



DTCC announced on November 15 the launch of its Trade Information Warehouse, creating a centralized and secure global infrastructure for the post-trade processing of over-the-counter (OTC) derivatives.

The warehouse is made up of two components:

- A comprehensive trade database containing the “official legal record” for all contracts eligible for automated

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DTCC and China's CDC Sign Collaboration Agreement

by Lisa Argento

DTCC and the China Government Securities Depository Trust & Clearing Co., Ltd. (CDC) signed an agreement on December 1 to foster business collaboration and build a working relationship between these two major financial infrastructure organizations.

The agreement provides a legal and business framework under which DTCC and CDC can exchange information and explore opportunities to promote cross-

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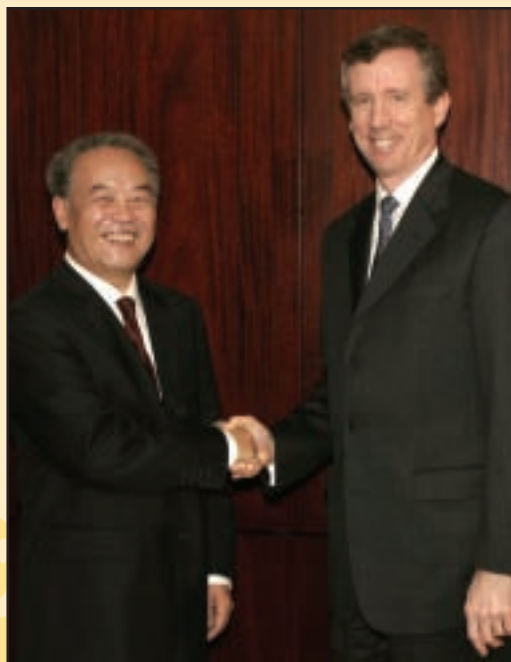
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At the signing ceremony (from left): Thomas Costa, DTCC managing director and general manager, Clearance and Settlement Group; Mary Ann Callahan, DTCC managing director, International; Zhang Yuan, CDC board chairman; Tracy Xu, Asia Securities Industry & Financial Markets Association.



PHOTOGRAPHY BY DAN NELKEN



Zhang Yuan, CDC board chairman, with Marianne Brown, Omgeo president and CEO.



合作谅解备忘录

Collaboration Agreement *Continued from cover*

border investment through cooperation in depository and clearing operations.

“We hold in high regard the strength and progress of China’s capital market system, and recognize that there will be an ongoing cross-border flow of investment between our two countries,” said DTCC President and Chief Executive Officer Donald F. Donahue. “Our goal with this agreement is to create an environment that will foster an open sharing of information and ideas, and provide a forum for discussing ways DTCC and CDC can work together to address market challenges and opportunities.”

A delegation of 34 executives from China, including representatives of CDC and its member firms, visited DTCC and participated in the ceremony.

“We believe that forging closer ties with DTCC will work towards the prosperity of our respective financial markets, and build understanding and cooperation between our organizations,” said CDC Board Chairman Zhang Yuan. “The mutual exchange of information on our business operating models and service offerings will bring enormous benefits to our customers and markets.”



CDC Board Chairman Zhang Yuan and DTCC President and CEO Donald F. Donahue sign the agreement.

Both depositories said that, under the agreement, they could explore business subjects ranging from the clearance, settlement and custody of securities, to the processing of derivatives and corporate actions.

About CDC

China Government Securities Depository Trust & Clearing Co. Ltd. (CDC), established in 1996, is the Central Depository System for China’s bond market, and provides custody, settlement

and information services for government securities, policy financial bonds, corporate bonds and asset-backed securities, money market instruments and over-the-counter transactions.

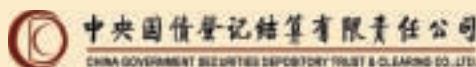
A state-owned nonbank financial institution authorized by the Ministry of Finance and the People’s Bank of China, CDC is responsible for government bond custody, bond registration, trust and settlement in the interbank bond market. @

合作谅解备忘录

Memorandum of Understanding

DTCC and CDC

December 1, 2006



DTCC Extends Its Presence in Asia

by Helen Cunningham

With Asia playing an increasingly central role in global capital markets, DTCC is extending its presence in the region, laying the groundwork to meet the needs of customers as they grow their business in this dynamic part of the world.

“We’re focused on what our customers need and how they want us to support them. Unquestionably Asia is a major player in the global economy, and the region is clearly an area of tremendous focus for our customers,” said Donald F. Donahue, DTCC’s president and chief executive officer. “DTCC is positioning itself to respond to this reality by

developing the capabilities our customers will need from us – links with Asian infrastructures or, where appropriate, more direct support. Our strategy begins with building long-term relationships in the Asia-Pacific region.”

The agreement DTCC recently signed with China Government Securities Depository Trust & Clearing Co., Ltd. to foster collaboration between both organizations is emblematic of DTCC’s commitment to extend and strengthen these relationships. (See article, page 1.)

DTCC in Asia

DTCC, through its subsidiary DTCC Solutions LLC, currently has an office in

Shanghai. Locally staffed, it primarily supports customers of DTCC’s corporate action announcement services worldwide in verifying issuers’ announcements across the Asia-Pacific region.

Another global service, DTCC Deriv/SERV, is growing its customer base in Asia-Pacific, where equity derivatives are the most frequently traded derivative instrument. This year, the Deriv/SERV team has made multiple visits to Asia to participate in industry conferences, conduct workshops, build brand awareness, establish relationships in the public and

private sectors, meet with prospective and existing customers, and gather information on the workings of the derivatives markets in these countries.

Omgeo, DTCC’s joint venture with Thomson Financial to provide post-trade processing for institutional trades, has offices in Hong Kong, Tokyo, Seoul, Sydney, Singapore and Manila to support its robust Asian business. What’s more, Omgeo recently announced a link with the Japan Securities Depository Center, Inc. (Jasdec) that will help streamline investment managers’ trade processing in the Japanese market. This interface is the first single point of access to both domestic and cross-border trades.

In India, DTCC has a strategic initiative with Tata Consultancy Services Limited (TCS) to collaborate in the reengineering of DTCC’s core systems for securities underwriting and corporate actions processing for the U.S. financial services industry. TCS is a leading global technology services provider and software systems developer.

DTCC also is working with other Indian technology companies, including Cognizant Technology Solutions and Polaris Software Lab, which are providing consulting services for various development projects and testing.

On the calendar

In his first visit to the region since becoming president and CEO in August, DTCC’s Donahue traveled to Japan this autumn. Meetings held with government officials, regulators, the depository, the clearing corporation, the Tokyo exchange, firms and industry associations were designed to further develop DTCC’s relationships in this market. The company’s chairman, Jill Considine, had a similar round of meetings in Hong Kong

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DTCC Cuts Customer Fees Again

by Helen Cunningham

DTCC announced net fee reductions that are projected to result in approximately \$81 million in savings for customers in 2007. Effective January 2, 2007, and subject to regulatory approval, the latest reductions follow DTCC's implementation of its largest-ever fee cut in 2006, which will yield customers an estimated \$183 million.

"The further reduction in overall clearance and settlement costs in 2007 directly benefits our customers," said William Aimetti, DTCC's chief operating officer. "Lower processing costs also contribute to keeping U.S. capital markets cost-efficient and attractive to investors around the world, which is a significant advantage in today's increasingly competitive global securities marketplace."

The new fees encompass National Securities Clearing Corporation, Fixed Income Clearing Corporation and The Depository Trust Company (DTC). They reflect DTCC's commitment to continually reassess and "right-size" fees, giving back excess revenues to customers while pricing each product line to ensure full cost recovery. In addition, the changes will help simplify DTCC's billing process and enhance pricing transparency.

DTCC also introduced fees for several new services. All changes will be filed with the Securities and Exchange Commission.

Making it possible

In explaining DTCC's ability to implement lower net fees again in 2007, Aimetti said, "The drivers include our steady focus on cost controls, productivity, process management, efficient technology development and quality, including our Six Sigma program, along with continued high processing volumes."

The fee changes for 2007 are:

- **Clearance.** Clearing fees will be reduced by \$40.2 million, which includes a

\$30.5 million reduction for Continuous Net Settlement (CNS) deliveries (\$28.1 million in Equities and \$2.4 million in Fixed Income) and \$9.7 million for the Automated Customer Account Transfer Service (ACATS).

- **Settlement.** Fees will be reduced by a net \$41.3 million, which includes reductions for book-entry deliveries of \$31.8 million, CNS deliveries of \$6.8 million, Inventory Management System activities of \$0.5 million, Payment Order services of \$0.7 million and subaccounting services of \$1.5 million.
- **Mutual Fund Services.** Fees for Networking will be reduced by \$7.9 million.
- **Asset Services.** Altogether, fees are forecast to increase by \$8.2 million as this business continues to realign fees with costs and to reflect processing complexity. Reorganization fees will increase \$2.1 million; Deposits \$3.6 million; Underwriting \$1.3 million; Custody \$0.8 million; the Legal Notification Service (LENS) \$0.4 million; and Withdrawals \$0.2 million. This business also is eliminating \$0.2 million in Withdrawal Services fees due to the discontinuation of certain securities processing services.

What's new?

The 2007 fee schedule for new services, which will result in a total \$1.8 million in revenue, covers:

- **Fixed Income Clearing Corporation.** Fees for a new message type to support Mortgage-Backed Securities Electronic Pool Notification (EPN) pool substitutions are expected to generate \$0.6 million in revenue.
- **Underwriting.** Fees for the New Issue Information Dissemination Service are expected to generate \$0.5 million.
- **Clearance and Settlement.** New CNS Corporate Action fees are expected to



generate \$0.4 million.

- **Asset Servicing.** This business will begin charging for certain manually intensive research and photocopying requests to cover DTCC's costs to perform this service. These charges are expected to generate \$0.3 million.

Creating disincentives

DTCC also announced 2007 disincentive fees that are projected to generate an estimated \$10.7 million in revenue. These charges are designed to increase overall market efficiency by encouraging practices beneficial to the industry, particularly in areas relating to dematerialization.

This year, DTCC will implement new or higher fees to encourage: the elimination of physical movements of paper certificates; use of the paperless Legal Deposit program (rather than submitting attached documentation for Legal Deposits); the elimination of certain positions in non-transferable securities (permitting DTC to shred these certificates); keeping CNS fails below 30 days; and the timely submission of instructions for Global Tax Services. @

[For details on 2007 fee changes for NSCC, DTC and FICC, see the respective Important Notices on www.nsc.com, www.dtc.org and www.ficc.com.]

Deriv/SERV's Trade Information Warehouse

Deriv/SERV confirmation;

- A central support infrastructure that automates and standardizes post-trade processes (such as payments, notional adjustments and contract term changes) over the life of each contract, which can extend five or more years.

Initially, the warehouse will support credit derivatives, and then extend to other OTC derivatives products including rates, equities, foreign exchange and commodities – depending on market demand and input from the senior group working with DTCC in guiding the initiative.

“The trade warehouse is a just-in-time technological solution necessary to support our vibrant OTC derivatives markets,” said Robert E. Diamond, Jr.,

president of Barclays PLC. “My thanks to DTCC and all industry participants who worked tirelessly to implement the warehouse in record time.”

In its coverage of the warehouse, the *Financial Times* wrote, “The scheme, which is being run by The Depository Trust & Clearing Corporation, should significantly strengthen the infrastructure of the credit derivatives market.” The *Financial Times* Alphaville blog summed up the warehouse launch this way: “Crisis may have been averted in the paper-strewn world of over-the-counter derivatives.”

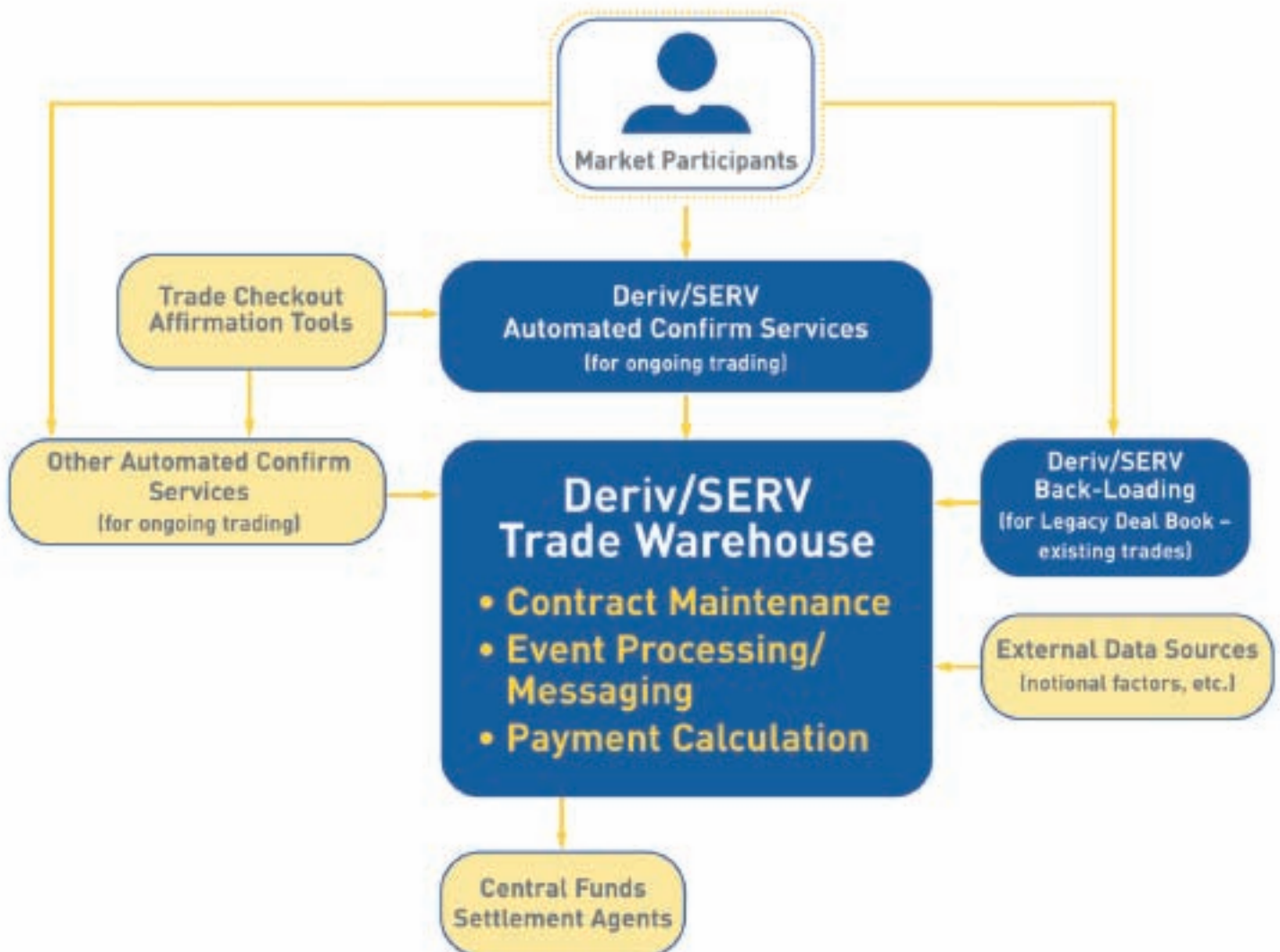
Current environment

Today's OTC derivatives environment requires continuous bilateral reconciliation for each contract. In other words, each trading party must continually “sync up”

with each of its counterparties over the life of each contract, keeping track of post-trade events such as assignments, amendments, terminations and notional adjustments. Processing is not standard across the industry, and the work involves considerable manual processing relying on faxes, emails and phone calls.

The credit derivatives market more than doubled annually through mid-2006, when the notional amount of credit derivatives reached \$26 trillion, up from \$12.4 trillion in mid-2005.

“The warehouse represents the launch of a very innovative and important industry solution to improve process, efficiency and risk control in the global credit derivatives markets,” said Dick Weil, chief operating officer of PIMCO. “It was



made possible by some exceptional cooperation between dealers, investment managers and regulators.”

The warehouse will automate many processes that occur throughout a contract's lifecycle, which today involve significant manual effort. This includes bilateral contract and cash-flow reconciliation. Other post-confirmation processes, such as credit event processing and assignment processing, will be made much more efficient. From a risk management perspective, the warehouse will help firms ensure accurate balance sheet information for corporate and regulatory reporting purposes, support accurate collateral management and promote correct and complete payments.

“The implementation of the warehouse marks a milestone in the evolution of the OTC derivatives marketplace,” said Thomas A. Russo, vice chairman, Lehman Brothers. “Our industry has come together in record time to put in place a common operational platform to manage credit derivative contracts over their life, yielding standardization, efficiency and risk reduction.”

Building on Deriv/SERV's foundation

Today, 80% of credit derivatives traded globally are electronically confirmed through Deriv/SERV, up from 15% in 2004. The warehouse builds on Deriv/SERV by using confirmed trade details as input for the warehouse, so that post-trade processing flows automatically from up-to-date trade terms.

“The trade warehouse is the successful result of a truly cooperative, global effort on the part of both financial services firms and their regulators,” said Dr. Hugo Banziger, chief risk officer, Deutsche Bank.

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Reports on the Warehouse

Here are examples of how the financial media reported the news that DTCC launched the Trade Information Warehouse.

“TRADE INFORMATION WAREHOUSE OPENS ITS DOORS,” *EUROWEEK*, NOV. 17, 2006.

The warehouse was endorsed by the Federal Reserve Bank of New York at the end of September when it hailed the progress made by leading banks in tackling the many inefficiencies in the CDS market. The Fed sees the warehouse as an important part of the process by which the industry is rationalised and is made less vulnerable to systemic risk.

“DTCC TO BUY SIDE: CDS DATA, PLEASE,” *ASIAN/INVESTOR*, DECEMBER 2006.

New York-based Depository Trust & Clearing Corporation (DTCC) is calling on the world's buy-side firms to load data about existing credit derivatives into a new warehousing service.... Encouraged by regulators in the United States, United Kingdom and Germany, DTCC set up the warehouse to automate the post-trade life of credit derivatives.

“AUTOMATION SLOW IN POST-TRADE DERIVATIVES PROCESSING,” *ASIAN BANKER INTERACTIVE*, NOV. 24, 2006.

Development in post-trade processing infrastructure is important for Asia where challenges arise from the risk and cost associated with the widespread use of manual processes.... Now DTCC has launched a data warehouse to keep track of over-the-counter (OTC) derivatives as they move from hand to hand.

“DTCC PLOTS IMPROVEMENTS FOR DERIVATIVE MANAGEMENT,” *DERIVATIVES WEEK*, NOV. 17, 2006.

The Depository Trust & Clearing Corp. is planning early next year to complete its search for a credit derivatives trade settlement agent and to finalize the back loading of existing over-the-counter contracts to an automated platform.

“DTCC LAUNCHES CREDIT DERIVATIVES WAREHOUSE,” *REUTERS NEWS*, NOV. 14, 2006.

The long-awaited launch is the latest industry move to address regulator concerns over the failure of institutional back offices to keep step with the fast-growing over-the-counter market.

“NEW ‘WAREHOUSE’ FOR DERIVATIVES,” *RISK NEWS*, NOV. 17, 2006.

In the past year, banks have tried to improve trading practices by cutting their backlogs of unprocessed deals and turning to electronic trading systems. The new system will take this further by offering a centralized platform for confirming and processing trades, as well as a means of recording all trades over a five-year period, and tracking any legal changes to these deals.

“DERIVATIVES DIARY: DTCC FLICKS THE SWITCH ON WAREHOUSE,” *DOW JONES CAPITAL MARKETS REPORT*, NOV. 14, 2006.

The warehouse came about as part of a massive cleanup of the industry instigated in September last year by the New York Federal Reserve and 17 leading market participants.

Warehouse Goes Live *Continued from page 7*

“The warehouse demonstrates their common interest to work together to bring about growth and stability to our financial markets.”

Warehouse plan

With the November 15 launch, all new trades and post-trade events submitted to Deriv/SERV for electronic confirmation will automatically be loaded into the Trade Information Warehouse. The warehouse will assign a unique reference identifier for each contract, and maintain the “current state” contract terms, taking into account assignments, terminations and amendments.

“Our goal is to provide a safe, efficient processing environment globally – modeled on the automated central asset servicing that central securities depositories provide for equities, fixed income and other securities,” said Peter Axilrod, DTCC managing director, Business Development. “The Trade Information Warehouse provides the underpinnings to support the entire post-trade lifecycle for OTC derivatives in a paperless environment.”

In 2007, the warehouse will expand to support central payment calculation, and a central settlement capability through links with a central settlement provider to streamline payment settlement. Also in 2007, the warehouse will offer customers the flexibility of electronically reconciling (“tying out”) complex or non-standard contracts that cannot be legally confirmed through Deriv/SERV, replacing the customary telephone-based approach.

The warehouse is designed with a flexible, but secure, open architecture capable of being extended and allowing other service providers to connect to the warehouse. As a result, the warehouse will

be able to offer additional efficiencies in portfolio management, bilateral margining and other post-trade processes, both directly and through links with other providers.

“We developed the warehouse in close collaboration with leading dealers and buy-side firms over an aggressive 10-month timeframe,” said Bill Hodgson, DTCC vice president, Business Development, who led development from London. “This has been a cross-border collaboration – from developing business requirements, to designing an operating model, to setting processing standards, to testing. We anticipate that a wide range of industry service providers will be connecting to the warehouse and offering complementary services.”

‘Our industry has come together in record time to put in place a common operational platform to manage credit derivative contracts over their life, yielding standardization, efficiency and risk reduction.’

– Thomas A. Russo, vice chairman,
Lehman Brothers

‘The trade warehouse is a just-in-time technological solution necessary to support our vibrant OTC derivatives markets.’

– Robert E. Diamond, Jr., president, Barclays PLC

Background on the warehouse

DTCC announced in February its plans to build the warehouse. Since then, DTCC has been working aggressively with senior personnel from 19 leading global dealers and the buy-side community (including traditional asset managers and hedge funds) to develop this industry infrastructure solution. The project is being overseen by a Senior Oversight Group, which was established by the OTC Derivatives Operations and Planning Committee of DTCC’s Board to make implementation recommendations to the Board Committee.

Major credit derivatives dealers pledged their commitment to the warehouse project, calling it “a material step forward in reducing operational risk and increasing operational efficiency in the credit derivatives market,” in a letter to the Federal Reserve Bank of New York on March 10, 2006. Financial regulators have also publicly stressed the importance of a global infrastructure for the credit derivatives market and the Trade Information Warehouse.

Testing of the warehouse’s functionality began in September. In addition, backloading, which involves populating the warehouse database with trade data on existing contracts, has started and will continue through 2007. @

DTCC Extends Its Presence in Asia

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in late September.

Considine is a familiar face among industry counterparts in Asia, having delivered the keynote address at the 2004 meeting of the Asia-Pacific Central Securities Depository Group, held in Taipei. This group comprises 25 institutions in 17 of the region's nations.

In the first quarter of 2007, senior DTCC executives are scheduled to travel to India and China for meetings with their counterparts. And next April, both Donahue and Considine are expected to speak at the 9th Central Securities Depository conference in Seoul. This meeting, hosted by Korea Securities Depository, Japan Securities Depository Center, Japan Securities Clearing Corporation and Taiwan Depository & Clearing Corporation, will bring together delegates from around the world.

Longstanding ties

DTCC's relationships with counterparts in Asia, which date back to the 1980s, are aimed at working collaboratively on initiatives that strengthen global markets and benefit all parties.

In the early 1990s, DTCC's National Securities Clearing Corporation subsidiary worked to support development of the Hong Kong Securities Clearing Company. This included providing guidance on risk management and seconding senior executives to work with colleagues in Hong Kong to launch the new clearing corporation.

Several years later, Hong Kong Clearing hosted officers from The Depository Trust Company (DTC) subsidiary as it finalized new custody and asset servicing capabilities at its own depository.

In the late 1980s, Singapore's Central Depository (Pte) Limited was the first Asian depository to open a link account at DTC to facilitate the movement of shares with DTC and make them available for settlement in the local market. Japan Securities Clearing Corporation and Hong Kong Securities Clearing Corporation also opened DTC accounts to facilitate local cross-trading of certain U.S. stocks.

In Singapore, DTCC worked with the American Stock Exchange to implement the cross-trading of exchange-traded funds. And earlier this year, DTC and Jasdec announced the creation of a new international account to facilitate the post-trade processing and custody of U.S. securities listed on Japanese stock markets.

Benefits of collaboration

DTCC has had collaboration agreements in place with depositories in Korea, Japan and Taipei for several years. The aim is to share knowledge and best practices, and strengthen working relationships.

The agreements include cross-training programs. In 2006, a DTCC executive spent a week in Taipei to deliver a seminar on DTCC's dematerialization programs, while executives from Taipei met with DTCC counterparts to focus on technology issues, including infrastructure, information security and business continuity.

Several years ago, when Japan was developing its delivery-versus-payment settlement model, executives from Jasdec and member firms spent a week with DTCC counterparts to review their plans, including risk management systems and net settlement, as part of ongoing collaborative interactions between the two organizations. DTCC and Korea Securities Depository also have held discussions on issues relevant to both parties.

The latest agreement with China Government Securities Depository Trust & Clearing Co. continues DTCC's steady push to cement working ties with its Asian counterparts.

"As we move into a globally integrated financial marketplace, agreements that formalize information sharing and dialogue are important building blocks because they help identify, and start to address, obstacles to smooth cross-border capital flows," said Donahue. "This is vital because, ultimately, capital fuels growth in the world economy." @





Tests Set for Matching Specified Pool Trades

by James Conmy

Fixed Income Clearing Corporation (FICC) is preparing to begin initial testing with customers on the matching of specified pool trades for mortgage-backed securities.

This capability, which represents a key step toward creating a central counterparty for mortgage-backed securities trading, will make it possible for customers to submit trades upon execution as transactions based on a specified pool of mortgages, rather than as trades based on “to-be-announced” or TBA mortgage pools.

“By submitting a trade as a specified pool trade with all the details, rather than as a TBA trade,” said Melanie Serman, DTCC director, Clearance and Settlement Group, “customers will no longer have to turn to Electronic Pool Notification to confirm trade details. That step will already be complete. In contrast,” she said, “pools for TBA trades are typically not allocated until just before settlement.”

Readiness testing

The principal aim of the tests is to make sure market participants are prepared to submit and receive interactive messages that will allow them to match the specified pools of mortgages underlying the securities being traded. This will speed up and simplify post-trade processing.

“When the tests are successfully completed,” Serman noted, “customers will have the ability to submit trades with associated pool details as they are executed – and will be able to track them through the processing cycle by pool number on our Real-Time Trade Matching [RTTM] application.

“It’s important that our customers take part in the tests, even if they do not execute specified pool trades, because we need to be sure all customers can handle FICC output for specified pool trades that other customers submit against them,” Serman added.

Going live in Q1

FICC is targeting the first quarter of 2007 to go live with specified pool matching but the actual date for “throwing the switch” will be determined by successful completion of customer testing.

In testing for pool matching, customers will not only be able to examine the receipt and delivery of messages interactively, they will also be able to see how specified pool trades are handled by the RTTM Web service.

FICC anticipates that its customers will also use the new RTTM reports on specified pools to determine quickly what portion of their total activity involves specified pools.

Other planned improvements

Matching is the first of two improvements FICC plans to make in the handling of specified pool trades. The second, scheduled for testing and implementation later next year, will give firms RTTM-generated calculation and repricing information for any of their specified pool trades in RTTM that are pending matching or have not yet settled.

“Calculation of specified pool trades and repricing based on factor updates brings us another step closer to netting and central counterparty services,” Serman said.

Next steps

FICC’s relationship managers are currently contacting customer firms to determine when they will be ready to begin testing. FICC will also continue to publish information updating customers on the status of specified pool trade matching, including dates for when testing may commence.

In addition, FICC expects to publish updated documentation in the near future for the RTTM Web and the reports it will start generating about specified pool trade matches. @

[For more information on specified pool trade matching, contact Melanie Serman at 212.855.7614 or msterman@dtcc.com, or contact Relationship Services by email at rmsupport@dtcc.com.]

Recap on RECAPS

DTCC’s National Securities Clearing Corporation (NSCC) subsidiary is enhancing its Reconfirmation and Repricing Service (RECAPS), through which customers submit fail files for comparison and settlement. (See NSCC Important Notice A#6323, October 26, 2006.) RECAPS is now available on PCWeb Direct for

all NSCC customers. DTCC is not proceeding with migrating RECAPS to the Real-Time Trade Management (RTTM) application, as previously announced. DTCC is developing the central counterparty initiative for mortgage-backed securities, whose ultimate benefits will include a reduction in the number of unconfirmed fails

for mortgage-backed securities, in conjunction with the ability to net fails with new trades.

A future article will report on the RECAPS enhancements, which are scheduled to roll out in March 2007, subject to approval by the Securities and Exchange Commission.

Automated Cash Settlement Comes to Mortgage-Backed Securities Market

by James Conmy

Fixed Income Clearing Corporation's (FICC) Mortgage-Backed Securities Division began testing its new automated cash settlement service in December with an eye to fully implementing the service for its members early next year.

The new service aggregates cash payments due from or to participants trading in the mortgage-backed securities market and automatically credits or debits the money at the participants' clearing banks. As a result, market participants no longer have to worry about actively making timely payments on cash obligations they might have with FICC.

"This works the same way it might for a homeowner whose paycheck is automatically deposited in his account and whose mortgage payment is automatically debited and sent to the mortgage company," said George Parasole, DTCC director, Clearance and Settlement Group. "The

debits or credits of all the firms trading mortgage-backed securities will be totaled at their settling banks – and payments will be sent accordingly – every day that the service is in use."

Using the Fed's NSS

Like the new automated funds-only service that FICC's Government Securities Division inaugurated earlier this year, the automated cash settlement service for the Mortgage-Backed Securities Division will make use of the Federal Reserve Bank of New York's electronic National Settlement System (NSS) to debit or credit a member.

Designed especially to handle funds flows on the four key processing days each month when mortgage-backed securities trades are settled, the new mortgage-backed securities service will be active daily for periodic updating and adjustment of customer accounts.

[continued on page 12]

Automated Funds Collection: Step by Step

The sequence for debiting and crediting participant accounts in the new automated funds collection system for mortgage-backed securities dealers corresponds to the timetable for settling trades, DTCC Director George Parasole explained.

- Step 1:** At 7 a.m. ET, FICC sends funds debit notices to agent banks via DTCC's Participant Browser Service. This gives the banks time to check their participants' accounts and make any needed adjustments.
- Step 2:** By 9:30 a.m., agent banks acknowledge the funds that need to be collected and delivered to FICC for settlement via the Fed's National Settlement System (NSS).
- Step 3:** By 10:00 a.m., FICC collects the acknowledged funds via the Fed's NSS.
- Step 4:** At 10:30 a.m., FICC begins calculating margin requirements and, if participants need to submit additional collateral to cover their exposure, they have until 2 p.m. to do so.
- Step 5:** Beginning at 2:30 p.m., any funds credits due will be sent into the system to be returned to participants.

"We don't return any credits that might be due until we're reaching the end of the process because, if a participant needs additional collateral, there might be a sufficient amount in the credit to cover that requirement and we won't need to seek another payment. We can take care of it, or part of it, with what we already have," Parasole noted.



DTCC Develops New Report for Asset-Backed Compliance Regs

by Edward C. Kelleher

To help customers meet new reporting requirements for asset-backed securities (ABS), DTCC's depository has developed an offering called the Security Holder Report.

An abbreviated version of the Security Position Report, the Holder Report will help customers comply with the Securities and Exchange Commission's (SEC) Regulation AB, which took effect January 1, 2006. The regulation requires that agent banks that serve as trustees for holders of ABS must count and report on holders of record in annual SEC filings.

The new report will also help agent bank customers contain overall compliance costs.

Multiple objectives

"The regulation requires that these banks report holders of record for each CUSIP they process," said Virginia Holton, DTCC director, Asset Services. "Prior to the new reports, many of our customers obtained this information by purchasing Security Position Reports [SPR] and extracting the information they needed."

SPRs give companies a breakdown of the number of their shares held by each DTCC participant and contain information needed to contact shareholders about corporate-related events such as annual meetings.

However, SPRs contain much more information than the ABS filing requires. "Some customers have thousands of CUSIPs, which makes it

costly to buy all those SPRs," said Holton.

To address both the compliance and cost issues, DTCC began working earlier this year with a subcommittee of the American Banking Association's (ABA) Corporate Trust Committee, which included representatives from the ABA, Wells Fargo Bank, Bank of New York, Deutsche Bank, LaSalle Bank, US Bank and JPMorgan Chase. The goal was to leverage SPR information to meet the requirements of Regulation AB. At the same time, customers would benefit from lower fees for the new reports due to DTCC's reduced production costs.

A tailored solution

The Security Holder Report was developed during the course of several months and DTCC filed a rule change with the SEC in November, making the new service effective upon filing.

The new reports, designed specifically for the needs of agent banks, will provide significant cost efficiencies and also save clients time during the critical year-end processing period.

Lisa Brewster, vice president, Wells Fargo Bank, said, "We really appreciate DTCC's willingness to come to the table with the industry on this issue. DTCC understood our needs and worked with us to create this solution. It's been a wonderful working partnership and shows how we can develop a tailored product for the industry." @



Automated Cash Settlement *Continued from page 11*

'Huge time-saver'

"We think the system will be a huge time-saver for our customers. It also eliminates completely the chance that a firm may have to pay a fine for a late payment because its bank's wire room couldn't move the funds fast enough," Parasole said. "It likewise means participants don't have to chase down any credits due to them because those will be automatically posted as well."

Payments moving through the system to and from the 13 agent banks involved will

include the net payables or receivables due to each participant based on the settlement of its mortgage-backed securities trades, as well as interest income rebates, cash adjustments, broker commissions, clearing fees and any principal and interest earned from Treasury or government agency securities used as collateral in a participant's fund.

According to David Cosgrove, DTCC vice president, Operations, the new automated cash settlement system continues the streamlining and standardization of

funds collection across DTCC's clearing corporations. "This will give us automated fund collection and payment systems for Treasury securities, mortgage-backed securities and other fixed-income securities," he said.

On the equities side of the equation, DTCC already collects funds through NSS for National Securities Clearing Corporation and The Depository Trust Company. In December, this service will be implemented for the disbursement of funds, as well. @

How Matrix Leveraged Mutual Fund Services to Build a Business

by Melanie S. Best

Matrix Settlement & Clearance Services (Matrix) was founded in 1999 to be “an outsource option for mutual fund back office processing.”

In its role as a trading platform, one important service Matrix provides is access to National Securities Clearing Corporation’s (NSCC) mutual funds processing and information services for customers that do not hold NSCC membership or are ineligible for such membership, delivering cost savings and efficiency gains to them.

From a customer roster of one in 1999, Matrix currently provides clearance and settlement of mutual fund transactions – through NSCC – for more than 200 banks, broker/dealers, trust companies, registered investment advisors and third-party administrators (TPAs). In addition, for its investment advisor and TPA customers, Matrix, through its affiliate MG Trust Company, holds in custody retirement plan assets. In all, Matrix customers represent more than \$69 billion in mutual fund assets.

Headquartered in the heart of Denver’s business district, Matrix, through its affiliates, maintains agreements with close to 500 mutual fund families. As of August 2006, the company’s trading volume averaged one million a month, with daily trades numbering as many as 70,000. MG Trust Company, LLC (MG Trust), an affiliate of Matrix, holds over 26,000 defined-contribution retirement plans in its custody, and half of its customer assets are in retirement accounts.

As defined-contribution plans have grown in number and aggregate asset value, NSCC’s Defined Contribution Clearance & Settlement (DCC&S) service has given defined-contribution plan participants access to a wider variety of fund options at a lower cost than would otherwise be possible.

Matrix attributes much of its growth to the formation of DCC&S.

Setting the stage for DCC&S

Before DCC&S was created, a large percentage of mutual fund transactions for defined-contribution accounts were processed manually. The absence of automation, combined with a fragmented transactional environment, resulted in tremendous market inefficiencies and lack of transparency.

Furthermore, the high degree of regulatory scrutiny applied to defined-contribution accounts added to the paperwork burden.

Denise Grant, DTCC director, Mutual Fund Services, described the unique challenges in this market.

“A number of market players performing different functions are required to execute and process a trade for defined-contribution accounts,” Grant said. “These parties include mutual fund companies, record-keepers who administer defined-contribution plans for their sponsors, custodians of plan assets and broker/dealers. Before DCC&S, each one was often speaking a different language in terms of their messaging protocols, which complicated communications between them.”

In addition, Grant noted, the federal government’s regulatory oversight of 401(k) plans “requires an extraordinary amount of record-keeping by those who trade and manage assets in these plans, from how much money can be contributed, to the fiduciary responsibilities of anyone who touches one of these accounts.”

Streamlining multi-day settlement

The manual processing environment of the pre-DCC&S world prevented same-day exchanges among different fund families available within defined-contribution plans, depriving participants of the chance to capture market prices in effect the day they gave trading instructions.

“Before DCC&S, it was impossible to trade among multiple fund families in the same-day exchange environment,” said Jamie DeRubertis, vice president and

national sales manager of Matrix. “The closest thing to same-day exchanges might have been on day one, when the record-keeper would process the order to sell shares in fund A. The trade would then settle on day two. And on day three, the proceeds of the sale would be invested in fund B.”

Despite these inefficiencies, the [continued on page 14]



Jamie DeRubertis, vice president and national sales manager, Matrix

How Matrix Leveraged Mutual Fund Services to Build a Business

defined-contribution market grew robustly. According to the Investment Company Institute (ICI), the aggregate market value of assets in private employer defined-contribution plans, 457 plans and the Federal Employees Retirement System Thrift Savings Plan reached \$2.08 trillion in 1997, up from \$756 billion in 1990. But this volume of activity magnified the limitations of existing processing systems.

“The industry came to us because it was drowning in paperwork,” Grant said. “In a system where a [defined-contribution] plan participant didn’t see a change in the value of her account until three to five days after a transaction, the risks were enormous. The industry was intent on reducing this risk and came to NSCC for a solution.”

In collaboration with the ICI and industry representatives, NSCC designed DCC&S and introduced it to the market in 1997.

Responding to a market opportunity

DCC&S transformed the business of processing mutual fund transactions for defined-contribution accounts – enabling same-day exchanges, reducing risks, and trimming processing costs – for members of NSCC.

For those market players that are not NSCC participants, the founders of Matrix saw an opportunity to offer them the benefits of DCC&S.

Over time, Matrix amassed another capability that made its services attractive to customers. In the mutual fund market, a

contract is necessary for every aspect of the business, and Matrix has spared customers substantial legal work by accumulating its own store of thousands of contracts – service agreements, trading agreements, among others – with hundreds of fund companies.

Matrix operates two parallel businesses. For banking customers, it acts as a clearing hub, processing their mutual fund trades. For retirement plans and the TPAs that manage their records, Matrix conducts the clearing and settlement of

trades as well as provides a trust/custodial business in partnership with its sister company MG Trust, taking in deposits and processing distributions in a completely automated environment.

Shaping a firm’s business

“A large segment of our business functions because of NSCC, DCC&S and Fund/SERV,” said John Moody, Matrix president. “We wouldn’t have formed the company initially without them.”

While DCC&S in its entirety has been a boon to Matrix’ business, the firms’ executives find several features of the product especially noteworthy:

Same-day exchange and reconciliation:

“DCC&S fundamentally changed the way transactions are handled in this market,” Moody said. “Being able to do same-day exchanges across fund families is crucial. From our perspective, it’s one of the most important aspects of the service we provide to our clients.”

Also important to Matrix is the ability DCC&S gives



John Moody, president, Matrix



The DCC&S Package

The Defined Contribution Clearance & Settlement (DCC&S) service bundles together three existing NSCC Mutual Fund services.

- **Fund/SERV:** a service providing standardized formats and centralized processing of purchase, redemption and exchange orders and account registrations. Fund/SERV also gives participants a single daily net settlement amount.
- **Networking:** an automated, centralized record-keeping system through which all customer account activities can be exchanged by participants.
- **Mutual Fund Profile Service (MFPS):** a service that provides daily prices and rates and automates the flow of information between NSCC participants in a centralized system using standardized formats.

customers to carry out daily reconciliation – that is, create a single position every day based on NSCC files and data from fund companies.

Individual registrations: “Before DCC&S, the industry functioned primarily in the super-omnibus platform environment,” said Cliff D’Amato, Matrix’s chief executive officer. “Super-omnibusing was usually a prerequisite for achieving some efficiency.” In other words, the lack of automation forced clearing firms to bundle multiple retirement plans into single accounts, a practice that led to some trading abuses. The Securities and Exchange Commission devised its Rule 22c-2 in part to combat these abuses.

“DCC&S gave us, as a new player to the market, the ability to implement individual registrations, per plan, per fund,” D’Amato said. “We’re not burdened with the legacy problems of omnibus accounts and our customers love us for it.”

“Given our automation, coupled with the availability of Fund/SERV,” DeRubertis added, “trade volume has become less important. We can process one trade just as easily as one thousand with minimal impact on the cost of our services.”

Level-Zero trading: The ability to trade “Level Zero” allows Matrix to expand and improve its broker/dealer relationships. (Level Zero is a designation for banks and trusts that process mutual fund trades through Fund/SERV. It enables them to separately identify a broker on the account.) “When we trade for bank customers who hold accounts in long title, individual brokers can collect their commissions directly from the fund companies they maintain selling agreements with, which has made our platform attractive to large broker/dealer firms,” DeRubertis noted. Long title – referring to the name on a mutual fund account – reflects the registration of the account to the individual shareholder and not through an omnibus account. “We encourage our bank customer base to consider moving from an omnibus account approach to

long-title registrations not only for the attractiveness to broker/dealers, but also because it alleviates redemption fee tracking.” Moving to long-title registration is not preferred by all banks, but according to Matrix, several of its large bank customers have converted to long title with help from Matrix and several more are scheduled to do so in the coming year.

Continual adaptation

In 2006, NSCC expanded its list of DCC&S codes to help record-keepers identify when transactions other than defined

contributions come through its system – a response to the late-day trading abuses in the mutual fund sector. Other revisions to the service are likely over time, as market demands and conditions evolve.

As exchange-traded funds (ETFs) gain favor alongside mutual funds as an investment vehicle for individuals, Matrix also hopes NSCC can design a service to facilitate execution of ETF trades for defined-contribution plans.

“ETFs are not an automatic substitute for mutual funds,” said Moody. “They have inefficiencies and typically settle at T+3. But they are a good vehicle to capture a large piece of the market, and we see a place for

both kinds of investments in the future.” @

[For more information about DTCC’s Mutual Fund Services, call 212.855.8877. To learn more about Matrix Settlement & Clearance Services, visit www.msconline.com or contact Jamie DeRubertis at 917.678.7132.]



Cliff D’Amato, chief executive officer, Matrix

Pension Programs: Defined Benefits vs. Defined Contributions

In a defined-benefit pension plan, an employer creates a pension fund for employees to draw from in retirement. Employees are promised a specific monthly benefit amount at retirement, and they do not typically make investment decisions regarding the assets in the fund.

Under a defined-contribution plan, each plan participant holds an individual account into which the employer and/or employee make contributions. The contributions are invested in accordance with instructions from the account holder and the returns, both positive and negative, are credited to the individual’s account. The most common defined-contribution structure is the 401(k), and mutual funds are among the most popular components of individual defined-contribution accounts.

Calling DTCC Gets Easier by Helen Cunningham

DTCC now has a primary customer service telephone number, making it faster and easier for customers to call for service and obtain resolution on the first call.

Effective December 4, customers in the United States and Canada can dial a toll-free number that provides one-stop access for questions about virtually all of their service needs. To ensure a smooth transition, existing numbers will feed into the 888 number. Callers from other international locations will use a 212 number.

“This call-center change represents one component of our drive to continually improve customer service based on feedback from the Customer Satisfaction Survey and other forums,” said James Koster, DTCC managing director, Relationship Management. “The new number will allow callers to reach the right person with the right skills to handle their questions promptly, which is what everyone wants when calling for customer service.”

For customers who prefer to call certain areas of the organization directly, DTCC will retain 6 additional numbers. These dial into Settlement, Proxy, Relationship Services, FICC’s Government Securities Division, FICC’s Mortgage-Backed Securities Division and Deriv/SERV (for callers outside the United States and Canada).

Additional telephone enhancements include:

- A new, more user-friendly menu of options for accessing DTCC’s customer service representatives to obtain resolution and information on a spectrum of issues. These

include questions about technical issues (such as password resets and file transmission), billing, business queries about specific products and services, and general inquiries about a customer account.

- The inclusion of Mutual Fund Services, Insurance Services, Tax Services, Settlement and FICC in the new toll-free hotline menus.
- The addition of an estimated wait time on the first pickup.

Other benefits

The centralization of incoming calls will also strengthen customer service by improving DTCC’s ability to track

and analyze calls across the organization. “We are continually looking to improve problem resolution and call-center performance,” said Anthony Savarese, DTCC managing director, Operations. “The new phone system will better enable us to capture data to help guide and measure these efforts.”

What’s more, all call-center representatives will use consistent processes and technology for customer support. “We are introducing enterprise-wide standards for scripts, ‘handle time’ and steps for escalating problems to the officer level, if necessary,” said Savarese, noting that escalation was an issue that surfaced in the 2006 Customer Satisfaction Survey. @

To Phone DTCC

U.S./Canadian Callers

Main Number	888.382.2721
Relationship Services	800.422.0582
Settlement	212.855.5800
FICC MBSD	212.855.7886
FICC GSD	212.855.7600
Proxy	212.855.5191

Other International Callers

Main Number	+1.212.855.8099
Deriv/SERV	+44 (0) 207 136 6328



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

DTCC’s mission: 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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Managing Director

Helen Cunningham
Editor

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Toni Bellise
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