



## DTCC Names CEO and COO For EuroCCP

*by Steve Letzler*

**T**wo industry leaders, each with more than 20 years' experience working in Europe, have been named to lead European Central Counterparty Limited (EuroCCP).

Diana Chan, a former executive at Citi, has been named as the new permanent chief executive officer (CEO) of EuroCCP, and Trevor Spanner, a former executive at Merrill Lynch, has been named chief operating officer (COO).

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## DTCC Will Strengthen Risk Management For Mortgage-Backed Securities

*by Helen Cunningham*

**I**n early 2008, DTCC's Fixed Income Clearing Corporation (FICC) will implement a more rigorous risk management model for the calculation of Participant Fund obligations of participants in its Mortgage-Backed Securities Division (MBSD). A key component of the new approach will be use of a Value at Risk (VaR) methodology to calculate the amount of collateral firms must post with FICC to

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# Corporate Actions Reengineering: Customer Dialogue Continues

by Edward C. Kelleher

Following the release of a new transition plan for its corporate actions reengineering initiative this fall, DTCC continues to meet with customers around the country to discuss the plan's impact on their businesses and help prepare them for the migration to the new system that will begin in 2009.

The new corporate actions platform, called the SOURCE (Securities Origination, Underwriting & Reliable Corporate Action Environment), will reduce costs and risk, introduce straight-through processing capabilities and provide greater flexibility for processing U.S. and global securities.

## Customer feedback

DTCC issued the new corporate actions transition plan September 30 after it announced

several important adjustments to its corporate actions reengineering. Based on customer feedback, DTCC decided that:

- The elimination schedule for legacy files was too aggressive and that DTCC will support legacy files for an additional two years after 2009.
- The elimination of contra-CUSIPs was too costly to the industry.

"The new reengineering transition plan provides our customers and their service providers with the information required to prepare and modify their existing systems and processes over the next several years," said Patrick Kirby, DTCC managing director, Asset Services. "It includes supporting documentation that focuses on both the business and technical changes that will come about as a result of the new system and will make customers aware of those decisions they will have to make as they move forward," he added.



## Regional seminars

Throughout the fall, DTCC conducted 14 day-long seminars on the transition plan in New York, Minneapolis, San Antonio, Tampa, Chicago, St. Louis, Boston, Atlanta, Charlotte, Dallas, San Francisco and Jersey City.

"The seminars were very useful, especially for an operation such as ours," said Lindsay Klombies, vice president, Wells Fargo Bank in Minneapolis. "The fact that we're not a New York bank means that sometimes we are a little removed from the process. But the regional meetings let us bring different groups of people – our operations people, our business users and our vendors – to get a first-hand look at what needs to be done.

"For example, I invited our trust accounting vendor to attend the meeting here because we'll rely on them for the greater part of the technology effort. After attending the seminar, they could tell us, 'Don't worry about XYZ. We'll handle that.' This information-sharing helps us prioritize our work."

## Day-to-day communication

Klombies emphasized the value of word-of-mouth communication on the reengineering project. "Emails are fine, but speaking with people on a day-to-day basis about the project is very important. Senior management must know that a major project is coming down the pike and that they have to plan and budget for it." He said DTCC's relationship managers play an important role in speaking about the reengineering initiative and keeping it in front of senior executives. @ [For more information on DTCC's corporate actions reengineering or The Guide to DTCC's Corporate Actions Reengineering Transition Plan, visit DTCC's website at [www.dtcc.com](http://www.dtcc.com) or contact Daniel Thieke, DTCC director, Asset Services, at 212.855.4162 or [dthieke@dtcc.com](mailto:dthieke@dtcc.com).]

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# DTCC Names Chief Compliance Officer

Mihal Nahari, a financial services industry veteran with expertise in regulatory and risk management, has joined DTCC as chief compliance officer. Nahari's appointment, effective November 19, 2007, signals the growing importance of regulatory compliance matters in the U.S. financial sector.

In her new position, Nahari has enterprise-wide responsibility for compliance activities at DTCC, focusing principally on anti-money-laundering (AML), USA PATRIOT Act, Bank Secrecy Act and record retention requirements. She brings added leadership and focus to the longstanding compliance programs in place at DTCC and its subsidiaries.

## At the forefront

"As vital players in the financial industry, DTCC and our subsidiaries must be at the forefront in meeting the highest standards on regulatory and compliance issues," said Donald F. Donahue, DTCC chairman and CEO. "Mihal's appointment signals our commitment to expand and accelerate development and implementation of all aspects of DTCC's compliance programs. Bringing on someone of her expertise to achieve this goal is consistent with best practices in our industry today."

Nahari reports to DTCC General Counsel Larry Thompson. She also has dotted-line responsibility to Donahue and to the chairman of the DTCC Board of Directors' Compliance and Operational Risk Committee on AML and compliance issues.

## Depth of industry experience

Nahari has nearly 20 years of experience in the financial services industry on a wide range of domestic and international legal, compliance and regulatory risk management issues. Most

recently, she was a partner with New York law firm Bressler, Amery & Ross, P.C. Prior to that, at Bank of America Corporation, Nahari was senior vice president and AML executive with responsibility for overseeing and implementing AML compliance and risk mitigation strategies across the bank's global

business. In her eight years at Morgan Stanley, Nahari established one of the banking sector's first global AML and Office of Foreign Assets Control compliance programs. Later she served as Morgan Stanley's global AML officer and



Mihal Nahari

chief compliance officer for retail and high-net-worth brokerage operations.

Nahari is a past co-chair of the AML committee of the Securities Industry and Financial Markets Association (SIFMA) and served as the industry's representative to

the U.S. Treasury Department Bank Secrecy Act Advisory Group.

Nahari is a graduate of the Fordham University School of Law and earned a bachelor's degree in economics and Spanish from Rutgers University. @

## New Anti-Money-Laundering Handbook

DTCC's newly published handbook on preventing and detecting money laundering was distributed to employees in November. The 24-page handbook, "Safeguarding Our Reputation," provides practical, relevant information to help employees identify and report possible violations of laws and regulations that target money laundering and other financial crimes.

The handbook describes the key statutes and regulatory bodies that administer anti-money-laundering (AML) policy in the United States, explains DTCC's suspicious incident reporting system and provides contact information for this reporting, and offers several examples of transactions and other business activity that should raise "red flags" among DTCC staff members.

"Safeguarding Our Reputation" represents the latest in a series of AML resources DTCC has developed for employees. In 2008, the company's Education Center will introduce enhanced scenario-based AML training. In addition to enterprise-wide training for all employees, the program will include interactive e-learning courses targeted to staff in high-risk control functions and in customer-facing areas. @

# EuroCCP's CEO and COO *Continued from cover*

EuroCCP was named to provide clearing and settlement services for the new pan-European market created by Turquoise, a consortium of investment banks in Europe. This new multilateral trading facility (MTF) is expected to begin operations next year and will trade the most liquid equity securities in Europe. EuroCCP will use Citi's Global Transaction Services as its settlement agent.

EuroCCP's contract with Turquoise is not exclusive. With the advent of the Markets in Financial Instruments Directive (MiFID) and the growth of MTFs in Europe, EuroCCP is actively exploring opportunities to provide support to MTFs and other trading platforms in Europe.

## Global experience

"We are delighted to have someone with Diana Chan's global experience leading EuroCCP," said Donald F. Donahue, DTCC's chairman and CEO. "She has been a well-regarded leader on industry issues involving improving the efficiencies of the capital markets and clearing and settlement in Europe. She has worked for both Citi and Euroclear, and has been active in a number of committees and organizations in Europe focused on the changes occurring in clearing and settlement.

"We are also pleased to have an executive of Trevor's talent and

broad background as COO for EuroCCP. Under the leadership of these two executives, we believe EuroCCP will achieve its goal to help lower costs for clearing and settlement throughout Europe," Donahue noted.

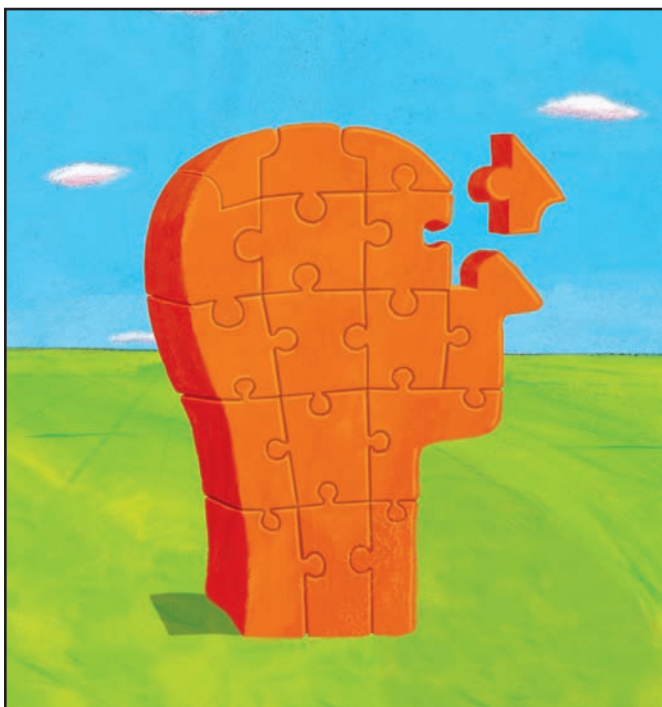
## EuroCCP as catalyst

"This is a terrific opportunity," said Chan, "to help EuroCCP bring about greater efficiency in Europe. The challenge here is to make sure that there is sufficient competition, based on initiatives such as MiFID, the Code of Conduct and TARGET2 Securities, so that economies of scale and savings can be passed through to the investors. I believe EuroCCP can serve as a catalyst in helping move Europe forward in meeting these challenges."

Donahue noted, "EuroCCP has achieved considerable progress to date in developing the technology we need to make it functional. Most of the systems development, risk management procedures and business process flows have been completed at this point, our application with the FSA [Financial Services Authority] to receive the necessary designation as a Recognised Clearing House in the U.K. is pending, and we've worked closely with Citi to prepare for the settlement of these transactions.

"Since Turquoise has now chosen the trading platform, we will speed the process along. Rick Macek, EuroCCP's interim CEO, and

## Turquoise Picks CEO, New Partners, Trading Platform



Turquoise, the multilateral trading facility being created by a group of leading European investment banks, announced in late October a new chief executive officer, a trading platform supplier and the addition of two investment banks to the consortium.

Eli Lederman was named the new CEO of Turquoise. Lederman was managing director in Morgan Stanley's Sales and Trading Division.

The Swedish-based Cinnober Technologies will supply the planned trading technology via its TRADExpress platform. Cinnober is an independent provider of state-of-the-art marketplace technology for exchanges and over-the-counter markets, and currently supports Project BOAT, Euronext.liffe's Bclear, Chicago Board Options Exchange and the American Stock Exchange, among others.

The consortium also announced that BNP Paribas and Société Générale Corporate & Investment Banking have joined Turquoise.

his team have done a great job to this point, and we are now prepared to have two seasoned executives take over, who know and understand intimately the concerns of customers in Europe.”

Chan will report directly to Michael Bodson, DTCC executive managing director, Business Management, Strategy and Marketing, and Spanner will report to Chan. Richard Macek, who served as the interim CEO for EuroCCP since it was formed, will return to the United States.

### More on Chan

Chan most recently served with Citi in London as managing director for Market Strategy, Global Transaction Services EMEA (Europe, Middle East and Africa) and global head of Market Policy for Securities and Fund Services, a position she assumed in 2005. She also has worked with Citi in Paris as managing director for Direct Custody and Clearing, in New York as global product manager for Securities Services, Broker Dealers and Emerging Markets, and in Singapore as regional product management head, Securities Services, Asia.

Prior to joining Citi, Chan worked between 1997 and 1982 for J.P. Morgan and Bank of New York in Singapore and New York, as well as with Euroclear (then part of J.P. Morgan) in Brussels. At Euroclear, she served as product manager for the U.K. and Asia, manager in Strategic Research and head of Management Information and Profitability Analysis. From 1977 to 1979, she worked as an account executive for Computer Processing Services Ltd. in Hong Kong.

Chan is a graduate of the University of Hong Kong, where she majored in social sciences. She earned a master's degree in business administration (MBA) from Harvard Business School.

In 2003, Chan was personally invited to join the European Central Bank's Contact Group for Euro Securities Infrastructure (COGESI), making Citi the only American bank to have a seat in the group. She is also a member of the European Commission's Clearing and Settlement Advisory and Monitoring Expert Group

(CESAME), and the European Central Bank's TARGET2 Securities Advisory Group. She has well-established relationships with senior management of the European Commission, the European Central Bank, the FSA, Bank of England, HM Treasury and Committee of European Securities Regulators (CESR).



Diana Chan



Trevor Spanner

### More on Spanner

Prior to joining EuroCCP, Spanner was managing director, European head of Transaction and Custody Services for Merrill Lynch until 2006. He was responsible for the process management and delivery of post-trade services and managed 550 people across the region. From 2001, Spanner led a number of key strategic projects, including the development and implementation of core infrastructure and technology platforms.

Before joining Merrill Lynch, he worked from 1996 to 2001 for UBS as managing director within its Global Operations and Logistics division. Following the merger of Swiss Bank Corporation and UBS, he managed 1,300 people across three regions, and was responsible for service delivery of securities and exchange-traded derivatives. Throughout his career, Spanner has been proactively involved in the development of market infrastructure, serving as a board member of London Clearing House from 2003 to 2004 and on several advisory committees and boards.

From 1994 through 1996, he was head of Operations in London for Deutsche Bank, and from 1990 to 1994 was director of Operations for Swiss Bank Corporation. Prior to this he held management positions at NatWest Markets and began his career as an auditor with accounting firms Dearden

Farrow and Ernst & Whinney. He graduated with a bachelor's degree from the University of Kent in the U.K. and is a chartered accountant.

EuroCCP, a subsidiary of DTCC, will provide clearing and settlement services in 14 countries in seven different currencies. @

# Q&A on Deriv/SERV: 2007 Review, 2008

The past year for DTCC Deriv/SERV was marked by strong growth on multiple fronts, including enhanced functionality and expanded capabilities across its family of services. The Trade Information Warehouse, which had its first anniversary in November, built a large database of credit derivatives contracts, launched its payment calculation and credit event processing services, and began rolling out central settlement.

Deriv/SERV's matching and confirmation service experienced significant take-up for interest rates and equity derivatives while continuing to expand the menu of products and lifecycle events it accommodates. Deriv/SERV in September signed its 1,000th customer, reinforcing its position as the largest provider of post-trade processing services in the over-the-counter (OTC) derivatives industry, serving customers in more than 30 countries.

@dtcc spoke with Janet Wynn, DTCC managing director and general manager, DTCC Deriv/SERV, and Peter Axilrod, DTCC managing director, Business Development, about 2007 achievements and objectives for 2008.

*It's been another busy year at Deriv/SERV. What were its most significant accomplishments in 2007?*

**Wynn:** Building out the functionality of the Trade Information Warehouse was arguably the most important achievement this year. The Warehouse went into production in November 2006, but this is the year we began the calculation of payments between counterparties, which will be used in central settlement.

We also put in place the ability to mark and track credit events, an important feature that further mitigates operational risk for the industry. Now, should a credit event be declared, market participants have an automated, centralized and seamless system that can support the auction process.

Completion of backloading of dealers' legacy trades into the Warehouse was another important accomplishment, one in which industry members played a major role. Dealers took on the demanding and time-consuming task of re-documenting all their past credit derivative transactions and entering them into our system. Buyside firms have started backloading their legacy contracts.

In one year, in addition to all the new credit derivatives transactions that come into the Warehouse through the front door, we've stored the vast majority of outstanding, pre-2006 credit contracts. The Warehouse inventory now numbers over 2.5 million contracts. This size gives the industry a comprehensive, robust global repository of the most up-to-date data for credit derivatives transactions, which will in turn make the downstream processing of these contracts much more efficient, cost effective and certain.

In partnership with CLS Bank International, we are making steady progress in bringing the Warehouse's central settlement

function online with an initial group of dealer firms settling a series of payment transactions. As we head into 2008, we expect to see rapid growth in the number of participants and of payments being settled through the Warehouse.

*For matching and confirmation, Deriv/SERV is widely recognized as the industry standard in the OTC credit derivatives market. How are you working with customers to increase their usage of the service for equity and interest rate products?*

**Axilrod:** We have succeeded in building a multi-product platform, establishing Deriv/SERV as the only post-trade service used by virtually all major global

derivatives dealers to electronically match and confirm OTC credit, interest rate and equity derivatives. Deriv/SERV supported all three of these products before 2007, and we are now gaining significant market participant take-up in rates and equities, where we are seeing triple-digit volume growth.

For equities, we expanded the service to accommodate the complete geographic scope of index, swaps and variance swaps products for which there are ISDA® [International Swaps and Derivatives Association] master confirmation agreements [MCAs]. We've reached out to all customers about activating their use of this service and facilitated dialogue between the buy-side and the sell-side to sign or prepare to sign the MCAs. We've built a full-functioning interest rate platform, supporting all post-trade events,



Janet Wynn

# 8 Preview *by Melanie Best and Judith Inosanto*

including assignments, terminations and amendments. And in 2007 we added CDS [credit default swaps], on loans as well as CDS residential and commercial mortgage-backed securities to the menu of credit products we support.

## *What were Deriv/SERV's biggest challenges this year?*

**Wynn:** We grew in every possible direction. We added 260 customers since the end of 2006, recently surpassing the 1,000-customer mark. By the summer, our average daily volumes more than doubled, and at times tripled, what they were at the start of 2007. We also doubled the number of customers using our payment reconciliation service to more than 140. And we added a great deal more functionality in all three product lines.

Our staff worked tirelessly to accommodate this growth while also collaborating with the industry to build out the Warehouse and other Deriv/SERV enhancements.

## *What is the significance of providing central settlement capability in the Warehouse?*

**Axilrod:** Centralized settlement is important because it removes all uncertainty from the process. You know for sure what is going to be settled and what isn't, even the day before it takes place. It eliminates unapplied cash. It enables you to streamline a whole chunk of your infrastructure by reducing Nostro breaks and Nostro reconciliations – the discrepancies between what parties expect to pay to or receive from each other.

With central settlement, market participants can “trade and forget.” Legally confirmed, or gold, transactions flow into the Warehouse, payments on these contracts can be calculated, counterparties can sign off on them and they can proceed to be bilaterally netted and settled.

## *How will central settlement affect payment reconciliation?*

**Axilrod:** Deriv/SERV's payment reconciliation service is complementary to central settlement. Not only does “pay rec” help a number of our member firms prepare for central settlement, it also continues to provide an avenue for the small population of trades that aren't gold, or can't be calculated in the Warehouse, to be reconciled in an automated fashion.

One of our priorities in the coming year is to extend the payment reconciliation service to rates and equities.

## *In September, Deriv/SERV passed the 1,000-customer milestone. What are the major challenges in servicing the needs of such a large, diverse and geographically dispersed client base?*

**Wynn:** As we've noted, our customer base has not only grown but also evolved since we launched the service in 2003. We've gone from dealers to hedge funds to traditional asset managers. We've even seen pension funds, a couple of trusts and foundations come in.

Traditional asset managers present servicing complexities that are different from other customers. Most of these managers engage the custodian population – and in most cases multiple custodians – as well as third-party service providers. It means a less direct relationship than Deriv/SERV has with dealers and hedge funds. We're working with these parties and expect to continue collaborating closely with them in 2008 to make the service easily accessible to that market segment.

## *What are you doing to educate custodians about Deriv/SERV and get them on board the service?*

**Wynn:** We've provided some reports that show only the accounts they're allowed to

see. In the past, our services were like one window into an account. Now we can parse the account in ways that are useful to a variety of service providers.

We've also begun conversations with the major audit firms about how they can use the Warehouse information going forward in their audits, which would reduce all customers' need for paper reports to support their audits.

## *While Deriv/SERV is global, its presence is strongest in Europe and North America. What are you doing to increase visibility and penetration in the Asian markets?*

**Wynn:** We've established a representative office in Hong Kong to give us an on-the-ground presence in the region. We've also linked our Relationship

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Peter Axilrod

# Q&A on Deriv/SERV *Continued from page 7*

Management teams in London with Asia, and they've been meeting with dealer clients in the Asian markets to discuss what we must do to activate the specific services that market participants need in those locations.

In addition, we continue to reach out to Asia's OTC derivatives community by exhibiting at the ISDA regional sessions in Singapore, Hong Kong, Sydney and Tokyo.

*Deriv/SERV's online training and webinars help educate and communicate with a global customer base. What have you been doing on that front?*

**Wynn:** We have significantly boosted our training capacity this year, running several webinars per month, some running weekly, covering a range of issues related to our core matching and confirmation service for all products, the Warehouse, payment reconciliation and assignment processing. This year, about 1,200 participants worldwide have logged on to our webinars.

We've also added self-paced e-learning courses that are accessible anytime, anywhere, to enhance the flexibility of our customer training. These courses provide an overview of our services and walk participants through the steps needed to establish connections to the Warehouse.

Next year, we anticipate adding other courses, including spot-training sessions and podcasts on key areas of complexity, such as assignments.

*[For more information on Deriv/SERV webinars and e-learning sessions, visit [www.dtcc.com/products/derivserv/webinars.php](http://www.dtcc.com/products/derivserv/webinars.php).]*

*The surge in volume in the credit derivatives market last summer resurrected concerns that the industry's infrastructure and processing capacity are not yet sufficiently robust. What lessons can market participants take from the summer market experience?*

**Wynn:** It's a testament to the dealer and buy-side communities that they were able to manage effectively the unprecedented volume surge in OTC credit derivatives trading last summer, given all the

other efforts they have taken on this year – particularly Warehouse backloading and testing all the new Warehouse functionality. Automation surely played a major role in the industry's ability to avoid serious operational stresses to the market.

A lesson we can take from last summer is the importance of end-to-end straight-through processing. These volume surges can reveal any gaps in the processing chain and help identify areas where the industry can standardize business processes.

**Centralized settlement is important because it removes all uncertainty from the process. You know for sure what is going to be settled and what isn't, even the day before it takes place....With central settlement, market participants can 'trade and forget.'**

– Peter Axilrod, DTCC managing director, Business Development

*What are your priorities for next year?*

**Axilrod:** One priority is to enhance and bolster the functionality of our core platform. When Deriv/SERV was launched four years ago, the market was very different. It was a much smaller business with a much smaller set of counterparties. In the first half of 2008, an important focus for Deriv/SERV will be streamlining the access and the workflow for all of our processes so we can continue to accommodate the incredible volume of transactions and the number of customers using our service.

We will also work on aligning all the capabilities of our matching

and confirmation service so that any feature functionality for credit is also available for interest rates and equities. In addition to building out our payment reconciliation service to include those products, we are looking at expanding the Warehouse capability to include equities and interest rates.

We are also enhancing Deriv/SERV's interface with the buy-side, recognizing that these market players come in many sizes and are supported by custodians and other third-party service providers.

*How are you working with the industry to achieve these objectives?*

**Wynn:** We've continued to meet regularly with senior members of the dealer community and the buy-side to set our priorities and approach towards our collective goals. Industry members, as well as other service providers, have been highly collaborative and have played a critical role in ensuring we continue to offer robust services for all constituencies in the marketplace. @

# DTCC Extends SMART/Track Service to Foreign Agent Lenders and Borrowers

by Crystal Bueno

To support the U.K. Financial Services Authority's (FSA) enhanced requirements for agency lending disclosure with the implementation of Basel 2 in Europe, DTCC's SMART/Track for Agency Lending Disclosure service will be made available to members of the International Securities Lending Association (ISLA) beginning in mid-December.

European agent lenders will be able to use DTCC SMART/Track to create unique identifiers for non-U.S. principal lenders – one of the required data elements in the agency lending files – to disclose the identity of the principal lender to borrowers, so the borrower can complete a credit and capital analysis of the underlying, or principal, lender. The FSA requires agent lenders to disclose the identity of their principal lenders to borrowers and to provide details of exposures to underlying principals at least monthly from January 2008.

## 'Quick and easy solution'

"Since 2006, ISLA has been planning a two-stage approach to introducing agent lender disclosure in Europe: an interim phase involving at least monthly disclosure followed by the introduction of daily disclosure in line with the U.S. market," said David Rule, ISLA chief executive. "Working with DTCC and using SMART/Track is a quick and easy solution to assigning unique identifiers that will ensure consistency with U.S. practices."

In addition to the Web screen feature in SMART/Track for Agency Lending Disclosure that creates these unique identifiers, the system can act as a "post office," transmitting the agency lending data files between lenders and borrowers. SMART/Track provides acknowledgments and receipts for the file transmissions.

By January 2010, the FSA has stated it will require full, daily disclosure for all firms borrowing securities, at point of trade where possible and no later than a business day following settlement date. This initiative is similar to the one undertaken in the United States under the

auspices of the U.S. Securities and Exchange Commission (SEC) and the Federal Reserve. Since October 2006, U.S. agent lenders have provided daily disclosure of underlying principals to U.S. borrowers using standardized file formats and DTCC as a data transmission hub.

## Extending a service's reach

"We are pleased that our SMART/Track service for Agency Lending can be leveraged to satisfy similar requirements in the E.U.," said Susan Cosgrove, DTCC managing director, Clearance and Settlement Group. "Extending use of the service beyond U.S.-domestic agent lenders and borrowers facilitates a standardized and cost-effective global solution."

As a next step, ISLA is establishing a working group of borrowers and agent lenders, reporting to the ISLA Board, to oversee the planning and implementation of a model for daily disclosure in Europe. @



## About ISLA

The International Securities Lending Association (ISLA) is a trade association established in 1989 to represent the common interests of participants in the securities lending industry. ISLA has around 90 members comprising insurance companies, pension funds, asset managers, banks and securities dealers, representing more than 4,000 clients.

Based in London, ISLA represents members from more than 20 countries in Europe and North America. Visit [www.isla.co.uk](http://www.isla.co.uk) for more information.

# Legal Notice Service Expands Email Alerts

by Edward C. Kelleher

The Depository Trust Company (DTC) recently rolled out an enhancement to its Legal Notice Service (LENS). Now, customers can opt to receive daily email alerts on legal actions on any securities a firm is interested in tracking.

LENS is a comprehensive library of notices about DTC-eligible securities, including legal notices to security holders, bankruptcies, defaults, litigation and class action suits, and certain tax-related notices. These notices remain on the DTCC website for five years. The new feature, called CUSIPs of Interest, will boost efficiencies for DTC clients since they will no longer have to access the DTCC website to search for notices.

## Tailored emails at cost-efficient rates

“The enhancement enables clients to receive customized daily email alerts according to both the security and the type of notice,” said Virginia Holton, DTCC director, Asset Services Product Management. “Firms determine the information they need on a daily basis and we put the alert into place. They can receive all LENS notices on a select list of CUSIPs, or only on certain types of notices such as bankruptcy or default on a select list of CUSIPs, or bankruptcy or default notices on all CUSIPs.”

Online access to the email alert service is free for all DTC customers. Firms are only charged when they view, download or email a notice directly from LENS. They can elect to access notices on either a per-notice or subscription basis. The per-notice fee is \$9, and \$9 per email notice to one or more recipients. A subscription costs \$1,700 a month for unlimited viewing and downloading by multiple users at the same firm, plus \$9 per email notice to one or more recipients.

In addition to the email alert service, customers can continue to access LENS at any time to search for notices. @

[For more information about LENS and the newly enhanced email service, contact your Relationship Manager or email [lensweb@dtcc.com](mailto:lensweb@dtcc.com).]

# DTCC and The Clearing Corporation Sign Information Sharing and



Dr. R.H. Patil, chairman, The Clearing Corporation of India Limited

# DTCC Strengthens Relationship

by Judith Inosanto

DTCC hosted a series of meetings in October with delegates from the China Securities Regulatory Commission (CSRC) and other country's key securities infrastructure organizations as part of its efforts to expand relations in this rapidly growing market.

Donald F. Donahue, DTCC chairman and CEO, and other management welcomed Tu Guangshao, CSRC executive vice chairman, with officials from China's primary securities regulator to DTCC to discuss the changing regulatory and business landscape in the markets.

## Extending the dialogue

For representatives from China Securities Depository and Clearing Corporation (SD&C-Chinaclear) and China Government Securities Trust & Clearing (CDC-Chinabond), DTCC hosted a number of presentations. Both these organizations have memoranda of understanding (MOUs) with DTCC for cooperation and information exchanges.

SD&C is the sole central counterparty and central settlement system for mainland China's securities exchange markets. CDC is the central system for China's interbank government bond market and other counter markets, including money market instruments and repurchase agreements. Both organizations are planning to offer services for a number of corporate bond issuers in China.

During the meetings, several DTCC executives made presentations from SD&C and CDC covering topics including an overview of the infrastructure of the U.S. securities industry and DTCC's key business globally. Through discussions with the two depository delegations, Fan, deputy general manager of SD&C, and Mei Shiyun, director

# ation of India Limited Collaboration Pact

by Judith Inosanto



**D**TCC and The Clearing Corporation of India Limited (CCIL) signed a memorandum of understanding (MOU) in November aimed at promoting closer collaboration between the two market infrastructure organizations.

The MOU provides a framework for cooperation between DTCC and CCIL senior management and staff on projects of mutual interest. It is also intended to help promote cross-border investment and broaden the opportunities for discussion on such issues as risk management, business continuity, reducing customer costs and technology capacity planning.

## Partnerships with Chinese Financial Institutions

negotiations from the two of the part of ongoing

members of senior chairman, along DTCC's headquarters the global capital

clearing securities depository of meetings and understanding s. depository of al depository er over-the-urchase r the expanding

ations to officials DTCC, the business initiatives ons, led by Zhang or of Human

Resources and Training at CDC, DTCC executives gained a broader understanding of China's securities markets and infrastructure.

"The meetings provided an excellent opportunity to extend the dialogue with our counterparts in China about how our organizations serve their respective markets," said Mary Ann Callahan, DTCC managing director, International. "These exchanges of information also create a foundation for future collaboration in areas such as operational efficiency, risk management and global expansion." @



CSRC Executive Vice Chairman Tu Guangshao (left) being welcomed by DTCC Chairman and CEO Donald F. Donahue during his visit to DTCC's New York headquarters in October.

### Fostering a dialogue

"As a central counterparty for foreign exchange, government securities and repos in India, CCIL plays a critical role in this fast-growing market," said Donald F. Donahue, DTCC chairman and CEO. "We are pleased to establish these ties with CCIL, and look forward to fostering a dialogue that contributes to a secure, efficient and sound global trading environment."

The agreement followed months of discussion between CCIL and DTCC and formalizes a structure for more frequent visits and the sharing of ideas to improve business operating models on both sides.

"CCIL's MOU with DTCC represents an extension of our already mutually beneficial working relationship," said Dr. R.H. Patil, chairman, CCIL. "We share the common goal of reducing risk and enhancing operating efficiency for our clients and the global marketplace. The MOU demonstrates our commitment to strengthening our communications channels and sharing insights on our respective markets."

This collaboration with CCIL is the third such information-sharing agreement that DTCC has signed with securities infrastructure organizations in India. DTCC also has MOUs with India's National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL).

### About CCIL

CCIL was set up in April 2001 to provide clearing and settlement for transactions in money, government securities and foreign exchange. CCIL's prime objective is to improve efficiency in the transaction settlement process, insulate the financial system from shocks emanating from operations-related issues and undertake other related activities to help broaden and deepen India's money, debt and foreign exchange markets. For more information on CCIL, visit [www.ccilindia.com](http://www.ccilindia.com). @

# Spain Rediscovered the U.S. Debt Market — With a Hand from DTCC

**W**hen Spanish lawmakers in 2003 passed tax legislation aimed at combating money laundering and halting terrorist financing, borrowing by Spanish banks in the U.S. market came to an abrupt halt.

Yet by 2005, the market dynamics had changed radically: major Spanish banks and other high-profile borrowers were back in the United States raising billions of dollars of funding. Tax Relief, a service offering of DTCC's depository subsidiary, played a critical role in this turnaround.

Tax Relief is an electronic communications facility that makes it possible for qualifying beneficial owners of debt and other securities to obtain tax relief at-source or via quick conditional refund on certain foreign income payments that are permitted by tax relief arrangements set up with issuers, agents or the tax authorities of various countries.

## **Fine points of tax relief**

Spain's 2003 law required that Spanish borrowers collect and file detailed information on the identity of all beneficial holders eligible for "at-source" tax relief. "At-source" relief enables investors to pay a lower tax rate – or in the case of Spain, no tax whatsoever – at the time of a coupon or dividend payment, rather than paying a higher rate upfront and then filing a refund claim.

"The new law immediately created problems for Spanish banks," said Ignacio Sastriques, head of the funding department of

Bancaja, Spain's first savings bank to tap the U.S. market. "If we were not able to supply all that detailed information to the government, our foreign investors would have to pay withholding taxes of 15% immediately, then file a claim for the tax refund. This would happen every quarter when coupon payments were due."

Because of the new law, the Spanish banks withdrew from the U.S. market and their debt offerings dropped to virtually zero.

## **The return**

Fast forward to 2005. Banco Santander, Spain's largest bank, issues a \$4 billion debt offering in the United States and goes on to make additional offerings amounting to more than \$18 billion in the next two years. Other Spanish banks did the same, including Bancaja, with \$3.3 billion in debt offerings, Grupo BBVA, which raised almost \$10 billion, and Caja Madrid, with \$3.5 billion in debt offerings.

Additional Spanish businesses that came to the United States looking for funding included Telefónica, Spain's leading telecommunications company, which issued more than \$7.5 in debt offerings.

So what happened to change the U.S. debt market? The banks began working with DTC and Acupay System LLC. "DTC and Acupay helped structure the deals," said Sastriques, "allowing us to obtain at-source tax relief for our investors while helping us meet information requirements of the Spanish government."



**DTC's global tax expertise and broad customer base, combined with Acupay's communications channels with Spanish tax authorities, reopened the gates for Spanish borrowing in the United States.**

Ignacio Sastriques, head of the funding department of Bancaja



Antonio Torio, Banco Santander's Capital Markets head of Funding

### Global tax expertise

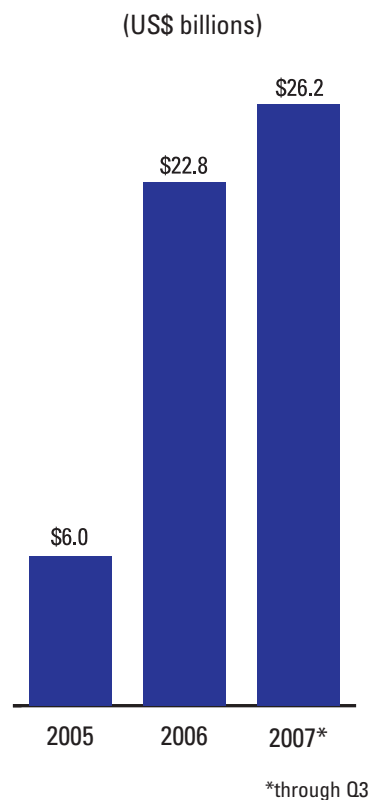
DTC's global tax expertise and broad customer base, combined with Acupay's communications channels with Spanish tax authorities, reopened the gates for Spanish borrowing in the United States.

"Prior to September 2005, there was not a single dollar of Spanish debt issued in the United States for almost two years," said Robert Apfel, president of Acupay. "But after we began working with DTC, we saw Spanish debt offerings go from zero to more than \$55 billion in two years."

Key to these developments was DTC's Tax Relief. "Our Tax Relief service enabled these banks and businesses to make sure their investors got at-source tax relief so dividend or interest payments were not reduced by the Spanish withholding tax," said William Salva, DTCC group director for Tax. "Tax Relief is fast becoming the industry standard for Spanish debt issues."

Antonio Torio, head of Capital Markets Funding for Banco Santander, Spain's largest bank, lauded DTC's contributions. "DTC has demonstrated a keen knowledge of the intricacies of cross-border tax arrangements with sensitivity to the needs of Spanish issuers and tax authorities," he said. "We also appreciate the commitment of DTC's tax specialists, who have been readily available with expert guidance whenever market-based windows of opportunity mandated rapid deal executions. Through dozens of payment dates over the past 30 months, DTC and Acupay have accurately processed hundreds of millions of dollars of tax relief on our deals. They've been very attentive to the needs of our investors."

## Spanish Debt Offerings in U.S. Market Using DTC's Tax Relief Service



Source: Acupay

### Global tax relief

In addition to Spain, Tax Relief provides at-source or accelerated tax relief for depository-eligible securities from 14 other countries and territories including Canada, France, Germany, Israel, Ireland, Japan, Korea and the Netherlands. "In 2007 alone, the service will deliver benefits to customers totaling a record \$2 billion, an increase of 25% over 2006," said Salva.

Acupay, with offices in London, New York and Valencia, Spain, works with DTC to transmit securities-related tax information from investors to issuers in a highly secure fashion, thus enabling it to prepare and forward the legally-required investor information to the Spanish tax authorities.

"The U.S. debt market is an important one for Bancaja," said Sastriques. "DTC and Acupay helped us find our way through the legal process, helped us structure the deals and the documents and, in effect, reopened the U.S. market for all of us in Spain." @ [For more information on Tax Relief, contact William Salva, DTCC group director for Tax, at [wsalva@dtcc.com](mailto:wsalva@dtcc.com) or 212.855.5314.]

# DTCC Will Strengthen Risk Management *Continued from cover*

cover potential losses incurred as a result of a default by a participant.

FICC is awaiting approval of its filing (SR-FICC-2007-10) in this regard with the Securities and Exchange Commission (SEC).

In addition to improving risk management processes for customer-related activity in the MBSD, the change will further standardize DTCC's risk management methodologies across its clearing subsidiaries. A VaR methodology is already used by FICC's Government Securities Division (GSD) and DTCC's National Securities Clearing Corporation subsidiary.

## Measuring portfolio risk

"The new methodology will enable us to measure the portfolio risk of our mortgage-backed customers more effectively, which is a key variable in calculating Participant Fund requirements," said Douglas George, DTCC's chief risk officer. "The change will ensure FICC has sufficient collateral to facilitate orderly settlement if we are obliged to close out an insolvent participant's positions – and that translates into stronger risk management for FICC, its MBS customers and the mortgage-backed market overall."

What's more, VaR is a critical stepping stone for implementation of the central counterparty (CCP) that FICC is building for its mortgage-backed business. Set to launch in late 2008, the new CCP will provide a guarantee of settlement of transactions netted by the MBSD.

## Safety and soundness

"The new risk model will bring greater safety and soundness to the mortgage-backed market," said Murray Pozmanter, DTCC managing director, Clearance and Settlement Product Management. "The turmoil in credit markets over the past

several months clearly underscores the value of bringing more stringent risk management to our mortgage-backed business," he added, noting that a critical part of DTCC's role in the industry is to risk-manage the financial exposure of member firms.

On the aggregate level, the average daily Participant Fund requirement for MBS customers was \$2.7 billion for the first half of 2007. Initially, the new risk model will result in higher requirements for some firms, depending on their portfolio and business. However, increases are expected to be temporary in most cases.

It is anticipated that relief may come in the form of lower collateral requirements as a result of common margining proposed for common members of the GSD and MBSD, expected by late 2008. "Once FICC introduces common margining, most customers will see a material reduction in their overall funding contribution because they will be able to apply the collateral held in one division against requirements in the other," Pozmanter said. "Common margining will be part of the MBS CCP implementation."

## VaR's value

VaR, a widely recognized tool in financial services, is both broader and more sophisticated than the methodology currently used to calculate Participant Fund requirements for FICC's mortgage-backed customers, according to Jiping Guo, DTCC vice president, Risk Management.

"VaR measures the uncertainty of market volatility for any given portfolio," said Guo. "In its simplest form, it provides an estimate of the portfolio's possible losses based on a given confidence level over a particular time horizon."

VaR measures three key variables:

- **Market volatility.** This factor drives gains and losses for a given portfolio,

and is the most challenging part of a VaR model.

- **Time horizon.** This refers to the period of time required to close out a portfolio.
- **Confidence level.** This factor determines in percentage terms how much protection a firm requires. For example, if a 99% three-day VaR is \$10 million, it means that the maximum expected loss during a three-day period is below \$10 million 99% of the time.

**'The change will ensure FICC has sufficient collateral to facilitate orderly settlement if we are obliged to close out an insolvent participant's positions – and that translates into stronger risk management for FICC, its MBS customers and the mortgage-backed market overall.'**

– Douglas George, DTCC's chief risk officer

For mortgage-backed securities, VaR calculations must factor in other complexities that require intensive computer simulations, according to Guo. "The most challenging piece of the equation is calculating the market volatility of the TBA [to-be-announced] securities processed by our MBS division," he said. "To accurately price these securities, we have to project a series of complex, overlapping variables." These include interest rates, mortgage rates, prepayment speeds, seasonality in the housing market (activity peaks in the summer and declines in the winter), interest rate refinancings, a portfolio's diversification and hedging.

To address these issues, DTCC's Risk Management group is building a highly sophisticated pricing engine that will have the capacity to calculate key variables that impact portfolio valuation. In addition, the VaR model will use a three-day liquidation period, instead of the current one day, and a confidence level of 99%, which is the industry standard. "If we need to close out a customer's portfolio, three days will ensure FICC has sufficient time to liquidate outstanding positions and 99% will provide ample protection against potential losses," said George.

Noting that FICC's Government Securities Division implemented a 99% three-day VaR in January 2007, Pozmanter added, "Having the same time horizon and confidence factor for FICC's government and mortgage-backed divisions is a pre-condition for the implementation of common margin requirements."

### Getting the word out

FICC has contacted all customers that will be affected by the upcoming changes, explaining the new methodology and providing projections for the likely impact on their collateral requirements. "We have talked to all our customers about the expected changes in their numbers, we have sent a VaR primer to all firms and we will be conducting informational seminars to answer questions and address concerns," said Pozmanter.

Despite the possibility of higher margin requirements over the short term, the response from firms has been generally positive. "Given the recent market instability, customers fully understand and support our efforts to strengthen risk management in our mortgage-backed business," said Pozmanter. @

[To learn more about the new risk methodology for FICC's MBS, contact Jiping Guo, DTCC vice president, Risk Management, at [jguo@dtcc.com](mailto:jguo@dtcc.com) or 212.855.5755, or Elke Jakubowski, DTCC vice president, Clearance and Settlement Product Management, at 212.855.7581 or [ejakubowski@dtcc.com](mailto:ejakubowski@dtcc.com).]

## DTCC Receives Recognition for Quality Initiatives

DTCC recently was honored for its use of Six Sigma methodologies to streamline the onboarding activation and connection procedures for new customers, receiving a Best Achievement in Service and Transactional Environments award from the WCBF Global Six Sigma Awards program. DTCC was a runner-up for its dematerialization initiatives in the category of Best Achievement of Lean Six Sigma in Financial Services.

The awards 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. This marks the second consecutive year DTCC has received global recognition for its Six Sigma program from the WCBF in an annual global competition that is open to all industries. Quality Digest, a magazine covering Six Sigma methodology, reported on DTCC's deployment of Six Sigma in its latest issue.

### Technology development milestone

Based on another external measure of performance, DTCC is poised to advance its software development credentials, further strengthening the company's ability to build technology solutions that meet customers' demands while holding down costs and increasing speed to market.

Like many major organizations, DTCC employs the Capability Maturity Model Integration, or CMMI, an internationally recognized set of best practices and standardized processes that help companies strengthen their software development practices. By the end of this year, DTCC expects to complete the work required to qualify as a CMMI Level 3 organization. This sets the stage to apply, in early 2008, for formal CMMI recertification at a full Level 3, which will mark a milestone.

"No other U.S.-domiciled financial services organization has a full CMMI certification at that level, and no organization in the United States has a certification at a higher level," noted William Aimetti, DTCC's chief operating officer. @



# NSCC Launches Fund Transfers Service For the Insurance Industry

by Ted Davis

Fund Transfers, the newest addition to National Securities Clearing Corporation's (NSCC) Insurance Services family, began integrated pilot testing on October 8.

This new solution, much anticipated by the insurance industry, provides automated processing of a fund reallocation within a variable insurance product, a function that addresses regulators' concerns about business practices in broker-initiated transfers of funds. It allows distributors to monitor representative-initiated transfers and reduces the risk of unauthorized transactions.

Insurance Services is offered by NSCC, a subsidiary of DTCC.

## Collaborative testing

Pilot testing of new services involves the collaboration between NSCC and its customers to bring a solution to market. The Fund Transfers pilot testers – firms that volunteer to participate – are carriers Genworth Financial, ING and Pacific Life, and broker/dealers Merrill Lynch and Smith Barney.

"The commitment of the pilot firms to work through the process with us is critical to the success of the service," said Craig Gurien, DTCC product manager. "They help us fine tune the business, technological and operational procedures."

The pilot process is painstaking and detailed so that when the launch date arrives, concerns have already been addressed and adjustments made to the original product design and functionality. The pilot firms test all the elements of the product, reporting on results and providing valuable feedback and suggestions to the project team. When the product launches, it is fully ready for general use.

The pilot firms receive a startup pricing benefit and additional development support. "They also have an active voice in the development and refinement of the product specifications, and get the opportunity to shape its capabilities," Gurien added.

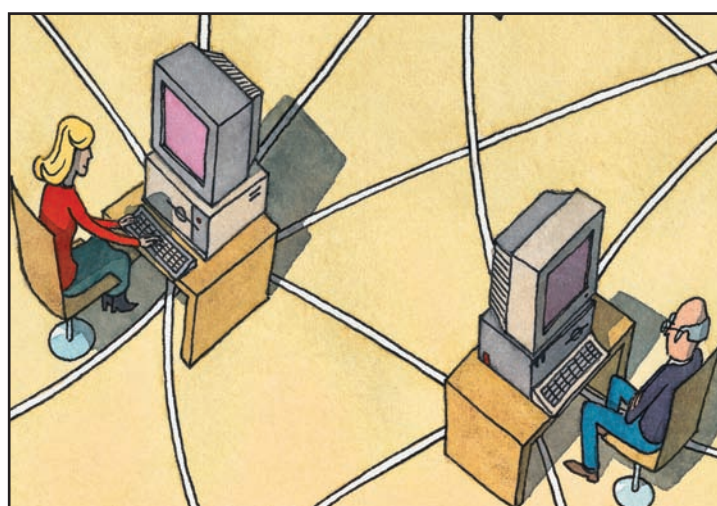
## A unique challenge

Fund Transfers testing presents a unique challenge in that it is Insurance Services' first product offering in a web services platform instead of the traditional data-track, mainframe environment. Once connectivity issues have been resolved, the distributors send to the carriers "test scripts" – sample transactions of fund transfers – that involve "perfect case" scenarios or "reject" scenarios.

The reject scenarios will contain errors in the form of missing data fields and improper data formats that would be identified by NSCC. They may also contain information that must be evaluated

by the carrier, such as a request for a transfer of funds that exceeds the amount available in an account. Fund Transfers automates the entire process of submission and acceptance or rejection.

"The pilot is going very much as expected," said Gurien. "We are learning a great deal about the new web services environment, which will benefit our collective efforts in future development initiatives. We are pleased that Fund Transfers is also our first of several services being developed to use ACORD XML standard data messaging in a real-time environment." @



## Advisory Board Provides High-L

A packed agenda, a full house and a lively discussion marked the second meeting of Insurance Services' Senior Advisory Board (SAB) on November 14, 2007. Senior-level representatives from 13 insurance carriers and 11 broker/dealer members of the SAB met at a midtown Manhattan hotel to exchange ideas and information with DTCC management and staff on automation and standardization issues facing the industry.

With John Ziambras, DTCC managing director and general manager, Insurance Services, acting as moderator, the Board quickly turned to key items raised at its inaugural meeting in May, including new Insurance Services products and expanded usage of existing products.

"The energy and commitment of participants generated a very productive dialogue," said Ziambras. "We envisioned the Board would be a senior leadership industry forum to provide

# Insurance Services Marks 10 Years *by Ted Davis*

Insurance Services in 2007 is marking its tenth anniversary. This milestone presents an opportunity to look back on what the business has accomplished in collaboration with the insurance industry, and look ahead to future challenges Insurance Services will face.

## Building on relationships

The insurance business is based on individual relationships between brokers who provide insurance against specified risks, and individual persons or entities who buy this protection for a fee, or premium.

This basic personal service model in various forms worked well for centuries, but by the mid-1990s the industry recognized the need to modernize its modes of processing transactions. At that time the industry approached National Securities Clearing Corporation (NSCC), DTCC's clearance and settlement subsidiary, to seek help in automating and standardizing its costly proprietary, manual and paper-based processes.

Insurance represented one of the final frontiers of automation and standardization in financial services. Equities, fixed-income instruments and mutual funds had already worked with DTCC's subsidiaries to make successful transitions to automation, and had enjoyed enormous growth as a result. Guided by these successes, NSCC undertook the modernization effort for insurance, one of

the organization's greatest challenges to date.

## Delivering automation

"Insurance Services grew out of a process of consultation with some of the largest broker/dealers and insurance companies to analyze their annuity processing challenges," said John Ziambras, DTCC managing director and general manager, Insurance Services. "Together, we identified areas of immediate need, such as the reporting and payment of commissions. In 1997, NSCC formally created the Annuity Processing System [APS], which eventually evolved into the more expansive Insurance Services that exists today."

To develop solutions, NSCC applied lessons learned from the mutual funds business and leveraged the expertise, experience and core capabilities of DTCC subsidiaries in post-trade processes and money settlement. This collaboration with customers led to the launch in 1997-98 of the group's first service offerings: Commissions, Positions & Valuations and Asset Pricing. These services enabled annuities for the first time to be reported on customer statements, alongside every other financial product, and advisors to be paid faster and more accurately.

In 1999, Insurance Services developed the Applications & Subsequent Premiums (APP/SUB) and Financial Activity Reporting (FAR) services; in 2001, launched the

[continued on page 18]

# Level Forum for Insurance Services *by Ted Davis*

DTCC with feedback and guidance as we continue to automate and standardize the processing of insurance product transactions. The group's work has surpassed our expectations."

## Key issues

SAB representatives offered candid assessments of the status of the industry's straight-through-processing initiative. They cited vendor dependency in implementing order entry applications as a factor that has and may continue to slow the expansion of newer insurance services such as Licensing & Appointments (LNA) and ACATS for Insurance. The group reviewed the 2007-08 plans for rollout of new Fund Transfers, Replacements and Attachments services. The development of L&A Access<sup>sm</sup> as a front-end application for the full LNA service received substantial support as a "proof-of-concept" model for other possible front-end products to increase product utilization.

## Expanding DTCC role

Acknowledging DTCC's significant progress to date, participants in the SAB forum expressed strong support for expanding DTCC's leadership role in the effort to centralize automation and standardization of annuities processing.

"The industry recognizes and appreciates the value of our at-cost business model and customer focus," Ziambras said. "The firms represented on the SAB produce more than 75% of our volume and two-thirds of our revenue. They are well-positioned to drive usage of our services through more distribution channels and to validate our future role as a central utility for the insurance industry."

The SAB meeting was followed the next day by the second meeting of Insurance Services' Carrier Steering Committee. @

Licensing & Appointments (LNA) service, and in 2005, introduced ACATS for Insurance, laying the foundation for automating the entire transaction cycle.

“These products have established Insurance Services as a key provider of compliance solutions,” said Randi Gordon, DTCC vice president, Product Management. “LNA has helped with the licensing of representatives to sell specific insurance products in each state jurisdiction, and products like FAR have provided industry tools to help manage new federal regulatory requirements.”

## **Partnering with providers**

Insurance Services has collaborated with customers to expand usage of the services and partnered with service providers to enable automation through the entire transaction cycle for annuities, from licensing of representatives to payout on commissions. In order to serve more distribution channels, DTCC has encouraged multiple vendors to adopt and support data standardization across the industry.

“We seek to reinforce our role as a neutral partner with the industry by embracing open standards as a key to industry automation,” said Lana Macumber, DTCC director, Relationship Management/Marketing. “That’s why, in 2003, we opened our existing layouts to public usage to encourage the industry to embrace standard data formats and thereby derive the full value of our centralized services.”

## **Alliances for change**

At the same time, DTCC formed strategic alliances with key industry organizations to drive data standardization. Insurance Services in 2003 partnered with ACORD to use its XML standards where appropriate in future product development. Concurrently, DTCC and the Securities Industry Association, now the Securities Industry and Financial Markets Association (SIFMA), formed a joint Insurance Advisory Panel to advocate on behalf of broker/dealer distributors to the insurance carrier community. DTCC also helped create a SIFMA-National Association for Variable Annuities (NAVA) Joint Advisory Committee (recently renamed the Annuity Industry Advisory Committee) to strengthen coordination of the industry’s automation efforts.

## **Volume growth, pricing discounts**

Today, Insurance Services electronically brings together more than 175 distributors, 143 insurance companies representing 53 carrier families and 28 service providers. Insurance Services has processed more than 3 billion position records in 2007 and settled

annuity premium and commission transactions valued in excess of \$20 billion.

Insurance Services participants have directly benefited from DTCC’s “at-cost” business model. Record volumes and increasing industry uptake of some core services led to Insurance Services’ first-ever fee reduction for Positions & Valuations and the introduction of family pricing through a tiered pricing formula that discounts combined high volumes. As a result, the largest customers have realized more than \$3 million of direct, bottom-line savings in 2007.

## **The road ahead**

Initiatives undertaken this year are setting priorities for the Insurance Services agenda in 2008 and beyond.

Formation of a Senior Advisory Board comprising insurance carriers and broker/dealers initiated a new level of discussion on the core needs of their businesses. The first two Board meetings, in conjunction with a new Carrier Steering Committee, have defined major issues and provided guidance on the next steps required to lead the industry toward full automation, centralization and standardization for annuities and other insurance products.

Functionality of DTCC’s infrastructure will be expanded in the immediate future to support the processing of new business transactions by creating a service that enables the sharing of documents, including applications, as well as digital signatures and other new business, in-force and license and appointment documentation. Over the next few years, Insurance Services will also work with multiple solution providers to drive standardization and efficiencies in the order entry area.

“Longer term,” according to Ziambras, “we can leverage our secure data warehousing capabilities to become the industry’s repository for a variety of data, such as producer and product information.” In this role DTCC could provide accurate data in a standard format that could be updated and accessed, real time, by parties to the trade, regulators and even consumers.

“The insurance industry and Insurance Services have accomplished a great deal in our first 10 years of collaboration,” said Ziambras. “As we enter our second decade, Insurance Services will continue to deliver to our customers high-quality, cost-efficient and quick-to-market solutions, regardless of whether we build them, buy them or create them in partnership with others.” @

# Spoken

Donald F. Donahue, DTCC chairman and CEO, delivered the keynote address at the Securities Industry and Financial Market Association's (SIFMA) Fixed Income & Derivatives Operations Conference on October 25 in Ft. Lauderdale, FL. An excerpt from his remarks follows.

Most of us know the old adage, the only certainties in this life are death and taxes. In this industry we know we can add Problems with Reference Data to the list. And the worst area for problems with reference data unquestionably has to be "corporate actions" data – data regarding periodic entitlement events on securities.

Certainly one line of response has to focus on the fundamental flaw in how this process works. The creator of a corporate action – be it the issuer or an independent offeror – is today perfectly free to announce that action in a way that typically relies on some type of narrative description that has to be read and has to be interpreted to understand its details.

The process of having multiple people in multiple places in the industry responsible for reading and interpreting documents and creating their own version of the corporate action announcement based on that interpretation is, frankly, madness.

SIFMA's Corporate Action division has taken the position that issuers or offerors must be responsible for announcing corporate actions through the use of a standard template of data available in electronic form for dissemination through the industry's information vendors. That is absolutely the correct allocation of responsibilities.

We have to convince regulators that a standard has to be mandated that puts the responsibility for informing investors about a corporate action on the person who creates the corporate action. A similar initiative appears to be coalescing in Europe.

## **Structured securities headache**

Although corporate actions data are certainly the migraine, reference data generally are an industry headache. And a related issue involves structured securities, such as CMOs [collateralized mortgage obligations] and asset-backed. There is a long history

here...involving the problems in handling periodic payments on these securities. Payments on structured securities have become an increasing portion of the entitlement funds that flow through DTCC's depository.

The difficulty here is that the structures of these issues are very complex, and typically provide absolutely no room for error. As a consequence, we also see the highest volume of errors on payments on these types of issues, which has represented another industry headache for many years. To cite some statistics, as of the end of September, we had processed about 1.2 million payments on structured issues, and had to make corrections on 5,800 of these payments.

SIFMA and DTCC have worked to correct this problem for several years now, and considerable improvement has been made. There is clearly a consensus, however, that the problem is not completely solvable without a structural change in the issues themselves in order to provide more time to permit the handling of the necessary information. Accordingly, we will be filing a rule change with the SEC [Securities and Exchange Commission] that will mandate a distinction between structured issues that can conform to industry standards for information flow and structured issues that cannot.

This issue of payments processing on structured securities is, of course, the tip of a much larger iceberg, and we've all come to appreciate the magnitude of that larger issue with the events over the past few months. Industry and regulator concern about the transparency of information about structured issues is clearly going to be the focus of considerable attention in the coming months. At a recent International Monetary Fund conference, one of the regulators expressly identified the "complexity and opacity" of these instruments as a prime cause of the market instability. @

# Dreyfus Joins the Managed Accounts Service

by Karen Gregory

**D**reyfus Investments, the industry's 14th largest provider of managed accounts, has joined the Managed Accounts Service (MAS), a centralized platform for the industry designed to streamline communications associated with opening and maintaining managed accounts. MAS is an offering of DTCC Solutions LLC, a subsidiary of DTCC. Dreyfus Investments is a division of MBSC Securities Corporation, which is a subsidiary of The Dreyfus Corporation.

MAS will, for the first time, provide a single communications network and standard set of messages for a now-fragmented industry. Dreyfus is the latest in a growing list of firms actively working in the MAS participant test environment in advance of the service launch, scheduled for the near future.

"Automating and standardizing the data flow for these transactions will help our clients, reducing trade-related costs and risk and stimulating growth," said Kevin Miller, senior vice president of Dreyfus Investments. "We are pleased to partner with DTCC on this important initiative."

The Dreyfus Corporation, part of BNY Mellon Asset Management, currently manages \$200 billion in mutual funds, separately managed accounts and institutional portfolios.

## Managed account growth

At present, seven investment manager firms are working in the MAS test environment, along with four outsourcers and nine vendors. Interest in the new service has accelerated following a June conference on managed account solutions sponsored by DTCC and the Money Management Institute.

The latest statistics tally \$790 billion of managed account assets under management as of the end of second-quarter 2007, according to The Money Management Institute. This figure includes separately managed accounts, unified managed accounts and dual contract and multi-disciplined portfolios. Industry forecasts suggest managed account assets could reach \$1.9 trillion by 2011.

MAS will create a more efficient and secure process for sharing data required to open and support managed accounts. Currently, most messages are transmitted from the managed account sponsor to asset managers that are hand-picked by the sponsor to invest and manage an investor's funds. Depending on the size and complexity of an investor's account, many asset managers can be involved and communicating back and forth with the sponsor on a single account.

"Multiply that activity by thousands of accounts and the complexities of the communication between managers and sponsors can be a real burden," said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. "That's the value of one central communications platform. We transform a complex web of communications into one streamlined process through a single gateway. The resulting efficiencies reduce operational costs and risk, and allow managers to better serve the investor client." @



*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.*

@dtcc is published by Corporate Communications and available online at [www.dtcc.com](http://www.dtcc.com) under News Center. Send email to [editor@dtcc.com](mailto:editor@dtcc.com).

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Printed by  
DTCC Print Department

