



DTCC Forms Strategic Alliance To Deliver New Cost-Basis Solution

By Edward C. Kelleher

DTCC and NetWorth Services Inc. have formed a strategic alliance to offer a new service that provides security issuers, transfer agents, broker/dealers, mutual fund companies and other financial services professionals with cost-basis information quickly, accurately and efficiently, solving a problem that has plagued the industry and its investors for years.

Investors need cost-basis information to

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ACATS Viewed as Key Solution to Investor Account Transfer Concerns

by Michael Bellini

NASD's Automated Customer Account Transfer Service (ACATS) was recognized for having "greatly improved the customer account transfer process" in a report recently published by the Customer Account Transfer Task Force of the National Association of Securities Dealers (NASD).

The task force also recommended

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in this issue



New Study on OTC Equity Derivatives



Marianne Brown: Omgeo's New President and CEO



Certificates in the Vaults Dip Below 3 Million

DTCC Breaks the Speed Barrier To Strengthen Business Continuity

DTCC has advanced the business continuity of U.S. financial markets with new technology that cuts the lag time to replicate huge volumes of data over long distances from 30 minutes to less than 2 minutes.

This means that in the event of a disruption that results in the loss of DTCC's regional data centers, DTCC staff can achieve full rapid recovery at an alternate remote site with the window for potential lost transactions narrowed to less than 2 minutes. If one of DTCC's regional data centers survives, there would be no data loss.

The technology further strengthens DTCC's already resilient infrastructure. "While it may not seem like a lot of time, a half-hour's worth of lost data could potentially mean billions of dollars to our customers, so cutting the recovery gap to less than 2 minutes is an important breakthrough," said DTCC Managing Director and Chief Technology Officer Vincent Hilly.

As with all its major continuity initiatives, DTCC kept the industry's regulators apprised of progress with this project, providing ongoing status reports on testing, which included several full disaster recovery exercises, and implementation.

Data-driven

Protecting data has always been a priority for DTCC, whose clearing corporation subsidiaries processed more than \$1.4 quadrillion in securities transactions in 2005.

"The security and integrity of DTCC's data are critical to keeping the U.S. financial markets running in the event of a disaster or disruption," said George Perretti, DTCC managing director, Corporate Business Continuity. "It is

essential that we have the highest level of information security and the most accurate, up-to-date customer data at all times."

Pushing the envelope...

The new technology, developed by EMC Corporation and tailored to meet DTCC's requirements, is the next generation of technology DTCC initially implemented in 2004 to strengthen its infrastructure.

At that time, DTCC bolstered business continuity by adding remote data centers and deploying new hardware-based technology to replicate its mainframe production data to all its sites, within timeframes and over distances previously thought impossible.

With this innovation, DTCC gained the ability to process from any of its data centers, marking a quantum leap in business continuity for both DTCC and the financial services industry. (DTCC received the 2004 Computerworld Honors 21st Century Achievement Award for developing this application.)

... further still

"The guiding principle is that the job is never done," said Lea Moskowitz, DTCC managing director, Information Services.

"We are always looking to maintain and upgrade the resiliency of our infrastructure, which includes leveraging new technology to ensure we are staying ahead of the curve and meeting new challenges."

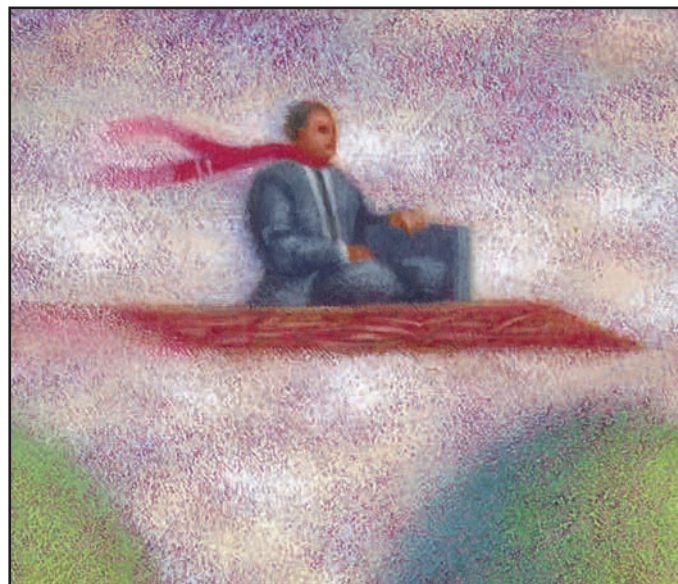
Now, with the latest technology, comes dramatically faster replication, allowing DTCC to move the data

in its mainframe systems as close to real time as possible over thousands of miles, keeping the information consistent and up-to-date in each of the company's multiple data centers.

The transition to the new infrastructure, which was transparent to customers, was implemented in stages. "The complexity of this project was in preserving the existing environment while moving to the new infrastructure," said Bella Zgut, DTCC vice president, Information Services, who oversaw the initiative.

The technology enabled Zgut's team to strengthen the replication process. Now information is pushed simultaneously to the alternate sites from a primary site, whereas previously it was replicated among the sites. "We've also completely automated the recovery process, so that if something occurs at the primary data center, the system will automatically reestablish protection across the other sites – and restore the primary site as soon as conditions permit," Zgut said, noting that this entailed writing approximately 10,000 lines of automation code.

The new infrastructure, implemented in May, has not experienced a glitch. @



Without Greater Automation, the OTC Equity Derivatives Market Faces Increased Risk

By Judith Inosanto

Rapid growth in the global over-the-counter (OTC) equity derivatives market is being constrained by the absence of adequate infrastructure and automation, according to a newly released report by the Aite Group, an independent research and advisory firm focused on the impact of technology and regulation on the financial industry.

Called “Trends in OTC Equity Derivatives,” the study was sponsored by DTCC and is one of the first to analyze forces shaping the OTC equity derivatives market and the challenges it faces in bringing greater efficiency to the marketplace.

The study reports that the extended length of time required to confirm OTC equity derivatives transactions is causing concerns among market participants and regulators in many countries, inhibiting market growth, increasing risk and increasing customer costs. Many of the

delays, which can last for weeks and even months, stem largely from the complex legal documentation required to complete a transaction.

Operational risk

Increased attention from regulators, such as the Federal Reserve Bank of New York and the U.K.’s Financial Services Authority (FSA), and the findings of this report, could bring greater focus among market participants to improve their operational practices. The current manually based, paper-intensive environment is fraught with excess operational risk for market participants, the Aite report notes. Other observations are that:

- About one trade in five is subject to some type of processing or trade capture error, based on figures provided by the International Swaps and Derivatives Association, Inc.;
- Because of these error rates, a large number of trades have to be rebooked. The need to rebook stems from improperly entered trades in a bank’s or client’s system. Re-booking becomes an issue since it means incorrect data have been entered into the trading, risk and accounting systems, and have yielded inaccurate risk and exposure profiles;

- As a conservative estimate, approximately US\$400 billion in notional trade amounts initiated between June 2005 and June 2006 had some type of error or were rebooked.

Market growth

The global OTC equity derivatives market grew to \$6.4 trillion in notional value outstanding as of June 2006, a 12-month increase of 32%, according to the International Swaps and Derivatives Association, Inc. These products are actively traded in Europe, the Americas and Asia, with a wide range of market participants and a myriad of products existing in the market.

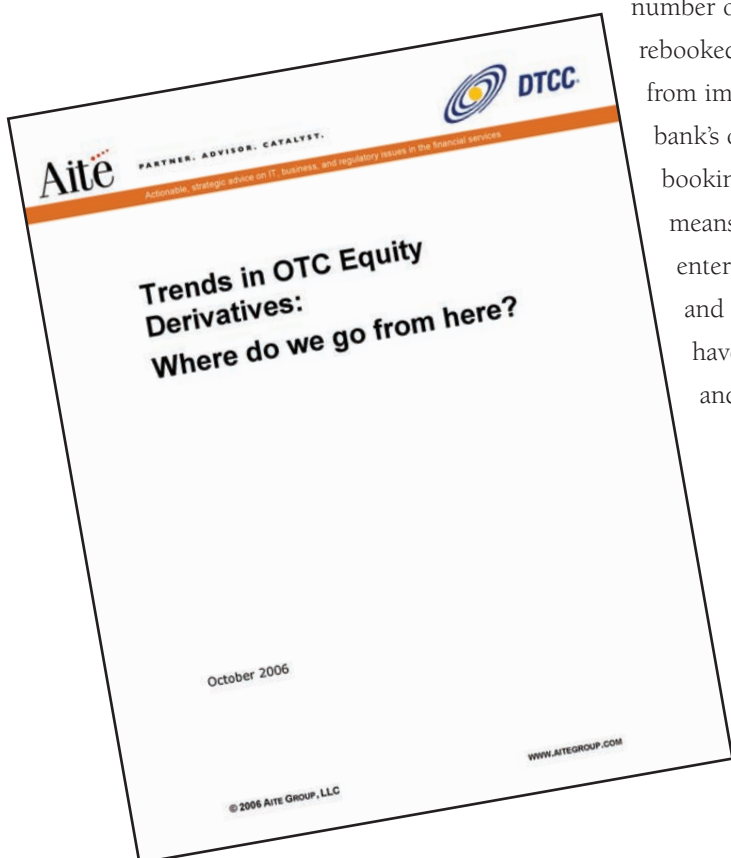
“The primary barriers we observed to increasing automation in the marketplace are the complexities that arise between trading firms in the legal documentation of OTC equity derivatives transactions,” said Brad Bailey, senior analyst, Aite Group. “Understanding these complexities and identifying ways to simplify the execution of Master Confirmation Agreements [MCAs] between market participants would be an important first step to ease the processing issues in these products.”

Proper documentation

Currently, not all dealers have signed MCAs with one another. In order to get the proper documentation to their buy-

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ACATS Viewed as Key Solution *Continued from cover*

“exploring ways to expand participation in ACATS to include a wider range of industry participants, either on a mandatory or voluntary basis.”

Solution is there

NASD issued the report in September in response to investor complaints regarding delays in the transfer of accounts between brokerage firms.

ACATS, launched in 1986, offers a ready-made solution to this increasingly high-profile investor issue. It dramatically expedites account transfers, permitting them to be conducted in an automated environment and standardizing procedures for transferring assets in investor accounts from one brokerage firm and/or bank to another.

Broker/dealers are mandated by the New York Stock Exchange and NASD to use the service, while banks use it on a voluntary basis.

Typically, a non-ACATS account transfer could take from 30 to 90 days, which leaves investor accounts in limbo for that period of time. “ACATS currently can accomplish the same transfer in about 7 days and we’re moving to shorten the cycle to 3 to 4 days, an enhancement that we expect to roll out in the second half of 2007,” said Bill Kapogiannis, DTCC director, Clearance and Settlement.

Customer insight

John Cusumano, director of Operations, Private Wealth Management, Mellon Financial Corporation, said his firm has been using ACATS since February 2004.

“The primary benefits we have realized from ACATS are enhanced customer satisfaction and significant time savings spent tracking down assets for new accounts,” said Cusumano. “The new account process is typically a client’s first



John Cusumano, director of Operations, Private Wealth Management, Mellon Financial Corporation

‘The primary benefits we have realized from ACATS are enhanced customer satisfaction and significant time savings spent tracking down assets for new accounts. The new account process is typically a client’s first experience with us, and ACATS helps ensure a seamless transition, which is invaluable.’



experience with us, and ACATS helps ensure a seamless transition, which is invaluable. We are thrilled with the system and excited about the new ACATS interface for Trust Accounting due for implementation this year.”

Making it work

The key message in the NASD report is that the industry and regulators need to develop ways to resolve current issues with the transfer process and increase participation in ACATS. Some of the recommendations include implementing stricter audits and regulations, better educating customers about the transfer process and ACATS, and standardizing certain aspects of the current transfer processes.

NSSC, which has been focused on these goals since creating ACATS, is now expanding into new market segments, adapting ACATS to make it available to the insurance and mutual fund community. “We already have an ACATS service for the insurance industry and we’ve teamed up with the Investment Company Institute [ICI] to automate transfers with mutual fund companies,” said Kapogiannis, adding that NSSC is finalizing a white paper describing how ACATS will be enhanced to handle mutual fund transfers.

“The goal is to extend overall industry participation in ACATS, which assists our customers, as well as their customers, and improves the efficiency of the entire transfer process for investors,” said Kapogiannis. @

[To learn more about ACATS, contact Bill Kapogiannis at bkapogiannis@dtcc.com or call 212.855.5667. To see the NASD report, visit www.nasd.com.]

New CEO Named for Omgeo Global Joint Venture

by Stuart Z. Goldstein

Marianne Brown was named the new president and chief executive officer of Omgeo, the global provider of automated post-trade pre-settlement trade management services jointly owned by DTCC and Thomson Financial, a unit of The Thomson Corporation. The appointment took effect November 1, 2006.

Omgeo plays an increasingly critical role in the global securities industry as a central information and processing hub for broker/dealers, investment managers and custodian banks, helping to confirm institutional trade terms. The company has more than 6,000 users in 42 countries and generates more than \$250 million a year in revenue.

Brown replaced Adam Bryan, who served as president and CEO during Omgeo's first five years of existence. Bryan, who joins DTCC's senior management team in January 2007, will help ensure a smooth transition at Omgeo.

Brown: an industry veteran

Brown, a highly regarded industry veteran, previously served as CEO of the Securities Industry Automation Corporation (SIAC), a wholly owned subsidiary of the New York Stock Exchange (NYSE) Group. SIAC is responsible for the design, development, implementation and support of the NYSE's computer systems and communications networks, as well as other technology ventures.

"Marianne has broad experience working with the NYSE and Amex," said Sharon Rowlands, chief executive officer of Thomson Financial, "and her expertise in managing high-speed, large-scale transaction processing, IT, data communications and client services will bring enormous value in helping us further grow Omgeo's reach and the scope of its services globally."

Under the terms of the joint venture, Thomson selects Omgeo's president and CEO, while DTCC selects the chairman.

"Marianne understands the challenges

customers are facing in trying to automate and streamline post-trade processing, reduce risk and lower costs," said Richard Macek, chairman of Omgeo. "She also has a firm grasp of the issues that broker/dealers and investment managers face as they look to expand beyond cash products into derivative instruments. I look forward to working with Marianne as she assumes her leadership role at Omgeo."

Prior to joining SIAC, Brown was with ADP Brokerage Services group, a division of Automatic Data Processing, for 26 years. Over the course of her career at ADP Brokerage Services, Brown held a variety of positions with increased levels of responsibility that covered the fields of sales, product development and both technology operations and development.

In 2002, Brown was named general manager of ADP's Brokerage Processing Services (BPS) group, where she had direct responsibility for all BPS operations, product development, sales and service delivery. Before that, she was responsible for the Product Development Organization, where she led the creation of several key client implementations and new product initiatives.

Brown was promoted to senior vice president of Service Delivery in March 1997, with responsibility for ADP's service initiatives that resulted in consistent client service satisfaction increases. Brown also led numerous large-scale client conversions as well as ADP's successful Y2K effort.

A native of Brooklyn, New York, Brown is a graduate of Concordia College with a degree in business, and serves on the board of directors of the Brooklyn Bureau of Community Services.

More on Adam Bryan

At DTCC, Bryan will become managing director for Customer Satisfaction and Service, where he will lead the company's efforts to fully integrate all customer service functions. He will report directly to William Aimetti, DTCC's chief operating officer.



Marianne Brown, president and CEO, Omgeo

'Marianne understands the challenges customers are facing in trying to automate and streamline post-trade processing, reduce risk and lower costs. She also has a firm grasp of the issues that broker/dealers and investment managers face as they look to expand beyond cash products into derivative instruments.'

— Richard Macek, chairman, Omgeo

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“Adam Bryan’s tenure at Omgeo was quite impressive,” said Rowlands. “He has brought automation well beyond equity trade processing into both the fixed income and commercial paper markets. Five years ago, Omgeo processed approximately 700,000 transactions per day globally. Today, this number exceeds 1.3 million per day. And while five years ago same-day affirmation rates were maybe 15%, today these affirmation rates exceed 90% for certain Omgeo clients.”

Before serving at Omgeo, Bryan was chief operating officer of Thomson Financial’s Investment Management group (formerly the Broker/Fund Management group). Prior to that, he served as chief operating officer of Thomson Financial ESG since August 1999. He has also served as a managing director overseeing all Thomson Financial ESG management, sales and business activities throughout the Asia-Pacific region, including Australia and Japan.

Prior to joining ESG in 1999, Bryan was managing director, Asia-Pacific, for Thomson Financial Publishing Group, helping to establish Thomson Financial’s publishing business in the region. He also served as the chief financial officer for Thomson Financial’s operations in Asia.

Before joining Thomson in 1992, Bryan worked for Coopers & Lybrand, based in both Sydney and London, in the Corporate Services and Audit divisions. Bryan, a chartered accountant, graduated from the University of Technology in Sydney, Australia, with a bachelor’s degree in business. @

New Cost-Basis Solution

properly report gains or losses when filing tax returns and in determining the unrealized gains or loss of a position. Researching cost-basis information, however, has proven to be difficult, time-consuming and expensive.

The solution

The new service, which will be offered through DTCC Solutions LLC, a DTCC subsidiary, is Web-based and enables an investor to obtain cost-basis information in a matter of minutes. The investor goes to the Website of the transfer agent, issuer, mutual fund company or other financial services firm and clicks on the cost-basis link. This connects them to the DTCC/NetWorth Website where they can access cost-basis information by inputting the CUSIP number, the security name or the ticker symbol of the security and the approximate date of purchase. The site can be designed to look as if it is the Website of the fund company, issuer or agent. Another option is for organizations to host the Website and bring it in-house by special subscription.

The cost-basis service automatically calculates the historical security changes caused by stock splits, mergers, dividend reinvestments and every other possible cost-basis adjustment, including security pricing

history that dates back to 1925. It quickly retrieves financial information from its massive database, recreates a complete history of an individual security and then delivers the accurate, adjusted cost-basis information – all within a matter of minutes.

The Internal Revenue Service (IRS) and major accounting firms are already using the cost-basis service to calculate the adjusted cost basis for listed equities and mutual funds.

“This is just the kind of cost-basis service we’ve been looking to offer our customers,” said Joan DiBlasi, senior manager for Shareholder Services at Aflac. “We get so many investor requests for help on cost basis, and too often the search for this information turns into a long, drawn-out manual process. It’s a time-consuming task. We need to make this information easily available to customers, and this service will help us do that.”

Industry problem

Cost-basis information has always been a problem for investors, causing customer dissatisfaction for the broker/dealers, issuers, transfer agents and other financial executives that



Signing the strategic alliance agreement: Nico Willis, chief executive officer of NetWorth (left) and James Balbo, DTCC managing director, Asset Services.

investors rely upon. Cost-basis information is determined by a variety of factors that can affect the value of a security. The original purchase price and how it was purchased – through a dividend reinvestment plan, an employee stock option plan or at a discount market price – has a direct impact on cost basis, as do corporate actions such as stock splits, mergers or spinoffs.

Investors often turn to their broker/dealers, transfer agents or issuers, assuming they can supply them with the information. And while some firms provide a form of cost-basis reporting, there's no guarantee that the information is complete, accurate or up-to-date.

Mutual fund companies, for example, get thousands of requests a year for tax information, with investors asking the companies to reconstruct the cost-basis history of a security. This process – which now can take hours or even days to complete – would be automated and streamlined by the new service, reducing costs for both the fund company and investor.

Customer requests

"This service will provide the industry with the cost-basis tool it has needed for some time," said Joseph Trezza, DTCC vice president, Asset Services. "We've met with many of our own customers in recent months to discuss the cost-basis issue and they all asked for the same thing – a cost-basis solution they could offer their customers that's fast, accurate and reasonably priced. And they wanted it sooner rather than later.

"We looked at available cost-basis services and quickly realized that NetWorth was far and away the best and that it was a product we wanted to offer our customers," said Trezza. "Many of our customers, including financial institutions and other service providers, see the cost-

basis solution not only as an important value-added service for present clients, but as a way to attract new customers."

Perfect fit

"We're very excited about working with DTCC," said Nico Willis, chief executive officer of NetWorth. "Our cost-basis service is the most robust and comprehensive in the market today. This strategic alliance gives us the opportunity to introduce our service with DTCC – the corporation that has set the benchmark for excellence in providing standardized and automated solutions for the financial services industry. It is a perfect fit."

The Taxpayer Advocate Service, an independent office within the IRS that works to protect individual taxpayer rights, has reported that the cost-basis service "can reduce taxpayer burden by streamlining documentation of cost-basis calculations during audits and can create a reliable standard for taxpayers, preparers and the IRS."

Willis said NetWorth developed the cost-basis product in direct response to countless inquiries from investors, institutions and financial service professionals needing a standardized, cost-effective and accurate cost-basis tool that can be customized to meet specific customer needs.

DTCC already offers a service that automates and streamlines the transfer of cost-basis information when a customer moves an account from one firm to another (assuming the first firm maintained that information). That service is a companion service to DTCC's Automated Customer Account Transfer Service (ACATS). ACATS enables banks and broker/dealers to submit, review and settle account transfers in an efficient, automated environment. @

[For more information on the new cost-basis service, contact Joseph Trezza at 212.855.4400 or jtrezza@dtcc.com.]



Joan DiBlasi, senior manager, Shareholder Services, Aflac

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NSCC and FICC Revise Clearing Fund C

National Securities Clearing Corporation (NSCC) and Fixed Income Clearing Corporation (FICC) have revised – and standardized – collateral requirements for members by expanding the types of financial instruments they will accept as collateral while generally eliminating letters of credit and requiring a minimum of \$100,000 in cash for FICC participants.

The new rules, which also specify the types of securities that may be used as collateral, will apply to the Clearing Fund maintained by FICC's Government Securities Division (GSD) members, the Participants' Fund maintained by its Mortgage-Backed Securities Division (MBSD) members and the Clearing Fund maintained by NSCC members.

Implementation of the new rules is expected to take place in 2007, subject to regulatory approval.

Common margining rules

"This is the first step toward establishing common margining across all our clearing corporations," said Richard Macek, DTCC executive managing director for Risk Management, Finance and

Distribution Services. "We expect it to improve liquidity and help minimize risk because it limits certain types of collateral and clearly identifies what we will accept as collateral."

Until now, NSCC and GSD members couldn't post mortgage-backed securities as collateral, while MBSD participants couldn't use government agency securities for their collateral. The new rules do away with those distinctions.

Clear definition of collateral

In addition to cash, according to the new rules, acceptable collateral is specified as unmatured bonds in the form of U.S. Treasury securities, federal government agency securities or mortgage-backed securities issued by government agencies or entities sponsored by the federal government. Specific securities that may be posted as collateral will be identified by NSCC and FICC from time to time, and members will be notified as applicable.

The mix of collateral required for all the clearing corporation funds has also been modified.

New Collateral Rules in Brief

	FICC	NSCC
Cash	10% of a member's total collateral requirement or \$5 million, whichever is less, subject to a minimum cash deposit of \$100,000.	40% of a member's total collateral requirement, subject to a minimum cash deposit of \$10,000.
Eligible Securities	U.S. Treasury securities, government agency securities and mortgage-backed securities issued by government agencies or entities sponsored by the federal government, and as approved by FICC.	U.S. Treasury securities, government agency securities and mortgage-backed securities issued by government agencies or entities sponsored by the federal government, and as approved by NSCC.
Mix	40% in cash or cash plus U.S. Treasury securities; 60% in a combination of all three eligible securities types, subject to applicable concentration limits and haircuts.	40% in cash; 60% in a combination of all three eligible securities types, subject to applicable concentration limits and haircuts.
Letters of credit	No longer permitted after March 1, 2007, for Mortgage-Backed Securities Division members, or after April 1, 2007, for Government Securities Division members.	No longer permitted after April 1, 2007.

Collateral Requirements By James Conmy

For FICC members, the first 40% of a member's collateral will have to be composed of cash or cash and eligible treasury securities, while the remainder can consist of any combination of eligible treasury securities, government agency securities and/or mortgage-backed government agency securities, subject to applicable concentration limits and haircuts.

For NSCC participants, the first 40% of collateral remains an all-cash requirement. In a change from the past practice, the rest of a firm's collateral can also be made up of a pledge of eligible treasury securities, government agency securities and/or mortgage-backed government agency securities. Concentration limits and haircuts will also apply to securities pledged as collateral by NSCC members.

For both NSCC and FICC, however, no more than 20% of the required collateral deposit can be secured by eligible agency securities from the same issuer, and a participant may not post as collateral agency securities of which it is the issuer.

Because of the change in collateral requirements, NSCC and FICC are likewise revising the range of "haircuts" to be applied to the expanded types of securities that will be eligible as collateral. "The new haircut schedules," Macek said, "help to address risk across collateral classes."

Cash component

While broadening the range of securities available as collateral,



Richard Macek, DTCC executive managing director, Risk Management, Finance and Distribution Services

FICC has simultaneously set new cash requirements for clearing members. Both government and mortgage-backed securities members are subject to a cash deposit of either 10% of a member's total collateral requirement or \$5 million – whichever is less, and subject to an absolute minimum cash deposit of \$100,000. For NSCC members, the minimum cash deposit of \$10,000 remains unchanged.

To help with the elimination of letters of credit as an acceptable form of collateral generally (both NSCC and FICC will reserve the right to require members to post letters of credit in certain circumstances), NSCC and FICC have set up a transition period for the retirement of any letters of credit that clearing corporation members currently use as collateral. Because letters of credit now in place for MBSD members of FICC are due to expire March 1, 2007, and similar letters in place for NSCC and GSD members expire April 1, 2007, DTCC has set those dates as the point when letters of credit can no longer be used for collateral. @

FICC Clearing Fund 'Wake-Up' Call Will Come One Hour Earlier

By James Conmy

Fixed Income Clearing Corporation (FICC) is proposing to set 9:30 a.m. New York time as the time when its daily clearing fund deficiency call is due from Government Securities Division netting members – an hour earlier than the current 10:30 a.m. requirement.

This change, which is subject to regulatory approval and is scheduled to begin next year, would allow netting members to make any deficiency payments well ahead of the scheduled 10 a.m. completion of FICC's automated daily funds-only settlement process. Each day, FICC automatically routes as much as \$500 million in payments and collections to its Government Securities Division members through the Federal Reserve Board's National Settlement Service (NSS).

The problem with the current timetable, according to Susan Tysk,

DTCC managing director, Clearance and Settlement Group, is that it creates a conflict that can sometimes prevent FICC from taking full advantage of the automated funds-only settlement process.

"Any clearing fund deficiency a member owes to FICC must be paid before we can release any credits to the member through NSS," Tysk said. "But under the current timetable, deficiency payments aren't due to us until a half-hour after the close of our funds-only settlement process."

That half-hour gap sometimes results in FICC having to process funds-only settlement manually, she said, because the deficiency payments don't arrive in time for automated settlement.

To overcome this problem, FICC has asked the Securities and Exchange Commission to allow it to move the deficiency call deadline from 10:30 a.m. to 9:30 a.m., effective January 1, 2007. @

New Corporate Action Platform Gives Customers Faster, More Accurate Data

By Steve Letzler

DTCC has successfully completed migrating its Global Corporate Actions Validation Service (GCA VS) to a new mainframe-based computer platform. It allows the service to effortlessly scale as the number of clients and securities tracked increases, as well as provides data faster and more accurately than in the past.

GCA VS currently provides corporate actions data on about 1.5 million securities globally, both equities and fixed income. Data is received by GCA VS from a number of corporate actions vendors and validated by DTCC's staff before being sent out to clients. Last year, the service collected information on corporate actions in 15 different languages across its offices in New York, London and Shanghai and tracked 890,000 corporate actions across 160 countries.

There are more than one million corporate actions each year worldwide. In the United States, the number of corporate actions is growing about 3-5% a year. Expansion is much higher in Europe and Asia, with growth rates of 50-100% annually in countries like Russia, China, Brazil, India and South Korea.

The new platform went live in late September, and is expected to allow DTCC to provide its clients with more accurate data much faster than with the previous platform, which was based on an NT server. The new system runs on DTCC's mainframe systems. GCA VS is operated by DTCC Solutions LLC, a DTCC subsidiary.

Faster processing

"Processing vendor data that we received using the old platform would take 12 hours on an average day," said James Femia, DTCC managing director, Global Corporate Actions. "With the new platform, we can process that same data in an hour or two.

'Processing vendor data that we received using the old platform would take 12 hours on an average day. With the new platform, we can process that same data in an hour or two. Dramatic improvements have also been seen in the time to do other processing as well.'

— James Femia, DTCC managing director, Global Corporate Actions

Dramatic improvements have been seen in the time to do other processing as well."

The new system is expected to reduce by 60% or more the number of duplicate events from different vendors sent to clients, as well as reduce other exceptions caused by missing or inaccurate data failing to match. In addition, new controls and improved data integrity checks will help improve the accuracy of data.

"Because DTCC developed the code for the new platform, we will also be able to make changes and fixes much more rapidly than in the past, when we had to depend on the vendor to do that and then do our own testing of those changes," Femia said.

More flexibility and ease of use

Femia noted that in conjunction with the move to the new platform, changes were also made to the browser screens to

provide more flexibility and ease of use in searches.

"For example, in the past, if you wanted to see all cash dividend events in Europe, you had to individually select every country in Europe.

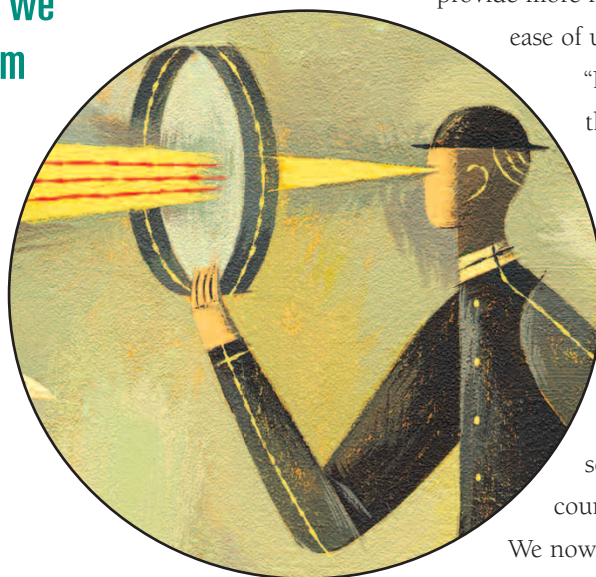
We now have the ability

for a customer to select Europe as a region and get all the events," he said.

Femia also noted that "the new system has been designed to ensure country-specific business rules apply, rather than just applying general rules across all countries." The result will be that each market can be treated differently, improving the accuracy of the corporate action announcement data.

"During the first weeks of operation, the new platform has been performing exceptionally well," said Femia. "We've had a few minor glitches that were quickly fixed, and all of our customers seem very happy with the results so far."

The same platform is expected to provide GCA VS customers with scheduled payment and maturities data beginning in 2007. @



Going Paperless: Depository Drives Down Certificate Inventory

By Edward C. Kelleher

The Depository Trust Company's (DTC) ongoing dematerialization efforts hit a new low – or new high, depending on how you look at it – when the number of certificates held in its vaults dipped below the 3 million mark in September.

As of September 30, 2006, the number of certificates held by the depository fell to 2,997,483, according to Joseph Clemente, DTCC product manager, Asset Services.

The ongoing reduction in certificates is part of DTC's overall dematerialization plan aimed at eliminating all paper certificates in the securities industry. The number of certificates held by the depository has gone from a high of more than 30 million in 1990 to approximately 8 million in 2000, with steady reductions in the past few years, to 3.9 million in 2004 and now fewer than 3 million.

The DRS factor

Several factors have contributed to the decline in the number of vault certificates. Use of DTC's Direct Registration System (DRS) – which enables investors to register ownership of their shares electronically with either the issuing company or its transfer agents – has increased dramatically in the last year and a half. "In January 2005, approximately 5% of all eligible issues were opting to use DRS. That number has jumped to 26% in the last 19 months," said Clemente. To date, there are 1,234 issues that are DRS-eligible.

With DRS, investors can choose certificates or DRS statements. "Many of the large broker/dealers are looking to default to DRS statements unless a customer specifically asks for a certificate," said Salvatore DiPaola, DTC transfer agent liaison. Use of certificates should further decline next year when all new issues listing on the New York Stock Exchange, NYSE Arca, Nasdaq and the American Stock Exchange on or after January 1, 2007, will be required to be DRS-eligible. Existing issues will have to become DRS-eligible by January 1, 2008. The Securities and Exchange Commission (SEC) approved the rule changes requested by the exchanges earlier this year.

Also, an increasing number of companies, including industry leaders such as Intel and Nuveen, have gone completely "certificateless" and only register shareholders via paperless electronic ownership records.

Non-transferable certificates

The major contributor to the dwindling vault population,

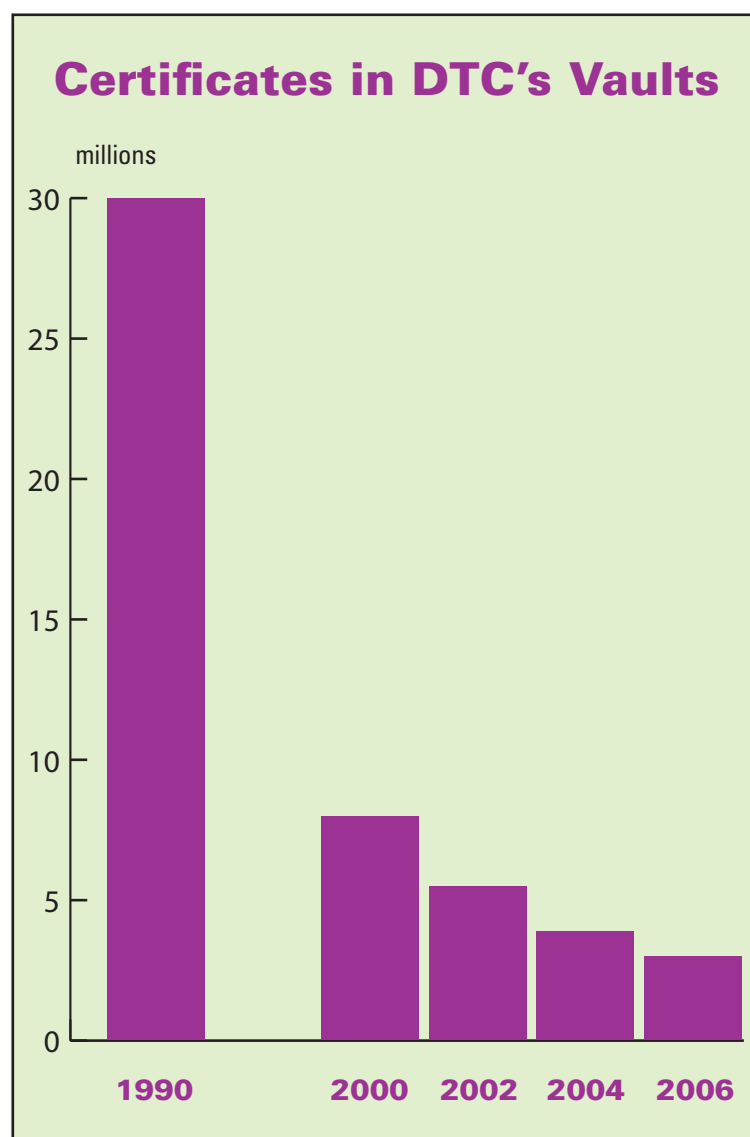
however, is DTC's ongoing shredding of non-transferable certificates. With the approval of the SEC, DTC began the destruction of thousands of non-transferable certificates in 2004 and continues to shred about 30,000 non-transferable certificates each month.

Over the years, the number of certificates in the depository's vaults for which no transfer agent service was available grew considerably. In 2004, the number amounted to 1.2 million certificates. Today, that number of non-transferable certificates has been reduced to 959,028. The issues of non-transferable certificates are often equities of companies that have become inactive or insolvent.

PREM paper

Clemente said that brokers also have helped reduce the number of vault certificates by using the depository's "Position Removal" or PREM function.

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Going Paperless *Continued from page 11*

PREM enables brokers to relinquish their positions in issues of non-transferable certificates, eventually allowing DTC to shred them. It is necessary for a participant to PREM before DTC can shred the certificates.

More than 343,600 certificates have been eliminated by the PREM function in 2006. PREM also lowers expenses for the brokers and their customers, since there is a monthly surcharge fee of \$5 per issue for keeping position records open on certificates that have been non-transferable for more than six years. Customers can also deposit their non-transferable securities and immediately place them in PREM. DTC will destroy the certificates for them.

"It's important that the industry continue to push for the elimination of physical certificates," said Lawrence Morillo, managing director of Pershing LLC and chairman of the Securities Industry and Financial Markets Association's (SIFMA) Operations, Legal and Regulatory Committee. "Physical certificates are inefficient and expensive. Electronic registration of securities is safer, cheaper and more convenient for investors." SIFMA estimates that the cost of issuing paper certificates each year is

\$250 million, and that approximately 2 million certificates are lost each year with a replacement cost of \$50 million.

DTC follows a four-step program when it destroys any non-transferable securities. First, three months prior to destruction, it publishes a list of CUSIPs and security descriptions for the certificates slated for destruction. Next, it allows customers to withdraw certificates from the list if they wish, and it then images each certificate before moving to the final step when the paper certificates are shredded by giant industrial shredders, supervised by DTC staff. @



OTC Equity Derivatives Market *Continued from page 3*

side clients, dealers need to establish which products and regions are important to each client and have that documentation in place as a starting point. In many cases, large overwhelming packets of legal documentation spanning multiple regions and products are sent to clients.

The potential combinations of product and regional documentation present a very cumbersome array of possibilities. They quickly add up to a significant universe of documents from both a dealer's and a buy-side client's point of view. For instance, a typical, large buy-side firm with just five OTC equity derivative dealer relationships would be looking at about 80 possible combinations of product and regional legal documents.

A solution

The Aite Group study sees a solution probably evolving "around a unified set of

documents that can be used across a wide range of geographical regions, products and clients."

"Because equity derivatives are a complex market, the documentation requires a great deal of attention," said Gina Ghent, DTCC vice president, Business Development. "DTCC is working closely with market participants to facilitate the signing of MCAs between them as a way to help bring these firms into our automated environment. We have the capability to automate the broad and dynamic range of equity derivatives products, but without accelerating the pace of MCA execution, market automation will not occur as rapidly as it should."

DTCC provides automated processing for OTC equity, interest rates and credit derivatives through its Deriv/SERV matching and confirmation service. @

'The primary barriers we observed to increasing automation in the marketplace are the complexities that arise between trading firms in the legal documentation of OTC equity derivatives transactions.'

— Brad Bailey, senior analyst, Aite Group

[The complete report by the Aite Group is available for download at the DTCC Website at www.dtcc.com under "Thought Leadership" and "Industry Perspectives." For more information on Deriv/SERV, go to the DTCC Website at <http://derivserv.dtcc.com>.]

DTCC Hosts OTC Equity Derivatives Summits Connecting Buy- and Sell-Side Firms

By Judith Inosanto

More than 200 financial executives attended summits on over-the-counter (OTC) equity derivatives hosted by DTCC in New York and London this fall to discuss processing issues facing the derivatives community, and the challenges it faces as it moves to streamline and automate equity derivatives documentation.

While the OTC equity derivatives market continues to grow in both volume and new participants, processing remains mostly manual. Dealers and buy-side firms have been looking for ways to bring greater efficiencies to their operational practices, said Gina Ghent, DTCC vice president, Business Development.

One of the great problems facing market participants lies in the legal documentation – called Master Confirmation Agreements (MCAs) – required for equity derivative transactions. “The summits served as opportunities for DTCC to bring its knowledge and expertise to a broad audience hungry for information on dealing with legal documentation,” said Ghent. “And it also provided a forum for these parties to communicate and begin discussing MCA negotiation and execution.”



‘The sooner firms and their counterparties complete their Master Confirmation Agreements, the sooner they can begin processing trades on DTCC’s automated platform. This is truly an important first step in reducing the level of unconfirmed trades and errors that occur in the processing of OTC equity derivatives transactions.’

– Gina Ghent, DTCC vice president, Business Development

Global database

DTCC has also collaborated with market participants to create a global database that lists the various forms of MCAs and dealer contact information so that the buy-side firms can analyze their documentation needs and contact the relevant parties. Centralizing this information will greatly help buy-side customers simplify the steps needed to obtain the legal documents from each of their counterparties and expedite getting their MCAs in place.

“The sooner firms and their counterparties complete their MCAs, the sooner they can begin processing trades on DTCC’s automated platform,” said Ghent. “This is truly an important first step in reducing the level of unconfirmed trades and errors that occur in the processing of OTC equity derivatives transactions.”

Processing platform

DTCC offers automated matching and confirmation for OTC equity derivatives on its Deriv/SERV platform. The service supports equity index and share options, swaps and variance swaps. The service also accommodates relevant lifecycle events, including new trades,

full and partial terminations, increases, amendments and exits. With the number of products offered in OTC equity derivatives continuing to expand worldwide, DTCC is working with the OTC derivatives community to add new products to the platform on a quarterly basis starting in 2007. This effort is aimed at ensuring customers are provided with a robust global platform that accommodates a wide range of products trading in the marketplace. @

On the Agenda at Sibos: OTC Derivatives and Operational Risk

By Lisa Argento

As over-the-counter (OTC) derivatives play an increasingly significant role in financial markets, how can financial firms better manage the credit risk, market risk and operational risk associated with these instruments?

Two panels considered this question during SWIFT's Sibos conference held in Sydney, Australia, in early October with DTCC's Peter Axilrod and William Stenning, both from Business Development, taking part in the discussions.

Gerald Corrigan, Goldman Sachs & Co. managing director and a member of its office of the chairman, moderated the first panel and praised improvements in derivatives operations by leading derivatives market participants. He called the industry's progress "dramatic," but added, "there is still some work to do." Today, 80% of credit derivatives traded globally are electronically confirmed through DTCC's Deriv/SERV, up from 15% in 2004.

Infrastructure 'plumbing'

Corrigan's report by the Counterparty Risk Management Policy Group II, issued in July 2005, provided the basis for the panel's dialogue. Citing the rapid rise in the use of credit derivatives, the report warned of the challenges and operational risks facing the financial infrastructure, or what Corrigan likes to call the "plumbing" of the financial system.

Axilrod, DTCC managing director, provided an update on Deriv/SERV's Trade Information Warehouse – a major initiative aimed at strengthening the industry's infrastructure for OTC derivatives.

"What hasn't received much attention until recently was all of the work that has to be done after a trade has been confirmed and during the life of the asset," said Axilrod. This involves a constant bilateral sync-up process throughout the term of the deal – on every lifecycle event, every payment, every collateral move, every credit event. "If you are not in sync, then that creates risk. Today's sync-up process requires significant manual intervention, which dramatically increases the risk," said Axilrod.

Warehouse capabilities

The warehouse, by contrast, maintains the "official legal record" in an automated environment for all contracts eligible for automated Deriv/SERV confirmation, as well as basic economic information for other contracts. It will also offer a central settlement capability through links with a central settlement provider that will help assure all

payments are correct and complete. Other post-confirmation processes, such as credit event processing and assignment processing, will also be made much more efficient.

Panel participants were asked whether the industry will ever get to the same level of standardization for alternative investments that has been achieved for equities and fixed income. The panel didn't think so. "The great thing about the OTC derivatives business is that there is always new stuff coming in," Axilrod commented.

Streamlining the process

Stenning's panel focused on the more practical and tactical aspects of streamlining OTC derivatives processing. Moderated by Fabian Vandenreydt, head of FX and derivatives markets at SWIFT, the panel discussed initiatives that are available for OTC derivatives in the post-trade arena. Stenning, a DTCC vice president, provided a more detailed look at the warehouse.

He also talked about the lessons learned from working with both the buy-side and the sell-side. "They all have different requirements, and the infrastructure they wish to interact with needs to accommodate these varying needs," he said.

Stenning pointed to the value of a multi-class asset solution in the OTC derivatives market. "Our customers have told us they don't want to put in different workflows, controls and systems for credit, rates and equities. The market is forever innovating. Who knows what's coming in the OTC market? And that's where the value of a central infrastructure comes in," said Stenning. @

[For more information on Deriv/SERV, visit the DTCC Website at <http://derivserv.dtcc.com>.]



Inside the BDUG Conference By Steve Letzler

Approximately 70 bankers and 16 exhibitors attended the three-day Bank Depository User Group (BDUG) annual meeting in Tampa, Florida, recently for a look at where DTCC is going and to preview new services.

Included as guest speakers and panelists at the conference were Larry Tabb of The Tabb Group, John Panchery of the Securities Industry and Financial Markets Association, John Burchenal of Omgeo, William Hodash of DTCC, Paul Agueci of the Federal Reserve Bank of New York and Jeff Mooney of the Securities and Exchange Commission (SEC).

Along with presentations on DTCC services, there were updates on the SEC and banks, Omgeo, changes being planned by the Federal Reserve and a panel discussion on “preparing for the future.” BDUG members also were given a tour of DTCC’s Southern Business Center located in Tampa.

DTCC preview

William Aimetti, DTCC’s new chief operating officer, gave the keynote address to kick off the conference, detailing DTCC’s financial performance to date in 2006 and previewing a number of developments planned or in the works at the company.

“We hope to continue giving you a substantial amount in discounts and rebates, and to continue reducing fees in the future. In fact, if you’ve looked at the financial statements for our key three subsidiaries for the first six months of the year, which are available on our Website at www.dtcc.com under Annual Reports, you’ll see we are running discounts and other refunds of about \$309 million for the first half of this year, despite the fee reductions, while volumes and offerings continue to grow and establish new records,” he said.

Aimetti also asked the audience to share their problems with DTCC officials at the conference. “Listening to what you, our customers, want is something that I and everyone from DTCC who is down here will be doing consistently throughout this conference,” he said. “We know it makes us better at servicing the industry, and that’s the reason for our existence.”

Talking to customers

“Many of our ideas for new services that I will mention later have come from our customers – people like you – who talked to us when they had a problem they thought we might be able to help solve. We need to know where you have problems or issues,

where you need help, where you face a concern, and where we might be able to assist you – and we need to know it early.”

Aimetti also focused in on NSCC’s new managed accounts service, launched in September.

“This service will lower the costs and requirements of offering your customers access to managed accounts, and we expect it to be a growing area for us well into the next decade,” he said. “And as more and more banks and brokers begin to use this service to connect with investment managers, we expect the cost of the service to go down, and managed accounts to be another significant product available to more and more people throughout the United States.”

Future developments

Noting the possibility that the New York Stock Exchange and Euronext could merge in the first transatlantic merger of stock exchanges, Aimetti said DTCC was ready for such an eventuality.

“Earlier this year, we began something we had never done before: we started settling trades in a currency other than the U.S. dollar,” he said. “Through a new settlement link with Canada, we are now able to settle trades in Canadian dollars.

This also positions us to handle settlement in other currencies in the future. And with

the impending merger of the New York Stock Exchange and Euronext, and other international mergers or acquisitions between stock exchanges also a possibility, that’s a capability that may come in handy.

“Clearly, we don’t know how things will end up in this first-ever transatlantic combination, and what may follow as a result,” he continued. “What we can reasonably expect is that there will be a need for us to be able to work more closely with clearing and settlement organizations in Europe,

[continued on page 16]



William Aimetti, DTCC chief operating officer

‘We hope to continue giving you a substantial amount in discounts and rebates, and to continue reducing fees in the future....We are running discounts and other refunds of about \$309 million for the first half of this year, despite the fee reductions, while volumes and offerings continue to grow and establish new records.’

New Brochures for Mutual Fund Services

DTCC recently began distributing to its customers a new portfolio of Mutual Fund Services marketing brochures that reflect the broad range of enhancements completed during the last 18 months.

“A lot of our recent work has been dedicated to supporting the industry’s changing needs, including new regulatory requirements for increased transparency,” explained Ann Bergin, DTCC managing director, Distribution Services. “At the same time, our relationship managers, business development and customer service staff continue to expand our business with our core constituents, as well as with potential new users in nontraditional areas. To support their efforts, we created a design that would integrate a fair amount of detail with a fresh, professional and dynamic look.”

The portfolio of eight brochures includes a high-level overview of all the services offered by the business unit, in addition to individual brochures on Fund/SERV®, Networking,

Mutual Fund Profile Service, Defined Contribution Clearance & Settlement, Commission Settlement and Global Update, Asset Transfer Services (ACATS-Fund/SERV and Transfer of Retirement Assets) and Fund/SPEEDSM @

[To receive the new marketing brochures, call Mutual Funds Marketing at 212.855.8877 or

email kkhan@dtcc.com. The brochures will be available on DTCC’s Website, www.dtcc.com, in early 2007.]



BDUG Conference

Continued from page 15

and to have systems and capabilities that will allow us to do so with little or no problems. The good news here is that we have prepared for that possibility, and our systems are mostly ready to take on whatever role is needed to support these new, consolidated markets if and when they become a reality.”

Richard Lanning, DTCC director, Relationship Management, who worked closely with John Hosty of Northern Trust and Dennis Callahan of IBT (the chairman and vice chairman respectively of the BDUG steering committee) to develop the agenda for the annual meeting, praised the group’s efforts and the variety and quality of sessions offered this year.

“The BDUG Steering Committee does an outstanding job year after year to create

a forum for its members to learn and share opinions on the latest DTCC and industry developments at a very reasonable cost,” said Lanning. “The Steering Committee’s preparation for next year’s gathering in San Antonio on October 14 has already begun. As for this year’s meeting, there was a very wide range of subjects covered from case



studies in business continuity to industry action steps in improving CMO processing to the underwriting and corporate action reengineering initiatives. I think there was a new appreciation of the many initiatives and new services DTCC is getting involved in, and how they might impact banks. The sessions were very interactive and everyone learned a lot.” @

[Presentations at this year’s annual meeting are available at the BDUG Website at www.bdug.org.]



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

DTCC’s mission: By 2010, to be the acknowledged world-class provider of servicing solutions to financial markets through leadership, innovation, technology, risk management and strategic alliances.

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