

# DTCC Chooses CLS Bank as Global Settlement Partner for OTC Derivatives Market

**D**TCC announced December 13 the selection of CLS Bank International (CLS) to provide central settlement of payments for over-the-counter (OTC) derivatives

contracts housed in DTCC Deriv/SERV's Trade Information Warehouse.

The partnering of these two industry-owned organizations will provide an integrated global payment processing infrastructure for the OTC derivatives market, linking the Trade [continued on page 8]

## 2007: the Year of Automating AIPs

by Karen Clarke

**D**evelopment of DTCC's platform for processing and settling alternative investment products (AIPs) is proceeding on schedule, with a pilot group of firms poised to test the new service in February. The service is expected to launch in 2007, pending approval by the Securities and Exchange Commission.

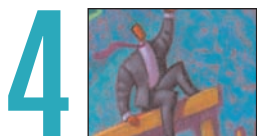
"A standardized and automated service is key to supporting the continued and projected growth of this market segment," said Ann Bergin, DTCC managing director and general

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**New Service for Cost-Basis Information**



**Update on Corporate Action Liability Service**



**New Real-Time DTC/Omgeo Link**

# 2007 Will Be the Year of Automating Alternative Investment Products

*Continued from cover*

manager, Distribution Services. “Our service will be the first of its kind for this industry, and the pilot firms have worked closely with us to develop a standard operating model that reconciles varying practices in the market.”

Among the pilot group are hedge funds, fund administrators and broker/dealers that have been working with DTCC product managers and technology specialists to address the operational inefficiencies of AIP processing. These firms have been reviewing and refining business and technology specifications that would streamline the manual, error-prone processes and multiple systems that connect broker/dealers and the funds or their administrators.



## How it works now

Most AIP transactions are currently processed with hard-copy documents, by fax, email, phone calls and manual entries on spreadsheets.

“With alternative investments, a manual entry is made when the funds are moved, say \$1 million to a hedge fund,” explained David Hall, manager of client services, Man Investments, an investment management company specializing in AIPs that is a member of the pilot group. “A placeholder for that debit is noted in the brokerage account, but it may not be clear where the money went until the transaction is completed and confirmed.”

This sort of paper-based matching and confirmation can take literally weeks to complete, a huge impediment given the size and complexity of these transactions. The lack of automation not only prolongs transaction processing, it also makes it difficult for participants to provide the level of detail that investors want in their brokerage statements.

“When you have information exchanged on an ad hoc basis between 30 different brokers in 30 different formats – even though this exchange occurs with a great deal of control and care – you have inordinate delays in reporting clients’ positions and we aren’t able to provide the level of detail they’d like,” Hall noted.

“There’s a tangible benefit to the client as well as the firm in developing a system that puts the clients’ investment dollars to work more quickly through a structured, secure platform.”

When you consider that a typical hedge fund investment may require 40 to 50 pages of paperwork – all of which is currently processed manually –

DTCC’s automated service could eliminate piles of paperwork as well as countless emails, faxes and phone calls exchanged by the trading parties.

“We are working together to develop a blueprint that helps us reduce risk and better manage a return for the client,” said Kirk Strawn, director of intermediary sales, Man Investments. “With DTCC’s network, and backing from all different points in the industry, it’s clearly a win-win for all involved.”

## ‘Higher comfort level’

Some investment management firms say investors are directly impacted by the

operational inefficiencies, as well. “Sound investment opportunities are being missed because entry into this market is perceived to be too complex,” Hall said. “Automation is key to making alternatives more acceptable to investors, who are put off by the lack of an easy-to-use investment tool.”

Pilot committee members working with DTCC focused on critical functions for the initial scope of the project, including new account set-up, initial and subsequent subscriptions, redemptions/tender offers, exchanges, position and valuation reporting, distributions, account maintenance and commissions. The pilot firms also placed a priority on global capabilities, so the service is designed to accommodate global hedge fund investors that have a U.S. partner, and will include settlement reporting in other currencies.

## Compliance benefits

Firms expect standardization and automation to enhance their compliance controls, as well. “There is a perceived risk whenever you are using a manual process,” said Brenda Fournier, vice president of compliance, Man Investments. “Regulatory concerns arise when there are challenges with providing an accurate record of a transaction. When you have an opportunity to improve the operational capabilities through a service like this, it clearly benefits our compliance efforts.”

“There is a consensus among members of the committee that DTCC’s AIP service will give everyone a higher comfort level,” Strawn said. “Operations will be more open and uniform, and we’re better positioned to better serve our clients, and ultimately, grow our client base. We’re moving to a new level of sophistication and security, and that’s a great step forward.” @

# DTCC Launches AccuBasis to Solve Cost-Basis Problem

by Edward C. Kelleher

**D**TCC and NetWorth Services, Inc., have launched a new Web-based research tool, called AccuBasis, that provides cost-basis information quickly, accurately and efficiently for a broad variety of financial service firms and their customers. DTCC and NetWorth formed a strategic alliance to offer the service in November.

Investors need cost-basis information to properly report gains or losses when filing tax returns and in determining the unrealized gains or loss of a securities position. While researching cost-basis information has traditionally been difficult, time-consuming and expensive, AccuBasis automates and streamlines the research process and delivers accurate, adjusted cost-basis information in a matter of minutes.

“Many of our customers, including mutual fund companies, security issuers, transfer agents and broker/dealers, have come to us asking for a cost-basis solution they could offer their customers,” said Joseph Trezza, DTCC vice president, Product Management. “And they’ve asked us to come up with a solution as quickly as possible.”

DTCC studied the available cost-basis services on the market and, according to Trezza, “quickly realized that Networth was far and away the best. It was a product we knew we could offer our customers quickly.”

## How it works

AccuBasis is available through different platforms and applications that fit the needs of a wide variety of companies. The application can be designed to look as if it is the company’s own Website and can be customized to meet specific needs of customers such as portfolio managers and

managers of employee stock option plans.

Customers log on to the company’s Website and click the cost-basis link. This connects them to the DTCC/NetWorth Website, where they can access cost-basis information by inputting the security name, a CUSIP number or the ticker symbol, and the approximate date of purchase – the year will do.

AccuBasis retrieves the information from its massive database – which houses security pricing and corporate action information dating back to 1925 – and automatically calculates the changes caused by stock splits, mergers and every possible corporate action, using it to deliver accurate, adjusted cost-basis data.

## Who uses AccuBasis

The Internal Revenue Service used the cost-basis service in a special 2005 Tax Gap Report that identified \$11 billion in underreported capital gains taxes. Today, major accounting firms are using it as a means of verifying and providing relevant cost-basis information reported on Schedule D and 1099 forms.

“NetWorth developed its cost-basis product in direct response to countless inquiries from investors, institutions and financial services professionals needing a standardized, cost-effective and accurate cost-basis tool,” said Nico Willis, chief executive officer of NetWorth. “It’s the most robust and comprehensive cost-basis service on the market today. The Taxpayer Advocate Service – an independent office within the IRS that works to protect individual taxpayer rights – reported that our

service reduces taxpayer burden by streamlining documentation of cost-basis calculations during audits and can create a reliable standard for taxpayer, preparers and the IRS. Now, by forming an alliance with DTCC, we can further enhance our joint product offering to better serve the demands of the securities industry.”

## Customer satisfaction

“We believe AccuBasis will benefit our clients – the mutual fund companies, broker/dealers and other financial firms – as well as benefit their clients, the investors,” said Trezza.

AccuBasis is expected to boost customer satisfaction for financial services firms, while bringing them increased cost savings by reducing the manual research and manpower hours needed for traditional cost-basis inquiries.

“Investors will benefit from the convenience, ease of use and time savings that AccuBasis offers,” said Trezza. “What took an investor hours, days or even weeks to research and calculate before AccuBasis, now can be accomplished in a matter of minutes.”

AccuBasis is offered through DTCC Solutions LLC, a DTCC subsidiary. @



# Industry Gives Traction to Corporate Action Liability Service

by Melanie S. Best

The SMART/Track for Corporate Action Liability Notification Service, designed to wean broker/dealers off paper and fax machines, made its debut in pilot form in late 2004. Although industry adoption of the service has been slow until now, that is about to change.

Now two new developments promise to convert to the service the many firms that have remained wedded to the manual, risk-laden way of sending and receiving liability notices.

Subject to Securities and Exchange Commission (SEC) approval of changes to New York Stock Exchange (NYSE) Rule 180, expected in January 2007, the NYSE will require its member organizations that are also members of a registered clearing agency to utilize the automated liability notification system of a clearing agency when issuing notifications in connection with certain securities transactions. DTCC's Depository Trust Company (DTC) is currently the only registered clearing agency operating an automated liability notification service.

What's more, as of December 2006, NSCC's Consolidated Net Settlement (CNS) system has been linked to the SMART/Track service for input of voluntary corporate action instructions. On or about Jan. 31, 2007, all CNS members need to be registered users, since it will be the only way for a long participant to notify CNS that it plans to participate in a voluntary corporate action event for a security being processed in CNS. This change has been approved by the SEC.

## Critical mass

"Making the service compulsory for CNS users and NYSE members will end the dilemma for firms that have been reluctant to move away from paper notices," said Margaret Koontz, DTCC director, Product Management and Development.

"Previously, because so many brokers continued sending liability notices by fax, it was hard to gain the critical mass to shift the industry to the automated system."

## Automating another industry segment

The SMART/Track for Corporate Action Liability Notification Service automates the creation, delivery and tracking of liability notices. The service, available to members of NSCC and DTC, is

part of the SMART/Track suite of network functions.

SMART/Track, an outgrowth of the financial services industry's straight-through processing initiative, is an automated communications system that allows customers to track the progress of transactions and see their activity status in real time.

DTC designed the service to provide broker/dealers a standardized format and mode of transmission for these notices for securities undergoing a voluntary corporate action event.

A liability notice is sent from one firm to another during a voluntary corporate action event, such as a tender offer, when the recipient owes the sender securities that must be delivered by a certain time for it to participate in the offer. The delivering firm may be held liable for the terms of the offer if it does not deliver the securities in time.

Because notices that are prepared and sent manually via fax are prone to delivery risk and error, and require more time and labor than automated notices, the Securities Industry and Financial Markets Association (SIFMA) pressed the industry to devise a standardized, automated system for transmitting and tracking these notices.

## Fine-tuning the pilot

DTC rolled out a pilot of the notification service in late 2004, giving the pilot users group, which grew from 18 to nearly 100 firms over time, the chance to test-drive its myriad functions, which include status monitoring, search and archiving.

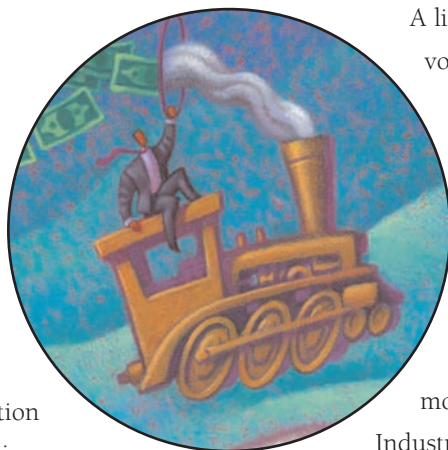
The pilot users recommended various enhancements to the service, including the addition of a feature that allows a user whose firm has multiple DTC numbers to work on behalf of those multiple numbers. The service went live for transmitting voluntary broker-to-broker and broker-to-bank corporate action liability notices on June 1, 2006, and in December, following SEC approval, the link to CNS was activated.

Meanwhile, the proposed change to NYSE Rule 180 was published in the Federal Register in early December. Following a 35-day comment period, the SEC is expected to approve the rule change in January 2007, after which the NYSE will set an effective date.

Users of the SMART/Track liability notice service pay a \$75 monthly charge, plus \$0.75 for each notice sent or received.

## Benefits of the CNS link

CNS participants traditionally could use the CNSR function in the DTC Participant Terminal System (PTS) to indicate their intent to participate in a voluntary corporate action event for a security



being processed in CNS.

Creation of the SMART/Track liability notice service gave CNS members a much-improved pathway for their voluntary corporate action notifications. With the implementation of the CNS link, SMART/Track now provides a single, standardized hub for transmitting and tracking CNS as well as broker-to-broker/bank voluntary corporate action liability notifications.

“The link saves participants from having to go two places for their corporate action-related notifications,” said Ashik Ramkalawon, DTCC manager, Product Management and Development. “It consolidates two different ways of doing things.”

Through the link, CNS users not only can create and transmit liability notices, they also can track the status of particular notices, revise the liability quantity or even cancel notices while they are still pending.

As the final step in launching the link, DTC's CNSR function in PTS will be shut down on or about Jan. 31, 2007. Before then, all CNS members must register for the SMART/Track service. Participants will be notified in advance of the exact date that CNSR will be disabled to ensure that all CNS members are registered for SMART/Track.

### **Audit trail**

SMART/Track also stores an audit trail of all update and cancel information for each notice in descending chronological order, which users can view at any time. “In terms of dispute resolution, the SMART/Track service marks a huge advance over the old way of doing business,” Koontz noted. “The archiving and tracking features give firms a ‘paper trail’ that’s verifiable and instantly accessible.”

In addition, active notices can be searched by status. SMART/Track automatically archives notices based on specified date criterion and makes them available online for seven years. @

*[To learn more about the Corporate Action Liability Notification Service, contact Margaret Koontz at 212.855.5695 or mkoontz@dtcc.com or Ashik Ramkalawon at 212.855.3558 or aramkalawon@dtcc.com.]*

# GCA Validation Service: Operational Following the Taiwan Earthquake

by Steve Letzler

Despite a loss of connectivity with the Shanghai office in the aftermath of the December 26 earthquake that hit southern Taiwan and severely disrupted telecommunications across East Asia, DTCC's Global Corporate Actions (GCA) Validation Service remained operational.

The Shanghai office, the GCA Validation Service's primary service center for corporate actions data on Asian securities, lost telecommunications capacity after the quake, but the London and New York offices were able to assume Shanghai's workload thanks to DTCC's business continuity plan, which is an integral part of the company's operations.

“The outage was invisible to our customers,” said Peter Gleeson, DTCC vice president who oversees operations for the GCA Validation Service. “We continued doing business thanks to solid continuity planning, incredible teamwork and the dedication of our staff in New York, London and Shanghai, many of whom rearranged their holiday plans.”

The GCA Validation Service provides corporate actions announcement information on 1.5 million securities from more than 160 countries, including many in Asia.

### **Redistributing the workload**

When the Shanghai office lost connectivity, the New York and London centers immediately converted to longer shifts, with several over 12 hours, to assume the load of corporate actions that Shanghai was unable to process. Many employees who had made plans for the normally slow year-end holiday week changed their schedules to ensure ongoing service despite the region's impaired Internet and telephone connectivity.

Within two days of the earthquake, the Shanghai office resumed limited data input and output using a virtual private network. On January 2, it obtained access to another network, which enabled the 30-member staff to resume full operations.

This is the second time the GCA Validation Service's business continuity plan has been tested in its short two-and-a-half year history. In July 2005, the terrorist bombing of buses and subways in London forced the closing of the U.K. office, requiring New York and Shanghai to take up the slack. @



# DTCC Will Automate Carrier-to-Carrier Insurance 'Replacements'

by Nicholas Clarke

**D**TCC is developing a new insurance service that will automate and standardize transfers of annuity and life insurance assets from one insurance carrier to another and deliver a more efficient, streamlined process.

The new service will help carriers eliminate many of the manual tasks involved when customers want to transfer – or, as it is called in the industry, “replace” – their insurance holdings. It will allow carriers to reduce operating costs, deliver higher levels of service to customers and distributors, and create an audit trail for all the steps completed within the replacement process in order to meet compliance requirements.

The service, called Replacements, will include automated money settlement – eliminating manual check writing and wire processing – and electronic messaging that supports e-signatures, attachments, privacy and security. It will also give distributors status on pending business, allowing them to track replacements transactions to and from carriers as activity occurs, thereby eliminating the spreadsheets, emails and phone calls required to obtain status today. Replacements is being developed, subject to regulatory approval, as an offering of Insurance Services, a business unit of the National Securities Clearing Corporation, a DTCC subsidiary.

## New business

“Replacements are a significant part of the new business process for the insurance industry,” said Lana Macumber, DTCC director, Insurance Services. “By being able to process replacements using standard, automated technologies, insurance companies can reduce operating expenses and more effectively and efficiently track what has become a tightly regulated process. And by processing these transactions quickly and accurately, companies can build stronger relationships with their policyholders, as well as their agents and brokers.”

Replacements extend to a variety of transactions. These include transfers of life insurance policies to annuity contracts, life insurance policies to other life insurance policies, or annuity contracts to other annuity contracts. Such exchanges or transfers can occur between carriers or, in some cases, within the same carrier family.

The procedures for processing replacements are highly complex

due to state insurance regulations. This is further complicated by processing methods that remain largely manual, time-consuming and error-prone. In some cases, the time required to process a replacement request can take 30 days or longer and involve the use of mail, faxes and phone calls. And because paperwork is not standardized among carriers and distributors, information is often left open to interpretation, leading to inconsistent and inaccurate data collection and rounds of fact-checking by internal legal and compliance departments.

## An industry priority

It is against this backdrop that the Replacements service was identified as an industry priority in an advocacy paper issued in 2005 by the Insurance Panel of the Securities Industry

Association (now the Securities Industry and Financial Markets Association). As noted in the paper, the service would benefit carriers by “eliminating manual data entry, paper exchange, check writing, mailing costs and other physical processes. And the pending case status feature would help distributors by eliminating status calls and providing up-to-date information at their fingertips.”

“Any technology that helps insurance carriers meet the twin goals of reducing operational expenses and improving customer service is an effective investment,” said Melissa Steiner, operations manager at RiverSource and co-chair of Insurance Services’ Replacements Advisory Work Group. “That’s why the Replacements work is such a priority for the industry and why the carrier community strongly supports this initiative and adoption of the service when it becomes available.”

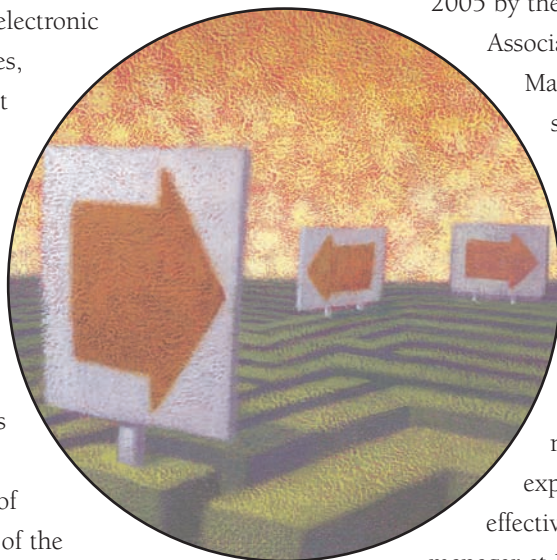
Echoing that view is an October 2006 report by research firm Gartner, Inc., titled “The DTCC Will Provide a Much Needed Boost to Annuities Exchange Processing.”

“Life insurers should actively participate in the DTCC’s new exchange processing service, but also implement workflow management systems that can help speed the sharing of information needed to complete these transactions,” said Todd Eyler, Gartner research vice president and the study’s author. “These actions will reduce the transaction costs for exchanges by 50% or more.” (See box, page 12.)

## ACORD standards

Using standards developed by the Association for Cooperative Operations Research and Development (ACORD), the Replacements service will be developed using ACORD XML (Extensible Markup Language),

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# New DTC/Omgeo Link Delivers Real-Time Data Transmission For the Institutional Market

by Michael Bellini

**D**TCC's Depository Trust Company (DTC) subsidiary and Omgeo have implemented a real-time link for the transmission of data between DTC's Inventory Management System (IMS), through which customers manage the submission of their trades for settlement, and Omgeo's TradeSuite system for affirmed institutional trades. Once received by IMS, delivering DTC participants authorize or exempt these trades for automated settlement at the depository. Previously, DTC received Omgeo files in single batch transmissions the day prior to settlement.

Omgeo, DTCC's joint venture with Thomson Financial, is the global provider of post-trade, pre-settlement processing services for the institutional market. The rollout of this real-time messaging link brings greater efficiency to the institutional market by allowing Omgeo to send DTC instructions as soon as the trades are affirmed. Its implementation was transparent to customers.

In 2005, National Securities Clearing Corporation (NSCC) and Omgeo implemented a similar real-time messaging link for prime brokerage trades processed through NSCC's Continuous Net Settlement system.

"Our primary goal is to further automate all aspects of the post-trade, pre-settlement trade lifecycle to reduce the risk of trade failure and associated costs for our clients," said Marianne Brown, president and chief executive officer of Omgeo. "The enhanced link between TradeSuite, an integral component of trade processing in the United States, and DTC's IMS eliminates manual steps and facilitates faster transmission of trade data to bring us closer to achieving that goal."

The new link, which was approved by the Securities and Exchange Commission, went live Dec. 2, 2006. It utilizes the ISO 15022 format, an industry standard that replaces the proprietary formats formerly used for the batch transmissions.

"The development of this link is an example of Omgeo and DTCC working behind the scenes to improve service delivery for our customers and to adopt global standards," said William Aimetti, DTCC's chief operating officer. "As with all real-time capabilities, this change further strengthens business continuity, which remains an industry priority."

## A better process

In the past, Omgeo held affirmed trades in one large batch for transmission to the IMS at approximately 1 p.m. ET on trade date+2 (T+2). The batch files received by DTC generally contained about 320,000 transactions per transmission.

Now, DTC receives these trades on a real-time basis as soon as they are affirmed, which significantly accelerates data transmission. The main benefit of receiving the trades in real time

is that in the event of a situation impeding transmission,

DTC will already have captured a significant portion of Omgeo's affirmed institutional trades in IMS.

"We no longer receive a large transmission the day before settlement," said Stephen Wasserman, DTCC product manager, Equities Clearance and Settlement. "Now everything is received incrementally intra-day, which further enhances business continuity capabilities."

In addition, customers can now see their affirmed trades in IMS for future settling days, whereas in the past they couldn't.



## Working the late shift

Another enhancement to the Omgeo/DTC interface is the addition of a new IMS transaction type called Late Matched Institutional Trades (LMITs).

Previously, "late affirmed" trades (those affirmed between 12 p.m. on the day before settlement and 12:00 p.m. on settlement date) were not sent to the IMS by Omgeo, as they were considered ineligible for automated settlement. Rather, these trades were sent to DTC as Deliver Orders (DOs).

Now these trades are categorized as LMITs and considered eligible for automated settlement by DTC. These late affirmed items are not processed for settlement until authorization is received.

"Eliminating the need for customers to transmit late affirmed trades as DOs means these trades can bypass the manual processing involved, allowing firms to leverage their existing link with DTC," said Kevin Caulfield, head of U.S. transaction services at Omgeo. "At the same time, reclaim rates are lower for affirmed trades than for DOs, which is another benefit." @

[For more information, contact Stephen Wasserman, DTCC product manager, at 212.855.3270 or swasserman@dtcc.com.]

# DTCC Chooses CLS Bank *Continued from cover*

Information Warehouse with a central settlement facility. Initially supporting credit derivatives, the solution is designed to be extended to other OTC derivative products including rates, equities and commodities, the timing of which will be determined through collaboration with warehouse customers.

## Global reach

“This strategic partnership will provide an automated, seamless processing and settlement environment for the handling of OTC derivatives contracts on a global basis,” said Robert McGrail, DTCC executive managing director, Domestic and International Core Services. “After an extensive review and selection process by DTCC and its Board’s OTC Derivatives Operations and Planning Committee, CLS became the logical choice because of our shared customer base and CLS’ reputation for resiliency, reliability and broad experience handling foreign exchange.”

CLS provides global settlement services in 15 currencies, and is an integral part of the foreign exchange market, settling 270,000 instructions, equivalent to approximately \$2.9 trillion, each day. Like DTCC, CLS operates on an “at-cost” basis for the benefit of the financial services industry.

“Leveraging CLS’ existing settlement infrastructure and global reach, including 57 member banks and 800-plus international banks, brokers and other customers who access CLS indirectly as third parties through members made CLS the logical provider,” said Guido Buehler, managing director, UBS Investment Bank, and member of DTCC’s OTC Derivatives Operations and Planning Board Committee. “CLS will support the settlement of warehouse payment obligations in the nine trade warehouse currencies currently supported, with the option to add more currencies in the future.”

## Combining strengths

“We are pleased to be partnering with

DTCC, bringing together Deriv/SERV’s strength in automating OTC derivatives processing with CLS’ multi-currency expertise and robust settlement infrastructure. It is excellent to see the financial industry leveraging the CLS infrastructure,” said Rob Close, president and chief executive officer, CLS Bank International. “We share DTCC’s vision of a strategic partnership that will support the global expansion of the OTC derivatives market and reduce cost and risk, and CLS is committed to working with DTCC to expand this solution to other OTC derivatives products over time.”

While most OTC credit derivative transactions are now matched and confirmed electronically through Deriv/SERV, market participants still bilaterally settle payments over the life of each contract in a fragmented and non-standardized manner. The Trade Information Warehouse automates and centralizes the most up-to-date information about a derivatives contract, and will link this data with CLS’ electronic settlement process, so that payments will take place automatically, resulting in more efficient, accurate and complete payment processing.

Through CLS, warehouse customers will gain settlement certainty – all payment instructions generated by the warehouse

and settled by CLS will be final and irrevocable in immediately available funds. The Deriv/SERV warehouse will receive real-time information on the status of all payment instructions that have been submitted to CLS Bank.

## Background on the partnership

DTCC launched the Trade Information Warehouse in November in close collaboration with key OTC derivatives market participants, creating a centralized and secure global post-trade processing infrastructure. The warehouse builds on DTCC’s Deriv/SERV platform, which today automates confirmations for more than 80% of credit derivatives trades globally.

The request-for-proposal process began in September 2006 and involved confidential discussions with a number of financial institutions. The decision was finalized in December by DTCC and its OTC Derivatives Operations and Planning Board Committee.

DTCC and CLS will begin working immediately to complete the necessary connectivity and development, as well as legal arrangements and necessary regulatory approval, required to deliver this seamless solution to the marketplace. A definitive timeframe for implementation of this new settlement capability will be announced in 2007. @



# Deriv/SERV Expands Processing Pipeline for OTC Derivatives

by Judy Inosanto

**D**TCC continues to expand its powerful automated post-trade processing platform for over-the-counter (OTC) derivatives, with the addition of a range of new equity derivatives products scheduled for early 2007. New global products will include: Asia ex-Japan (AEJ) share and index options, AEJ share and index swaps, AEJ share and index variance swaps and Japanese index variance swaps.

DTCC will now have 21 global OTC equity derivatives products supported by its automated matching and confirmation platform. Prior to the addition of the new products, Deriv/SERV already supported American and European share and index options, swaps and variance swaps and Japanese share and index options. Additional products are expected to be added to the service on a regular basis during 2007.

## Increasing automation

“With the large number of OTC equity derivatives products that currently exist and continue to emerge across the globe, automating this dynamic and complex market is increasingly important,” said Gina Ghent, DTCC vice president, Business Development. “DTCC is working closely with global dealers and buy-side firms, as well as industry groups to bring to market a

comprehensive, robust platform that supports a wide range of OTC equity derivatives products. We are leveraging our experience in automating the OTC credit derivatives market, but we’re much farther up the learning curve for equities.”

The OTC equity derivatives market continues to grow at a steady pace. As of June 2006, according to the International Swaps and Derivatives Association, Inc., the market had \$6.4 trillion in notional value outstanding, an increase of 32% over the prior year. With the number of market participants and products offerings also expanding rapidly, global dealers and buy-side firms are placing greater attention on improving their operational practices, which still rely predominantly on manual methods.

## ‘Foremost focus’: standardization

“These recent enhancements are another step in DTCC’s ongoing effort to bringing greater depth and diversity to the automated service it provides in this fast-growing market,” said Peter Axilrod, DTCC managing director, Business Development. “By continually expanding on the capabilities of Deriv/SERV’s electronic platform, we aim to help market participants meet their commitment to regulators to strengthen their operational infrastructure, increase efficiency and reduce operational risk.”

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# Friendly Guides Take Customers Through RTTM Web Transition

by James Conmy

**W**hen mortgage-backed securities dealers began migrating to the Internet version of Fixed Income Clearing Corporation’s Real-Time Trade Management (RTTM) system early in 2005, it was a journey into unfamiliar territory.

“When you set off into the unknown,” said Bart Schiavo, DTCC vice president, Product Management, “it’s always good to have a guide.”

So the corporation’s Mortgage-Backed Securities Division (MBSD) came up with a pair of friendly guides to help dealers get up to speed quickly and easily on the new system.

## Life-like figures

Different from the animated paperclip guide in Microsoft products, these are three-dimensional graphic

representations of a man and a woman who direct users to try various functions in order to familiarize them with the Web front-end for RTTM.

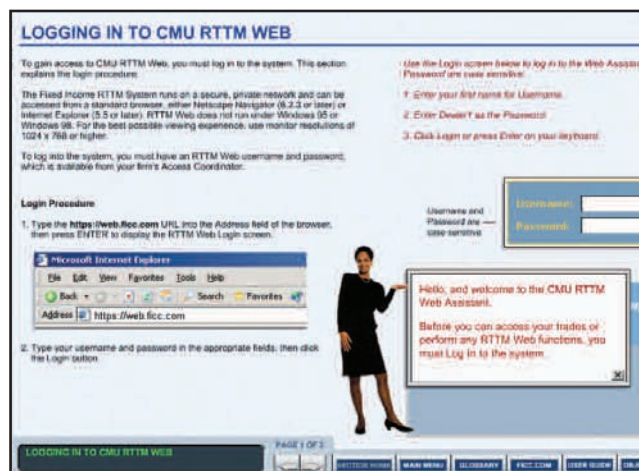
“We were confident the new RTTM Web was user-friendly and

an intuitive trade management tool, but a lot of our customers had been using the old RTTM terminal system for a long time,” Schiavo said. “While most of them are savvy users of the Web, this was quite a change and we wanted to make the transition as easy as possible.”

Known by the generic but easy-to-remember title the Web Assistant, the training program includes a number of interactive

exercises that allow users to perform

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# RTTM Web Transition *Continued from page 9*

“various RTTM functions, such as entering, modifying and searching for trades.”

Because the Web Assistant feels so much like the real RTTM trade management screens, the program cautions: “Your transactions are not submitted to the actual RTTM Web application.”

## Keeping up to date

Since rolling out, the Web Assistant and its guides have been continually updated with new material. For instance, in October 2006, the two guides began talking users through the new procedures they need to learn to take advantage of enhancements to Fixed Income Clearing Corporation’s (FICC) clearing process.

In December, the MBSD finalized another training module, using the same kind of format, to help customers master the additional information fields needed for specified pool matching, which is set to go into production in the first quarter of 2007.

“As we move through the various phases required to create a central counterparty for mortgage-backed securities trading,” said Dennis Paganucci, DTCC vice president, Clearance and Settlement Group, “we’ll continue to rely on the Web Assistant as a tool for guiding our customers through necessary changes in procedures.”

## No need for one-on-one training

The idea behind the Web Assistant, according to David Schroeder, DTCC senior developer of learning applications, was to provide flexible training that FICC’s mortgage-backed securities customers could fit into their schedules instead of having to make time for one-on-one instruction sessions. “Time is money,” Schroeder said, “and the more time we could save our customers, the better.”

Schroeder created the online tutorial using the animation properties of Flash, a Web content design language. Red italicized text shows interactive steps users can take, while large numbered buttons provide a key for “mouse-overs” that offer explanations of and details about the step being taken. The tutorial is also set up so that users can work on different segments repeatedly or focus on particular real-time trading management steps that they might be responsible for within their firms.



“We created a user guide, but it’s long and looks intimidating, while the Web Assistant is focused directly on the product and the mechanisms to make it work. You don’t have to read all the background information in the user guide to grasp the changes and see how much more efficient the Web front-end is,” Schroeder said.

This interactive approach to learning maximizes the user’s time and ability to retain knowledge. According to a study in the *Training and Development Journal*, “People retain about 25% of what they hear, 45% of what they see and hear, and 70% of what they see, hear and do.”

## Feedback on the Assistant

Located on FICC’s Website ([www.ficc.com](http://www.ficc.com)) under RTTM Training, the Web Assistant is available 24 hours a day. Within months of its launch, Schroeder said, FICC started getting positive feedback from customers. “People told us they really liked this type of flexible training,” he said.

Based on the favorable response, MBSD is already planning additional training modules that will guide customers through new procedures. @

# A Conversati

**A**nn Bergin, DTCC managing director and general manager, Distribution Services, recently spoke about progress and the outlook for Mutual Fund Services. She also gave an update on the new Managed Accounts Service, launched in 2006, and another service expected to pilot in 2007 for the alternative investment market (see page 1).

*In general, how did Mutual Fund Services fare in 2006?*

It was a very good year. We brought in new clients and expanded our relationships with the IBDs [inter-dealer brokers]; there’s a lot more understanding of who we are and the benefits we can bring to their businesses. Volumes are growing. We’ve been able to give the industry some solid solutions to compliance issues and we’re developing deeper relationships with our clients, which will put us in an even better position to keep pace with their needs.

*You have said that one of the key issues and challenges facing the fund industry is continued regulatory scrutiny. Has your outlook shifted over the past 12 months?*

Regulatory scrutiny is still very real, particularly in the areas of transparency and disclosure, such as fund fees and expenses, revenue sharing and conflicts of interest in sales arrangements. The focus is on ensuring that investors have access to pertinent information, know what’s going on and that the funds are able to track activities – frequent trading and late trading, for example.

*The Security and Exchange Commission’s (SEC) Rule 22c-2 (redemption fee rule) rose to the top level of industry attention in 2006. How involved has Mutual Fund Services been in this issue?*

We’ve been very involved. We com-

# on with Ann Bergin

by Karen Gregory

pleted an important enhancement to Networking that addresses the frequent trading/redemption fee issue and gives funds and firms the ability to initiate and respond to requests for shareholder information in omnibus and super omnibus accounts. And while the SEC ultimately extended its compliance deadlines, our service is ready for immediate use by the industry.

## *Who is using this service?*

We have 12 firms plus major transfer agents and service providers testing now. But we're hoping that the industry moves on this early, so programming and testing can be completed well in advance of the October 2007 deadline.

## *Are breakpoints still an issue for Mutual Fund Services?*

They are, and we made a lot of progress last year. The NASD recommendation that the industry use Profile's Security Issue Database for breakpoint information initiated a much larger program to transform it into a comprehensive central repository for data.

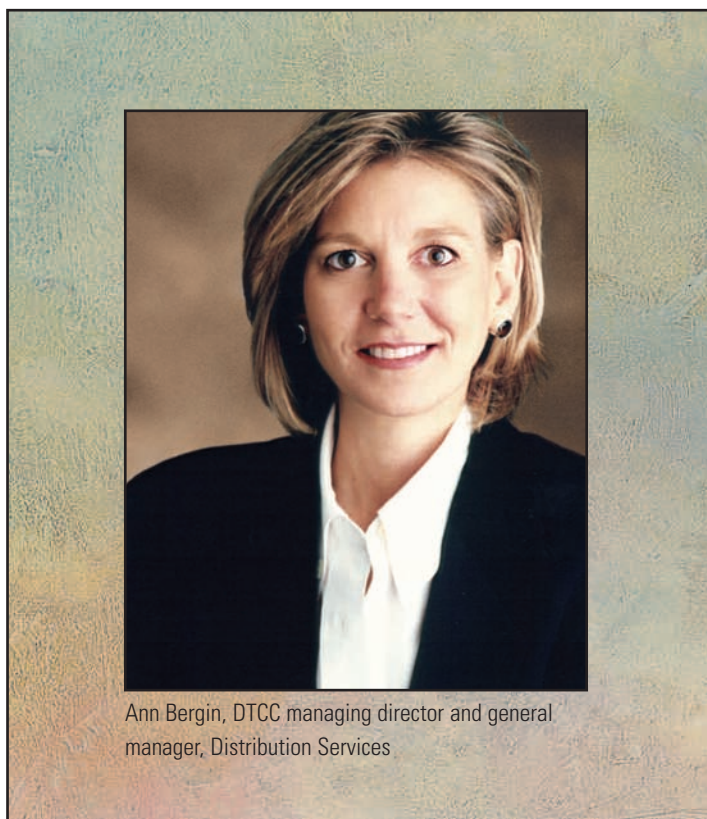
## *As DTCC expands its focus overseas, how does this global emphasis affect Mutual Fund Services?*

We've had a European focus for some time, and Fund/SERV works quite well in the offshore market – Luxembourg and Dublin, for example – where it's become a very viable processing solution. We receive continuous inquiries from offshore fund companies wanting to put their funds on the system. In 2006, for example, volume increased 13% over year-end 2005.

The cross-border market is complex, however. The model for the domestic markets in Europe is very different from

ours in the United States. There seems to be a fair amount of recent activity by providers in the European market, so it is certainly something we'll keep our eye on going forward.

*The September 2006 announcement of the partnership with Citigroup to launch DTCC's Managed Accounts Service received substantial media interest. What are the next steps for this service?*



Ann Bergin, DTCC managing director and general manager, Distribution Services

Interest in the Managed Accounts Service has been heartening. Our announcement with Citigroup Smith Barney's Consulting Group and Global Transaction Services, by far the largest players in the separately managed account world, brought our efforts center stage. The investment managers, sponsors and vendors we've been talking to want to see this product grow in line with forecasts for industry growth. What the market doesn't have right now is scalability, and we can bring to it efficiencies that ultimately will improve profit margins,

making it a more efficient, better-margined service. I expect it to grow substantially in 2007.

*DTCC is also working on developing a service for the alternative investment market, which is somewhat beleaguered by a highly non-automated processing environment. What are the plans for 2007?*

In the first quarter, we're planning to pilot a new service that will initially automate and standardize transactions in these products, including account openings, account maintenance, purchases, redemptions and commission payments. The service is off to a good start, and we expect to see healthy growth.

## *Any final thoughts?*

I don't think we can emphasize enough the important role DTCC plays in managing operational risk and in business continuity. We take the responsibility of maintaining soundness, information security and information privacy extremely seriously, and we've put stringent protocols in place – not only internally, but with our vendors, as well – to ensure that the integrity of our systems and business methods are never compromised.

Our clients rely on us as a trusted, secure partner. They expect us to protect their information as carefully as they do. As a key contributor to the financial infrastructure of the country, we're at the forefront of these issues, and we work vigilantly to make sure that our processes, our products and our services facilitate compliance for DTCC and our clients. @

a family of messaging specifications for the industry designed to enable real-time, cross-platform business partner message/information sharing.

Historically, Insurance Services has relied on flat-file formats for its solutions. The move to XML – a first for Insurance Services – reflects increased interest and use of this technology among carriers, with many companies moving to adopt XML as the basis of their current and long-term system architecture plans.

"We're very pleased to be able to leverage ACORD XML standard messaging in our Replacements service," said Randi Gordon, DTCC vice president, Insurance Services. "The carriers that are part of our Replacements Advisory Work Group helped create the ACORD XML standards for replacement processing, and others are already using the standards as they adopt service-oriented architecture and build applications based on Web services. Incorporating ACORD standards into our Replacements service will clearly help carriers maximize their current ACORD investments, saving them both time and money, and it reflects our commitment to support ACORD standards in developing new services when requested by our customers and the industry." @

## More from the Gartner Study

Streamlining the process for annuity and life insurance replacements promises to pay big dividends to insurance carriers and broker/dealers alike. That's the summary of a new Gartner study, "The DTCC Will Provide a Much Needed Boost to Annuities Exchange Processing," released in October 2006.

Among the study's findings:

- At least 30% of variable annuity sales result from 1035 exchanges and other replacements.
- It's common for these transactions to generate \$100 in processing costs for the receiving insurer because of the "phone tag" and extensive use of regular mail for sharing the large number of disclosure, notification and other documents.

"[We] expect a significant reduction in the costs of processing 1035 and other exchanges because of fewer status calls, the much reduced use of regular mail and the replacement of paper checks with electronic fund transfers," said Todd Eyler, Gartner research vice president and the study's author.

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## Processing Pipeline for OTC Derivatives

Continued from page 9

According to a recent report titled "Trends in the OTC Equity Derivatives Market" by independent research firm Aite Group, a primary obstacle to increased automation lies in the lack of legal documentation or Master Confirmation Agreements (MCAs) that have been signed between firms for their OTC equity derivatives transactions. (To download the report, visit [www.dtcc.com](http://www.dtcc.com) under "Thought Leadership" and "Industry Perspectives.") Because of the multi-faceted nature of the marketplace, identifying and completing the vast array of documents required between counterparties has become cumbersome and problematic.

In a Nov. 21, 2006, letter to the Federal Reserve Bank of New York, 17 of the leading

global OTC derivatives dealers addressed the documentation issue and characterized standardization as "our foremost focus and an important precursor to large-scale automated trade matching."

The dealers also commented in the letter that they have developed a prioritization plan to create and publish additional MCAs, and to move towards greater adoption of electronic processing platforms. In addition, these market participants pledged to create an environment in which frequently traded products are supported by streamlined documentation. @



*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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