

DTCC Deriv/SERV to Create Central Trade Information Warehouse

By Lisa Argento

DTCC announced in February its plans to create a central industry trade information warehouse and support infrastructure to automate and centralize “downstream” processing over the life of an over-the-counter (OTC) derivatives contract.

The solution will consist of a central trade information warehouse for credit derivatives – essentially a comprehensive [continued on page 4]

Customer Satisfaction: Survey Results Into Action

by Karen Bray

Customer satisfaction does not begin or end with the annual customer survey,” said James Koster, DTCC managing director for Product Management and Marketing. “While we are pleased DTCC received an overall satisfaction rating of 89% in the 2005 survey, we have spent the past several months drilling down into the data to formulate this year’s initiatives for further improving the customer experience with DTCC.”

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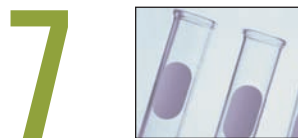
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Bear Stearns: Managing The Cost-Basis Crunch



New-Issue Processing



Business Continuity Update: Avian Flu

How Bear Stearns Manages The Cost-Basis Crunch

By John Celock

With the arrival of tax season, brokers throughout the industry are once again contending with the time-consuming, frustrating and tedious search for cost-basis information.

One firm that identified a solution to dramatically streamline the work of providing up-to-date cost-basis reporting information to brokers and clients is Bear Stearns. According to Steven Callan, associate director at Bear Stearns and executive vice president of the Customer Account Transfer Division of the Securities Industry Association, the implementation of DTCC's Cost-Basis Reporting Service (CBRS) two years ago has benefited the firm's large network of brokers and their customers.

Mountains of paperwork

Cost-basis reporting, which provides a history of the transactions on a client's account, is a key part of the information assembled each year for tax preparation. The data consist of asset records

and associated tax lot records.

When brokers or clients move from one firm to another, cost-basis records for the corresponding accounts are updated and sent to the new firm. With millions of accounts worth billions of dollars being transferred from one financial institution to another each year, efficient and accurate cost-basis data transfer has become a higher priority.

"When we received new accounts into our firm, the sales staff needed to obtain the client statements in order to manually update the cost-basis information into a new system," Callan said. "If further information was needed, the sales staff may have needed to contact the client to get it."

This labor-intensive approach proved increasingly burdensome and inefficient. "Our sales assistants were spending more and more of their time on cost-basis reporting issues, which meant less time spent on important client management issues," Callan said. "We needed to implement a system that would allow us to reduce the time and paperwork our sales staff dedicated to tracking down this information."

Logical and cost-effective

CBRS, launched in May 2003, is a companion to DTCC's Automated Customer Account Transfer Service (ACATS).

Created in 1985, ACATS allows banks and broker/dealers to submit, review and settle account transfers in an efficient and automated environment.

Available to all ACATS customers, CBRS creates an automated process in which cost-basis information is transferred between firms' portfolio systems. The

process begins when an account is transferred through ACATS and reaches "Settle-Close" status. From this point on, for the next 10

business days, cost-basis data for assets in the account can be sent to DTCC during the day. The system sorts the data after ACATS has completed its daily asset settlement process, which allows CBRS to have the most current transfer information.

Choosing CBRS was a logical, cost-effective decision for Bear Stearns, which had been an ACATS user from the beginning. Callan said the service was relatively easy to implement, since it involved building upon current systems.

As the first step in the implementation process, Bear Stearns built the capability to work with DTCC's file format platform, according to William Kapogiannis, DTCC director, Product Marketing and Development. Once the application was in place, DTCC supported Bear Stearns in testing its application. Altogether, it took the firm several months to get the application into a production environment.

Life made easier

Since rolling out CBRS, Bear Stearns has reaped multiple benefits. "Our sales assistants now have more time to focus on other responsibilities, such as portfolio management, client contact and cash management," said Callan. "Another plus is that when brokers move to new firms, they can focus on learning systems and getting to know people, instead of dealing with cost-basis paperwork."



Steven Callan, associate director, Bear Stearns



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DTCC Plans to Revolutionize New-Issue Processing

By James Conmy

DTCC has announced a detailed plan for a centralized and automated service that will “revolutionize” the way new securities issues are processed after they’re prepared for pricing.

The current environment for processing new issues is highly paper intensive and manual, resulting in delays and errors that represent a growing area of risk for industry participants. DTCC’s new service will not only automate the capture and dissemination of information required for underwriting new issues, but will also help underwriters and other market participants, such as inter-dealer brokers and securities traders, meet new regulatory reporting requirements to ensure transparency in the trading of newly issued municipal bonds.

“This is one of the most significant automation efforts undertaken by the industry – and by DTCC,” said James Balbo, DTCC managing director of Asset Services. “It will totally revolutionize the traditional way of handling new issues, including equity IPOs, and how the underwriting process is completed.”

A snapshot of new-issue underwriting

The underwriting of new issues is a major business for the securities industry. In 2005, DTCC’s depository made 47,178 new issues – valued at more than \$4.4 trillion – eligible for processing within the industry.

About 55% of the issues were corporate bonds, 42% were municipal bonds and the rest were chiefly equities. The municipal bonds included 2,992 note issues valued at \$46.8 billion and 16,841 bond issues valued at \$470.5 billion.

The new service, first proposed only for municipal bonds, will eventually be expanded – at the urging of the securities industry – to cover all new issues including corporate debt, equities and other securities. “Our goal is to make the underwriting process far more efficient and to reduce information-gathering costs across the industry,” Balbo said.

The service will be available not only to DTCC’s depository participants but also to other industry parties, such as correspondent underwriters.

Background on the plan

According to DTCC’s action plan, critical information on new municipal bond issues is often not available in time to meet a 15-minute deadline for reporting trades because “current notification practices are decentralized and involve a variety of formats, manual processes, numerous intermediaries and redundant steps.”

At the urging of The Bond Market Association, the securities industry asked DTCC, as part of a major overhaul of its securities underwriting and corporate action processing platforms, to build a service that could overcome the problem. Meanwhile, the Securities and Exchange Commission (SEC) recently approved a decision by the Municipal Securities Rulemaking Board (MSRB) to postpone enforcement of the new-issue reporting requirements until the end of 2007, giving the industry time to initiate and use DTCC’s new service.

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Read All About It

To read DTCC’s concept paper on the new-issue service, titled “Automating the Collection and Dissemination of Critical Information About Newly Issued Securities,” visit www.dtcc.com and click Reengineering at the bottom of the home page. Then go to the Underwriting tab and click Presentations and White Papers.



DTCC Deriv/SERV to Create Central Trade

database containing the “golden copy” of each trade – and a central support infrastructure that standardizes and automates “downstream” processes throughout the life of each contract.

The “downstream” processing supported in the first release, planned for mid-year, will include maintaining the “current state” of each contract (after taking into account full and partial assignments, terminations, etc.), as well as calculating and bilaterally netting the cash flows associated with each contract. With industry support, additional downstream processes may be considered. DTCC expects decisions around the timing and content of subsequent releases, including possible extensions to other OTC derivatives, to be made over the course of this year.

“We view the maintenance and support of OTC derivatives contracts over their life as the next big issue facing the industry,” said Michael C. Bodson, managing director, Global Head of Operations for Morgan Stanley, and chairman of DTCC’s OTC Derivatives Operations and Planning Committee. “This represents a giant leap forward to solve that problem, and is essential to support expected market growth. We expect that the industry will see enormous efficiency gains and operational risk reduction.”

“We’re starting with credit derivatives for two reasons,” said Guido Buehler, managing director, Global Head of Fixed Income and FX Operations, UBS Investment Bank, and

member of DTCC’s OTC Derivatives Operations and Planning Committee. “First, the growth and success of the market makes it an obvious choice. Second, it’s the only place where, through Deriv/SERV, the industry has brought the bulk of the community trading – both dealers and buy-side firms – into an automated confirmation environment. In addition to all of the leading dealers, over 200 traditional and

concerning this initiative and believe that a longer-term solution will enhance efficiency and engender a greater confidence in the industry’s processing infrastructure on all sides of this growing market.”

DTCC has been working closely with 11 leading global dealers to develop the overall concept and detailed design to deliver this industry infrastructure solution. The project will be overseen by a Senior Operations Group, which has been established by the

OTC Derivatives Operations and Planning Committee of DTCC’s Board to make implementation recommendations to the Board Committee. The trade warehouse and support infrastructure are being designed to eventually accommodate other OTC derivatives, including rates, equities, FX and commodities derivatives.

“Our long-term shared vision with the industry is to focus on how to manage post-trade processing in the OTC derivatives market space,” said Robert McGrail, DTCC executive managing director for Domestic and

International Core Services. “Beginning with credit derivatives, our goal is to create at DTCC a global, extendable and open platform to reduce the risk and cost associated with OTC derivatives.”

“This will be a global infrastructure,” said Peter Axilrod, managing director, DTCC Business Development. “We’re building a solution for customers – both dealers and buy-side firms – who are looking for a single trade warehouse and standard processes globally. Our core design

Quotable
Financial Times
“Opening the information warehouse”
 Feb. 14, 2006
“Unlike securities clearing, which tends to be organised regionally, DTCC’s derivatives database is intended to capture trades worldwide, reflecting the global nature of trade in the instruments.”

non-traditional asset managers worldwide already use the service. We will be working in conjunction with the buy-side community on the design and implementation of this next step in order to achieve true STP.”

“The proposed establishment of the trade information warehouse is a significant step for asset management firms,” said Joseph Sack, executive vice president and advisor to the Asset Managers Division at The Bond Market Association. “Asset managers appreciate having a seat at the table

Deriv/SERV Timeline

Nov. 2003	2004			
<ul style="list-style-type: none"> • Launched Deriv/SERV, a global matching service to automate CDS* processing <p><small>*CDS: credit default swaps</small></p>	<ul style="list-style-type: none"> • Expanded to CDS indices • Expanded to CDS swaps on Asia-Pacific corporate credits and sovereign credits 	<ul style="list-style-type: none"> • Expanded to full “life cycle” event processing, including full and partial novations 	<ul style="list-style-type: none"> • Expanded to global equity share and index options • Launched payment processing services 	<ul style="list-style-type: none"> • Implemented standard master confirmation agreements • Launched second-generation payment processing service • Expanded to interest rate swaps and swaptions

principles are inclusiveness – so that it is open and attractive to all market participants – and open architecture – to facilitate integration with other value-added service providers.”

When fully implemented, the new infrastructure will streamline many processes that occur throughout the

contract life cycle, which today involve significant manual intervention and bilateral processing. From a risk management perspective, the new infrastructure will help firms ensure accurate balance sheet information, promote correct and complete payments, and manage credit events more smoothly.

“This initiative will require a significant effort not only from DTCC, but also from the market participants themselves,” said Axilrod. “We are fortunate to have the focus of very senior management of leading participants in the OTC derivatives market. This is really how success will be achieved.” @

DTCC Hires Derivatives Expert to Strengthen Global Business Development

By Lisa Argento

DTCC has named Bill Stenning as vice president for Business Development. Based in London, Stenning joins DTCC's over-the-counter (OTC) derivatives business development efforts in Europe. He will be integrally involved in advancing DTCC's expansion strategy for its automated services for this market.

Most recently, Stenning was at Sungard as managing director, Trading and Risk Systems, responsible for trading products, primarily in the back office. Previously, Stenning was chief operating officer at SwapsWire, the electronic derivatives confirmations network that he helped launch in 2002. He has also worked on both the sell side at Chase Manhattan Bank (now JPMorgan Chase) and the buy side at Cargill Financial Markets.

“Bill Stenning is an expert in the derivatives marketplace, bringing a wealth of experience in OTC derivatives post-trade processing based on his leadership at Sungard and SwapsWire,” said Robert McGrail, DTCC executive managing

director for Domestic and International Core Services. “We are extremely fortunate that a senior manager with Bill's stature will be helping to take the business forward.”

‘De facto standard’

Deriv/SERV's customer base is the largest of any post-trade service provider in the marketplace and includes the 25 largest derivatives dealers globally and more than 200 buy-side firms, with a rapidly growing number of firms in the pipeline. Deriv/SERV's services are provided at no cost to the buy side, while sell-side dealers are charged at-cost only.

“I'm delighted to be joining DTCC at this pivotal point in the evolution of its OTC derivatives services,” said Stenning.

“Over the last two years Deriv/SERV quickly established itself as the de facto standard for the post-trade processing of OTC derivatives and is now clearly the leader in this market space. It is the only platform that has gained mass popularity across both the sell side and the buy side,” he continued. “DTCC has proven to be quick to satisfy the demands of the

industry, offering ‘one-stop’ servicing for OTC derivatives, across asset classes, along with a reputation for proven strength and reliability.”

Stenning joins Bill Hodgson, who came aboard DTCC in 2004 from LCH.Clearnet, where he led product development for its SwapClear OTC derivatives business. Both Stenning and Hodgson report to Peter Axilrod, managing director, DTCC Business Development.

“Stenning is an individual who can hit the ground running,” said Axilrod, “with his exceptional background in the OTC derivatives market and his broad network of contacts at financial institutions across Europe. The demands on DTCC from the OTC derivatives market are growing at an explosive pace, and the addition of Bill Stenning to our staff in London will help assure that we are able to continue to deliver innovative solutions for OTC derivatives.” @



Bill Stenning

2005

- Expanded to equity swaps and variance swaps
- Enhanced assignment processing features
- Reengineered online break resolution tools
- Established links with Communicator, MarketAxess, Thunderhead, TradeWeb, T-Zero
- Announced plans with leading inter-dealer brokers for a common electronic check-out service

2006

- Grew customer base to more than 225 dealers and buy-side firms
- Enhanced payments matching service further
- Announced plans for central industry trade information warehouse and support infrastructure

Deriv/SERV Enhances Payments Matching To Support Real-Time Messaging

By John Celock and Judy Inosanto

DTCC has enhanced the payment matching and bilateral netting capabilities of Deriv/SERV to accommodate real-time computer-to-computer messaging between DTCC and customers. This will speed the processing of payments for credit default swaps and other over-the-counter (OTC) derivatives, providing greater accuracy and straight-through processing for payments processed through DTCC.

Five major dealers, including Bear Stearns, Credit Suisse First Boston, Deutsche Bank, JPMorgan Chase and Morgan Stanley, have adopted the new direct computer-to-computer link as part of their credit derivative transactions payment process. These banks now enjoy fully automated integration between their own internal cash management systems and the DTCC central service.

Another step forward

“With the OTC derivatives market – particularly in credit default swaps – continuing to grow at such a rapid pace, the need to strengthen the market’s operational infrastructure takes on even greater importance,” said Richard Ingram, executive director, Morgan Stanley Fixed Income Operations. “The ability to further simplify our payment processing through an automated computer-to-computer link is another step forward in addressing this need, and we are pleased that DTCC has added this feature to the Deriv/SERV platform.”

The new computer-to-computer

link allows users of the payment service to transmit credit derivatives payment information directly to DTCC’s computer system in real time. Previously, this data would need to be

submitted to DTCC via an Excel spreadsheet, requiring manual intervention to complete the process.

Plans are under way to extend the service to all OTC derivatives asset classes, focusing initially on interest rates and equities.

Safety and soundness

“This enhancement to Deriv/SERV’s payment matching and bilateral netting service is another example of how we are working with market participants to deliver automated solutions that bring greater safety and soundness for derivatives processing, from trade confirmation through settlement,” said Peter Axilrod, managing director, DTCC Business Development. “We are committed to continuing to build and enrich our platform to foster a higher degree of automation in the marketplace.”

Rapid growth in payments

DTCC surpassed the 1-million mark in payment transactions processed in the fourth quarter 2005, with 1.2 million credit derivative payments matched and bilaterally netted through the system. This reflects a threefold increase from the same 2004 period, when 400,000 payments were processed through the system. @



“With the OTC derivatives market – particularly in credit default swaps – continuing to grow at such a rapid pace, the need to strengthen the market’s operational infrastructure takes on even greater importance.”

—Richard Ingram, executive director,
Morgan Stanley Fixed Income Operations



Business Continuity Update: Avian Flu Preparedness

Like firms across the financial services industry, DTCC has expanded its business continuity planning to ensure readiness in the event the avian flu virus becomes a threat.

Donald F. Donahue, DTCC's chief operating officer, recently issued a communication to customers about DTCC's contingency planning in the event this virus would ever pose a threat to the industry and customers.

"A principal goal, of course, with business continuity and contingency planning, is to safeguard our ability to support the critical clearing, settlement and asset servicing operations required by our customers – no matter what," Donahue said.

Emphasizing that this plan is in keeping with DTCC's extensive business continuity practices, Donahue said, "It is impossible to predict if the avian flu virus would ever mutate into a form that can easily spread from person to person, but DTCC believes it is only prudent that we and our customers have adequate response plans in place. The business impact of an outbreak can be lessened if preparations are made ahead of time."

DTCC's plans focus on preserving the continued operation of all essential services throughout the period of any avian-flu-related emergency, according to Donahue. He also noted that the company is working closely with federal authorities, and with state and local agencies where it



Donald F. Donahue

has facilities, as they prepare for the potential of a widespread outbreak of illness from this virus.

To read the full text of Donahue's communication, visit www.dtcc.com. Under Customer Focus, click Important Notices. It is notice Z#0018, dated January 27, 2006. @

New Industry Paper: Issues To Consider In Preparing for Avian Flu

The Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC) has issued a paper discussing issues that financial institutions may need to face in the event of a widespread avian flu outbreak.

FSSCC is a Homeland Security financial industry council charged with planning for infrastructure protection. Donald F. Donahue, DTCC's chief operating officer, is chairman of the FSSCC and Sector Coordinator for Banking and Finance.

A serious outbreak of illness, such as avian flu, could cause problems for business and the financial services industry that are quite distinct from the business continuity issues posed by disruptions associated with natural disasters or deliberate malicious activity, according to the paper. The council cautioned that financial services organizations ought to reexamine their current business continuity plans with an eye to surviving a long-running outbreak of a highly infectious disease.

"It's important to point out that, at this time, an epidemic or pandemic of 'avian flu' remains a possibility, not a fact," said Donahue. "While we do not want to create a sense of panic, FSSCC believes that heightened awareness and preparation is a prudent course for us to take."

The paper, titled "Issues for Consideration Regarding Preparations for Avian Flu," shares some of the thinking evolving in the financial service industry. "Our aim is to help financial institutions in thinking through and addressing the issues their specific organization might face," Donahue said.

To access the FSSCC statement and paper on avian flu, visit www.fsscc.org.

Customer Satisfaction: Survey Results into Action *Continued from cover*

Koster added that responding to, and capitalizing on, the valuable feedback received in the latest customer survey is an enterprise-wide activity.

Two levels

“We have created customer satisfaction action plans at the product level and at the corporate level to address areas of potential improvement,” said Art Kleiner, director of Marketing, who manages DTCC’s customer survey and oversees activities resulting from the survey.

Noting that customer satisfaction action plans have driven DTCC’s follow-up to the customer satisfaction survey for the past several years, Kleiner added that, in 2006, the company is taking this to a new plane. “We are putting improved reporting in place to better monitor the plans and to keep our customers more informed and involved in the process throughout the year,” he said.

Metrics for measurement

At the corporate level, DTCC selected cross-disciplinary teams to focus on three key attributes that drive overall customer satisfaction: how problems are resolved, how Relationship Management staffs meet customer needs, and overall customer service.

These teams analyzed overall survey data, including verbatim comments, and developed action plans with a corporate-wide scope, including metrics to ensure regular tracking of progress. “We believe using metrics-based methodologies to more effectively drive our results and shape our customers’ total experience will be key to our success,” said Donald F. Donahue, DTCC’s chief operating officer.

As one example of the focus on overall customer service, Koster cited telephone access. “Our action plan to address telephone service includes an evaluation of the structure, efficiency and effectiveness of our call centers,” he said. “This analysis will factor in whether our employees have the right information to provide timely and accurate responses to customer inquiries, and it will look to improve call center menus in order to make access easier for customers.”

At the product level, business managers analyzed the survey results for their areas and identified dominant themes. Then they came up with specific tasks and activities to address these themes, along with their own metrics to monitor progress.

Kleiner gave an example of how these plans work. “If survey feedback for a particular business indicated customer communication should be a theme, the plan for that business would include specific tasks that address communication, such as tracking customer interaction and giving product training to DTCC employees so they are better informed when communicating with customers,” he said. “These activities then are measured against pre-established metrics.”

Reviewing plans

In January, customer satisfaction action plans were presented to the company’s senior management, including DTCC’s Quality Council. This council, which is responsible for driving quality disciplines and practices throughout the organization, consists of 16 senior executives who head the company’s business units and key support areas, including Operations, Information Technology, Relationship Management, Corporate Communications and Human Resources.

In an all-day session, each presenter outlined his or her plan, the status of implementation and how success against targets will be measured. This review, in addition to keeping DTCC senior management abreast of customer-focused initiatives, served as a platform to enhance and revise the plans where necessary.

Key action plan initiatives were also incorporated into DTCC’s 2006 corporate goals. For example,



“Responding to, and capitalizing on, the valuable feedback received in the latest customer survey is an enterprise-wide activity.”

— James Koster, DTCC managing director, Product Management and Marketing

Sampling of 2005 Customer Satisfaction Survey Scores

Key Attributes	% Satisfied
Knowledgeable about your specific business	.79
Communications with customers	.75
Customer service	.72
Relationship management	.71
Ability to increase operational efficiencies	.69
Exhibits a sense of urgency when responding to customer questions and concerns	.65
Customer-centric	.63

one goal is to increase customer satisfaction scores on problem resolution by 10% over 2005; another is to maintain a world-class score of 80% or higher for overall customer satisfaction; and another is to reduce the time required to activate new customers for non-guaranteed services to 8 weeks.

More dialogue with customers

DTCC will also be doing more customer outreach throughout the year. "The survey provides invaluable feedback once a year, but it's important that we get a more frequent read of customer feedback," said Kleiner. "We will be asking customers for *their* input and we will be giving customers feedback on *our* efforts," he said.

In addition to ongoing coverage in this newsletter about progress with the customer satisfaction action plans, DTCC is working on several new projects, including:

- **Operations-based satisfaction metrics.** Based on the 2005 survey results, DTCC has identified a number of operational metrics that are important to customer satisfaction. To confirm that these are the right metrics, DTCC will review them with the Operations Advisory Committee at its February meeting. This committee, consisting of 18 senior executives from across the industry, advises DTCC on industry-related issues and initiatives, and provides guidance on services and policy matters relating to product development and daily operations. DTCC senior executives from the business units, Operations and Relationship

Management participate in these meetings.

The metrics, which relate to quality, sense of urgency and customer service levels, range from tracking turnaround times for restricted deposits, to average resolution time for an inquiry made to the Participant Inquiry and Notification System (PINS).

Once there is consensus on these customer-driven metrics, DTCC will report on them at the committee's quarterly meetings.

- **Mini-polls.** Another new tool for keeping DTCC attuned to customers will be brief customer polls called Focused Tracking Studies. These intermittent polls, designed to complement the annual survey, will be concise, Web-based surveys that track specific customer satisfaction measures. Initially, this mechanism will address customer service issues, including problem resolution, sense of urgency, taking ownership and relationship management. The first poll is scheduled to be conducted by the end of the first quarter.

Communicating with survey recipients

This month, Donahue will be sending a letter to all recipients of the 2005 survey, outlining DTCC's customer satisfaction activities, including plans to address the survey results. The letter will also be available on DTCC's corporate Web site at www.dtcc.com, under Customer Focus. @

For more information or to provide input on any of these customer initiatives, contact Art Kleiner by e-mail at akleiner@dtcc.com or by telephone at 212.855.5690.

Bear Stearns *Continued from page 2*

While Callan said it is impossible to quantify the hours and dollars saved by the implementation of the cost-basis system, he added that anecdotal evidence indicates CBRS has made a difference.

"The brokers we work with are happier with this service because it allows the information to flow through seamlessly," he said. "And the clients are happy because they can now get their information immediately and move on."

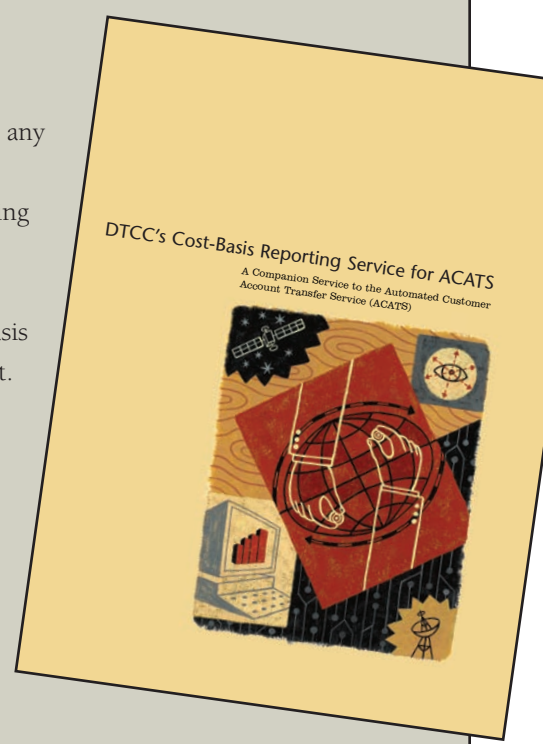
All in all, it sounds like a less taxing tax season. @

For more information on the Cost-Basis Reporting Service, contact William Kapogiannis by e-mail at bkapogiannis@dtcc.com.

How the Cost-Basis Reporting Service Makes a Difference

By using this service, financial institutions can:

- Transfer original cost, adjusted cost or average cost on any asset transferred in ACATS.
- Improve productivity by reducing the manual processing of cost-basis information.
- Reduce operating costs by using an efficient, accurate transfer process that allows the preservation of cost-basis information for as long as the customer holds the asset.
- Improve the performance of portfolio managers, who can now depend on automated, uniform cost-basis data.
- Save customers time and money in gathering cost-basis information for tax-reporting purposes.
- Serve investors more effectively by providing access to cost-basis information on all asset categories, including mutual funds and options.



How DTCC Helps the Insurance Indust

Regulatory mandates such as Sarbanes-Oxley and the USA Patriot Act are upping the ante in the insurance industry's drive to implement best practices for compliance, corporate governance and risk mitigation. The good news is that carriers and distributors are increasingly playing a winning hand by turning to automation to meet their compliance needs.

What's more, insurance industry executives are finding that such automation not only solves an immediate

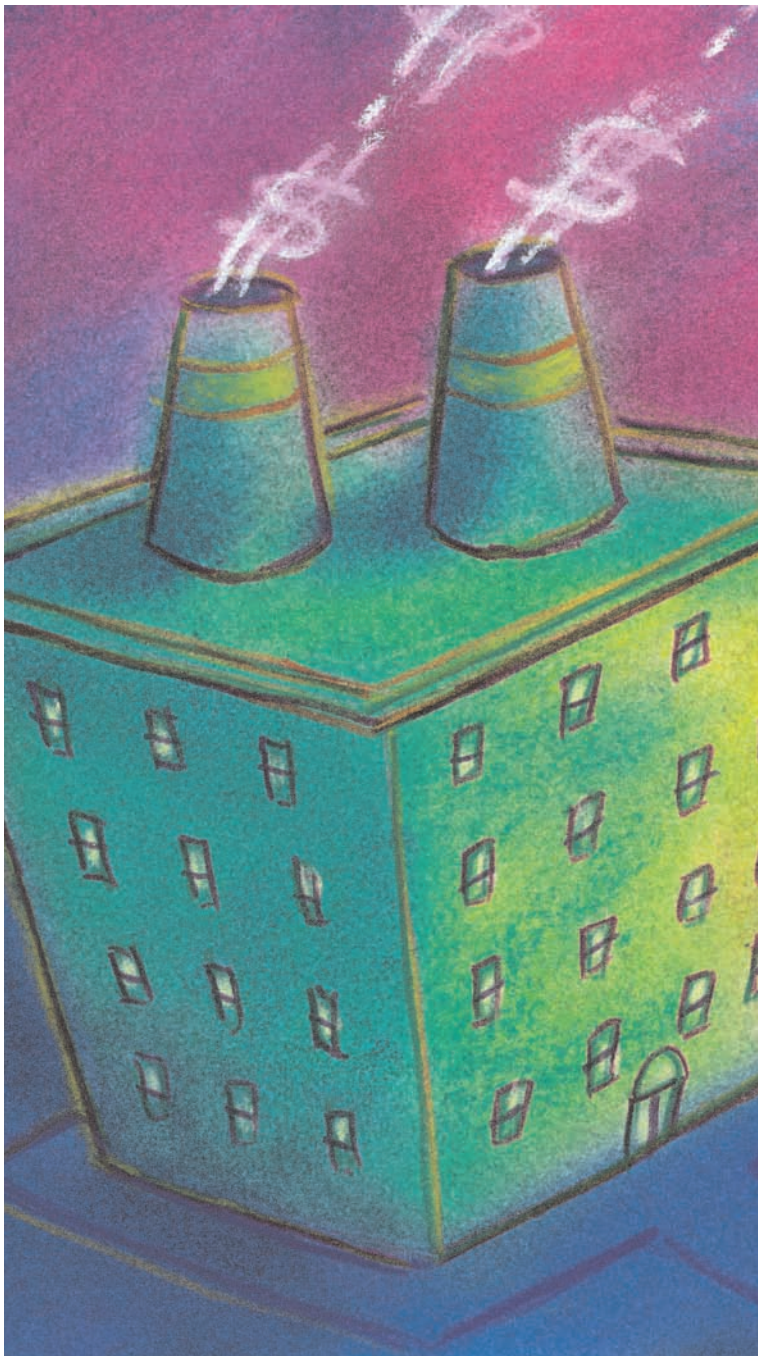
concern, it can also drive longer-lasting benefits, including enhanced risk and reputation management, greater process efficiency, better internal information oversight and improved customer relationship management.

FAR out

"While the insurance industry remains under pressure to reduce operating costs, executives clearly understand the importance of investing in technology to manage compliance requirements," said

John Ziambras, managing director, DTCC Insurance Services. "The number of life insurers and annuity firms investing in automated solutions to enhance compliance is growing steadily."

Investment in automation to meet today's regulatory challenges is reflected in rapid customer uptake of DTCC compliance services. For example, DTCC's Financial Activity Reporting (FAR) solution, which helps firms comply with the anti-money laundering component of the Patriot Act, posted a 49% increase in



Insurance Compliance Services at a Glance

DTCC Insurance Services offers a broad range of automated solutions to help customers manage new compliance regulations.

Financial Activity Reporting: Provides distributors with a centralized, standardized method for monitoring a client's financial activity and identifying suspicious transactions. In 2005, volume for this service grew 49% over the previous year, to almost 23 million transactions.

Positions & Valuations: Gives distributors a full snapshot of all their customers' holdings with any given carrier, allowing distributors to remain up to date on all annuity and life insurance business on their books. In 2005, this service processed nearly 2.3 billion records, 29% more than the previous year.

Applications & Subsequent Premiums: Enables distributors to better track customer activity from the onset of a sale by requiring the collection of pertinent customer and product information through automated order entry. This service grew 7% last year compared to 2004, processing 430,000 records.

Licensing & Appointments: Facilitates communication between distributors and carriers to request and confirm agent authorizations for the sale of annuities and life insurance products and prevent unauthorized agents from selling insurance products. In 2005, this service saw a 24% rise in volume over the previous year to 5.4 million transactions.

ry Manage Compliance By Nicholas Clarke

records processed in 2005, to reach almost 23 million. This comes on the heels of 83% volume growth the previous year.

“With FAR, we’ve been able to reach a new level of control in monitoring the investment activity of our customers, particularly as it relates to direct business and ‘free looks’ in the annuity area,” said Dan Forcade, principal, Insurance Services, Edward Jones. “Because FAR enables us to monitor individual accounts for suspicious activity, it makes compliance with the anti-money laundering provisions of the USA Patriot Act much easier.”

FAR is the fastest growing of all Insurance Services’ compliance offerings, according to Lana Macumber, director of Relationship Management, DTCC Insurance Services. (See box, page 10, for other services.) “FAR gives broker/dealers an automated, standardized solution for monitoring a client’s financial activity. Distributors can use FAR to identify suspicious transactions such as frequent withdrawals or surrenders,” Macumber said. “It’s a powerful tool because it lets compliance officers access information that helps them monitor and supervise daily transaction activity within annuity and life insurance products.”

Of similar importance, by using leading-edge automation such as FAR, insurance companies can achieve more

than enhanced regulatory compliance. They can also realize such benefits as improved productivity, better process and data controls, and centralized audit and reporting. They gain significant risk protection, as well.

“With reputation and integrity at the cornerstone of any financial institution’s long-term viability,” said Macumber, “insurance companies and distributors that move to automated solutions are putting in place a front-line defense to guard against potential damage to their reputations – and protect shareholder value.”

On the horizon

In the coming year, DTCC expects to add a new solution to its insurance compliance services aimed at broker/dealers: Fund Transfers. This service will help broker/dealers more closely monitor and manage the activities of their registered agents who initiate fund transfers within variable annuity products.

Development of the service is an industry priority, as identified last year

by the Securities Industry Association, due to increased regulatory concern over agents who may use fund transfers to engage in illegal market timing and late-day trading activities.

“The regulatory bar is constantly being raised, and carriers and distributors alike are being challenged as never before,” said Ziambras. “A big part of our

“Because FAR enables us to monitor individual accounts for suspicious activity, it makes compliance with the anti-money laundering provisions of the USA Patriot Act much easier.”



Dan Forcade, principal, Insurance Services, Edward Jones

focus in 2006 will be to continue working with the industry and our business partners to ensure we remain the provider of choice for helping customers manage ongoing and future compliance pressures, while leveraging their investments to achieve new business capabilities.” @

IT Spending Trends on Compliance

The increase in compliance technology usage by insurance companies is borne out by recent market studies. For instance, a survey published in August 2005 by Forrester Research asked insurers what their information technology (IT) objectives were for the next 12 months. Ranked by priority, the No. 1 response was to support regulatory changes.

And this trend is not limited to the securities industry. Rather, it is impacting business across the board, according to a study by Gartner published in December 2005. Gartner reported that new laws and regulations would drive up business IT spending for compliance and corporate governance by 10% to 15% in 2006, versus less than 5% in 2004.

“Projects that were not aligned with compliance and corporate governance were delayed or cancelled,” the report says. “However, by the second half of 2005, increased interest in IT solutions to ease the burden of compliance has begun to drive new spending.”

Deadline to Test Enhanced ETF Formats: March 31

Broker/dealers and index receipt agents that subscribe to the NSCC domestic and foreign Exchange-Traded Fund (ETF) portfolio composition files have until March 31 to complete testing of the new file formats introduced last November. The enhancements will streamline reporting for both authorized participants and index receipt agents.

"We expect the improvements to simplify and accelerate

communications between broker/dealers and agents, and help them react more quickly to ETF market changes," said Hank Belusa, DTCC vice president, Product Management.

The changes include new data fields for Total Shares Outstanding per ETF and the Dividend Amount Outstanding per ETF. @

For more information about the testing deadline, contact Robert Yodice at 212.855.8024 or ryodice@dtcc.com.

New-Issue Processing *Continued from page 3*

Industry perspective

"The major bookrunning services, which work on behalf of the lead managers of underwriting syndicates across all asset classes and handle most of the industry's volume, are willing to participate in the new service," noted Peter Inguanta, DTCC director, Product Management.

"Our clients are interested in us doing this," added Cheryl Horowitz, a senior executive of i-Deal, one of the industry's principal bookrunning services. "And anything we can do to help the industry be more efficient, we'll do," she said.

"Our new service will eliminate re-keying of data and help create an 'electronic pipeline' that can take and

make delivery all across the industry," Inguanta said. "We'll be able to get the data much sooner than we do now, and we'll be able to speed up the task of making an issue eligible at the depository," he explained.

The data received in the information-gathering process on a new issue will be made available and disseminated to the industry, Inguanta said. The data will also be used to make the new issue eligible for DTCC's depository.

In addition to The Bond Market Association, the Securities Industry Association and the Syndicates Operations Association, more than 100 firms, industry utilities and regulators worked on defining the business and functional requirements

for the different asset classes to be included in the new service. @



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

Our 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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Timeline for New Service

DTCC's new-issue service is expected to undergo testing and, subject to regulatory approval, be implemented next year. To achieve that, the depository has set an accelerated timetable for creating the service. "Given all that we have to do, and all that the industry has to do, this is an aggressive timetable," said James Balbo, DTCC managing director, Asset Services. "But it will solve a regulatory compliance problem for the industry – on time – while delivering better risk management and reduced costs."

The timetable includes:

- Q1/06Publication of customer system requirements.
- Q2-4/06Resolution of technology and operating issues such as transmission protocols, data elements and underwriter audit reports.
- Q2-4/06Regulatory changes involving MSRB participation and mandatory electronic data submission rule changes with the SEC.
- Q1/07Limited pilot testing and customer training.
- Q2/07Beginning of customer transition to new system.
- Q3/07Completion of customer transition to new system.