



Technology at DTCC: A Special Two-Part Series

by Helen Cunningham

On January 23, DTCC issued its 2007 Development Agenda, which will be updated quarterly throughout the year. The 29-page agenda gives the industry an overview of DTCC's major technology projects for the year, organized by area of the business.

For a special two-part series that seeks to inform readers about the 2007 Development Agenda and DTCC's technology organization, @dtcc spoke with DTCC President and Chief Executive Officer Donald F. Donahue and Chief Operating Officer William B. Aimetti. [continued on page 8]

New Managed Accounts Service: An Update

by Karen Clarke

Since DTCC announced plans to develop its Managed Accounts Service in September 2006, several firms have linked to the new platform and are now actively working in a test environment.

What's more, interest in the new service is strong. To date, more than 60 firms from all areas of the managed accounts industry have asked for detailed presentations to learn more about it. [continued on page 2]

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New Managed Accounts Service

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Test drive

The charter users are two Citigroup divisions – Smith Barney Consulting Group and Global Transaction Services (GTS) – along with technology provider Vestmark. All three companies are interacting with the new managed accounts system to become familiar with how it operates. The Citigroup divisions have been successfully interacting through DTCC's communications gateway, transmitting sample messages to DTCC servers and receiving acknowledgements in return.

"The test environment allows users to test the service's connectivity, the process and the protocol," said Paul Bucaoto, DTCC director, product management. "We are making significant progress in moving toward a full launch of the service."

'Tremendous interest'

There is a renewed sense that the time is right for industry standards and a centralized, automated service for managed accounts, said Ann Bergin, DTCC managing director and general manager, Distribution Services.

"We're seeing tremendous interest from sponsors, managers and service providers who understand what DTCC has done to help other markets achieve scalability and cost efficiencies," said Bergin. "They see the potential our Managed Accounts Service has for helping them to grow this area of their business as well."

As more firms link to DTCC's service, they in turn create linkages to a growing network of affiliated participants. For instance, GTS currently has nine investment manager firms that will

connect to DTCC's platform, Smith Barney has more than 200 investment managers in its consulting program and Vestmark services more than 20 firms.

Lowering barriers to entry

Dana Fowler, director of operations for Smith Barney Investment Advisory Services, expects DTCC's service to open new relationships between sponsors and investment managers. "For those who may have been deterred by the complexities and costs of retail managed accounts, this is a great way to get into this market," Fowler said.

First priority: new account process

A priority for DTCC is to address the new account process. This is considered the industry's most significant issue because the customized portfolios in each

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Gary Jones, vice president for industry operations, MMI

Call to Action: Industry Seminar on Managed Accounts

The Money Management Institute (MMI) sponsored a conference in December to bring technology providers and consulting firms together to share information that would help them develop services and build infrastructure to support communications standards for managed accounts. The conference included a detailed discussion of DTCC's Managed Accounts Service, which generated discussion and additional interest among technology providers.

"We held the seminar to create awareness of emerging opportunities in the managed solutions industry," said Gary Jones, MMI's vice president for industry operations. "For the past six years, the MMI has been working toward creating communications standards for opening and maintaining separately managed accounts. DTCC's announcement of its new service has moved that effort into its next phase, and we feel the time is right for solutions providers to assist firms in adopting and building infrastructure to support the standards and more efficient industry operations."



MORE ON THE SERVICE: The new Managed Accounts Service automates the process of opening and maintaining managed accounts, which are individually owned investment accounts that are customized for the specific needs and interests of high-net-worth investors. • Currently, the work flow that occurs among investment managers, sponsoring broker/dealers and service providers is based on faxes, phone calls and the manual movement of paper. • DTCC's new service will standardize all communications through a central, secure network, which will reduce operational costs and risk of errors.

Enhancements Will Streamline Process for Resolving Failed Trades

by Steve Letzler

National Securities Clearing Corporation (NSCC) will implement in March a number of enhancements to its Reconfirmation and Pricing Service (RECAPS), a system to eliminate and re-price aged fails.

RECAPS requires firms to submit failed trades in certain asset categories to NSCC for comparison and netting. The enhancements will speed up settlement and streamline the entire process.

“We’ve been working with SIFMA’s Securities Operations Division sub-committee on regulatory and clearance issues for some time to update RECAPS and eliminate unnecessary steps and costs for our members, and to make RECAPS a more effective service generally,” said Ed Fanning, DTCC director, Clearance and Settlement. (SIFMA is the Securities Industry and Financial Markets Association.) “These changes represent the first in a series of improvements we plan to make to the service.”

What the enhancements deliver

Under the previous RECAPS timetable, the service ran each quarter for a specific designated week in March, June, September and December. The cycle began on the designated Tuesday, when firms would submit a list of CUSIPs to NSCC for their likely fail submissions. On Friday, the actual fails data were submitted. The following Monday, any changes or adjustments were made, and Tuesday all compared fails settled.

The single most significant change in RECAPS is that settlement will now take place on Monday rather than Tuesday, according to Bill Corrigan, DTCC manager, Clearance and Settlement Group. “We can accelerate settlement because the

new system is faster and more comprehensive, and because most of our customers have moved to faster processing systems, which facilitates the speedier delivery of securities.”

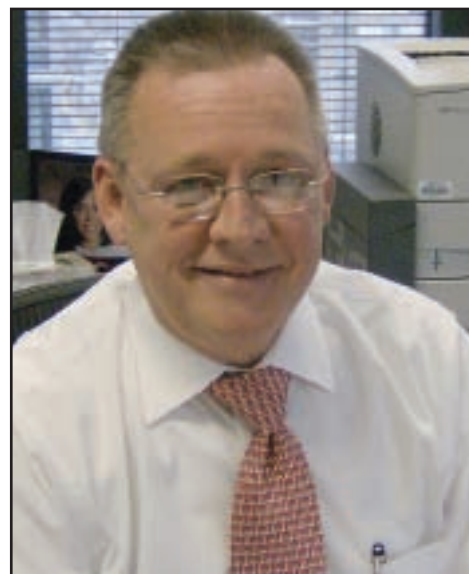
NSCC is also condensing the front end of the cycle. Now, the submission of CUSIPs on Tuesday will be eliminated altogether. “For customers, the CUSIP submission was burdensome and there was also a nominal charge for it,” said Fanning. “When we created RECAPS, those submissions allowed NSCC to obtain prices externally for the securities involved, but with the redesign, we can now obtain this information within DTCC, which translates into savings of time and money for customers.”

Fails will still be submitted on Friday, but the cutoff for new submissions will be 10 p.m. ET Friday instead of the current 2 a.m. Saturday.

“We will now be able to make the RECAPS CNS, the non-CNS Compared Trade Summaries and RECAPS Contract sheets available early Saturday morning, around 2 a.m. ET, so firms can focus on corrections and additions that much faster,” Fanning said. Previously these reports were not available until much later, on Saturday afternoon.

In addition, NSCC is eliminating a number of reports that are no longer needed or contain data that are readily available on other reports. These include the RECAPS CNS Projection Report File, the RECAPS Open Advisory Report, and RECAPS Stock and Bond Receive and Deliver Tickets.

Fanning noted that the changes to the RECAPS system would give NSCC the flexibility to run it more than quarterly.



Albert Howell, first vice president at Merrill Lynch and chairman of SIFMA’s Securities Operations Division of the Regulatory and Clearance Committee

Industry perspective

“We believe that eliminating the requirement to submit CUSIPs and accelerating the fails confirmation settlement process will significantly benefit the industry,” said Albert Howell, first vice president at Merrill Lynch and chairman of SIFMA’s Securities Operations Division of the Regulatory and Clearance Committee, whose sub-committee addressed RECAPS issues. “We appreciate the work DTCC has done to enhance RECAPS.”

The enhancements and new schedule are expected to take effect with the March quarterly cycle. “Any firms that wish to test output with NSCC can do so,” said Fanning, adding that testing is optional. @

[To learn more about RECAPS enhancements, contact Ed Fanning at 212.855.7623 or Bill Corrigan at 212.855.7658. To schedule testing, firms can contact DTCC’s Enterprise Service Center at 888.382.2721, option 1, then option 4.]

New MBS 'Pool Substitution' Approach Is Slated For Testing in March

by James Conmy

In March, Fixed Income Clearing Corporation (FICC) expects to begin testing its new approach for simplifying how dealers can change or substitute the pools of mortgages they allocate to satisfy their mortgage-backed securities TBA (to-be-announced) trading positions.

Built on FICC's Electronic Pool Notification (EPN) service, the new "pool substitution" approach slated to undergo testing is one of the building blocks in the effort to create a central counterparty for the mortgage-backed securities market.

The new substitution service will allow members of the EPN service to cancel existing pool allocations and simultaneously replace them with new ones using a single EPN message.

Leap forward

"Introducing the new message capability sounds relatively simple," said Michele Hillery, DTCC product manager, Clearance and Settlement Group, "but it's a big step toward a more automated pool allocation process."

Under current industry practices, sellers of mortgage-backed securities submit information through EPN on the pools of mortgages they intend to deliver to satisfy their TBA position. Sometimes, however, sellers may need to change the makeup of their pools. At present, this takes two steps. First, the pools must be canceled, and then another allocation must be entered authorizing the new pools.

"What can happen is that instead of using the two EPN messages, members end up communicating pool substitution information via the phone or fax machine, which is a far cry from the automated processing EPN was originally created to

support," Hillery said. "Our new approach should fix that. It ensures an automated process, and it keeps that process within the structure of FICC."

One-step substitution

The new pool substitution service lets EPN members send a single message to cancel a number of previously allocated pools and simultaneously replace them with new ones – on a real-time basis. It also gives the message a time-stamped notice that effectively serves as an audit trail by indicating that EPN has processed the substitution and delivered it to the contra party.

The ability to substitute pools promptly is critical to FICC's future role as a central counterparty for all mortgage-backed securities trades, because FICC will need to refer pool substitution notifications received from the seller to the appropriate buyer counterparty in real time.

Implementation of the EPN pool substitution notification process is regarded as "Phase 2" in FICC's plan to develop a central counterparty. Phase 1 of the plan – specified pool trade matching through the Real-Time Trade Matching system – is already undergoing testing.

To schedule testing

Because it's possible for any firm's pool allocations to be substituted by the counterparty to the trade, all EPN users will be required to support the service when it goes live.

Pool substitution will be handled either through the screen-based EaSyPool software or through a

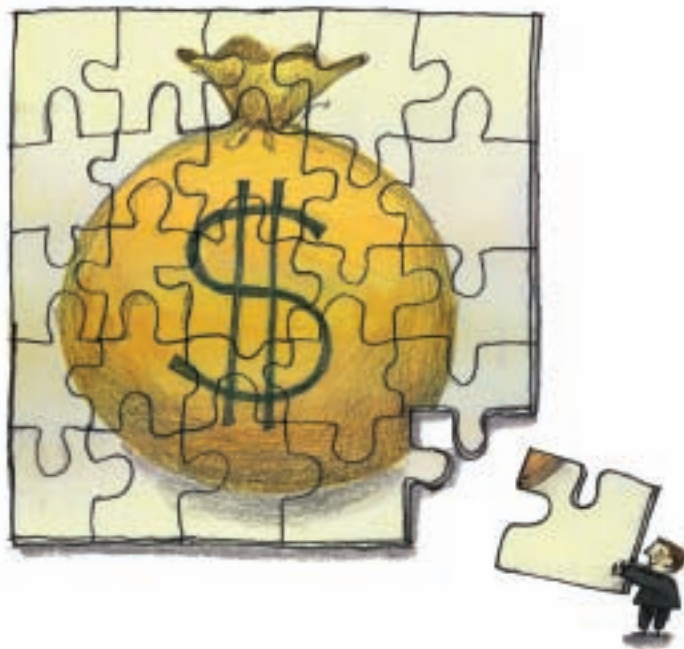


computer-to-computer interface – CTCI, for short. Members who use CTCI will need to have completed programming for the new pool substitution messaging, or else will have to resort to EaSyPool to receive and/or deliver pool substitution messages.

To schedule pool substitution testing, members can contact Relationship Management at rmsupport@dtcc.com.

Updated documentation, including a service bulletin spelling out the steps members need to make to be prepared for pool substitution, is available on FICC's Web site (www.ficc.com). Additional notices, including one focused on business continuity planning, have been posted to the site recently. @

[For additional information, contact Michele Hillery at 212.855.7475 or mhillery@dtcc.com.]



Deriv/SERV Warehouse Wins 'Technology Platform of the Year' Award

by Lisa Argento

DTCC's Deriv/SERV Trade Information Warehouse was recognized as the "Technology Platform of the Year" by Risk magazine in its January 2007 issue. The warehouse is a centralized global infrastructure for the post-trade processing of over-the-counter (OTC) derivatives, launched by DTCC in November 2006.

Risk magazine's annual awards recognize best practice and innovation in the derivatives and risk management industries globally. An expert panel at Risk decided the winners over a three-month judging period that comprised a lengthy due-diligence process, including customer references and an in-depth look at each platform.

Global collaboration

"The Deriv/SERV Warehouse is a critical part of how DTCC is bringing automation to the OTC derivatives community, and our progress to date has been achieved through collaboration with customers and market participants globally," said Robert McGrail, DTCC executive managing director, Domestic and International Core Services. "We are

grateful that Risk magazine has honored us with this award."

In recognizing the Trade Information Warehouse, Risk highlighted the platform's speed to market, noting the service was delivered "on time and budget in an aggressive schedule from a February announcement to a November launch date."

The warehouse provides a comprehensive trade database and support infrastructure that automates and standardizes post-trade processes (such as payments, notional adjustments and contract term changes) over a contract's life, which can extend five or more years. It decreases operational risk by automating manual, bilateral reconciliation and processing for Deriv/SERV's 750-plus customers, which include global derivatives dealers, traditional asset managers, global investment banking firms and hedge funds.

Today, Deriv/SERV electronically confirms 80% of credit derivatives traded globally, up from 40% in 2005. The warehouse builds on Deriv/SERV by using confirmed trade details as input for the

warehouse, so that post-trade processing flows automatically from up-to-date trade terms. Initially, the warehouse will support credit derivatives, and then extend to other OTC derivatives products, including rates, equities, foreign exchange and commodities.

Risk magazine

Risk magazine is the leading publication for the global derivatives and risk management communities. Celebrating its 20th anniversary this year, Risk is read by more than 80,000 financial professionals each month and its annual awards are widely acknowledged for the standards of excellence they have established for the markets covered by the magazine.

Risk is published by Incisive Media, a London-based business information provider. For more information, visit www.Risk.net. @



A Remembrance of Gordon Macklin

DTCC mourns the passing of Gordon Macklin, 78. Recognized for his leadership in the creation of Nasdaq in 1971, which was a milestone in the growth and increasing sophistication of the U.S. capital markets, he also played a key role in DTCC's history.

Macklin participated in the industry brain trust called the Banking and Securities Industry Committee (BASIC), created in response to the paper crisis that was plaguing the financial services industry in the late 1960s and early 1970s. This committee's work, in close collaboration with the Securities and Exchange Commission and the U.S. Congress, ultimately led to the creation of The Depository Trust Company in 1973 and National Securities Clearing Corporation in 1976.

"Gordon Macklin was one of our industry's foremost

visionaries," said Donald F. Donahue, DTCC president and CEO. "Long before most investors could even imagine the notion of trading stocks electronically, he understood how technology would fundamentally transform the way our industry operates, and he led the early stages of that transformation. He is also remembered for his honesty and integrity," said Donahue. "All of us at DTCC honor him and extend our condolences to his family."

Macklin served as president of the National Association of Securities Dealers from 1970 through 1987, stepping down to become co-chief executive and chairman of Hambrecht & Quist. He served as chairman of White River Corporation, an information services company, from 1993-98, as well as on various corporate boards. @

NSCC Targets July 2007 to Launch New Mutual Fund Profile Service

by Karen Gregory

DTCC announced in February plans to launch its new Mutual Fund Profile Service database in July. The redesigned database will provide the fund community with an automated, centralized repository for a broad range of information contained in a fund's prospectus and expand the service's role as a primary industry source for rules-based processing.

"This initiative will deliver major efficiencies to the industry by providing a single central resource for the dissemination of fund information and offering greater operational flexibility," said Ann Bergin, DTCC managing director and general manager, Distribution Services.

Offered by DTCC's National Securities Clearing Corporation (NSCC) subsidiary, Mutual Fund Profile Service also includes features that provide users with data about fund distributions, as well as contact information and the processing capabilities of funds and firms.

The database will include information about a fund's investment objectives; minimum and maximum investment requirements; fee schedules; breakpoint schedules and linkage rules; and other fund rules. The redesign will make it much easier for funds to input data and ensure that every piece of information is relevant.

"Having that information readily available and up-to-date will give broker/dealers and other fund distributors immediate access to the rules governing a fund and also help them with compliance issues – applying proper breakpoints to a customer's account, for example," Bergin explained.

Kathy Joaquin, director of Operations & Distribution for the Investment Company Institute, said, "The end result will provide a standard and a complete source for mutual fund security data, and move our industry further towards a model for efficient operations processing."

How it will work

DTCC's solution is to replace the current technology, which is 10 years old, with new technology that will allow data to be fed into the database at one level and automatically flow – or "relate" – to other levels. The current model does not have that flexibility.

The new model is structured on four levels, or hierarchies, of information, starting with the Management Company level and followed by Share Class, Fund Portfolio and Security Identifier (CUSIP numbers provided by Standard & Poor's) for each portfolio.

Rights of Accumulation (ROA), for example, can be entered once at the Management Company level and applied to each relevant security at the Security Identifier level. Or a redemption fee can be input at the Fund Portfolio level and then applied to all the appropriate share classes at that level. Updates can be handled the same way.

"The end result will provide a standard and a complete source for mutual fund security data, and move our industry further towards a model for efficient operations processing."

– Kathy Joaquin, director of Operations & Distribution, Investment Company Institute



“The redesign of Profile will benefit fund companies tremendously,” explained Laura Stanley, vice president, AIM Investment Services, Inc. “The ability to enter information once and apply data common to all funds within the same class, or all funds within a portfolio, will result in the elimination of repetitious data entry; and it will streamline our quality-control process, as the data must be validated only once.” Stanley is a member of an ICI Profile Steering Committee working collaboratively with DTCC to remodel the service.

As part of the redesign, DTCC will be creating new Web screens that will allow users to query and retrieve the same information on the screen that can be found in a fund’s prospectus. New record layouts will be available in February for fund companies and firms so they can reprogram their systems to be compatible with the new files. Like most of NSCC’s Mutual Fund Services, Profile has both a mainframe application and a front-end interface through DTCC WebDirect.

Interest in Profile has been growing since the Joint NASD/Industry Task Force on Breakpoints issued its report and singled out the service for its ability to help meet the challenge of identifying and applying breakpoint discounts. In 2005, NASD developed a link to Profile that allows NASD to draw information on breakpoint schedules and linkage rules, repopulate it within its own Web site, and provide that information to its members and investors.

“This was an opportune time to complete a full assessment of the service, identify its weaknesses, and design a new system that will be highly resilient and that can easily be enhanced in the future to accommodate the new informational needs of the industry,” Bergin said. @

NSCC Expands the Real-Time Roster

by Michael Bellini

National Securities Clearing Corporation (NSCC) is making steady progress in working with the industry to advance the goal of real-time trade submission. The latest entry to the growing roster of exchanges and alternative trading systems that submit data to NSCC in real time is the New York Stock Exchange’s Arca (formerly ArcaEx).

NYSE Arca made the transition in December 2006. Also last year, NSCC converted the Boston Stock Exchange to real time, while adding a new exchange for the first time in nearly a decade, the International Stock Exchange.

These exchanges join the New York Stock Exchange, the American Stock Exchange, NASD/Nasdaq’s Trade Reporting Facility and Omgeo in the real-time category.

How the industry benefits

Real-time submission strengthens the industry on multiple fronts. “It supports straight-through processing, reduces risk and promotes intra-day trade reconciliation by allowing NSCC to report trade data to members earlier in the day,” said Hank Belusa, DTCC vice president, Equity Clearance and Settlement.

It also strengthens business continuity through the safe storage of data at the clearing agency level and reduces systemic risk by allowing NSCC’s Risk Management group to analyze trades sooner in order to monitor market risks throughout the day.

“Having more exchanges submit data on a real-time basis prepares the industry for the eventuality of operating in a fully integrated real-time trading environment,” said Peter Smith, DTCC product manager, Equity Clearance and Settlement. @



JIN Y. CHOI

Technology at DTCC: A Special Series

Part I: In the article that follows Donahue F. Donahue, DTCC president and CEO, talks about this year's Development Agenda. In part two of the series, William B. Aimetti, DTCC's COO, will talk about how DTCC has positioned its technology organization to meet the industry's continually expanding requirements.

The 2007 Technology Development Agenda

Could you talk about why DTCC produces the Development Agenda and how it helps customers?

We publish the agenda to provide transparency about our technology initiatives. We want to keep customers informed about how we're spending the industry's money; the timelines for our major technology projects; and the

It reflects a considerable emphasis on systems reengineering. For instance, we are in the midst of reengineering both the corporate actions and underwriting platforms. The underwriting launch, scheduled for 2007, will require customers to take some preparatory steps, so we want to be sure firms have the information they need. And while the corporate actions rollout will not start until the beginning of 2009, we want firms to be aware that it will require a good deal of preparation on their part and we will be using the agenda

interact with customers, which is a result of having combined different systems from our various subsidiaries as well as SIAC. Now we are working on a multi-year program, which has several deliverables in 2007, that will standardize a few of these communications methods, discontinuing the outdated applications. This will drastically reduce the support burden – on both DTCC and customers.

Another theme in the agenda is our work with the industry to reduce risk and

We always look for opportunities to advance standardization without imposing special burdens on customers. So when we reengineer an existing application or build a new platform whose implementation will require firms to change their own systems, we definitely incorporate the global standards at that time.



benefits these projects will deliver. We also want to ensure the timely take-up of new services and enhancements by giving customers ample notice for making internal changes to their systems and operations.

Do you obtain customer feedback on the agenda?

Yes. Our annual Customer Satisfaction Survey includes a series of questions assessing the agenda's value to customers, and the ratings are very positive. And we welcome additional feedback. We are very interested in hearing from customers who have ideas for making the agenda more useful.

What are the major themes in this year's agenda?

and other channels to keep them fully informed as we move forward with that piece of the project. Part of our plan is to release a detailed transition plan in mid-2007, which will permit customers to schedule their work as part of their own development plans in 2008.

We also are redesigning one of the core database applications for our mutual fund business this year, and we are in the early stages of reengineering our settlement system.

The 2007 agenda also illustrates how we are digesting the systems we brought together under the DTCC umbrella over the past several years. This has various implications, especially on the communications side. Right now, we use a multitude of communications applications to

address the concerns of regulators regarding risk. This drives the continual renovation and enhancement of our risk systems, as well as major new initiatives such as the central counterparty for mortgage-backed securities, Deriv/SERV's Trade Information Warehouse for over-the-counter derivatives, the Managed Accounts Service and our new offering for the alternative investment industry, which is currently in customer testing.

We also support our customers in dealing with specific regulatory mandates. For instance, we have projects that facilitate industry compliance with OFAC [Office of Foreign Assets Control] requirements and a range of initiatives in the mutual funds space that will help

to be published in March, 2007.
ments.

customers meet regulatory requirements on issues such as breakpoints and market timing.

On the technology front, how is DTCC preparing for the likelihood of cross-border consolidation in financial services?

We laid some of the groundwork for this opportunity when we redesigned our clearing systems in preparation for T+1 some years ago. Although the industry

additional currencies as needed.

With regard to cross-border exchange mergers, such as the New York Stock Exchange's proposed merger with Euronext, we are making systems enhancements to meet specific requirements and we are moving to deploy those changes on an accelerated timetable.

Could you talk about how DTCC is adopting global standards?

The Development Agenda reflects our

to implement capabilities that permit some customers to use global standards in communicating with particular services, while allowing other customers to continue using DTCC proprietary formats. This allows our customers to convert to the standards on their own timetables.

At the same time, we always look for opportunities to advance standardization without imposing special burdens on customers. So when we reengineer an existing application or build a new platform whose implementation will



Donald F. Donahue, DTCC president and CEO

postponed the T+1 initiative following 9/11, we forged ahead with our projects to advance straight-through processing. And because we knew cross-border consolidation was just matter of time, our redesign included provisions for these platforms to handle cross-border activities.

For example, we built the systems with the flexibility to accommodate practices in other markets by incorporating multiple settlement cutoffs. Our subsidiaries can accept real-time input from exchanges and other marketplaces outside the United States, and can accept trades in multiple currencies. And our depository has the ability to settle and service assets in several currencies other than the U.S. dollar, with the flexibility to add

ongoing drive to standardize technologies, which dates back to the beginning of the decade. Over the next several years, our goal is to bring standardization and consistency to all our applications.

Still, it is important to recognize that our customers have divergent views about standardization. Today, firms interact with DTCC using formats that have been standard means of communicating with DTCC's subsidiaries for decades, and many do not want to make major technology investments simply for the sake of adopting global standards. Other customers, however, want DTCC to move faster toward adopting global standards.

Our strategy to address these conflicting demands is to offer options. We continue

require firms to change their own systems, we definitely incorporate the global standards at that time. This facilitates migration to them without imposing incremental development costs on our customers.

The 2007 agenda doesn't include any major business continuity projects. Has DTCC covered the bases here? And what about our customers?

One sure thing about business continuity is that some new curveball will always come at you.

That said, DTCC now has completed all the major projects we planned for strengthening the industry's infrastructure.

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Technology at DTCC

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At this point, we are state of the art in business continuity, and it is baked into business as usual at DTCC. That doesn't mean we have stopped paying attention to this area; on the contrary, we are continually reinforcing and reassessing our continuity capabilities. But in 2007, none of our continuity initiatives are of a magnitude to merit inclusion in the Development Agenda.

We have a clear sense that our customers also have made the appropriate business continuity preparations. We have a robust customer connectivity testing program in place and we have participated in industry-wide testing for the past several years.



Can customers expect to see Omgeo and DTCC collaborating more on new initiatives?

Since Omgeo was created back in 2001, the two companies have collaborated behind the scenes on numerous initiatives. For instance, we recently implemented a real-time link for the transmission of data between our depository and Omgeo. And as of 2006, Omgeo is leveraging DTCC's technology infrastructure for all its services, whereas it used to operate in a split environment. This collaboration will continue going forward.

As this year's agenda indicates, our two organizations are working with the industry to explore ways for improving the institutional trade settlement process. In addition, our services for separately managed accounts and alternative investment products involve coordination between DTCC and Omgeo to ensure we are leveraging synergies and developing the necessary interfaces. @

[To read the 2007 Development Agenda, visit www.dtcc.com, click Customer Focus, then Development Agenda. To be included on the emailing list to receive the agenda when it is published, send an email to editor@dtcc.com.]

New DTC/Fed Interface

by Michael Bellini

The Depository Trust Company (DTC) has automated its link with the Federal Reserve System to help streamline the process through which customers pledge DTC-eligible securities as collateral with the Fed and the U.S. Treasury.

The DTC/Fed automated interface went live Jan. 5, 2007, and its implementation was transparent to customers. This enhancement sets the stage to fully automate the pledge process once DTC permits pledges from customers via automated feeds to the Federal Reserve, a change scheduled for implementation by the end of 2007.

"At the request of the Federal Reserve, the pledging of DTC-eligible securities was limited," said John Kiechle, DTCC vice president, Equity Clearance and Settlement. "The recent change to DTC's link with the Federal Reserve banks, coupled with the enhancement we are making later this year to permit automated input from customers, will eliminate the manual speed bumps in the process, making it easier and more efficient for customers to pledge collateral."

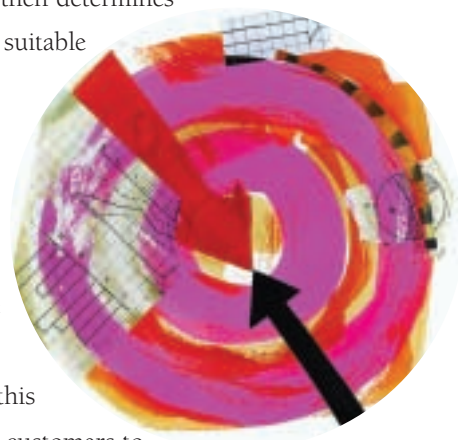
How it works

The new interface applies to pledges and releases processed through DTC's Collateral Loan Function. For now, participants will continue to pledge securities held at DTC as collateral by submitting the information to DTC through the Participant Terminal System (PTS), which then sends the information to the Fed.

The new link automatically feeds this information to the Fed's collateral system, eliminating the need for manual intervention by the Fed. The Fed's system then determines if the collateral received is suitable for the particular bank involved. Following confirmation, the Fed sends the collateral to the relevant Federal Reserve district, of which there are 12 nationwide.

In the second phase of this initiative, DTC will enable customers to transmit pledges via MQ or ISO messages to DTC in lieu of manually typing in their pledges through the PTS. DTC will modify its record layouts to include the additional information required for Fed pledges, such as the ABA routing number of the customer's bank. @

[For more information, contact Julie Krill, DTCC director, Clearance and Settlement Group, at 212.855.5906 or jkrill@dtcc.com.]



Global Corporate Action Validation Service Signs New Customers

by Steve Letzler

The Global Corporate Action Validation Service (GCA VS) closed out 2006 with a bang, signing six new firms to the service in the last quarter.

New customers include Raymond James & Associates, Inc., and First Clearing LLC (a unit of Wachovia Corporation). They join other global heavyweights such as Merrill Lynch, UBS, Credit Suisse, Goldman Sachs and JPMorgan Securities, and bring the total number of GCA VS customers to 21.

On deck

DTCC is working aggressively to further increase GCA VS's customer base and is in the advanced stages of discussions with a number of firms, according to James Femia, DTCC managing director and head of Global Corporate Actions.

"We are seeing growing interest from global banks, as well as investment managers in Europe and the United States, in getting corporate actions announcement information from around the world," Femia said. "More firms are deciding that it makes sense to outsource this job to a trusted expert like DTCC. Our 30-plus years of experience in the field, as well as our global reach and connections, all contribute to the growth of interest in this service."

BRICK work

Femia said much of the expansion in corporate actions announcements is coming from the so-called BRICK countries: Brazil, Russia, India, China and South Korea, where corporate actions announcements are growing 50-100% annually.

"There is a huge amount of investment going on in these markets, and it's not always easy to get details about corporate actions in them," he said. "Having an organization with DTCC's resources and contacts to obtain that information can be highly advantageous to firms."

Femia also noted that more investors are investing in countries outside their domestic markets. This means financial services organizations not only have to operate globally, they also have to

obtain fast and accurate corporate actions announcement information from a wider range of countries to support this investment activity.

"If firms don't outsource that activity, they may have to add significant staff costs to have their own people gather and track the information," he said. "Since this really isn't a core business for most firms, they are becoming more inclined to outsource it, provided they are comfortable that their provider can give them the information accurately and quickly."

Global and multilingual

GCA VS provides announcement information on corporate actions in more than 160 countries. In 2006, the service, with staff working in 15 languages, issued about 900,000 event announcements on more than 1.6 million securities.

One of the keys to GCA VS's comprehensiveness is that it takes feeds from a number of other service providers and crosschecks the data against appropriate sources, including the issuer when necessary, to provide the best information to customers.

DTCC is also playing key roles in global efforts to standardize corporate actions data at the source and to automate the announcement of that data as much as possible. @

[For additional information about the Global Corporate Action Validation Service, contact Susan Spivey in New York at sspivey@dtcc.com or +1 212.855.4144 or Richard Bustard in London at rbustard@dtcc.com or +44 (0)20.7650.1501.]



>>> **GCA VALIDATION SERVICE ON THE CONFERENCE CIRCUIT:** DTCC will have speakers, exhibitions or be attending the following upcoming trade conferences. If you plan on attending the conference, be sure to look for DTCC Global Corporate Action Validation Service personnel.

- February 28 SIFMA (Securities Industry and Financial Markets Association) Corporate Actions Division Workshop, New York
- March 6 Securities Operations Forum Corporate Action Workshop, Boston
- March 12-15 FIMA (Financial Information Management) Reference Data Conference, New York
- March 14 Financial Technologies Forum Global Securities Operations Conference, New York
- March 18-21 ISITC (Industry Standardization for Institutional Trade Communication) Industry Forum and Vendor Conference, Boston

New Managed Accounts Service

Continued from page 2

managed account have hundreds of data elements that must be shared with multiple investment managers.

The investor's profile, restrictions and investment strategy must be relayed to as many as a dozen different investment managers, along with funding data, authorization to trade and other important details. Sharing that client data currently requires separate communications to multiple participants, along with phone calls and faxes.

"There is significant risk of error, as well as concern about transmission of confidential information through non-secure channels," said David Gardner, DTCC's external project director for the Managed Accounts Service. "It can require days or even weeks and hundreds of dollars to set up a new account. It's an unwieldy and costly process."

The Managed Accounts Service collapses these steps into one message that contains all the data required for a new account, and automatically transmits that information to multiple parties in one step. "You can see the appeal of one process and one message," Gardner explained. "And the investor's funds are put to work in a fraction of the time it takes now." @

Dematerialization

It's been a 30-year discussion." That's how Susan Petersen, special counsel, the Securities and Exchange Commission (SEC), characterized the move from the immobilization to the dematerialization of stock certificates in the securities industry at a recent seminar that JPMorgan Chase sponsored on this topic.

Held in January, the seminar attracted more than 500 professionals to the JPMorgan Chase auditorium in lower Manhattan – in person, on the telephone and online – who wanted to know about the latest developments in dematerialization and DTCC's Direct Registration System (DRS).

The SEC role

Petersen, who asked for feedback from the industry on dematerialization issues, spoke about the SEC's role in immobilization beginning in 1970s and over the next 30 years, including its 2004 concept paper that discussed new DRS initiatives for the industry.

Petersen prefaced her remarks with some historical perspective, noting that the United States "had a long tradition of certificates...they were first used to finance the American Revolution." At the same time, she added that the government and industry had long since recognized that paper certificates were "inefficient" and increased "risk."

Lawrence Morillo, managing director at Pershing LLC and chairman of the Securities Industry and Financial Markets Association's (SIFMA) Operations Legal and Regulatory Committee, pointed out the annual cost to the industry of issuing paper certificates. This now totals approximately \$250 million to print and issue certificates, which includes \$49 million annually to replace lost or stolen certificates. The additional cost to the industry from January through November 2006 was \$8.6 million. Morillo said his firm had defaulted to DRS for eligible securities and recommended that other firms do the same as soon as possible.

DRS news

The update on DRS, which enables investors to register ownership of their shares electronically with either the issuing company or its transfer agents, was provided by Joseph Trezza, DTCC vice president, Asset Services.

DRS became a listing requirement for all major exchanges, including the New York Stock Exchange,

DTCC's Annual Global Tax Forum: April 27 in New York

DTCC will host its eighth Annual Global Tax Forum on Friday, April 27, at Bayard's at One Hanover Square, New York, N.Y., from 8:30 a.m. to 12:30 p.m.

The program will include:

- Keynote speakers who will discuss recent changes in international tax withholding and tax treaties.
- An update on the foreign and domestic tax services offered by The Depository Trust Company, a DTCC subsidiary.
- An introduction to AccuBasis, DTCC's new cost-basis information service.
- An update on DTCC's reengineering of its core systems for securities underwriting and corporate actions processing.

E-mail invitations including an up-to-date agenda will be sent to DTCC tax clients in March. If you would like more information or to attend the forum, contact Leola Bush at lbush@dtcc.com or 212.855.2702.

DTCC offers this annual forum free of charge to its customers but space is limited and attendance is on a first-come, first-served basis. The half-day event will be open to non-participants this year for a nominal fee of \$150.

and DRS: An Industry Update by Edward C. Kelleher

NYSE Arca, Nasdaq and the American Stock Exchange, for new securities coming to market on or after January 1, 2007. All other securities must be DRS-eligible by January 1, 2008. Regional exchanges including Boston, Chicago and Philadelphia also have adopted the new listing requirement.

The number of issues expected to become DRS-eligible by 2008 will increase by about 9,000 this year, compared with 1,230 issues currently eligible. The number of new transfer agents that will join the DRS program is about 250, Trezza said, adding that these agents will need to become FAST agents, as well. (FAST is DTCC's Fast Automated Securities Transfer service that enables agents to provide electronic custody, transfer, deposit and withdrawal services.) Trezza urged underwriters to make sure their transfer agents are also FAST agents.

Possible delisting

If an issue is not DRS-eligible by the required date, DTCC is obliged to alert the exchange or market, said Trezza. "Penalties could range from a simple reprimand to a delisting of the issue."

Trezza pointed out that withdrawals-by-transfers (WTs) of securities from The Depository Trust Company, a DTCC subsidiary, have also been moving away from physical certificate withdrawals to DRS withdrawals. (Under DRS, the investor receives a statement of ownership rather than the physical certificate.)

In the first 11 months of 2006, 77% of the 19,774 WTs were in physical certificates versus 23% in DRS. This is more than double the DRS WTs in 2005, when 11% of 23,941 WTs were DRS transfers versus 89% in physical certificates. (The WT statistics are monthly averages.)

In 2007, the average volume of WTs in certificates is expected to drop by 22%, while the number of DRS WTs is expected to jump 50% over 2006 levels.

Cost also plays a role in WTs, Trezza said. For an average month in 2006, the cost of withdrawing a physical certificate came to \$53.00; the cost of a DRS statement averaged just \$5.92. Using these figures, he estimated that in 2006, the additional annual costs for WTs of physical certificates was \$8.6 million.

DRS issues

Katie Sevcik, senior vice president and manager of operations at Wells Fargo Shareowner Services, and Kevin McCosker, vice president, Pershing LLC, provided an update on a list of projects the cross-industry DRS Working Sub-Committee has been dealing with. These include:

- Eligibility for the Issuer/CUSIP, the transfer agent and the broker/dealer.

- Information provided on DRS statements, DRS transaction advice and DRIP (Dividend Reinvestment Plan) statements.
- Details on moving shares from a DRS account to a broker or bank custodian and vice versa.

A question-and-answer session followed with Armando DiBiase, vice president, The Bank of New York, Donna Fremgen, vice president, Merrill Lynch, and William Robertson, vice president, JPMorgan Chase joining the other panelists to respond to questions. @

[To see the PowerPoint presentation of the dematerialization seminar, including a "frequently-asked-questions section," visit DTCC's No More Paper Web site at www.dtcc.com/nomorepaper, or www.sia.com/stp/pdf/DematPresRT011107.pdf.]



DTCC's Reengineering Project

by Edward C. Kelleher

>> DTCC's multi-year reengineering project, which will bring significant new efficiencies to the industry, entails redesigning the core systems for securities underwriting and corporate actions with a single new platform called the DTCC SOURCE – Securities Origination Underwriting & Reliable Corporate Actions Environment. Below are updates for both sides of the project.

2007 Timeline for the Underwriting Initiative

DTCC has issued an underwriting reengineering project plan for 2007 that covers all phases of the project through final implementation of the initiative in the third and fourth quarters of 2007.

The underwriting initiative will be implemented in phases throughout 2007.

The project plan has start and end dates for external and internal testing for both outbound and inbound recipients, inbound vendor testing, and testing for the New Issue Information Dissemination System for new bond and securities issues. Pilot testing and customer training are also included in the project plan.

"We're on schedule with all our planned activities for the underwriting reengineering, but we still have customers who need to do some catch-up," said Denise Russo, DTCC director, Asset Services.

"Some, for example, still need to determine how they will communicate deal information to the

depository. Will they use an external bookbuilding/running system? Will they use a direct connection to the depository? Or will they use the new platform's Web-based screens?

"We continued to meet with both bookrunning and data vendors to ensure that they are on schedule and will be able to meet the go-live date in August. At this point, these firms should be testing connectivity with the depository [DTC]." Bookrunning or bookbuilding vendors compile "the book" on bond and security issues, tracking pricing, regulatory compliance, issuance information and other financial investor data, which is submitted to them by the underwriters. Bookrunning vendors are then responsible for submitting the data to DTC to complete requirements for DTC eligibility and the New Issue Information Dissem-

New Technical Documents for Corporate Actions Initiative

DTCC has issued the first draft of the technical specification documents for its corporate actions reengineering initiative. Customers and their service providers will need these documents to modify their own proprietary systems to ensure a smooth transition to the new data delivery system.

The corporate actions initiative, which will require a good deal of preparation on the part of customers, will be implemented in phases through 2009.

The new corporate actions technical documents focus on:

- Key structural changes to both announcements and processing
- New event structure and how it is maintained throughout the lifecycle of the corporate actions event.

Message categories covered in the documents include Announcements, Entitlements, Instructions, Instruction Status and Payments. @

[To review the documents and reference materials, along with a list of questions and answers, visit <http://www.dtcc.com/reengineering/corpactions/specs.html>.]



ination Service. The new service will centralize and automate the collection and distribution of information on new bond and securities issues. Data vendors are responsible for taking the information from DTC and distributing it to customers and other market participants.

The project plan gives additional testing dates for live data and end-to-end testing. Progress reports on vendors will be posted on the reengineering Web site as they complete the required testing. @

[For more information on the project and to review the new reengineering project plan, visit DTCC's reengineering Web site at www.dtcc.com/reengineering or contact Denise Russo at drusso@dtcc.com or call 212.855.3731.]

New Book on OTC Derivatives by Lisa Argento

The OTC [derivatives] market, which is approximately 25 years old, is still new compared with the listed exchanges or cash markets around the world, yet has outstripped every other market in terms of innovation and growth rates due to the fundamental building blocks being offered, and the flexibility of the available financial solutions,” writes Bill Hodgson, DTCC vice president, Business Development, in a new book about derivatives.

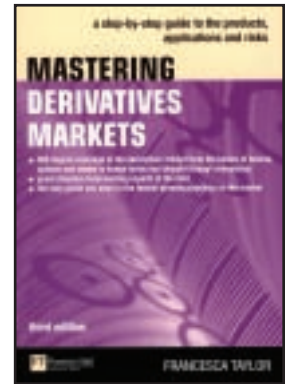
The book, *Mastering Derivatives Markets (3rd edition), A Step-by-Step Guide to the Products, Applications and Risks*, was written by Francesca Taylor with contributions from a group of experts in the field. Published by Financial Times Prentice Hall, its target audience includes bankers, brokers, hedge fund managers, students and journalists. The guide is designed as a resource for readers who need a refresher on the fundamentals of derivatives, as well as for those looking for a primer on the topic.

Mastering Derivatives Markets gives an overview of the instruments, technologies and risks associated with this complex market. It also contains definitions for derivatives terminology and includes graphics to illustrate key concepts.

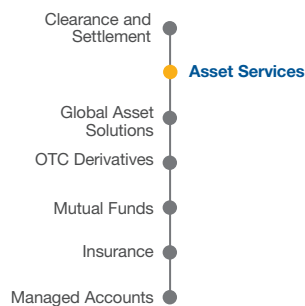
“As professional market-makers we have found this an invaluable, easy-to-read book,” said Andrew Holdstock, director of

foreign exchange, IG Group Plc, in an early review.

Hodgson’s chapter focuses on straight-through processing (STP) for over-the-counter (OTC) derivatives and recent innovations in trade capture, confirmation and post-trade processing. @



AccuBasis™ Puts Cost-Basis at Your Client's Fingertips



With DTCC's new AccuBasis service, your clients can get cost-basis information with just a few strokes of the keyboard, quickly and accurately.

AccuBasis is a new Web-based service that enables your customers to obtain detailed cost-basis information in a matter of minutes. Customers simply input some basic information about the security and AccuBasis does the rest. With cost-basis information dating back to 1925, AccuBasis automatically calculates the changes caused by stock splits, mergers and every possible cost-basis adjustment. It then recreates a complete history of the security and delivers accurate, adjusted cost-basis information – all within minutes.

The Internal Revenue Service used AccuBasis in a major 2005 tax study and many leading accounting firms now use AccuBasis for audits.

AccuBasis is a service offering of DTCC Solutions LLC, a DTCC subsidiary.

For more information, contact Joseph Trezza at 212.855.4400 or jtrezza@dtcc.com, or Joyce Rosen at 212.855.3935 or jrosen@dtcc.com.



Donahue Visits India

DTCC's President and Chief Executive Officer Donald F. Donahue recently returned from a four-day trip to India, where he met with counterparts at financial organizations, including the stock and commodity exchanges, clearing corporations and depositories, to explore areas of collaboration and strengthen DTCC's relationships in this market.

The agenda included meetings with National Securities Depository Limited, Central Depository Services (India) Limited, the National Securities Clearing Corporation Limited, The Clearing Corporation of India

Limited, BOI Shareholding Limited, the National Stock Exchange of India Limited, Bombay Stock Exchange and National Commodity & Derivatives Exchange Ltd. Donahue also met with senior executives at Tata Consultancy Service and Cognizant Technology Solutions, leading Indian technology firms with which DTCC has various projects under way.

The itinerary included Mumbai,

home to many of the nation's key financial institutions, and Chennai, which has become a major center for India's technology industry.



DTCC's CEO also was the featured speaker on

leadership at NASSCOM's CEO Forum on January 10. NASSCOM, which is India's National Association of Software and Service Companies, is the main trade body and chamber of commerce for the technology software and services industry in India. @



NASSCOM's CEO Forum in Mumbai: (from left) Donald F. Donahue, DTCC's president and CEO; S. Ramadorai, CEO and managing director, Tata Consultancy Services; and Dr. R.H. Patil, chairman, Clearing Corporation of India Limited and founding managing director, National Stock Exchange of India Limited.



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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