



## NSCC Announces New Procedures For Trade Submission

**D**TCC's National Securities Clearing Corporation (NSCC) subsidiary has announced proposed changes to its trade-submission procedures. The new rules, recently filed and published for comment with the Securities and Exchange Commission (SEC) and subject to SEC approval, are designed to fully achieve real-time submission of locked-in trade data, with the goal of reducing systemic risk, strengthening business [continued on page 2]

## FICC Makes It Easier: Substituting Repo Collateral

By James Conmy

**I**t happens every day in the trillion-dollar market for repurchase agreements, also known as repos. A bank or a dealer needs to get its hands on the security underlying a repo. So the security is recalled and something else of equivalent value – usually a similar security – is put in its place as collateral for the loan.

On certain days, such as the end of a quarter when firms are balancing their

[continued on page 9]

### in this issue



**DTCC's Jill Considine: Six Sigma CEO of Year**



**DTCC Deriv/SERV Adds Index Tranches**



**30-Year Waltz: DTCC and The Bond Market Association**

# NSCC Announces New Procedures

*Continued from cover*

continuity, supporting straight-through processing and promoting same-day trade reconciliation.

NSCC also clarified how customers should use the Correspondent Clearing submission capability.

In alignment with the new procedures for trade submission mandating real-time trade capture, NSCC also announced a new fee schedule for clearing services (see article, page 3).

For both the trade-submission and fee changes, NSCC expects to issue in the near future an Important Notice to customers spelling out revisions to the implementation timetables that were announced in an earlier Important Notice. NSCC decided to revise the implemen-

tation timeframe following discussions with a numbers of customers, as well as regulators. Implementation will occur in two phases; specific timelines will be published in the forthcoming Important Notice.

## **Benefits of changes**

The real-time submission of locked-in trade data will reduce operational risk and strengthen business continuity by promoting the safe storage of transaction data at the clearing agency level. Without real-time submission, should an event occur after trade execution that disrupts trade input, the submission of trade data could be significantly delayed or even lost.

Following the 9/11 terrorist attacks, DTCC's government securities division

spent months working with brokers and customers to recreate lost trades and reconcile positions and money settlements. These events made it clear that real-time submission is critical for assuring orderly clearance and settlement if a disaster or disruption occurs.

DTCC's Fixed Income Clearing Corporation (FICC) customers have embraced real-time trade input and, today, FICC receives most of its trade recording data in real time.

The receipt of trade data on a real-time basis will permit NSCC's Risk Management group to begin analysis of trades earlier and thereby monitor market risks as they evolve during the trading day. Currently, pre-netting masks intraday trading patterns that expose NSCC to unknown risks.

Real-time trade submission will also enable NSCC to record, and report to members, trade data earlier in the day, thereby promoting intra-day reconciliation of transactions at the participant level.

**No more pre-netting:** With this change, NSCC will prohibit all forms of pre-netting, which refers to any practice that combines two or more trades prior to submission to NSCC. Under the new rule, all parties that submit original locked-in trades records must do so on a trade-for-trade basis in the form in which they are executed.

This will be a "Phase I" change, to be implemented several months following the SEC's approval of the rule change.

**Correspondent Clearing:** With this rule change, NSCC makes clear that firms should not be using the Correspondent Clearing service to submit original trades. The appropriate use of Correspondent Clearing trade input is to support position movements between NSCC members for trades that are [continued on page 12]

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# NSCC Realigns Fees for Equity Clearing Services

By Helen Cunningham

National Securities Clearing Corporation (NSCC) announced a proposed new fee structure that will take effect subject to approval by the Securities and Exchange Commission (SEC).

NSCC expects to issue in the near future an Important Notice to customers spelling out a revised timetable for fee changes, different from that announced in an earlier Important Notice. Under the revised timetable, these fee changes will be implemented several months following the SEC's approval of the rule change.

The proposed changes realign NSCC fees to better reflect shifts in marketplace trading practices and volumes. While the overall mixture of fees will be rebalanced, the net impact of the changes will be revenue-neutral for NSCC. Indeed, the changes will have no bearing on DTCC's enterprise-wide fee reductions for 2006.

In conjunction with the new fee schedule, NSCC is implementing changes to trade-submission procedures (see article, cover).

## Why change now?

"We conducted a thorough analysis of our fee structure to determine whether it makes sense in today's environment," said Thomas Costa, DTCC managing director, Clearance and Settlement Group.

For the past two decades, NSCC priced its clearing fees primarily on the basis of a transaction-based model. In other words, NSCC charged customers flat fees for every trade processed.

In recent years, NSCC has seen exponential increases in trade-submission levels, driven in large part by a clear trend toward smaller trade sizes. In 2005, the volume of transactions processed by NSCC reached 6.6 billion, an increase of 135% since 2000, when volume totaled

2.8 billion.

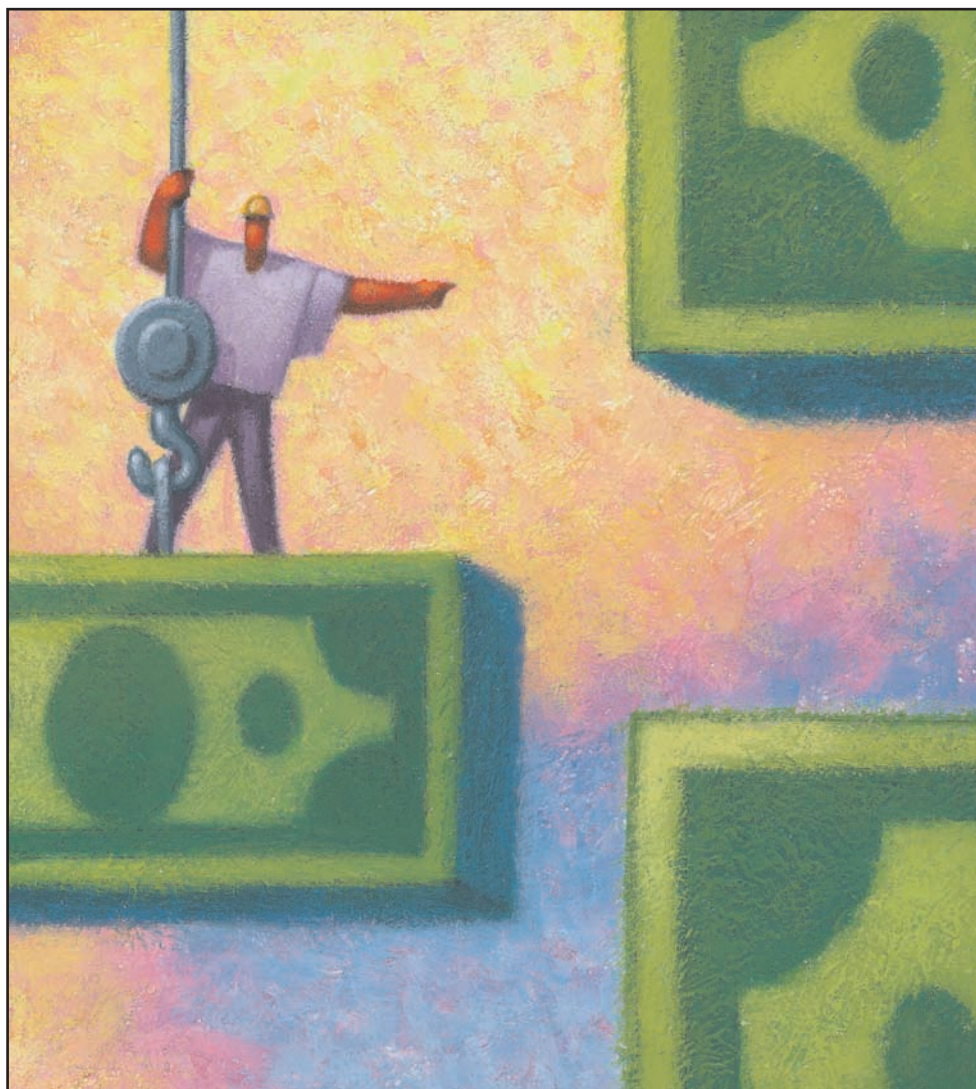
"Today, with decimalization, algorithmic trading activities and the expansion of new trading platforms, we find that approximately 70% of equity trades submitted to NSCC are for 300 shares or less," said Costa. "These changes in market practices

were a key driver in our decision to adjust fees."

He added, "The new fee schedule and trade-submission procedures will pre-empt the exponential growth in NSCC fees that many customers have experienced under

[continued on page 12]

The new fee schedule and trade-submission procedures will pre-empt the exponential growth in NSCC fees that many customers have experienced under the old pricing model. These changes will also reduce the systemic risk NSCC believes is associated with receiving batch and multi-batch trade data.



# DTCC's Jill Considine Wins the Six Sigma CEO of the Year Award

The Global Six Sigma Awards announced in May that Jill Considine, DTCC's chairman and chief executive officer, was named the winner of its Six Sigma CEO of the Year award.

This award program, established to identify outstanding organizational success achieved through the application of Six Sigma methodologies, is organized by WCBF-Six Sigma Solutions, the leading provider of Six Sigma conferences, and sponsored by Breakthrough Management Group.

"It is an honor that our Six Sigma efforts at DTCC have been singled out by the Global Six Sigma Awards program," Considine said. "Since DTCC's earliest years, we've operated under the premise that if we're going to meet rising customer demands and if we are to stay relevant in this changing financial services environment, then Six Sigma methodology and metrics must reach deeply into our organization. Quality at DTCC is not a catch phrase or a nice-to-do. It's a business imperative. It's the way we do business every day."

As of 2006, DTCC has realized approximately \$17 million in savings and new revenue, thanks to its enterprise-wide Six Sigma efforts. DTCC also credits Six Sigma with helping the company achieve world-class customer satisfaction scores. In an independently conducted survey, customers' overall satisfaction with DTCC remained at the world-class level of 89% in 2005, for the second consecutive year.

DTCC has also won a place on the short list in another award category, Best Achievement of Six Sigma in Financial Services, for the design and implementation of a Six Sigma culture at the company's Southern Business Center. The winner of this award will be announced June 28.

## Background on the award

Considine will receive the award at the Global Six Sigma Awards Gala Dinner on June 28 in Las Vegas, where she will address the audience on Six Sigma success at DTCC.

Following evaluation of Six Sigma activities at over 30 global

organizations, the independent judging panel selected Considine from the list of finalists as the Six Sigma CEO of the Year for the deployment of Six Sigma at DTCC to drive organizational success.

Dr. Subir Chowdhury, best-selling Six Sigma author, chairman and CEO of ASI Consulting Group, LLC and a member of the independent judging panel, said, "Ms. Considine emerged as a clear winner of this accolade through her personal championship of Six Sigma within DTCC, ensuring that Six Sigma was embedded within daily operations as well as the organizational culture. She also has to be applauded for her vision, bringing in Six Sigma back in 2001, a time when Six Sigma concepts were new to the financial services sector."

Considine commented, "DTCC plays a critical role in bringing safety, soundness and reliability to the post-trade processing infrastructure in the U.S. markets, and we play a collaborative role with other service providers and infrastructure organizations around the world. Our Six Sigma initiatives help us ensure that we continue to protect the industry from risks inherent in growing trading volumes, the complexity of trading instruments and the influence of globalization and consolidation."



Jill Considine, DTCC chairman and CEO

**The Global  
Six Sigma  
Awards**  
Celebrating Outstanding  
Organizational Achievement

*The Global Six Sigma Summit and Industry Awards conference will take place June 27-30, 2006, at the Venetian Resort Hotel and Casino in Las Vegas, Nevada. To learn more about the Global Six Sigma Awards program visit [www.wcbf.com](http://www.wcbf.com)*

## More on the program

The Six Sigma CEO of the Year award is the premium of 13 categories within The Global Six Sigma Awards program. For the 2006 competition, the program received 65 entries from organizations based in India, Saudi Arabia, Singapore, South Africa, the United Kingdom and the United States.

The Gala Dinner coincides with WCBF's Global Six Sigma Summit, the largest gathering of CEOs and senior executives committed to Six Sigma. The keynote speakers for the summit will be best-selling authors Malcolm Gladwell (*Blink* and *The Tipping Point*), Subir Chowdhury (*The Power of Six Sigma: An Inspiring Tale of How Six Sigma is Transforming the Way We Work*) and Joseph

Grenny, a founder of VitalSmarts and leading authority in organizational effectiveness. @

# Mutual Fund Service Enhancements Will Strengthen Customer Compliance

By Karen Clarke

**D**TCC is finalizing plans for a new phase of enhancements to Mutual Fund Profile Service (Profile) that will make it easier to input, retrieve and evaluate data. With Profile becoming an increasingly important tool for the industry, these enhancements will help facilitate information access and regulatory compliance for fund companies and broker/dealers.

## Why Profile?

Profile is a service that allows mutual funds to provide their intermediaries with non-transactional data. It serves as both a conduit of information and a data repository.

A current reengineering effort is focused on enhancing the functionality of the Security Issue database – one of three within Profile's data repository – which contains vital data from fund companies like breakpoint schedules and linkage rules, contingent deferred sales charge schedules, minimum and maximum investment requirements, security features and processing capabilities for individual fund securities.

This database has been identified as a critical element in complying with recommendations of the Joint NASD/Industry Task Force on Breakpoints to develop standards to provide mutual fund intermediaries with a comprehensive electronic source of information on mutual funds.

## Simplifying data entry

To serve the industry's need for enhanced flexibility and functionality, DTCC plans to remodel the Security Issue database using hierarchical architecture that allows different levels of information to readily relate and flow to other areas of the database.

The new architecture will create a more dynamic environment in which changes, such as updates to short-term redemption fees, are input on an upper level of the hierarchy. The database will then "relate" that change to all the funds affected. This eliminates redundant data entry within the database and creates more streamlined, simplified data entry. The result is improved data integrity and a reduced risk of errors.

"This will make it much easier and faster for fund companies to disseminate updates and new information about their funds to the broker/dealers who access the database," said Christian Silge, vice president of Dealer Services in Goldman Sachs' Investment Management Division. "It creates a much more efficient process for everyone."

## User input

DTCC has worked closely with Silge and a group of industry representatives to develop a blueprint for remodeling the Security Issue database and updating the information within it, according to Rita Gribben, DTCC director, Product Management, Mutual



Rita Gribben, DTCC director, Product Management, Mutual Fund Services

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Fund Services. "Profile makes it easier for firms to efficiently serve their customers, and our aim is to constantly improve our service for our users. We want this to be the standard source for rules-based processing, regulatory compliance and reporting capabilities."

The group has weighed in on specific details like adding data fields to support tiered schedules and determining

which data fields should be associated with various levels of the hierarchy.

"We want broad industry consensus on the architectural details of the hierarchy," Gribben said. "By getting input up front on the structure and data details, we are confident that the remodeled database will be a valuable tool that meets the evolving needs of the users on both sides of the database: the fund companies that input the data and the broker/dealers who access the data."

## Enhanced compliance capabilities

Silge highlighted another key goal of the redesign: to provide firms the data they need to comply with fund prospectus and distribution policies. To accomplish this, DTCC will change the definition of key data fields to make them more accurate and understandable by the fund companies, so they can provide more consistent and accurate information to broker/dealers.

"The goal is to make the data more consistent with fund companies' prospectus rules," Silge explained. "The data on the screen will tie directly to a specific fund prospectus rule. That streamlines data entry and makes it much easier to validate the information within our legal and compliance departments, as well."

Broker/dealers, in turn, will have a higher level of confidence that they have accurate, up-to-date information. "The right data at the right time in the right place creates the optimum environment for compliance," Gribben explained.

## Easier auditing and reporting

Another significant benefit for fund companies and their transfer agents is quality assurance. The reengineering of Profile will result in a data environment that makes it easier to verify the accuracy of fund information.

"We can take it off-line, evaluate it and apply quality assurance measures to it," Silge said. "That way, we can be sure that our broker/dealer partners are getting good, valid data on the other side." @

# Deriv/SERV Creates Link with Omgeo Connect

By Judith Inosanto

As part of ongoing efforts to align with third-party providers to increase automation in the over-the-counter (OTC) derivatives market, DTCC Deriv/SERV is creating a link with Omgeo Connect that is scheduled to go live this quarter.

The connection will enable Omgeo Connect's investment manager customers to access Deriv/SERV, along with Omgeo's core services, via a single hub, eliminating the need to maintain multiple systems and services.

Omgeo, a joint venture between DTCC and Thomson Financial, is the global leader in institutional post-trade processing.

## Expanding the universe

"This link with Omgeo Connect exemplifies how we are working to bring to a wider universe of market participants better access to the benefits of automated processing for OTC derivatives trades," said Peter Axilrod, DTCC managing director, Business Development. "We are pleased to work with Omgeo and other complementary service providers to develop solutions that will better manage risk and bring greater efficiency to this rapidly growing and dynamic market."

Omgeo Connect will extend its XML message specification to capture the data relevant to OTC derivatives, transform this data into industry standard FpML messages and route these messages to Deriv/SERV via an MQ interface.

Post matching, Omgeo Connect will receive status messages from Deriv/SERV, transform these messages and pass them back to investment managers via their Omgeo Connect interface.

"We are pleased to be able to build on our relationship with

DTCC and we will continue to explore ways to extend our efforts to bring efficiencies to all sectors of the investment manager and investment manager outsourcer communities," said Steve Matthews, Omgeo's managing director, Product and Business Development. @

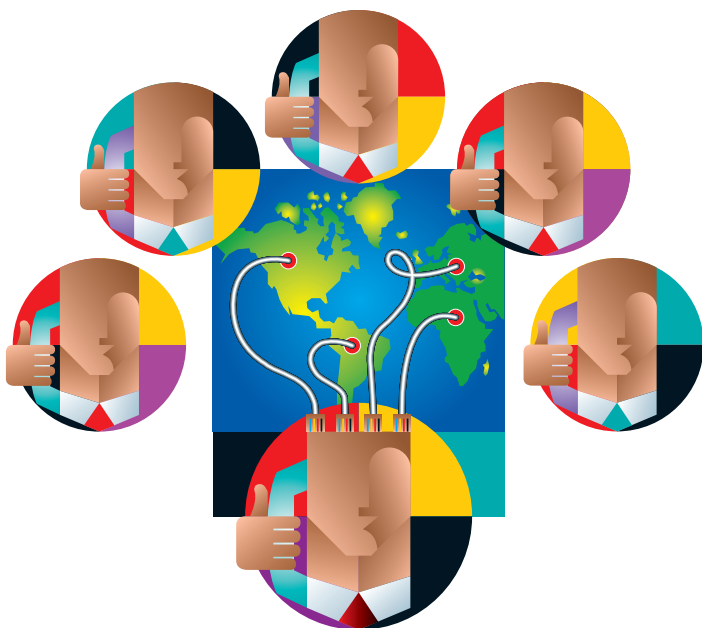
## Deriv/SERV's Links With Other Providers

Deriv/SERV has built links and connections to various third-party service providers in addition to Omgeo.

These companies range from providers of front-office messaging capabilities to data managers that convert paper-based transactions into documents that can be handled or viewed electronically. They include:

- **Communicator, Inc.**, a provider of electronic applications for the post-trade processing, identity management, communications and compliance requirements of the broker/dealer and investment management communities.
- **MarketAxess**, an operator of an electronic trading platform for U.S. and European high-grade corporate and emerging-market bonds.
- **Markit**, a provider of independent pricing and valuations data for OTC derivatives (credit, equity, foreign exchange, interest rates, inflation, energy, power, metals and structured products), corporate bonds, syndicated loans, dividends, indices and exchange-traded funds.
- **Thomson Tradeweb**, an online, fixed income trading network that, through its multi-dealer auction model, links the trading desks of the leading fixed-income dealers with over 2,200 buy-side institutions globally.
- **Thunderhead**, a provider of document generation technology that automates the production of personalized or transaction-specific business documents that may be delivered by any number of different media channels (e.g., printed documents, fax, e-mail, XML).
- **T-Zero**, a provider of post-trade and workflow messaging systems to the global credit derivatives market.

DTCC also recently announced an alliance with leading inter-dealer brokers (IDBs) GFI Group, ICAP and Tullett Prebon to create a single-screen platform in which traders can efficiently and accurately affirm their IDB credit default swap transactions.



# Deriv/SERV Adds Index Tranches

By Judith Inosanto

**D**TCC Deriv/SERV has expanded the over-the-counter (OTC) derivatives products supported on its matching and confirmation platform with the addition of credit default swap (CDS) index tranches. This brings to 26 the number of credit derivatives products that customers can electronically match and confirm through Deriv/SERV.

With the OTC derivatives community focused on increasing automation and reducing risk in a rapidly growing market place, the addition of tranches marks a significant advance. The value of these instruments grew to about \$89 billion in early 2005, from an estimated \$12.6 billion in the first quarter of 2004, according to data from industry publication *CreditFlux*.

## Extending the reach

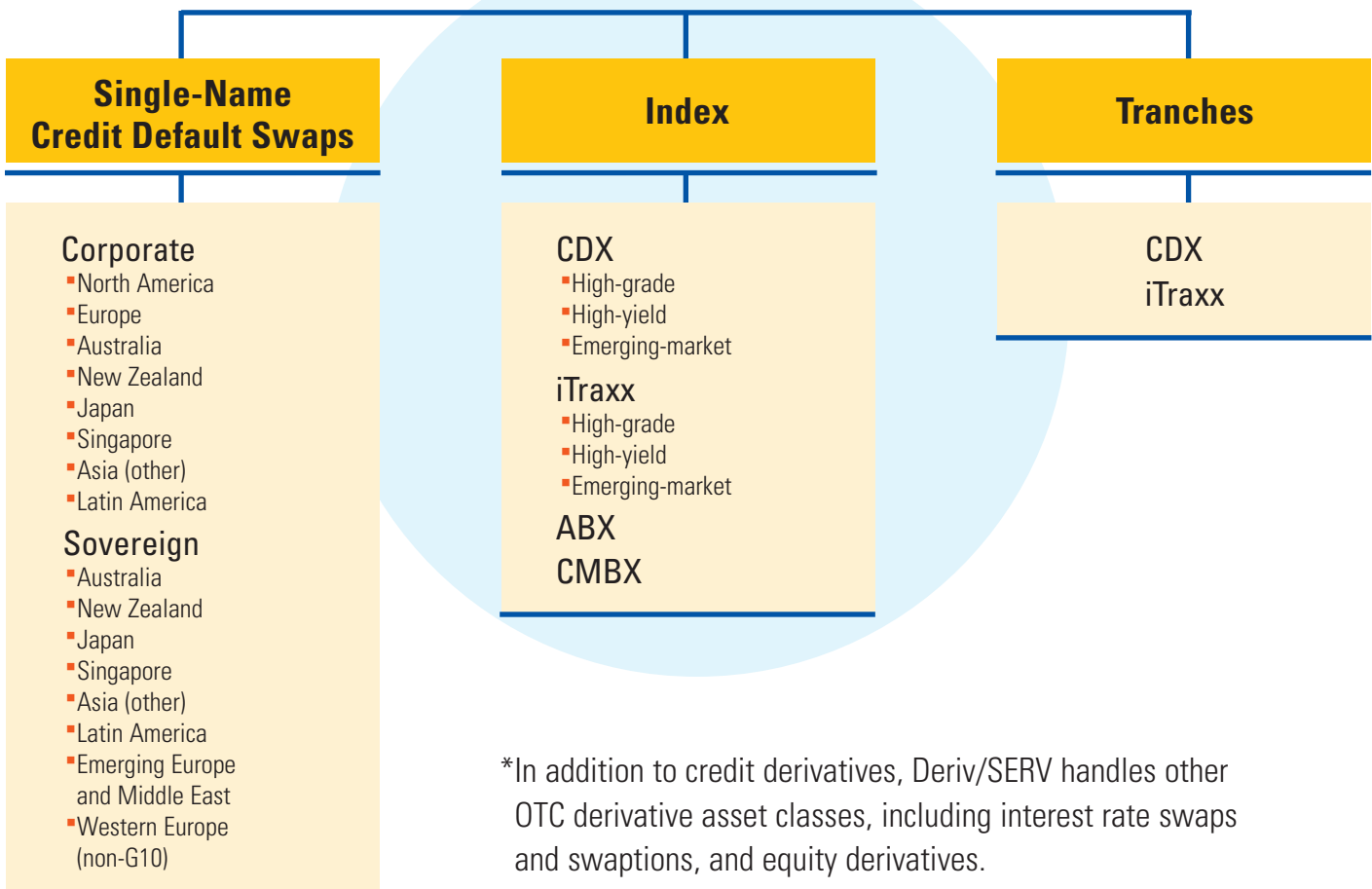
“This latest expansion of our platform is another example of how DTCC is working to provide ‘one-stop’ servicing for OTC

derivatives processing,” said Janet Wynn, DTCC managing director and general manager, Deriv/SERV. “Supporting CDS index tranches is an important addition to Deriv/SERV’s capabilities, given the growing popularity of these instruments among market participants.”

An asset or security can be divided into smaller pieces, or tranches, which have different risk, reward and/or maturity characteristics. An extension of CDS indices, CDS index tranches are synthetic collateralized debt obligations (CDOs) that allow investors to take on exposures to specific segments of a default loss distribution for a CDS index. Benefits of index tranches include their high liquidity and their standardization, according to market participants.

In addition to credit derivatives, Deriv/SERV handles other OTC derivative asset classes, including interest rate swaps and swaptions, and equity derivatives. @

## Deriv/SERV’s Growing Roster: Credit Derivatives Products\*



\*In addition to credit derivatives, Deriv/SERV handles other OTC derivative asset classes, including interest rate swaps and swaptions, and equity derivatives.

# NSCC Streamlines Equity Commission Billing

By Karen Bray

National Securities Clearing Corporation (NSCC) has launched a redesigned system for Equity Commission Billing (ECB). This service automates the payment of commissions between NSCC customers and brokers that execute trades on their behalf.

The redesigned system moves the entire process to an electronic environment, giving customers a user-friendly capability to update and receive their commission records on a daily basis, according to Hank Belusa, DTCC vice president, Product Management, Equity Clearance and Settlement.

Another plus for the industry is the service's flexible platform. "We redesigned the system with the flexibility to be able to incorporate additional exchanges in the future – both domestic and international – easily and seamlessly," said Belusa, noting that the legacy system recognized only the New York Stock Exchange and the American Stock Exchange (AMEX).

## Automating commissions

When a floor broker executes a trade for a listed equity, that broker charges a commission.

For brokers that are ECB customers, the service automates the submission, reconciliation and payment of these commissions. Today, ECB has more than 900 customers, including firms that are full-service members of NSCC, as well as "commission-bill-only" firms – specialists and independent floor brokers that trade on the New York Stock Exchange and AMEX but are not settling members of NSCC.

## What's new?

Launched in March, the redesigned ECB service brings greater efficiency to the

entire commission bill process. The most important enhancement is that now, on any business day, brokers can submit their commission information and receive reports that reflect their data.

In the past, customers could only begin submitting data on the last three business days of the previous month, up to the 10<sup>th</sup> of the succeeding month, with changes aggregated on output records that were available just once a month.

"Now brokers have the flexibility to enter their commission bill items and reconcile their work on any business day of the month," explained Janice DiTore, DTCC director and product manager, Equity Clearance and Settlement. "That means they can always be current on what they have to pay or receive in commissions."

The system also dispenses with the previous requirement that adjustments, including cancellations, had to be made manually. Now the brokers can modify their own data electronically at any time during the month, with changes reflected in the next day's output.

## Commission-bill-only firms

For this customer segment, the service will, subject to approval by the Securities and Exchange Commission, eliminate the need to send monthly checks to NSCC to cover debits. "In the past, non-member firms could collect their commissions through the Automated Clearing House [ACH] facility, but not make payments," said DiTore. "When implemented, the clearing facility will handle both debits and credits, which will streamline settlement by eliminating another time-consuming, paper-based step in the process."

To be eligible to continue to use the ECB service, commission-bill-only



Hank Belusa, DTCC vice president, Product Management, Equity Clearance and Settlement

**"We redesigned the system with the flexibility to be able to incorporate additional exchanges in the future – both domestic and international – easily and seamlessly."**

members must execute new ACH agreements with their respective membership departments no later than June 30, 2006.

## Data security

"Another goal for this project was to build a system that would be easily accessible for the multiple groups within DTCC that play a role in processing ECB data, while maintaining our strict information security standards," said DiTore.

This was achieved with a browser-based front-end that makes it more efficient for DTCC personnel to input or view ECB information, while limiting access to the information based on each area's responsibilities. @

# FICC Makes It Easier: Substituting Repo Collateral *Continued from cover*

books and need to have specific securities on hand, the substitution of the collateral behind repos can happen on hundreds of term trades, which means billions of dollars worth of securities have to change hands quickly – usually within just a few hours.

With the goal of reducing the risk inherent in current industry practices while making it easier for brokers to handle the rising volume of substitution requests, DTCC's Fixed Income Clearing Corporation (FICC) has taken a series of steps that will strengthen the entire collateral substitution process. The changes will also bring greater automation to an area of the industry in which many brokers still rely largely on manual processing.

## The game plan

FICC's Government Securities Division not only guarantees repo trades, but also has to handle the rising volume of collateral substitution for the repos.

To cope with rising substitution rates over the last two years, FICC augmented its own internal processing capacity while encouraging the industry to pair off forward-starting generic collateral repos, effectively eliminating the need to allocate collateral – and therefore any substitute collateral – for those deals.

These steps helped the marketplace cope with the spikes in substitution requests, seen particularly on days designated by The Bond Market Association (TBMA) as “high-volume” days.

Recently, however, with help from an industry working group, FICC proposed changing the flow of information for repo collateral substitution entirely and, in March, the Securities and Exchange Commission approved FICC's proposal. Under the new rules, brokers will have a mandatory deadline for notifying FICC of a substitution, but the parties to the deal will have more time to identify, deliver and receive the replacement collateral. FICC has also redesigned the substitution process itself to handle these types of requests.

“The combination of better timing and the changes we've made to make it easier for the parties on each side of a repo to substitute collateral should make the whole process smoother, less risk-prone and less costly for the industry,” said Thomas Costa, managing director of DTCC's Clearance and Settlement Group.

FICC will let customers know well in advance when the new substitution procedures and timetables are to become mandatory, Costa added.

## Too tight a timeframe

The capability to substitute different collateral for repos was introduced a decade ago, making the instruments much more

flexible and helping drive growth in the market. Under longstanding industry procedures, however, the window for completing a collateral replacement does not stay open very long.

As a result, FICC sometimes receives both the original repo collateral and the replacement collateral before learning that there is an agreement to swap out the [continued on page 10]

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**FICC will let customers know well in advance when the new substitution procedures and timetables are to become mandatory.**



# FICC Makes It Easier *Continued from page 9*

old collateral and replace it. This can leave FICC in an overdraft position at its clearing banks, causing delays in settlement and creating unnecessary risk for both FICC and the parties to the repo trade.

“This situation can occur with blind-brokered repo trades, where information on the substitution must be communicated through the broker to us,” said Rachel Tyler, DTCC product manager, Clearance and Settlement Group.

“More than 90% of repo volume these days is blind-brokered,” she explained, “so it is a substantial problem. Because the two parties to the trade talk to the broker but not to each other, the dealers involved often send us the substitute collateral and the original collateral before the broker has a chance to notify us of the swap,” she said.

## Advance warning

Under current practices set by The Bond Market Association, dealers are supposed to let their brokers know by 10 a.m. Eastern time if they want to substitute collateral. Brokers, in turn, are supposed to alert FICC to expect a collateral swap, so that FICC can determine if there are enough substitutions coming in to make it a “high-volume” day. Then the brokers have until noon to submit information regarding the original and replacement collateral to FICC. There are penalties for late submissions, and any substitution request sent in after 12:30 p.m. may not be processed that day.

In effect, Tyler said, this crams all the substitution activity – both original and replacement – into a two-hour window.

With the new rules, the process is broken into smaller, more manageable steps, giving brokers more time up front to make arrangements. Brokers will have to let FICC know by 11 a.m. that a dealer wants to substitute collateral. This gives FICC’s system time to begin processing the return of the original collateral. In fact, as soon as FICC gets a substitution notice, its system automatically creates instructions for its bank to receive the original collateral from the reverse party and deliver it back to the repo party.

“Although we peg this information to a generic CUSIP rather than specific collateral, this alerts our system that a substitution is taking place,” Tyler said, “and alleviates the risk FICC faces as billions of dollars worth of securities – the original collateral – build up at our bank.”

The dealers and brokers then have another hour – and under special circumstances, even longer – to specify what the new collateral will be. At noon, when FICC knows what the substitute collateral will be, it can begin to process the receipt and delivery of this new collateral. It then issues “final” receive-and-deliver instructions so that its bank can receive the replacement collateral from the repo dealer or broker and deliver it to the party on the other side of the trade.

When the new procedures and deadlines are fully implemented, Tyler noted, there will be penalties for late submission of information, just as there are under current procedures. Substitution requests that come in after 11 a.m. Eastern time will be charged \$100. Replacement collateral

specifications that arrive after noon will also be charged \$100, and if they don’t arrive until 12:30 p.m., the fee climbs to \$250.

On high-volume days, however, such as the day a quarter ends, the day before a quarter ends and on days of Treasury refundings, FICC will continue to extend the deadline for final substitution information by one hour, although the initial 11:00 a.m. deadline will remain in place.

## More time for delivery

The result of the new timing rules and procedures is that it gives repo brokers more lead time to arrange substitutions, and it breaks the substitution process into separate steps that help all parties control their financial and risk exposure. It also affords

FICC more time to deal with each step in the substitution process and the banks more time to receive, credit and send the new collateral on.

“Several of the brokers who often substitute repo collateral have now begun using the new procedures to see how well they work,” Tyler said. “Overall, they are pleased, but based on their feedback, we will be making some systems adjustment to further improve the process.”

In the longer term, Tyler suggested, FICC may reconfigure the process one more time to give dealers the ability to automatically initiate repo collateral substitutions directly with FICC rather than going through their brokers.

“This will make the process more direct,” she said, “but it’s also likely to mean that dealers will have to make changes to their existing systems and procedures. We’re studying this. We’re also working with the industry on a ‘hard close’ for substitutions.” @



Rachel Tyler, DTCC product manager, Clearance and Settlement Group

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# Watch for DTCC's 2006 Customer Satisfaction Survey

In June, DTCC will be conducting its annual customer satisfaction survey, which is one of the company's primary vehicles for obtaining customer feedback on products, services and corporate initiatives. The survey is distributed via

e-mail and can be completed online.

DTCC has introduced several changes to the 2006 survey in response to customer comments about previous surveys. This year, it will be shorter, taking an estimated 15 to 20 minutes to

complete, with questions more focused on areas customers have indicated are important to them and how they conduct business with DTCC.

DTCC welcomes customer participation in the survey.

## Historic Bridges Draw Parallels to DTCC's Infrastructure In 2005 Annual Report

By Karen Gregory

Throughout history and spanning the globe, bridges have been instrumental in creating communities, furthering commerce and adding to the cultural richness of societies, all the while withstanding time, nature and the events of history.

In her letter to DTCC's stakeholders, Chairman and Chief Executive Officer Jill Considine explained that the decision to feature some of the world's most inspiring bridges in the annual report was made "to draw a tangible parallel to the role we play in financial services – promoting trade and the growth of capital."

That role is to automate and standardize post-trade processes, link an ever-expanding network of trading partners, reduce risk, lower the cost for customers across the securities industry of maintaining their operations area and facilitate growth, within an infrastructure that ensures uninterrupted connectivity to thousands of financial firms in the United States and overseas.

In 2005, DTCC's subsidiaries settled more than \$1.4 quadrillion in securities transactions (it had reached the \$1 quadrillion milestone the previous year), which translates into approximately \$5.7 trillion settled on each business day. With revenues increasing to \$1.3 billion, up from just over \$1 billion in 2004, DTCC at the same time gave back to its customers \$528 million in rebates, discounts and interest in 2005, a record for the organization. In addition, DTCC is reducing transaction fees for 2006 by \$161 million.

The report details DTCC's operations along business unit lines – Clearance and Settlement, Asset Services, Global Corporate Action Services, over-the-counter (OTC) Derivatives, Mutual Funds and Insurance – and provides a consolidated look at its financial

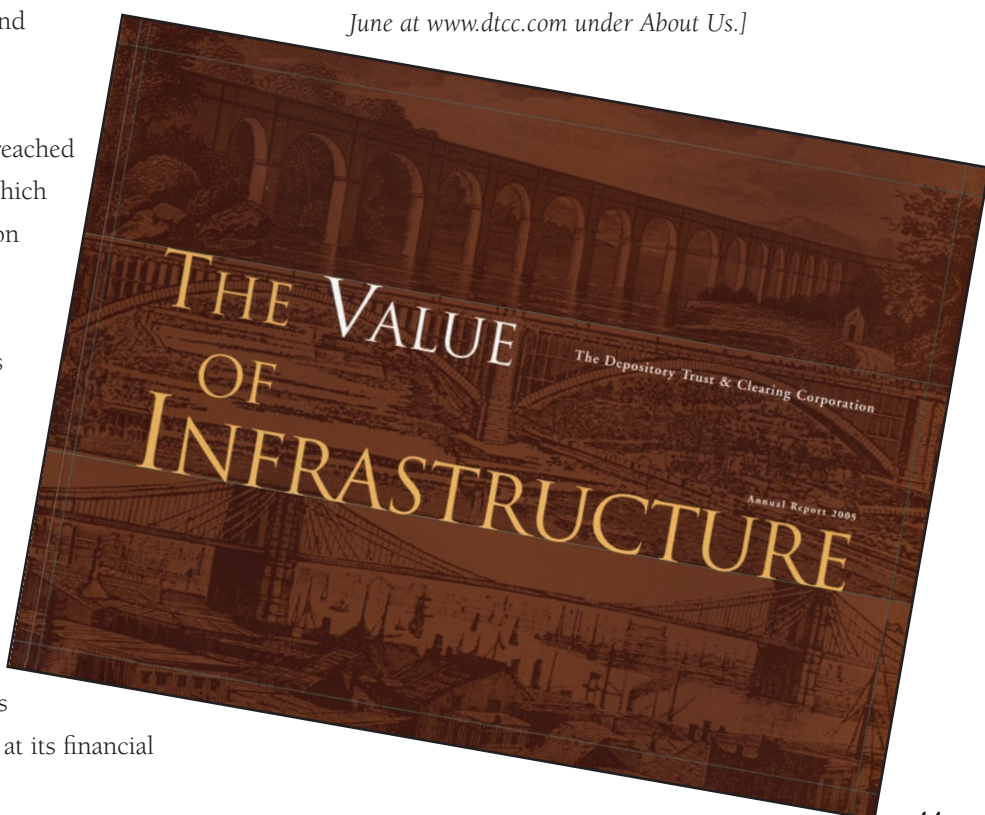
performance in 2005 and 2004.

Competition across numerous industries is forcing companies to create competitive advantage by working with nontraditional partners. The report features a special section on strategic partners that are working with DTCC to bring high-quality and reliable solutions to market quickly.

Expanding on its customer outreach program, DTCC has also included a "call to action" in the back of the annual report, soliciting customer feedback on industry issues or services where they would like to see the organization provide support. Customers can fill out a return postage-paid postcard or respond via e-mail. @

[To receive a copy of the 2005 annual report, please e-mail a request to [info@dtcc.com](mailto:info@dtcc.com). The annual report will also be available online in

June at [www.dtcc.com](http://www.dtcc.com) under About Us.]



# NSCC Announces New Procedures

*Continued from page 2*

in the process of clearance at NSCC.

In general, this service provides an automated way for an NSCC member executing a trade on behalf of its correspondent to move the underlying position from itself to the correspondent. This distinguishes between position movements, for which the service is intended, and “original trades” submitted through other services.

To reflect the appropriate use of this service, the fee was reduced to \$0.0125 from \$0.050 per side.

This is also a “Phase I” change, to be implemented several months following the SEC’s approval of the rule change.

**Real-time submission:** This change will enable NSCC to receive 100% of locked-in trade input in real time.

The markets have made steady progress toward real-time trade submission, with NSCC expecting to receive more than 70% of trade input in real time by the middle of this year. Today, the New York Stock Exchange, the American Stock Exchange and Nasdaq submit their locked-in trades in real time. ARCA expects to begin submitting real time later this year.

As a result, this change will require the regional exchanges and Qualified Special Representatives (QSRs) that currently submit transactions either on a multi-

batch or end-of-day basis to submit trades in real time.

This will be a “Phase II” change, whose implementation will follow some months after the “Phase I” implementation date, giving these organizations time to make the necessary systems changes. (Customers may contact their DTCC Account Representatives for information on formats, protocols and testing real-time processing.) @

[Contact Elena Staloff, DTCC director, Product Management, Equity Clearance and Settlement, at [estaloff@dtcc.com](mailto:estaloff@dtcc.com) or 212.855.5699 for questions or additional information.]

## NSCC Realigns Fees *Continued from page 3*

the old pricing model. These changes will also reduce the systemic risk NSCC believes is associated with receiving batch and multi-batch trade data.”

### The new approach

To establish the new fee schedule, NSCC analyzed the business practices, rules and fees associated with its clearing services, along with changes in revenue flows and trade-submission practices. This process included discussions with customers and a sub-committee of DTCC’s Operations and Planning Committee of the Board. Changes were approved by DTCC’s Board of Directors and filed with the SEC.

The result is a new fee schedule that rebalances NSCC’s overall fee mixture in alignment with today’s market realities. This is achieved by:

- Reducing the costs of Trade Recording and position movement services (Correspondent Clearing and Universal

Flip), which are volume-sensitive.

- Introducing a new “scalable” fee for Netting that factors in the benefits of Continuous Net Settlement and the relative risk to NSCC presented by overall transaction patterns. This will replace the current Trade Clearance fee, which is flat and based on volume.

Thomas McCarthy, DTCC managing director, Equity Clearance and Settlement, explained that this new fee structure introduces a direct correlation between the total value of each customer’s trade submission and the benefits that firm

derives from NSCC’s netting and risk-mitigation services.

“Customers whose trades net down and bring less risk to NSCC will pay a lower

fee, while higher fees will be paid by customers whose trade processing presents more risk for the NSCC,” he said.

“Different from transaction-based fees, this new structure distributes costs more equitably in terms of the relative risk customers’ trades bring to NSCC.” @

[Contact Elena Staloff, DTCC director, Product Management, Equity Clearance and Settlement,

at [estaloff@dtcc.com](mailto:estaloff@dtcc.com) or 212.855.5699 for questions or additional information.]



Thomas McCarthy, DTCC managing director, Equity Clearance and Settlement

# FAQs on NSCC's Rule and Fee Changes

**D**TCC has received a number of common questions concerning NSCC's proposed new Trade Recording and Clearance Fee pricing structure and rules. Here are some of the most frequently asked questions.

## **Q. How does NSCC define "real-time" for real-time input? Is any lag between execution and submission to NSCC allowed?**

NSCC has defined real-time input as "the submission of trade data on a trade-by-trade basis promptly after the trade execution." The intention of this Securities and Exchange Commission filing by NSCC is for NSCC to receive trade data without a time lag between execution and its receipt of the trade. The purpose of this rule is to ensure the timely receipt and safe storage of trade data as well as promote straight-through processing.

## **Q. What is the appropriate use of Correspondent Clearing?**

The Correspondent Clearing service is designed to allow an already executed position to be moved from an executing account (the Special Representative's account) to another account for settlement. It was not designed to permit a Special Representative (acting as a Qualified Special Representative – QSR – or otherwise) to submit original locked-in trade data, and it should not be used as such.

For this purpose, NSCC views an original trade as a trade executed on or at a marketplace (including an Alternative Trading System), which is submitted to NSCC on a locked-in basis by either a Self-Regulatory Organization (SRO) or a QSR. Original trades are subject to tape reporting and must be forwarded to NSCC on an execution-by-execution basis.

Since under the proposed rule change NSCC will have already captured the original execution on a real-time basis, it is not necessary for the Special Representative to send the correspondent position movement in real time. NSCC will continue to allow Correspondent Clearing activity to be submitted to the clearing corporation multi-batch.

## **Q. Does NSCC plan to begin providing real-time trade recording output to participants?**

NSCC does not have immediate plans to provide real-time trade recording output to participants. NSCC will review the requirements and work with participants to see if this move is feasible in the near future.

## **Q. Has NSCC considered the re-distribution of costs to its participants imposed by the new fee model and rules?**

NSCC's old fee model was mostly based on transaction volume; there was no consideration to the amount of risk a participant

brought to the clearing corporation. The

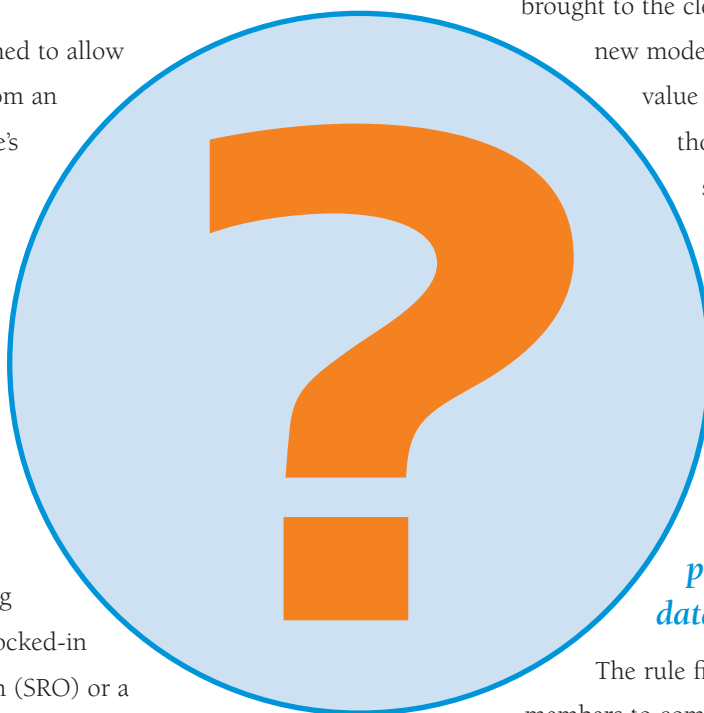
new model is more focused on trade value and risk, and will charge those participants that bring similar risks to the clearing corporation similar fees.

## **Q. If my firm submits QSR data for a correspondent and my correspondent summarizes and/or provides me batch data, what do I do?**

The rule filing specifically requires all members to comply with NSCC's real-time and trade-for-trade submission practices. Therefore QSRs, and the members they submit trade data for, should ensure that all parties to a trade are in compliance with this requirement.

## **Q. Does my firm have to submit internal crosses to the clearing corporation?**

At this time, the NSCC is not asking firms to submit internally crossed trade data to the clearing corporation. @



# A 30-Year Waltz: DTCC and The Bond

**W**ith The Bond Market Association (TBMA) this year celebrating 30 years of representing the interests of issuers and other participants in the global debt markets, @dtcc takes the opportunity to look at the close and effective, three-decades-long collaboration between TBMA and DTCC, the world's largest post-trade infrastructure organization.

Working together year after year on projects ranging from the creation and trading of new financial instruments to reducing operational risk, the two organizations have helped shape the global fixed income market.

"As long as The Bond Market Association has been around," said Thomas Costa, DTCC managing director, Clearance and Settlement Group, "we've been teaming up to solve problems and bring efficiencies to the securities industry and world debt markets."

## History of innovation

Projects that DTCC and TBMA have cooperated on over the years read like a lengthy list of innovations that have contributed incalculably to the phenomenal growth of the global fixed income markets. The list ranges from the creation of clearing and netting services for government securities in the late 1980s, to post-9/11 efforts to maintain stability and confidence in the bond markets, to the association's pioneering work with DTCC earlier this year to revamp the process of issuing new securities.

"Here's what working with TBMA is like," said William Hodash, DTCC managing director, Asset Services. "In the early 1990s, they collaborated with us for almost two-and-a-half years to help design and get the industry accustomed to the whole system we now use for issuing and settling commercial paper. This has become a \$450-billion-a-day business and we had to get it right – and we couldn't have done it without TBMA."

Joseph Trezza, DTCC vice president, Asset Services, still keeps in his office a particular "tombstone" – a plastic-encased notice of

a financial first. It commemorates the inauguration of same-day funds settlement in February 1996. "TBMA was one of the first groups to endorse same-day funds settlement, and they brought industry expertise to bear on the subject," he said.

Trezza also recalled when collateralized mortgage obligations and variable rate demand obligations first started coming into DTCC's depository in the 1980s. "It was almost 'custom' work to calculate and pay out the interest and principal payments," he

said. "So we turned to TBMA, which had the knowledge of how these instruments are structured. And their expertise was essential in helping us get a handle on processing the payments from these new securities."

## Managing through 9/11

TBMA's key role in the securities industry and its ability to work closely with DTCC became especially apparent in the difficult days following the 9/11 terrorist attacks.

According to Costa, who at the time was responsible for managing the processing of trades in the trillion-dollar market for U.S. government securities, TBMA and DTCC were the principal industry responders to the crisis. "The TBMA people did an extraordinary job of using the association as a focal point to discuss the issues and operational problems that had to be solved in the immediate aftermath of the attacks," he said, adding that the industry had to make a lot of decisions quickly about who would be able to clear and settle outstanding trades as well as continue trading.

"TBMA helped organize and then participated in the crisis discussions we held with the Fed, the Securities and Exchange Commission, the Treasury, the various exchanges and others," Costa recalled. "After quickly polling its members, TBMA also came up with the recommendation that we move temporarily to T+3 settlement of trades in U.S. government and federal agency securities."

**30**  
year anniversary

## TBMA in a Nutshell

**O**riginally called The Public Securities Association, The Bond Market Association (TBMA) traces its roots back to 1912. In 1976, it set up business as a separate entity and today it has about 118 employees in New York,

Washington, D.C. and London. TBMA members include all primary dealers in U.S. government securities and broker/dealers involved in municipal and corporate bonds, as well as asset-backed securities.

Another joint effort that grew out of 9/11 was the expansion of Real-Time Trade Matching (RTTM) to the entire fixed income market. Because data on government securities trades captured through RTTM survived 9/11 intact, there was consensus that RTTM was critical to the industry's future business continuity capabilities. "We've worked quite closely with TBMA to expand the use of RTTM," said Edmund Fanning, DTCC director, Fixed Income Product Management.

Jeffrey Ingber, a longtime executive in DTCC's fixed income business who is now the organization's managing director, Regulatory and Compliance, reflected back on those hectic days. He noted that TBMA's analysis of the bond market's operational problems helped to spur the Federal Reserve Board's "new bank" initiative, ensuring that the industry will have a fallback in case one or both of the two major clearing banks for government securities trades is unable to function.

## Fast forward

The cooperation and "let's-get-it-done" relationship continue to flourish, according to James Balbo, DTCC managing director, Asset Services. "When TBMA met with us last August looking for ways to help the bond market meet regulatory reporting requirements, we listened and then we went back to them with a preliminary proposal a few weeks later. They liked what they heard."

In fact, added Fanning, "Before long, the association had brought 60 firms plus the Municipal Securities Rulemaking Board together on the phone to work through the details of the proposal. The session went for five hours, from 3 p.m. to 8 p.m." (For more on this initiative, see box.)

Meanwhile, Balbo added, "We're already deep into yet another project with TBMA – improving the accuracy of the payments we need to make on structured securities."

## All that and more

"TBMA is an excellent sounding board, a reliable source for taking the industry's pulse and the place to learn what the thinking is in Washington, D.C.," said DTCC's Ingber.

"We're very proud of our partnership and collaboration with DTCC over the past three decades," said Leslie Norwood, TBMA's vice president and assistant general counsel. "Together, our two organizations have worked on countless initiatives which have resulted in making our markets operate more efficiently and effectively. We look forward to many more years of working successfully together." @

## Collaboration Brings An Idea to Life

It started out with a meeting last August between The Bond Market Association (TBMA) and DTCC to discuss how the industry could meet regulatory requirements for transparency on trades involving newly issued bonds. The information regulators wanted to see in reports on bond trades often wasn't available when new issues were traded.

By the time the meeting was over, it was clear that, by leveraging DTCC's plans for reengineering its entire depository underwriting and corporate action systems, there was a chance to improve more than the bond reporting procedures. "Since our depository plays a principal role in the underwriting distribution of virtually all municipal securities issues, the timing was perfect," said Peter Inguanta, DTCC director, Asset Services.

Before long there were meetings with the Municipal Operations Committee and committees from the Securities Industry Association as well regional brokers and vendors and the Municipal Securities Rulemaking Board, the primary regulatory agency involved.

"Prompted by DTCC's proposal and TBMA's outreach, industry executives and operations veterans started thinking outside the box," said Edmund Fanning, DTCC director, Fixed Income Product Management.

Five months after the August meeting, Janet Wynn, DTCC managing director and general manager, Asset Services, stood in front of a crowded room of reporters and industry executives at TBMA's New York office to announce that DTCC, as part of reengineering its underwriting system, was also developing a centralized, automated service that would change the way new securities issues are processed after they're prepared for pricing.

An extensive development effort is now under way to create the new underwriting information and dissemination system. Limited pilot testing is expected at the beginning of next year, with full use available toward the end of 2007. Meanwhile, TBMA continues to work with DTCC to get the industry ready for the impending changes.

"The development of this new service for the fixed income market is a case study of how a trade association like TBMA can work with an industry organization like DTCC to strengthen business processes that have been in place for decades and meet new regulatory requirements," said James Balbo, DTCC managing director, Asset Services.

# How Corporate Actions Impact Trading

By Steve Letzler

A new report by the British financial think tank Oxera, scheduled to be issued in May, analyzes how corporate actions, even those that are routine, can influence trading prices, volatility, volume and trading activities.

Sponsored by DTCC, the report is designed to broaden industry understanding of the correlation between corporate action events and trading activity.

This groundbreaking study follows another Oxera report sponsored by DTCC in May 2004 that quantified the risks firms face in handling the growing number of corporate actions worldwide.

## Sneak preview


For most of the five types of corporate actions studied, initial results from the report indicate a “significant” impact on trading activities.

“Some events, like tender offers, are generally expected to have an impact on trading prices and activity,” said James Femia, DTCC managing director and head of the Global Corporate Actions business. “More surprising is that other events that are routine still have an impact on prices and trading

volatility. These findings underscore the need for trading desks to have access to accurate, timely data on even routine corporate actions in order to react properly to these events.”

DTCC's Global Corporate Actions Validation Service provides corporate actions information to firms globally. In 2005, it provided validated information on more than 825,000 corporate actions events involving 1.2 million securities from more than 160 countries. @

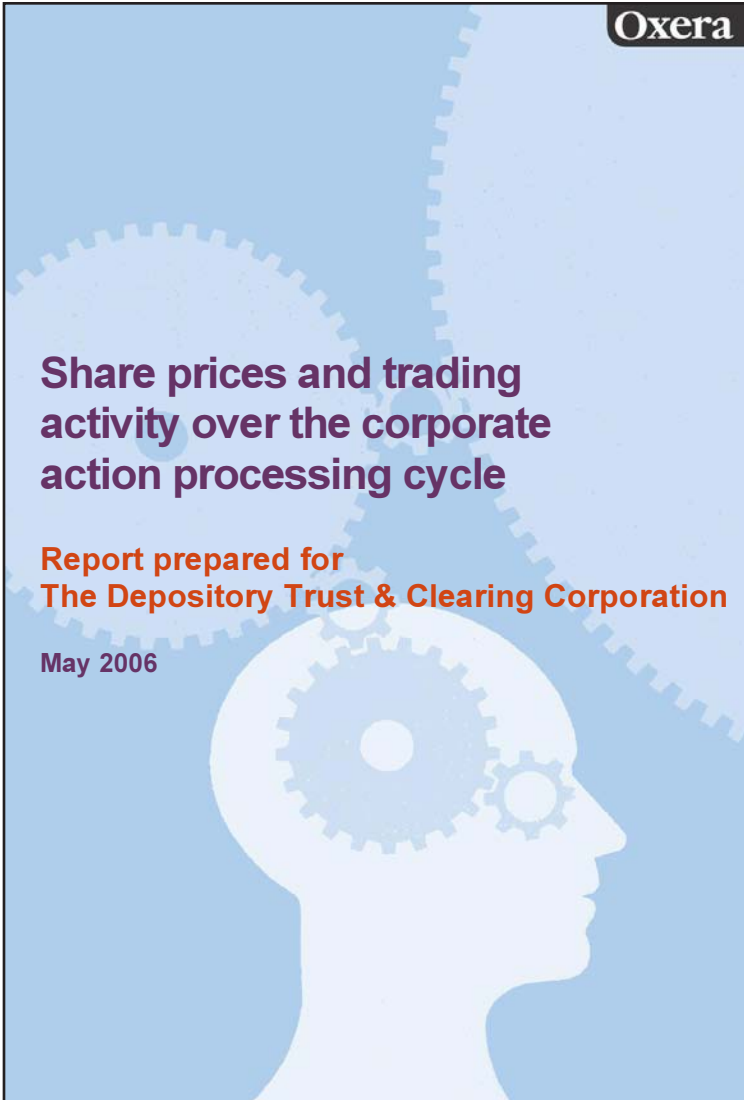
[A more detailed article on Oxera's report and conclusions will be published in the June issue of @dtcc. A copy of the full report will be available on DTCC's Web site at [www.dtcc.com/gca](http://www.dtcc.com/gca).]



**Share prices and trading activity over the corporate action processing cycle**

**Report prepared for  
The Depository Trust & Clearing Corporation**

**May 2006**



*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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Stuart Z. Goldstein  
Managing Director

Helen Cunningham  
Editor

Troy Cavaliere  
Design

Kieran O'Leary  
Proofreading

Toni Bellise  
Production Manager

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