insurance carriers – Allstate, The Hartford, Pacific Life and Prudential Life, and distributors – Merrill Lynch, Piper Jaffray, Robert W. Baird, Stifel, Nicolaus, Wachovia Securities and Wells Fargo Investments. Thomson Beta Systems is acting as a third-party service provider, processing data in ACATS/IPS for a number of the pilot broker/dealers.

Editors note: For more information on ACATS/IPS, contact Randi Gordon, rgordon@dtcc.com, 212-855-5654 or visit <http://insurance.dtcc.com>. @



Bringing Insurance into the Mainstream

It was an active summer for DTCC Insurance Services adding two new services to its platform – InsurExpress and ACATS/IPS – as part of an industry quest to achieve straight-through processing for a wide range of insurance products. DTCC’s John Ziambras, vice president, Insurance Services, talked with @dtcc about his views on the regulatory environment for the market, the forces that are driving industry automation and the direction Insurance Services’ business aims to take in the coming years.

@dtcc: You just launched the pilot program for InsurExpress. How does this fit into what DTCC has with Insurance Services overall?

Ziambras: The vision of Insurance Services is to streamline, automate and standardize the processing of insurance and annuities. InsurExpress is along those lines. There was a study done five years ago by Arthur Andersen that identified life insurance as the only asset class not mainstreamed in the broker/dealer channel. To me, mainstream means that life insurance transactions are processed in an automated fashion and are sold in significant volume. Today, even though life insurance is being sold by broker/dealers, there is tremendous room for growth.

@dtcc: Why is that? Do you think it’s primarily the operational inefficiencies in the process?

Ziambras: There are a few components, but the one we’re tackling is processing. We’re trying to introduce common process, manage risk, add value, and reduce expense. That’s what we do as a company, that’s what we do at Insurance Services. The processing of life insurance transactions is very lengthy and very complicated. Through InsurExpress, we are trying to simplify this and make a life insurance transaction as easy as a mutual fund or an annuity. We think that if we take steps towards that, financial advisors will be more willing to sell life insurance.

@dtcc: How does DTCC’s current product line in Insurance Services fit in with InsurExpress?

Ziambras: InsurExpress is a service within our overall Insurance Services umbrella. It’s parallel to our annuity application service, except a life insurance transaction involves many more steps before a policy can be issued by an insurance carrier. It includes all the things that are usually associated with buying life insurance, such as medical exams and underwriting. With InsurExpress, our goal is to help create and increase life insurance transactions by facilitating the processing component. More transactions on the front end will also lead to increased post-trade transactions for DTCC, which is our core value proposition. Ultimately, the idea is to facilitate straight-through processing for life and annuity products.

@dtcc: You’ve been fairly successful with post-issue transaction efforts. Tell us how that’s grown since you began.

Ziambras: Insurance Services has been around for about eight years, and began with two broker/dealers and two insurance carriers getting together and agreeing on a common way to process commissions and positions. We have grown significantly since then.

Today, our core Insurance Processing Service is used by more than 125 insurance companies and more than 135 distributors or broker/dealers. And we’ve been adding them at a very rapid pace, with more than 25 new users signing up annually for our service for the last three

years. I think this attests to the value we bring to the industry, and that we’re viewed as the provider of choice for processing and servicing annuities.

In addition to significant increases in volumes for our first generation products, Positions, Commissions and Asset Pricing, we have also seen significant growth in our newer products, such as Annuity Applications, Licensing & Appointments and Financial Activity Reporting, primarily driven by compliance and regulatory requirements. These products play right into that.

@dtcc: Are you anticipating additional regulatory requirements in the insurance area?

Ziambras: Whatever happened a few years ago in the mutual fund world is rapidly expanding into the annuity world. So, we do definitely expect regulation, scrutiny and accountability on all fronts to increase over time. I think we have made great progress in being viewed by broker/dealers as a critical tool in helping compliance officers track and monitor their insurance business.

@dtcc: How do DTCC’s services do that?

Ziambras: Automation helps by providing a tracking mechanism that can properly capture and record what happens before and after an insurance trade is placed. It helps broker/dealers and carriers comply with regulatory requirements more efficiently, particularly if they need to report events that become auditable when a contract is in-force.

For example, Licensing & Appointments plays a big role in ensuring that an advisor is properly licensed and appointed and has authorization to generate a transaction. Financial Activity Reporting helps to ensure compliance with the USA PATRIOT Act and plays a key role in monitoring for market timing activity. Lastly, Positions help broker/dealers track their in-force portfolio, and can help meet "Know Your Customer" requirements.

@dtcc: Where do you see the biggest growth coming in the future?

Ziambras: For most of our history, we've made our mark in the annuity space. I see tremendous growth potential for us in the life arena, and that could happen in two ways: One could be via InsurExpress, if we are successful in increasing life insurance trades on the front end, and the other growth opportunity could be in the expansion of Insurance Processing Services core functionality, by having insurance companies support Positions, Commissions and Financial Activity Reporting for life insurance products. While we provide this capability right now, we see this as a rapidly growing line of business for us.

@dtcc: What is the current breakdown in customers in terms of annuities versus life?

Ziambras: The lion's share is annuities. From a pure number of transactions or in-force policies perspective, there are many more annuities than life insurance policies sold by broker/dealers today.

@dtcc: What do you see as the industry's priorities moving forward, and how does this fit into our product development?

Ziambras: Annuities and regulatory issues are the two key things that drive our business today. We're very much a customer- and industry-driven

organization, taking direction from our existing participants and the industry in what we build.

I think the industry will continue to be affected by regulatory changes, requirements and mandates, which could certainly hinder growth. Because, as mentioned earlier, automation helps ease the compliance burden, our services are more and more becoming an essential compliance tool for broker/dealers and carriers.

Our future product development is also being driven by regulatory forces. In-Force Transactions (IFT) for Fund



John Ziambras

Transfers in particular, is the next wave of product development and a key focus for us in 2006.

@dtcc: Can you explain that a little further?

Ziambras: In-Force Transactions (IFT) will encompass post-issue requests for a variety of annuity and life insurance transactions. Fund Transfers is a component of IFT, and will create a centralized, standardized mechanism for capturing broker-initiated fund transfers when a client moves funds from one investment sub-account to another. Today, the broker can call the insurance company and request that \$10,000 be moved from an international equity fund to a fixed income fund. Because that request does not flow through the

broker/dealer's back office, they are unable to monitor and supervise the transaction. The broker/dealer needs to make sure that there's a central processing utility that can capture broker-initiated transactions for compliance purposes, to ensure suitability of the transactions, prevent market timing and audit the transaction.

Replacements, which tracks the exchange of an existing insurance contract to another, is another important service we are looking to bring to market in 2006. The service will facilitate the request-response from carrier to carrier, and since there's money moving from one carrier to another, DTCC will take care of the money settlement component. The service will also provide the in-process status of the transaction request back to the broker/dealer and the insurance carrier.

@dtcc: You mentioned two priorities?

Ziambras: Operationally, we see automating the front end for annuities and life as a big industry priority. Through our partnerships with key service providers and strategic alliances, and also through InsurExpress, we hope to play a significant role in pushing that forward. I think we're well on our way to having mainstreamed annuities in the broker/dealer channel, and I see the life insurance space as the next area for us to conquer.

@dtcc: Do you find that both insurance carriers and broker/dealers are coming to you looking for new solutions at this point?

Ziambras: Certainly, and at an increasing rate. Judging by our growth in new customers and product utilization, we are clearly the provider of choice for broker/dealers but, also for insurance companies as it applies to servicing the broker/dealer channel.

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Sorting Out ISO Messaging and Data Done, What's in the Works

By Jim Conmy

Some of the dust in the securities industry's long trek toward hammering out universally recognized messaging standards is finally starting to settle, according to DTCC's Industry Standards Director Sandra Throne. And what's emerging are three classes of standards that go a long way toward the goal of straight-through processing (STP). Together, the three classes enable the entire financial services industry to automate how each company's computers talk to one another and handle the processing of transactions, payments and corporate actions.

"All companies that use SWIFT – and that's nearly all the financial service companies in Europe – have already implemented ISO 15022, the first of these messaging standards," Throne said. "Organizations that don't use SWIFT, and that includes many in the United States, have not yet adopted ISO 15022. As the industry upgrades and reconfigures its technology, however, these standards are steadily being incorporated. And in our collaborative industry," Throne added, "where exchanges and broker/dealers and clearing companies and custodians and institutional investors and depositories all have to work together, if you don't keep up with the standard, you'll have trouble keeping up with the business."



Sandra Throne, DTCC

Three linked standards

The three classes of standards address three essential elements of STP:

- message format and content – which boxes to check for which sort of process,
- financial instrument data – the descriptive details or attributes of the security, and
- who's involved in the transactions – party or business entity identification data.

In other words, the standards center on the format, the required content and the reference terms financial service companies routinely use to communicate with each other worldwide. By adopting uniform, easy-to-understand message formats, the financial services industry expects to save hundreds of millions of dollar a year in faster, more efficient processing and the avoidance of rejects and mistakes.

The first class of standards comprises ISO 15022 and ISO 20022, which both deal with messaging. ISO 15022 was developed through the mechanisms of the International

Organization for Standardization (the ISO) and adopted in 1999. It took another four years, however, before the industry actually completed implementing the standard – and many companies are only now moving to upgrade their systems to that they can make full use of the standard.

Implementing the new standards "as needed"

"DTCC is a case in point," Throne said. "In some cases, we can't do business without the new standards. In other cases, we're just preparing to phase them in.

"For example, we couldn't operate our Global Corporate

Actions Validation Service worldwide without relying on 15022 messaging standards. On the other hand, we're only gradually introducing 15022 and/or 20022 based upon our business and client requirements in other lines of business as we phase out our legacy systems. For instance," Throne continued, "we're beginning a big project to reengineer and combine on the same platform our systems for processing corporate actions and underwriting. One of the goals of that project, which will take us several years to complete, is to have the new systems totally compliant with the new international messaging standards, as well as the new data reference standards.."

Eventually, the adoption of the standard has a cascade effect, because once DTCC builds 15022 or 20022 into its systems, DTCC customers who haven't already upgraded their systems to match the standard will begin to do so.

"This is key to straight-through processing," Throne said.

What ISO 15022 offers is a standard method to design message formats in which business items, such as the price at which a trade is executed, are always represented in the same way. By following the standard, companies and their computers throughout the financial services industry can send and receive easy-to-understand messages involving critical processes such as confirm/affirm, settlement notification, reconciliation, wire transfers and reorganizations or other corporate actions.

"Esperanto" for the data world

Another new messaging standard is ISO 20022, which builds on 15022 and is used for business modeling and creating new message types or updating existing messages.

It adds even more uniformity by translating all messages into an Internet-friendly computer language called XML – Extensible

Standards: What's Done, What's Almost

Mark-up Language – and by building a diagram of the business and the underlying information exchange that various industry players have to conduct in order to complete a business process.

Approved by the ISO community last year, the 20022 standard is only now being rolled out for implementation. With companies recently investing in the implementation of ISO 15022, Throne suggested that the take-up of the second messaging standard might move more slowly where ISO 15022 messages already exist. The current 15022 messages will still remain in use for a number of years.

What helped drive the adoption of the second standard in a relatively short time

after the first, according to Throne, was a recognition by other parts of the financial services industry that they needed standards and models that would mesh with those used by the securities industry.

The companies that manage SMAs – separately managed accounts – all need more flexible global messages, Throne noted. In addition, unlike securities messages, payments messages were never converted to 15022. Consequently, they are being developed in 20022 standard.

Front-to-back office links

“Even within the securities industry, though,” she said “20022 will help link the front office, which very often

communicates in the Financial Information eXchange (FIX) pre-trade messaging standard, to the back office, which generally communicates in another computer language, because effectively all the messages are mapped to a model and converted to XML.” Global investment fund messages have now been developed and are currently being reviewed, while proxy messages are in the queue for development.

As the ISO does with most new standards, it has set up a “registration management group” to oversee the preparation of ISO 20022 for implementation. Throne, who was appointed the convener of the group, expects some of the first 20022 messages to be approved by the end of this year.

Specific Financial Instruments

Having laid the groundwork for messaging, the industry is now moving on to develop a standard way to describe the specific financial instruments that may lie at the heart of the messages. This second class of industry standards is numbered ISO 19312. The purpose of the standard is to provide uniform Financial Instrument Attribute Data for ISO 15022 and ISO 20022 and securities master files.

“We want to have a single definition for the same activity, no matter what term you use,” Throne told a conference earlier this year. “Whether you send a message or access a security master file, ISO 19312 will be important.

“For example,” she continued, “one user might identify the end-of-day price as the closing price, another user might call it the last price, and someone else may refer to it as the final price. If all three really have the same definition, we’re going to identify them as terms that mean the same thing, and link them in a financial repository, so that when you send a message to someone

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Messages: Using the Right Envelope, Deciphering the Message, and Determining Who's Involved

The financial services industry is finally getting close to its long-sought goal of standardizing how banks, brokers and custodians send each other messages, decipher the content and determine who sent them.

These three questions – the format and content for sending messages, how to decipher the financial instrument at the heart of the message, and how to recognize who's involved in the process – underlie the three classes of financial industry standards now emerging.

The first class, the ISO 15022 and 20022 standards, essentially spells out what format to use, which lines have to be filled in and whether additional messages such as confirmations are required to complete the transaction.

The second class, ISO 19312, is a sort of dictionary of terms, definitions and their relationships so that anyone reading the message will understand or can double check exactly what sort of financial instrument is being talked about and what the details of the instrument are.

The third class is the International Business Entity Identifier (IBEI) number. By looking this number up, the receiver can tell which business sent the message and which business actually owns or has custody of the instruments in question, as well as who the transfer agent is, the name of the issuer of the security, and related information.

For example, if a mutual fund company sends a floor trader a message to sell a certain number of shares in one of its mutual funds, the trader will know by the format (or messaging standard) that it's a trading request. He will know by the “financial instrument attribute data” that it involves selling shares in a certain mutual fund. And he will know by the IBEI number which mutual fund company is making the request. This allows for STP, or straight-through processing.

How Merrill Lynch Cut Costs Continued from page 5

competitors in the industry to come up with a better way,” said Urkowitz, who is a member of the GCA Advisory Committee. “The process has been very collaborative, and we’ve all shared best practices.”

“Our users have been involved every step of the way,” said James Femia, DTCC managing director and head of the company’s Global Corporate Actions business, “from our strategy on opening a GCA service center in Asia, to the development of a custodian compare feature, to the creation of announcement templates.”



A Global M&A Wave

The GCA Validation Service created 900,000 announcement records in 2004, its first full year of operation. Close to 30% of these announcements involved securities outside the U.S.

With the opening of the Shanghai office at the end of 2004, GCA became the first corporate actions service of its kind with a global footprint. Collectively, GCA’s cross-border team of 60 specialists – 16 in New York, 14 in London and 30 in Shanghai – speak 16 languages and have in-depth knowledge of corporate actions in their respective regions. The service operates 24 hours a day, six days a week, shutting down for only one business day a year: January 1.

“The need for this kind of cross-border coverage reflects just how global the corporate actions business is these days,” said Urkowitz. “Today, we have Latin American companies bidding for U.S. companies, Italian businesses merging with German businesses. And our customers across the globe are affected by these deals. Borders don’t exist when it comes to these transactions.”

“For us, this project’s success is a fantastic display of global teamwork,” said Covello. “By moving to a single source of corporate action announcements through DTCC, we’ve been able to drive down costs and ensure the reliability of information used across multiple markets and customer segments globally.” @

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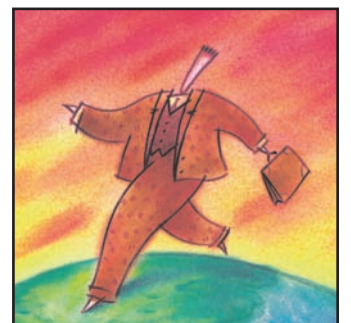
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Sorting Out ISO Messaging *Continued from page 12*

else, or an action gets recorded in the master file, it doesn't matter which term you use."

International Business Entity Identifier

The third type of standard under development addresses the business entities that play a role in the lifecycle of, and events related to, financial instruments. Known as the International Business Entity Identifier, or IBEI, this project, numbered ISO 16372, will create a single, global system for identifying the parties associated with financial instruments, just as ISO 19312 identifies data associated with the instruments themselves.

"Think of the IBEI as a bar code for a legal entity," says Throne. "Just as each product in the supermarket has a unique bar code that enables the store to track it

from the manufacturer to the warehouse to the shopping bag, so, too, will the IBEI enable all participants in securities processing chain to identify the identities of companies involved in financial instruments every step of the way to straight-through processing."

Getting everybody's lingo

To make sure they're being as inclusive as possible, these ISO working groups are bringing in not only industry players, but also private data vendors, technical experts and others involved in this aspect of the industry. The ISO 19312 Working group is also laboring to include all the terms for securities and other financial instruments, ranging from equities to futures to collective investment vehicles.

"This will be a lot of work," Throne said. "I hope we can have it ready for approval by ISO member countries next

year, and then we will have to go into the development stage just as we're doing right now with ISO 20022."

When it's complete, the financial services industry will have a sort of three-legged stool to support its messaging and data needs. ISO 15022 and 20022 provide the messaging standards, ISO 19312 will provide standardized terms for Financial Instrument Attribute Data, and IBEI will provide the standardized terms for identifying the parties associated with the financial instruments.

"A lot of this is still coming down the road," Throne said. "But companies should be aware that these standards are under development or implementation, and that they need to begin planning for them now." @

Insurance into the Mainstream *Continued from page 9*

@dtcc: Have you seen progress in the industry becoming more automated?

Ziambras: There's definitely progress, particularly with the broker/dealer community being a key driver in this trend. Insurance Services is still relatively small, but our business has tripled in size in the last five years. So, I guess that's another way of saying that there's tremendous opportunity for DTCC going forward.

@dtcc: Are there any plans to get involved in any other areas of insurance?

Ziambras: In addition to life insurance, we are looking to expand what we offer into long-term care. Some of our products have already been tweaked or amended to be able to handle long-term care transactions. I think, in general, broker/dealers are looking for a single solution that can support front- and back-end processing of all insurance products. We clearly have the ability to become the preferred processing solution in the post-sale transaction space. Through partnerships or strategic alliances with key service providers, we should be able to facilitate that on the front-end as well.

@dtcc: Getting back to InsurExpress, tell us how the service has evolved from initial conception to its recent launch.

Ziambras: We have revised InsurExpress to be an open architecture model, which basically enables a broker/dealer or a carrier to choose the service providers they need to put together the entire solution. What we do is act as the glue that puts together all the various components that need to be completed before an insurance contract is put into effect. By centralizing these tasks, our goal is to facilitate straight-through processing for life insurance sales.

@dtcc: So, by the end of the year, how many service providers are you looking to have on the InsurExpress platform?

Ziambras: We hope to have three insurance companies and five broker/dealers using the service by year-end. It will ultimately be up to them to define which service providers they want to use. @

Restricted Securities Family of Services: New Level Expands Scope of Automation

By John Celock

The handling of restricted securities, which have specific limitations on when or how they can be traded, transferred or exchanged, is typically a time-consuming and sometimes frustrating experience for most firms.

Dealing with the challenge, however, will become substantially easier, following DTCC's introduction of a new and more complete level of service within its Restricted Securities Family of Services.

Called Total Processing Solution, the new service will soon debut following several months of testing. It constitutes the top level in DTCC's three-tiered Restricted Securities Family of Services, and it builds on the other two levels to provide a start-to-finish processing solution to lift the restricted "legend" from a security.

Designed for High-Volume Users

What distinguishes this top-level service from the other levels is that it's geared towards firms with mid-to-high level processing volumes and firms requiring a fully integrated restricted processing solution. It not only bundles together the options found in the Restricted Deposit Service and the Web Guide, it also automatically supports the tracking of securities in the process of having their restrictions removed, while maintaining connections to other depository services, including Custody safekeeping. As a result, it offers additional functionality to support an end-to-end process to lift restrictions.

"Based on nearly three months of testing, we're confident the Total Processing Solution, our Level 3 service, will ease the industry's longstanding problems in handling restricted

securities," said Joseph Trezza, DTCC senior product manager in Asset Services. "This new level combines the usefulness of our basic Restricted Deposit Service with the convenience of the Web Guide to bring about a fully integrated solution for users."

Expediting the Paperwork

Customers have two options with the new level 3 service, according to Trezza. "They can link their current legacy system through file transfer with the Total Processing Solution, or they can essentially use the Total Processing Solution as their own restricted processing system, thus linking their back and front offices to one glass pipeline for restricted processing," he said.

The current system for lifting restrictions requires the transfer agent to review the paperwork, and then cancel the restriction and provide DTCC with a new certificate or electronic position. With the Total Processing Solution, DTCC will handle the paperwork in order to expedite the clearance process.

"Between the new Web Guide and the Total Processing Solution, customers will see new and increased efficiencies with the lifting of restrictions," John Silvester, DTCC supervisor in

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Restricted Securities: DTCC's Three Levels of Service

DTCC's Restricted Securities Family of Services offers three levels of service to simplify, standardize and expedite the often labor-intensive and costly process of removing restrictions from restricted securities. :

- **Level 1 – The Restricted Deposit Service (RDS)** handles the transfer of restricted securities certificates into unrestricted shares by providing a negotiability and documentation review of the deposit, imaging the certificate and delivering the physical certificate to the transfer agent. It also tracks and monitors the transfer through to completion and delivery of the transferred shares..
- **Level 2 – Web Guide** is a Web-based, stand-alone, information guide that went live in April and includes databases that provide transfer agent and general counsel contact information and forms. The Web Guide features a step-by-step process for users on the restriction lifting process. Similar to TurboTax or other "user-friendly" applications, it features a 'wizard' system of prompts asking various questions about the security and the owner. The wizard then formats all necessary internal and regulatory documents to reflect the new information. Additional features include e-mail alerts on restriction timelines based on the information supplied by the user and custom uploaded documents for internal company use.
- **Level 3 – Total Processing Solution** has been tested and will soon go live. It integrates the Restricted Securities Family of Services functionality and processing solution with the customer's own in-house data processing systems, providing an integrated way to track and process restricted securities as well as handle the removal of restrictions.

Corporate Action Liability Notices *Continued from page 10*

their customers, stating that the corporate actions liability notification process “continues to be one of the most challenging, least standardized processes in our industry.” A 2003 survey conducted by the SIA between broker/dealers and banks found broad support for an automated delivery service for corporate liability notices.

In a letter to the NYSE in April, Wagner stated that failure to automate and standardize the process can lead to “hard dollar losses to member firms and custodians.” Adoption of SMART/Track, he said “will aid the industry by standardizing the corporate actions liability notification announcement process, reducing operation risk, contributing to the replacement of the

current time-intensive, manual process...and by facilitating the industry’s efforts to achieve straight-through processing. Most importantly, this...will reduce the risks, costs and delays currently associated with the processing of corporate action liability notifications for industry participants.”

Editor’s Note: For more information on SMART/Track for Corporate Actions Liability Notification Service, contact your Relationship Manager or Margaret Koontz at (212) 855-5696 or e-mail mkoontz@dtcc.com @

Restricted Securities *Continued from page 16*

Restricted Deposits, said. “I’m confident this process will enhance customer satisfaction, and we’ll continue to work with customers to further improve the system.”

Going up One Level

A key feature of the Total Processing Solution is the assistance provided to expedite the legal aspects of lifting restrictions from securities. Participants in the Total Processing Solution will be able to have the system forward certain documents to lawyers in order to obtain the legal opinions that justify the lifting of restrictions. Having the system do this automatically saves the companies the time of working with the lawyers in a paper-based world of mail deliveries and returns..

In addition, the new service level provides several other features. These include the need to manage only a single gateway into other depository services for removing the security asset from custody and transferring the security to the Restricted Depository Service group. In the next six months, DTC will also add images of the certificates as a feature of the service. The Total Processing Solution also interfaces with Networking for Equities, the depository’s longstanding service to dematerialize securities, so that when restrictions are removed from a security, it can then be totally dematerialized.

Working From the Same Page

“The Restricted Securities Family of Services allows everyone to be on the same page-literally,” Trezza said. “We look at the same computer screens our customers are looking at to review the status of a security transaction. We can all see the current

status of the securities transaction in the process of having its restrictions lifted, and what steps are left to complete.

“In the future,” he added, “the plan is to have agents and general counsel accept the industry standard data elements we have designed, truncating the movement of certificates and documents to the depository. We’re confident that our current services, and planned enhancements, will create a more efficient environment for the industry to handle restricted securities, and we think it will reap benefits for the industry for years to come.”

The Restricted Securities Family of Services was developed with consultants from Restricted Stock Systems (RSS), a leading provider of restricted and control stock management solutions which provided DTCC’s depository with certain aspects of the software

“The Total Processing Solution utilizes cutting edge technologies to deliver a comprehensive solution fully integrated into DTCC’s restricted securities processing operations,” RSS CEO Greg Besner said. “Thus, it allows for the rapid delivery of securities processing, while also providing the ability to extend directly into participants’ existing systems to create an end-to-end solution.”

Editor’s Note: For more information on how you can join DTCC’s Restricted Securities Family of Services, contact Joseph Trezza at (212) 855-4400 or at jtrezza@dtcc.com. @

DTCC's Messages to Customers Get SMARTer

By Crystal Bueno

With the launch of SMART/Messages, a new browser front-end application available through Participant Browser Services (PBS), even DTCC's messages to customers are getting SMARTer.

Through the new system, formally named "PBS SMART/Message Exchange," customers will not only have an improved alternative to receiving printer tickets, but will also be able to sort, view and print only the tickets and individual messages the firm is interested in retaining in hard copy.

The SMART/Messages system, which began as a pilot rollout to customers in the second quarter of this year, will eventually replace the legacy DTC Message Delivery System (MDS). MDS, a series of custom-built messaging applications, was developed as a homegrown mainframe solution over 25 years ago to distribute critical output messages to customers using printers and communications technologies that are now largely obsolete. Today via MDS, DTCC distributes over five million business messages each day to customers around the world about delivery, payment and receive orders, among other important communications.

Upgrading the message delivery method for customers has been a multi-phase approach. According to Dan Thieke, product manager for Customer Access Services, migrating customer output to the new SMART/Message Exchange system was accomplished on a "destination-by-destination" basis with minimal disruption to customers, with each physical network printer, MDH (Mainframe Dual Host) address, and IBM Websphere MQ queue defined as a separate customer "destination" for the messages. In this way, Thieke said, SMART/Messages was developed with maximum flexibility, supporting efficient industry-standard message formats and types such as Web browser screens and even ISO standard messages.

Based on results to date, DTCC

anticipates completing the migration of SMART/Messages – Release 1 in the third quarter. However, because of the extensive testing involved for the initial release of the new system, the pilot rollout will continue gradually through 2005, with planned enhancements and future version releases based on customer requirements and feedback.

"Ultimately, our goal is to reduce dependency on legacy applications like MDS, while at the same time, developing alternatives to the problematic ticket printing technology," said Thieke. "Feedback from customers so far is that dial-up users and smaller firms are particularly dependent on ticket printing, so we'd really like them to come on to the pilot to determine if this SMART/Messages solution is beneficial to them, too."

Editor's note: Customers interested in learning more about PBS and the SMART/Message Exchange pilot should contact their Relationship Manager or Dan Thieke at (212) 855-4162 (dthieke@dtcc.com). @



Depository User Group Conference Set for Oct. 24-26 in Scottsdale

By Jim Conmy

The 2005 annual meeting of the Bank Depository User Group (BDUG) is scheduled for October 23-26 in Scottsdale, Arizona, and includes speakers from DTCC, Omgeo, the Federal Reserve and the Securities and Exchange Commission.

Scheduled to deliver the keynote address for the conference is Rick Macek, DTCC's executive managing director for Risk Management and Finance and chairman of Omgeo. Macek will offer an update on DTCC key initiatives and a discussion of its new mission statement.

Opening the conference general session will be Omgeo's Managing Director Lee Cutrone, who will talk about current industry challenges, post-trade issues and emerging trends. Joining Cutrone for a panel discussion later are Joseph Anastasio, chairman, North American Capco and Bill Hodash, managing director, DTCC.

SEC, Fed Speakers Slated

Other conference sessions include "today's audit and compliance challenges," an update by Senior SEC Special

Counselor Jeff Mooney on the concept paper the commission issued last year about securities settlement, and a discussion by Federal Reserve Bank Vice President Betsy Irwin-McCaughey on the Fed's upcoming policy change involving payment risk.

How DTCC is restructuring its relationship management group is another session scheduled for the conference, with DTCC managing director James Koster leading the discussion.

Also on the schedule are reports on the work of DTCC's and Omgeo's advisory groups, "breakout" sessions on issues ranging from straight-through processing to class actions and proxy processing, and a report on DTCC's multi-year reengineering of its underwriting and corporate actions systems.

"This will be a lively and I think very productive meeting," noted Richard Lanning, the DTCC director who handles liaison with the depository user group. "The annual meeting is open to all DTCC participants and there is still time to register," he said.

Editor's Note: Participants who have not yet registered for the conference but still wish to do so should contact Richard Lanning via email at rlanning@dtcc.com, or by phone at (212) 855-2725. Details on the annual meeting are available at www.bdug.com. @

DTC Ends Transfer Agent Drop Service for Physical Securities

By Jim Conmy

DTCC's depository closed the door September 1 on the physical securities drop service it has long maintained to give issuers' transfer agents located outside New York City a central location on Wall Street for depositing securities from banks, broker/dealers and shareholders.

While the depository will continue to accept delivery of physical securities at its own New York City offices, it is closing down the separate Wall Street area "drop site" it has operated for the deposit of physical securities.

"The fact is the industry has automated processing and dematerialized to the point where these services are no longer in demand," said John Mancuso, DTCC vice

president for securities processing. "The number of physical securities we receive at the depository continues to decline, and there are many new and innovative ways to relieve the burden of physical securities processing."

New York Stock Exchange Rule

The drop service for transfer agents operating outside New York City was established to help meet a New York Stock Exchange requirement that agents have a central deposit location in the city. The requirement harked back to the days when most securities were issued in physical form and transfer agents sent messengers scurrying throughout Wall Street delivering and picking up securities that had been traded.

For a number of years, the exchange considered it important to maintain a facility to accept transfer agent deposits of physical securities within the Wall Street area. But with the growth in overnight delivery services and the decline in physical transfers, the exchange has since rescinded the requirement.

The change reflects the trend in the securities industry to rely on electronic transfer and further reduce dependency on expensive and underutilized vault space. Because they no longer used the drop service, a number of firms based outside New York City have also been closing down vault operations that they had long maintained on Wall Street. @

FICC Cross-Margining Program Sets Daily Record for Participant Savings

By John Koegel

On August 3, Fixed Income Clearing Corporation's (FICC) cross-margining program for U.S. Government securities futures set an all-time savings record in daily margin requirements of \$322.8 million. On an average day, the 20 firms who participate in the program see a combined savings in margin requirements of about \$183.3 million.

The cross-margining program enables participants to minimize their margin requirements on U.S. Government securities trades where there are eligible and offsetting futures positions. It covers trades that participants clear through FICC's Government Securities Division (GSD) and the Chicago Mercantile Exchange (CME) and helps minimize collateral needs by providing them with a more comprehensive view of their fixed income portfolios. FICC is a subsidiary of The Depository Trust & Clearing Corporation (DTCC).

"Over the summer, we've been seeing generally larger volumes of net futures and cash positions that are on opposite sides of the market at the CME and FICC, respectively," explained Marc Golin, vice president of Compliance, Membership and Risk Oversight for DTCC, "which, in turn, are generating larger margin credits. These larger credits are yielding greater margin savings to participating firms."

Since its introduction in 2000, FICC's cross-margining program has helped participating members reduce their margin costs while enhancing safety and soundness of the clearing system by linking the cash for U.S. Treasury securities with correlated futures products, including Treasury and Eurodollar futures.

"Cross-margining enables members to optimize their capital usage by viewing

their positions at the different clearing organizations as a combined portfolio," said Jeff Ingber, chief operating officer, FICC. "At the same time, it reinforces the soundness of the clearing system by providing clearing organizations with more complete data concerning the true risk of inter-market positions and enhanced sharing of collateral resources."

How the program works

The cross-margining program is available to firms that are both netting members of FICC's GSD and clearing members of the CME, or that are members of one clearing organization and have an affiliate that is a member of the other.

The GSD and the CME agree to provide each other with access to any proceeds arising from the liquidation of correlated positions and associated collateral in the event of an eligible member's insolvency. Each clearing organization holds and manages its own collateral; however, the total amount of collateral collected is reduced to reflect offsets between cash and futures positions.

Participation in FICC's cross-margining program is actually quite easy, Ingber stressed. Once members and their affiliates, if applicable, sign a Cross-Margining Participant Agreement, cross-margining takes place automatically, without further steps on the part of the member. Thus, the use of the cross-margining facility is virtually transparent to members from an operational standpoint.

"As trading volumes continue to surge, cross-margining is becoming increasingly valuable to participating firms," Golin added. "Going forward, we're looking to make it even more valuable." @



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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