



# Bond Market Goes Real-Time: DTCC System to Automate New-Issue Information

By Edward C. Kelleher

**A**s part of the major re-engineering of its underwriting system now under way, DTCC is developing a centralized, automated system that will gather information from underwriters on new bond and securities issues and distribute it electronically in real-time to bond market participants.

Designed in response to the need to meet regulatory requirements for the prompt reporting of bond trades, it [continued on page 9]

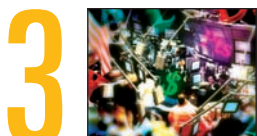
## DTCC Launches New Canadian Settlement Link

By Edward C. Kelleher

**D**TCC has launched a new link with The Canadian Depository for Securities Ltd. (CDS) that, for the first time, supports the processing and settlement of transactions in Canadian dollars at The Depository Trust Company (DTC), a DTCC subsidiary.

“This link provides DTC customers with a single depository interface for U.S. and Canadian dollar transactions,” said John Abel, vice president, Product Management, DTCC. “In addition to streamlining the [continued on page 5]

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# DTCC Readies Automated Funds-Only Settlement For U.S. Government Securities

By Nicholas Clarke

**D**TCC is introducing a new service designed to bring greater efficiency and risk management to key elements of the U.S. fixed-income market by automating and centralizing funds-only settlement for U.S. government securities.

Funds-only settlement is the net dollar amount that the Fixed Income Clearing Corporation (FICC) netting members either pay to (debit) or receive from (credit) GSD in connection with their U.S. government securities trades. The new service replaces the current procedure, which requires members with funds-only settlement debit obligations to wire funds to their FICC settlement accounts by 10 a.m. each business day.

Under the new service, all funds-only obligations will be settled automatically using the Federal Reserve's National Settlement System (NSS), a reliable and proven electronic payments service already widely used by a number of SEC-registered clearing houses, including The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC), both DTCC subsidiaries.

Through NSS, participants' debits and credits will automatically be resolved between their settling banks and FICC, thereby eliminating the need for participants to initiate the wire to their FICC settlement accounts and reducing the risk that banks will encounter delays in making or receiving payments.

The service received approval by the Securities and Exchange Commission in November. It is expected to go into production this quarter and will be mandatory for all companies that are netting members of the Government Securities Division (GSD) of FICC, a DTCC subsidiary.

For the first half of 2005, GSD handled an average of about \$548 million in funds-only settlement every day.

"Technological innovation plays an increasingly central role in the growth and success of the U.S. government securities market and our customers," said Thomas Costa, managing director, DTCC Equities and Fixed Income Clearance and Settlement Group. "By automating and standardizing funds-only settlement, we further help accelerate innovation within the industry and serve as a catalyst in promoting the prompt and accurate clearance and settlement of U.S. government securities transactions. This is at

the heart of our mission."

"Automated funds-only settlement will virtually eliminate the issue of late payments – and the manual oversight that goes with that – which is a challenge under the current system," said Costa.

For participants, late payments carry fines, which may be cleared by the submission of a waiver request. For GSD, late payments, fines, and waiver requests are all tracked manually, both a labor-intensive and time-consuming process. What's

more, all waiver requests must be reviewed by DTCC's Risk Committee, creating an additional level of operational supervision.

"We are enthusiastic about this new service, as it will address problems we've encountered in the past getting funds in on time," said Bill Buck, senior vice president and director of Operations, FTN Financial Group. "Automating the funds-only settlement process will ease the pressure of getting wires through the bank on time and will preclude us from incurring fines."

"Funds-only automation is a textbook example of a mission-critical technology that not only meets the needs of the marketplace, but also meets our own internal needs," said Kate Connelly, FICC project manager who is overseeing implementation of the new service. "It's the best of both worlds – a technology solution that delivers enhanced efficiencies and risk management and drives real business value for our customers and ourselves."

To participate in automated funds-only settlement, FICC netting members must appoint a "funds-only settling bank," a new category of membership created by FICC to help netting members transition to the new service.

A funds-only settling bank can be a bank or trust company that already is a DTC settling bank, or it can be a netting member itself, provided it has direct access to the Federal Reserve Bank and NSS. Banks or trust companies that are neither a DTC settling bank nor a netting member, but have direct access to the Federal Reserve Bank and NSS, can also be a funds-only settling bank, contingent upon them applying for and receiving FICC membership. @

**"Automated funds-only settlement will virtually eliminate the issue of late payments – and the manual oversight that goes with that – which is a challenge under the current system"**

# DRS May Soon Become a Listing Requirement By John Koegel

**D**TCC's Direct Registration System (DRS), which enables investors to maintain securities electronically on the books of a transfer agent or issuer, is moving closer to becoming an industry requirement.

Late last year, the American Stock Exchange, the Nasdaq Stock Market and the New York Stock Exchange all voted to make DRS a requirement for companies wishing to list with them. The next step is to file a rule change with the Securities and Exchange Commission (SEC), expected in early 2006.

Once approved by the SEC, the new listing requirements could go into effect in short order. Under the proposal, new issues coming to market this year (before Jan. 1, 2007) would have the option of electing to enter DRS immediately, and issues coming to market after Jan. 1, 2007 would be required to be DRS-eligible on the first day of trading. Existing issues (those who came to market before Jan. 1, 2007) would be required to migrate to DRS no later than Jan. 1, 2008.

"This is a major step toward the eventual elimination or dematerialization of paper certificates, and will provide more investors with greater security, lower risk and increased trading effectiveness over ownership of physical securities," said James Balbo, managing director for Asset Services Product Management. "We anticipate that it will add as many as 10,000 issues and 250 transfer agents to DRS."

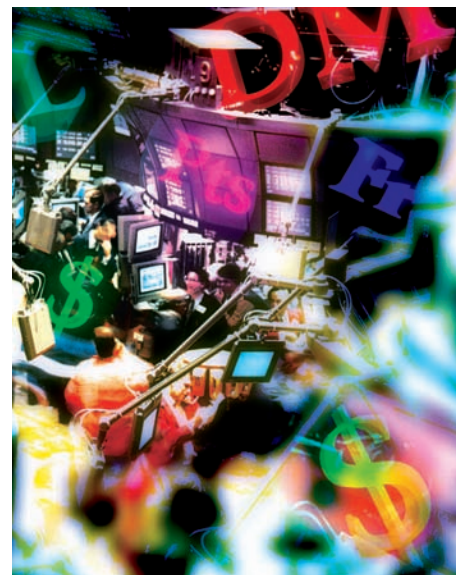
DRS provides for electronic direct registration of eligible securities in an investor's name on the books of a transfer agent or issuer, and

allows transfer agents and brokers to transfer shares between each other electronically.

Investors also have the option of maintaining securities electronically on the books of their brokers by holding shares in "street name."

"Investors who desire to hold on to existing physical securities can do so until they decide to transfer or sell them," said Joe Trezza, vice president for DTCC Asset Services. "But if those securities are lost, stolen or destroyed, or if they are surrendered in a tender offer or other corporate action, they will be replaced by electronic DRS statements once issuers adopt the new requirement."

The number of issues that are DRS-eligible has been growing steadily over the past year, as more companies – including such widely held issues as Southwest Energy, US Airways and Disney adopt electronic share ownership. More than 1,130 issues were DRS-eligible on Dec. 31, 2005, compared with 960 on Dec. 31, 2004. @



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## DTCC Releases Standard Deriv/SERV Master Confirmation Agreement By Judy Inosanto

**D**TCC recently amended its operating procedures for Deriv/SERV to allow users to have some or all of their OTC derivatives trades governed by DTCC's newly released Standard Master Confirmation Agreements.

The move is intended to simplify the steps needed for customers to begin using Deriv/SERV, particularly if they have not put in place bi-lateral agreements with their counterparties.

One of the biggest impediments to

electronic confirmation of dealer-to-customer trades in credit derivatives is the lack of signed master confirmation agreements. A master confirmation agreement is a contract in which all the terms that have to be agreed to only once by the parties are established for a single product group (such as European/North American single credit default swaps). That allows only the terms that change with every trade, called the transaction supplement or "short form," to be automated and confirmed.

Prior to this amendment, customers would be required to have bilateral agreements signed with each of their trading partners before using the Deriv/SERV system.

"For the dealers and their customers, getting a lot of these agreements signed for every product executed was an arduous, time-consuming task," said Peter Axilrod, managing director, DTCC New Business Development. Given the time involved in negotiating these terms with each counterparty,

**[continued on page 10]**

# DTCC, ADP Introduce New Tax Information Service For Banks, Brokerage Firms

By Edward C. Kelleher

**D**TCC and ADP Investor Communication Services (ADP ICS) have formed a strategic alliance providing a joint, comprehensive, year-end tax information reporting service for banks and brokerage firms.

The new service, now available to clients of both firms, covers real estate investment trusts (REITs), mutual funds and other securities that reallocate their distributions at year-end, as well as instruments with Original Issue Discount (OID) and real estate mortgage investment conduits (REMICS).

“The Tax Information Reporting Service combines the processing and world-class service of ADP’s investor communications service with the expertise and knowledge

of DTCC’s Domestic Tax Reporting Services (DTax),” said William Salva, group director of DTCC. “And it provides a platform for even the most intricate tax calculations and reporting. The combined resources of ADP and DTCC are changing the landscape of tax information reporting services by bringing a new level of data and processing to the financial community.”

“We are excited about the value that ADP and DTCC together bring to the industry, and specifically to our bank and brokerage clients by supporting them in their year-end processing efforts,” said Steve Neiss, vice president of Tax Information Reporting at ADP ICS. “This new solution enhances tax reporting compliance for the clients of both firms

by providing the highest level of timeliness and accuracy.”

The service, which is being marketed and sold by ADP ICS, is intended to help firms meet heavy, year-end federal and state tax reporting requirements. DTCC’s depository gathers, double-checks and packages data from mutual funds, REITs, REMICS and other financial instruments. ADP ICS then uses the data to calculate tax obligations in the customized, automated files it creates for each of its customers.

**Editor’s Note:** For more information on the Tax Information Reporting Service, please contact Judy Zuckerman at (212) 855-5303 or [jzuckerman@dtcc.com](mailto:jzuckerman@dtcc.com). @



# SIA Advocacy Paper Guides DTCC Insurance Priorities for 2006

By Nicholas Clarke

Working together with key insurance industry groups and trade associations, DTCC has outlined a series of initiatives for 2006 aimed at furthering the adoption of standards-based technology solutions to enable straight-through processing for insurance carriers and distributors.

These initiatives – offered by DTCC Insurance Services, a unit of National Securities Clearing Corporation, a DTCC subsidiary – are codified in an advocacy paper issued recently by the Securities Industry Association (SIA).

Written by the SIA's Insurance Panel, which comprises representatives from more than a dozen leading broker-dealers, and supported by DTCC, as well as the National Association of Variable Annuities (NAVA) and Association for Cooperative Operations Research and Development (ACORD), the paper spells out four standard automation initiatives for which it is seeking industry support: Automated Customer Account Transfer Service for Insurance Processing Service (ACATS/IPS), In-Force Transactions (IFT) for Fund Transfers, Replacements Processing, and Data Conformity for Product Fund Identifiers.

“By distributing the paper, we are signaling to insurance carriers and the broader distribution community our commitment and support to creating and promoting specific technology solutions that result in greater marketplace efficiency,” said Nancy Jansen, co-chair of the SIA Insurance Committee and managing director of Operations, Piper Jaffray. “The insurance industry has seen significant progress in the past few years in leveraging technology to automate key business processes that drive greater operational and cost efficiency and reduce risk. However, our mission is far from complete, as mass industry adoption is still needed, particularly in such segments as the life insurance market.”

“Consistent with SIA's efforts, Insurance Service's developmental agenda for 2006 is geared toward helping the industry move even closer to achieving its goal of straight-through processing,” said John Ziambras, managing director, DTCC Insurance Services. “The priorities identified by SIA are all well under way, with one – ACATS/IPS – already available to the marketplace. We will continue to work closely with the SIA, NAVA, and ACORD to complete development on the [continued on page 10]

## Canadian Settlement Link *Continued from cover*

process for our customers, the link will reduce cross-border processing costs and boost efficiencies by eliminating problems associated with maintaining split inventories in Canadian and U.S. securities.”

In split inventories, some portion of a position in a dually-listed security is maintained with CDS for Canadian dollar settlement, and the remainder is with DTC for U.S. dollar settlement. The new link permits DTC customers to concentrate all U.S. and Canadian security positions in their DTC accounts.

The settlement link has been launched as a pilot with five customers and will run through Feb. 28, and move into full production March 1. This is the first DTC link to support settlement in a foreign currency.

“Since the early 1980s, DTCC's subsidiaries and CDS have developed

linkages and close working relationships,” said Abel. “These links between CDS and DTCC are among the most robust inter-market links in the world, processing more than a million transactions each month. But up until now, these links only supported transactions conducted free of payment or in U.S. dollars.”

Customers in the pilot have reacted positively, citing streamlined processing, cost savings and risk reduction.

“The new link has been very easy to use and eliminates the need to employ more than one set of software,” said Linda Neri, assistant vice president of Securities Processing Operations for Raymond James & Associates, Inc. “There's a great advantage to having securities with dual eligibility housed in one place instead of split inventories. Money also settles more quickly through the DTC link than through

our current Canadian arrangements.”

“Cost was a major benefit provided by the new link,” Neri said, since the DTCC transaction fee was considerably lower than the fees currently paid for clearing and settling Canadian dollar transactions.

The link uses a DTC omnibus account at CDS and supports transactions sent by DTC participants to CDS brokers or custodians, as well as those sent by CDS brokers and custodians to DTC participants. It also supports Canadian dollar transactions between DTC participants.

As with U.S. dollar transactions, customers' security positions received via Canadian dollars will be immediately available for redelivery in DTC. DTC also has developed an end-of-day settlement process to settle Canadian dollar obligations in Canadian dollars. @

# What's Ahead for DTCC's Mutual Fund

**@dtcc:** *In 2005, Mutual Fund Services began a major push into the alternative investment product (AIP) market, with an advisory committee that has grown more than three-fold since its creation. What were the factors that made you begin to look at this market?*

Bergin: Several members of the industry approached us about two years ago to discuss a solution that would bring their current processing methods into a more modern, efficient, and automated environment. Processing is currently handled through hard copy, fax, email, phone calls and spreadsheets. The lack of automation and centralization prolongs the process, it's error prone, and it prevents business growth as volume outpaces the industry's ability to manage it. We are proposing a centralized, standardized and automated solution that will support growth in the market place and facilitate greater product distribution, as well as help the AIP community become more scalable through increased efficiencies, reduced operational risk and lower costs.

**@dtcc:** *What specific functions would the proposed AIP service address?*

Bergin: We've identified several – trade reporting and processing of purchases and redemptions; commissions processing; position, valuation and distribution reporting; account maintenance, and settlement.

**@dtcc:** *How is the AIP advisory committee progressing?*

Bergin: It's progressing very well. We've identified about 20 committee members who are interested in participating in our pilot group, and we're finalizing functional specifications, pricing and target dates. This of course, is subject to SEC approval. That said, we expect to

be very active in '06.

**@dtcc:** *Do you foresee the service having an application in Europe?*

Bergin: I do. These instruments are traded more similarly across borders than other instruments, such as mutual funds, and, in fact, some of our committee members are global institutions. The problems are also similar; transacting hedge funds, funds of hedge funds and other alternative investments is intensely manual. And the market itself is more in sync with a common solution, which suggests that it will be easier to provide



Ann Bergin

solutions on both sides of the Atlantic. The model would immediately support information exchange in multiple currencies, although initially we would be settling in U.S. dollars only. We're also looking to accommodate a Monday to Friday calendar and accept SEDOL and ISIN security identifiers. And we're watching the progress of the ISO to combine standards in Europe so that we can build in alignment with those standards.

**@dtcc:** *It's been almost a year since NSCC withdrew its proposal for an SMA (separately managed account) infrastructure from SEC approval. What's happened to it since?*

Bergin: Our plan remains the same: to bring functionality to this market. Our customers still tell us they want a centralized hub for processing SMAs. Clearly, this has not been the smoothest

rollout, for a number of reasons, but we are still as committed to the concept as we were when we first began meeting with the Money Management Institute. We're seeing a lot of enthusiasm from the investment manager and sponsor communities; they are looking for us to be involved in standardizing and automating SMA account processing and other financial information. Operational risk and costs are significant – and growing – problems, and they're taking their toll on profit margins.

**@dtcc:** *And, so, what are next steps?*

Bergin: Garner enough interest and real commitment to move forward. We've already identified important industry members who are anxious to participate in our advisory committee. This is a fairly typical process in which we've had real success – in the past with Fund/SERV® and more recently with our alternative investments project and with DTCC Deriv/SERV.

**@dtcc:** *Explain how Mutual Fund Services became involved with the NASD in providing breakpoint information to the public through the NASD's Web site. Does this in any way mean that our traditional B2B role as the securities industry's processing infrastructure will change?*

Bergin: I'll answer your second question first. No. Our role will not change at all.

Two years ago, NASD asked us to sit on its Breakpoints Task Force, so we've been involved in this issue since the very beginning. What came out of those discussions was a recommendation, among many, that our Mutual Fund Profile Service be utilized as the industry's database for breakpoint levels and eligibility, and a dictionary of common definitional standards related to breakpoint discount terms. All that has been completed.

# and Alternative Services

By Karen Gregory

NASD also had an interest in providing access to that information to their broader membership as well as to the investing public. We do not have the ability to deliver that information outside of our member group. NASD built a link to our database, from which they are populating their Web site. That link went live in November and it's been well received.

among industry groups – the SIA, ICI, NASD and SEC – have gelled. There's much more of a collaborative effort in working toward common operational solutions that will benefit the industry and the investor, and we have an important role to play in these initiatives.

*@dtcc: With regard to the issues of late trading, time-stamping trades and the possibility of a "hard 4:00 p.m. close," is there anything new to report on Fund/SERV's role as the industry solution?*

Bergin: We just don't know right now. We're hoping there will be a resolution in early 2006 so that, if it means modifications to our systems, we can start the process quickly.

*@dtcc: Beyond late trading, regulatory focus on the funds industry has brought a new intensity to what we do and the transactional and informational services DTCC provides. Mutual Fund Services has had to shift resources in order to accommodate many new requirements. Will that continue into 2006 and beyond? And has it resulted in any fundamental changes in the way we deal with the industry?*

Bergin: We welcomed the opportunity to draw on our expertise and 30-year history resolving transactional and operational issues for the fund industry, as well as in other areas. The regulatory environment has changed tremendously for our customers. They recognize that our systems and services can be leveraged to address these issues; and they're looking to us to develop the most efficient industry solutions.

In addition, the working relationships

We are proposing a centralized, standardized and automated solution that will link trading parties and support growth in the [alternative investment] market place.

*@dtcc: What key projects will your business unit be focusing on in 2006?*

Bergin: Certainly, alternative investments, separately managed accounts and keeping pace with regulatory issues. Enhancing our core services is a continual process for us, particularly with Fund/SERV, Profile and Networking, and identifying how they can be used to increase transparency and broaden the types of information exchanged between fund companies and distributors. We expanded our relationship management team with new talent in 2005, and we're raising the

intensity of client focus so we can address issues and provide the right technology solutions earlier in the process.

At the same time, it's important for our clients to understand more fully DTCC's capabilities and the significance of our role in the securities industry. We're in the business of making the industry more efficient, and the more we do that, the more costs come down and the more fee reductions and rebates we can return to our customers. A prime example of that are the fee reductions going into effect in 2006, and they are across the board in DTCC, not just in Mutual Funds.

*@dtcc: What do you see as the key issues and challenges facing the industry going forward?*

Bergin: One is product innovation. A second is fund performance. Clients are demanding more and more from their investment advisors – more types of investments and better performance. So the question is: how do asset managers and broker/dealers deliver against those expectations and provide value to their clients while maintaining attractive margins? Another challenge is the

continuing regulatory focus on the more esoteric products, such as alternatives. Overlay that with the pressure of meeting customer demands, plus managing risk and costs, and you've got some significant issues that will test the market.

Our challenge in Mutual Fund Services is addressing the industry's issues from an operational support level – how to provide the infrastructure support to manage costs and lower the risk of delivering those products. @

# GCA Validation Service Reaches New Heights in 2005

By John Koegel

For DTCC's Global Corporate Action (GCA) Validation Service, 2005 was a year of significant achievement.

The service added two large firms, Credit Suisse First Boston and JPMorgan Securities, Inc. to a roster of global service firms already using GCA Validation, and significantly strengthened its capabilities in the Asia-Pacific Region.

In addition, DTCC introduced enhancements to GCA Validation Service with an ISO 15022-compliant version and capability to connect to SWIFTNet, and announced key technical improvements that will pave the way for future growth in the coming months.

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

In 2005, GCA Validation provided corporate action information on more than 800,000 events around the world. DTCC itself is the world's largest processor of corporate actions, with its depository subsidiary handling events valued at \$2.3 trillion in 2004 on more than 2.5 million securities issues in custody.

## Customer Growth

One measure of the GCA Validation Service's effectiveness in the marketplace is the growing number of major financial services organizations that use the service.

In 2005, two of the industry's largest firms – Credit Suisse First Boston and JP Morgan Securities, Inc. – joined a roster of customers that also includes Goldman Sachs, Merrill Lynch, UBS and other global financial services firms. A number of these firms are reengineering their internal business processes and establishing central repositories of corporate actions data to support multiple information needs throughout their organizations, including their trading desks.

"Processing corporate actions is a fast-paced growth industry, with increasingly complex announcements flying across the workstations of investors, traders and arbitrageurs – as well as the computer screens in the back office," said Brett Lancaster, GCA

vice president. "Different users have different requirements for the GCA data. Front-office traders want the information quickly, even if it's not yet final, while back-office staff want all the terms and conditions buttoned down."

The volume of global corporate actions flows from various sources, including mergers and acquisitions (M&A), dividends and share repurchases.

According to Bloomberg, the financial data provider, M&A value had increased to \$2.3 trillion through November 2005, a gain of 36% over the first 11 months of 2004. Looking ahead to 2006, Lehman Brothers Holdings, Inc. anticipates M&A volume increasing by 20% worldwide, while Morgan Stanley says 2006 may be "the best year ever" for M&A.

In addition, dividend payouts and share repurchases among the Standard & Poor's 500 companies in 2005 were on pace to grow by 30%, to more than \$500 billion – a new record – according to a recent report in *The Wall Street Journal*.



## Asia-Pacific Region Expands

One part of the world that is becoming increasingly important to users of GCA Validation Service is the Asia-Pacific region.

"Half of our corporate action processing team of 60 professionals is now based in our Shanghai service center, which opened a little over a year ago," said James Femia, DTCC managing director and head of the Global Corporate Actions business. "After our New York staff goes home, and before our London team leaves for the day, the Shanghai office is up and running to provide around-the-clock service to our customers. The sun never sets on our operations, and we provide probably the largest selection of corporate actions information globally."

The Shanghai office made substantial contributions to the success of GCA Validation Service in 2005, helping to boost productivity and customer satisfaction levels to new highs. In addition, DTCC last year established a second GCA Working Group, comprising representatives of broker/dealers, banks, investment managers, and hedge funds in the Asia-Pacific region who participate in periodic telephone conference calls to exchange ideas, share work experiences and offer suggestions for product enhancement.

[continued on page 11]

# Bond Market Goes Real-Time: *Continued from cover*

is scheduled to be launched in the third quarter of 2007.

The new system, which is being developed by The Depository Trust Co. (DTC), a DTCC subsidiary, will help “revolutionize new-issue information dissemination” and make trade confirmation, clearing and reporting easier, faster and more accurate, according to The Bond Market Association (TBMA).

TBMA approached DTCC with the project earlier this year after municipal bond underwriters requested a system to automate and streamline the information distribution process. Other sectors of the financial services market saw the benefits of the proposed system – called the New Issue Information Dissemination Service (NIIDS) – and asked that it be expanded to automate the collection and distribution of information on corporate bonds, asset-backed securities and other fixed income securities, as well as municipal bonds. The NIIDS project is seen as a major step towards the industry’s goal of straight-through processing.

## Manual Processing

“Current notification practices on bond issues are decentralized and involve a variety of formats and manual processes including phone calls, faxes, e-mails and even messengers,” said Peter Inguanta, DTCC product manager. “And when vendors and dealers do get the information, they must enter the data into their respective systems.

“DTC already plays a principal role in the underwriting distribution of virtually all municipal securities issues in the U.S., so we are in a unique position to gather and distribute the required data for new bond issues,” Inguanta added.

In December, TBMA hosted a seminar on the new service that included a panel discussion with Inguanta, Janet Wynn,

managing director and general manager of Deriv/SERV, Asset and International Services at DTCC, TBMA executives and representatives from Citigroup, Credit Suisse Asset Management and Banc of America Investment Services.

Leslie M. Norwood, vice president and assistant general counsel of TBMA, said that the TBMA and DTCC were working “to revolutionize new-issue information dissemination. This is a big deal, and some in the industry are equating this project to the move from physical delivery to the book entry of municipal bonds.”

## A Test Drive

Other panelists agreed. “My thanks to DTC and TBMA for bringing this to the fore,” said John Fodera, vice president in the Mortgage Operations Group with Citigroup. “For them to pull this off by the second quarter of 2007 is a monumental task. Its benefits also will flow through to the front office. I cannot tell you how much I’m looking forward to taking this on a test drive.”

“This is clearly a leap ahead,” said

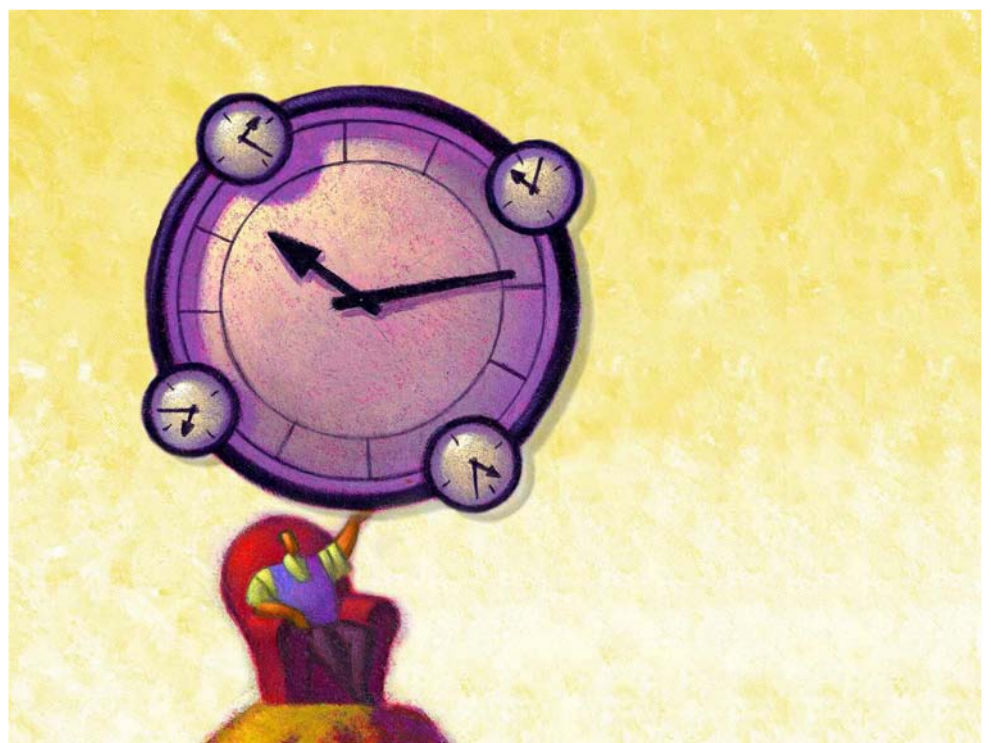
Robert Breslin, vice president of Operations at Banc of America Investment Services. “It’s a very simplified process, very easy, very quick and much more streamlined. We will have a central point for data collection and dissemination.”

Jason Jenser, director, Investment Operations at Credit Suisse’s Asset Management business, said they were all working toward the same goal. “This is about making significant improvements to the process. NIIDS is going to ensure that the buy-side has the right information at the right time.”

Wynn said the plan to automate the distribution of new-issue bond information was “a move from paper to modern, electronic communications in a very short time.” She said it couldn’t have been done without support and input from TBMA and the industry.

## Regulatory Requirements

Inguanta said that while the system will cover a range of securities, the municipal bond initiative will be the first to be completed and [continued on page 11]



# Master Confirmation *Continued from page 3*



there was little incentive, particularly with lower volume market participants to take on this task, Axilrod noted.

To remedy this situation, DTCC took steps to incorporate in its operating procedures standard terms for master confirmation agreements that could be used as a default between counterparties

of a trade.

“By providing dealer and buy-side customers with the option of defaulting to Deriv/SERV’s standard terms agreement for a trade, we are helping to eliminate the need for counterparties to negotiate terms of a bilateral agreement with what could be numerous counterparties,” said Axilrod.

Customers will still have the option to indicate the use of their bilateral agreements for current and future trades. In the first quarter of 2006, DTCC will also accommodate a third option for clients, the use of ISDA’s Physical Settlement

Matrix (ISDA Matrix). The ISDA Matrix provides a way for trading partners to confirm single name credit default swaps using a “short form” confirmation without the need to have a bilaterally executed master confirmation.

DTCC’s standard master confirmation agreements are first being applied to High Grade, High Yield and Emerging Market indices, as well as European and North American single name credit default swaps. These provisions will be expanded in the future to accommodate other credit derivatives as well as equity derivatives. @

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## DTCC Insurance Priorities for 2006 *Continued from page 5*

remaining items and bring them to market within the required time frames.”

A synopsis of each SIA initiative and its status follows:

- ACATS/IPS – Following successful completion of pilot testing, ACATS/IPS was officially launched by DTCC in August 2005. It facilitates annuity account transfers between broker-dealers, agent changes within a broker-dealer, and transactions such as broker identification number changes.  
Targeted to insurance carriers, broker-dealers and banks, ACATS/IPS leverages the technology of ACATS, a DTCC service that for 20 years has automated and standardized the transfer of financial assets in brokerage accounts between financial services firms. With 11 carriers and distributors already using ACATS/IPS, DTCC is anticipating substantial adoption in 2006 due to marketplace needs.
- IFT for Fund Transfers – Heightened regulatory concern surrounding market timing and late-day trading is forcing broker-dealers to more closely monitor and supervise broker-initiated fund transfers within annuity products held with outside insurance carriers. IFT for Fund Transfers will help broker-dealers meet this need by giving them an automated, centralized platform for submitting agent requests for fund transfers.  
An advisory group comprising more than 20 individuals from carriers, distributors, and industry organizations, including SIA, ACORD, and NAVA, was formed in July 2005 to guide the development of this project. With so much industry attention focused on fund-related regulatory issues, this initiative is being fast-tracked, with completion targeted for the middle of this year.
- Replacements Processing – Driven by the industry’s need to develop an automated solution for the transfer of annuity and

life insurance assets from one insurance carrier to another, DTCC is developing a Replacements Processing service based on ACORD XML standard messaging. The new service, which will also include money settlement, document attachments, and a pending-case status solution for distributors, will help carriers eliminate many of the manual tasks involved in processing these types of transactions and ultimately reduce operating costs. Replacements Processing is expected to enter production in early 2007.

- Data Conformity for Product Fund Identifiers - Initiated by NAVA in August 2004, this project seeks to document and facilitate standard usage for fund identifiers, product CUSIPs, and service features within automated insurance communications. Phase 1 of this effort defined industry standard usage for product fund identifiers, recommendations for which were published by NAVA on its Web site at: <http://www.navanet.org/industry/ProductFundIdentifiersWhitePaperV.2.pdf>.

Phase 1 also called for the rapid adoption of the proposed standards as a way to resolve inconsistencies surrounding annuity product fund identification. In support of this, DTCC and ACORD recently enhanced their standard messaging solutions, with several distributors and carriers already utilizing and benefiting from the upgrade.

The NAVA work group recently completed Phase 2 recommendations for product CUSIPs and is now addressing industry direction for service feature standardization. @

# Bond Market Goes Real-Time: *Continued from page 9*

help the industry comply with a regulatory requirement established by The Municipal Securities Rulemaking Board (MSRB). The rule requires that, in most cases, municipal securities dealers report transactions to the MSRB within 15 minutes of the time of trade – a particularly daunting task for new issues under current circumstances. (The Securities and Exchange Commission has since approved a TBMA and MSRB request to extend the existing three-hour reporting deadline on new municipal securities through Dec. 31, 2007, thus giving DTCC

and the industry time to develop, implement, test and use the new system before the 15-minute deadline takes effect.)

“This system will provide the electronic pipeline to help the muni industry comply with this requirement, and it will be available to both DTC participants and underwriters who settle transactions through a clearing broker,” Inguanta said. Most large municipal underwriters are DTC participants.

With the new system, underwriters will send new-issue information electronically

to DTC, as well as any follow-up adjusted information. Once DTC has all the required reporting information, it will send the data to information vendors, dealers and other market participants so they can confirm, clear and reports trades in a timely and accurate fashion. DTC will distribute updates in a real-time electronic format until settlement day.

DTC will provide alternate ways for the underwriters to send information, including Web-based screens and a file upload capability. @

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# GCA Validation Service Reaches New Heights *Continued from page 8*

## ISO 15022 and SWIFTNet

Along with all of these achievements, DTCC announced two major enhancements to the GCA Validation Service in 2005 that will help position the service for future growth.

In July, DTCC announced the adoption of the ISO 15022 international messaging standard to meet global interest in GCA Validation Service. In addition, several corporate action solutions providers certified their interoperability with ISO 15022 GCA Validation Service output, including Checkfree, Information Mosaic, Mondas, N Tier, Vermeg, and Xcitek.

At September's Sibos 2005 conference in Copenhagen, DTCC announced the availability of GCA Validation Service via SWIFTNet, the international, interactive, file-transfer messaging service. This makes it easier for banks, brokers, investment managers, hedge funds and insurance companies to access DTCC's rich, state-of-the-art information repository.

## Improving Infrastructure

Behind the scenes, DTCC enhanced the technological underpinnings of GCA Validation Service in 2005 in preparation for further product expansion in 2006.

A number of key enhancements were made to the GCA Validation Service system, which enabled DTCC's staff to process exceptions six hours earlier in the day and increase service-level-agreement (SLA) composite ratings to 99.1%. SLAs are business and technical metrics that measure GCA's service quality in terms of accuracy, coverage, timeliness and customer service. Similar gains were achieved in employee productivity, error rates and customer service.

These improvements will enable DTCC to “re-platform” the GCA Validation Service on entirely new, proprietary source code in 2006. The project timetable calls for parallel testing to begin in April, with a target date of August for the system cutover and launch.

“While users won't notice anything different when they look at their computer screens, the improvements should dramatically enhance the speed and responsiveness with which our staff perform their work,” said Lancaster. “The result will be an even more comprehensive, accurate and robust resource that will set new performance standards in the industry.”

## Waters Award

Topping the efforts of the year was an award from Waters magazine to DTCC for the second year in a row as the industry's “Best Corporate Actions Solutions Provider.” The award was given following votes sent to magazine by financial professionals representing both buy-side and sell-side firms on five continents.

“From the very beginning, our goal has been to offer the industry a world-class solution for global corporate actions,” Femia said. “It is very gratifying to see the marketplace again recognize these efforts.”

**Editor's Note:** For more information about GCA Validation Service, please contact Susan Spivey at (212) 855 4144 or [sspivey@dtcc.com](mailto:sspivey@dtcc.com). @

# Regulators Say Reg SHO Is Working

By Steve Letzler

Despite extensive examinations by the SEC and the markets, there has been little or no evidence of extensive “naked short selling” to date, according to comments made at a recent forum held by the North American Securities Administrators Association (NASAA).

The forum was designed to examine how well Reg SHO, a regulation designed to modernize rules on short selling, had performed.

James Brigagliano, assistant director of market regulation at the SEC, said, “While there may be instances of abusive short selling, 99% of all trades in dollar value settle on time without incident.”

Brigagliano said the SEC conducted examinations at 45 broker/dealers and asked the markets to look into the trading of securities in which large amounts of “fails to deliver” have been registered.

Anand Ramtahl, vice president in the New York Stock Exchange’s division of member regulation, told panelists that the exchange was conducting rigorous examinations of its members to make sure they are complying with Reg SHO.

NYSE officials noted later that when Reg SHO went into effect in January 2005, the exchange had 78 issues on the threshold list. (The threshold list contains the names of issues that have more than one-half of one percent of their shares failing to be delivered.) As of early January 2006, the number of NYSE issue on the list had dropped to 37 issues.

Cameron Funkhouser, NASD’s senior vice president of market regulations, told the forum that NASD had found no evidence of rampant naked short selling. He also noted that although a number of companies have in the past alleged their shares have been

manipulated through the listing of their stocks on foreign stock exchanges, he had found no evidence of such activity.

“We took (these allegations) very seriously,” Funkhouser said. “We have seen not one instance of naked short selling or any abusive short activity through foreign exchanges.”

According to the SEC, a short sale is “generally the sale of a stock you do not own (or that you will borrow for delivery). Short sellers believe the price of the stock will fall, or are seeking to hedge against potential price volatility in securities that they own. In a ‘naked’ short sale, the seller does not borrow or arrange to borrow the securities in time to make delivery to the buyer within the standard three-day settlement period. As a result, the seller fails to deliver securities to the buyer when delivery is due, which is known as a ‘failure to deliver’ or ‘fail.’” The SEC noted that fails can occur for a number of reasons other than naked short sales, however.

DTCC was not invited to attend the NASAA forum, but officials noted that 85% of all fails were resolved within 10 business days (i.e., before any buy-in would be allowed under current rules), and 90% resolved in 20 business days. DTCC does not regulate short selling, naked or otherwise. However, it compiles lists of fails each day and provides that data to the market regulators. @



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

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

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