



This second article in a two-part series about technology at DTCC is an interview with Chief Operating Officer William B. Aimetti, who talks about DTCC's approach to meeting the industry's continually expanding technology requirements.

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Coming Soon for Prime Brokers: Netting of U.S. Treasury Trades

by James Conmy

DTCC's Fixed Income Clearing Corporation (FICC) is developing a new capability to help prime and executing brokers reduce cost and risk by increasing automation in the clearance and settlement of the U.S. Treasury securities trades they oversee and/or execute for hedge funds.

The new capability, scheduled for rollout in the third quarter, will enable

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DTCC Hires Industry Veteran Michael Bodson



Business Continuity Initiatives for 2007



Abbey Financial Chooses GCA Validation Service

Netting of U.S. Treasury Trades

Continued from cover

prime brokers to submit trades for “matching-only” or “matching and netting” by FICC’s Government Securities Division (GSD), even when the prime brokers are acting simply as an agent for their hedge fund clients.

“This innovation will lower settlement costs while reducing counterparty and settlement risk because GSD will become the counterparty and guarantee settlement on a large number of trades that currently settle outside FICC on a bilateral basis,” said Murray Pozmanter, DTCC managing director, Clearance and Settlement Group.

Problem: trade-for-trade costs

Hedge funds generally trade U.S. Treasury securities through multiple “executing brokers,” and then count on their prime broker to oversee the clearance and settlement of the trades. But because prime brokers often function only as the agent for fixed income hedge fund trades, they typically don’t transmit those trades to FICC for matching and netting since the prime brokers are not a legal party to the trade.

Instead, the transactions settle on a trade-for-trade basis on the Fedwire, which can be costly. In addition, because trades are not typically matched prior to settlement, any problems have to be dealt with at, or immediately after, settlement, creating settlement risk and potentially additional costs.

Solution: matching and netting

To deal with these issues, FICC is developing an enhancement to its Real-Time Trade Matching [RTTM] system that will enable prime brokers to submit their trades for matching and netting to GSD in much the same way that correspondent clearing firms submit their trades.

Using an assigned symbol to indicate a hedge fund client, prime brokers will have the flexibility to indicate how each client’s buy/sell and repo transactions should be processed. For example, a prime broker may choose to set up a client’s buy/sell trades to match and net, while its repo trades will be handled as match-only, and then settle trade-for-trade.

“Prime brokers will be able to submit their trades to GSD through our RTTM system, which will give them automated matching of trade details, and then, based on their own risk tolerance, they can choose to match-only or match and net by trade type,” said Lisa Meiselman, DTCC director, Clearance and Settlement Group.

GSD will net the trades that are eligible for netting, which reduces risk and will have a big impact on costs and operations for the brokers. “A firm may go from managing hundreds of separate trades with credit risk on each one to the point where it can net those trades down to one position per security with FICC,” said Meiselman. “For trades that are match-only, the benefit is reduced settlement risk.”

Listening to customers

FICC launched a research initiative to understand and quantify hedge fund volume in U.S. Treasuries after a customer commented on how fast this business was growing. FICC met

with several prime broker business units, which tend to have their own operations area within firms, and identified the need to provide a real-time matching and netting service for this book of business. FICC then formed an industry working group to explore specific proposals for solving the problems.

A key issue the working group tackled was varying interpretations of the FICC rules regarding matching. To clarify any confusion about prime brokers having to take financial responsibility with FICC for trades submitted for matching-only, FICC filed a rule interpretation with the Securities and Exchange Commission, which the commission approved effective immediately. The interpretation says that, under FICC rules, participants submitting trades for matching-only are not subject to settlement-related obligations with FICC and that FICC rules do not alter the relationship between a participant and its customers.

“This project is an example of how DTCC works with customers to bring new solutions to growth areas of their businesses,” said Pozmanter. “We are leveraging existing technology to build a new capability that will reduce cost and risk for our prime and executing broker clients, which in turn strengthens their ability to compete in this booming hedge fund market segment.” @

[For more information, contact Lisa Meiselman at 212.855.1207 or lmeiselman@dtcc.com.]



Market Street Advisors Joins DTCC's Growing Service For Managed Accounts

by Karen Clarke

Market Street Advisors has joined the list of firms linking to DTCC's new Managed Accounts Service, a centralized platform that streamlines communications and reduces the risk associated with opening and maintaining managed accounts. Other firms participating in a pilot of this new service are Citigroup Smith Barney, the industry's largest managed accounts sponsor, Citigroup's Global Transaction Services and Vestmark.

"We are delighted to have Market Street Advisors join our participant network," said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. "We have a growing queue of firms in our test environment, and we're on a fast track to deliver this solution to the industry before the end of the year."

'In a fraction of the time'

Managed accounts encompass a variety of financial products designed for high-net-worth investors that include separately managed accounts, multi-style portfolios and unified managed accounts, among others. The market is growing rapidly: assets rose 25% in 2006 to \$856 billion, and forecasts project assets will reach \$1.5 trillion by 2011.

Market Street Advisors is a web-based, fully integrated application service provider that offers middle- and back-office

investment services to the institutional, high-net-worth and wrap segments of the managed accounts industry.

"DTCC's Managed Accounts Service allows virtually straight-through processing of new managed accounts," said Bevin Crodian, CEO of Market Street Advisors. "Investor funds will be put to work in a fraction of the time it takes now. Our connection to DTCC creates a valuable interface that provides our clients access to a wide network of managed accounts participants,

without having to create their own technology interface to the platform."

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 service automates that communication and links all trading parties through one connection to a central platform. It is designed to simplify the complex and costly processes that are an impediment to the continued growth of the managed accounts industry.

The new service exchanges managed account information, including a comprehensive message containing all details to set up a new account, in the form of standard messages through DTCC's automated network, which greatly minimizes operational costs and risk of errors. It is built on DTCC's self-healing, resilient network that ensures secure data exchange and unparalleled safety of investors' private records.

An expanding network

Market Street Advisors' solutions, which help sponsors and money managers better serve their high-net-worth clients, include individualized account maintenance, reporting, compliance and accounting.

"We provide support services that allow asset managers to focus on higher-value activities like product and market development, distribution and client service," Crodian said.

"DTCC's centralized platform creates a common protocol for managers to connect to sponsors that expands their reach and opens doors to growth that previously were cost-prohibitive."

In signing on to DTCC's Managed Accounts Service, Market Street Advisors will be connecting its managed accounts clients to the service's growing network.

"Joining the DTCC network will benefit our clients by expanding their trading capacity in a secure, automated environment," Crodian said. @



DTCC Hires Industry Veteran Michael Bodson to Help Manage Its Growing Businesses

by Stuart Z. Goldstein

DTCC announced the appointment of Michael Bodson, a 20+ year industry veteran, to a newly created position of executive managing director for Business Management and Strategy, effective March 1. He will report directly to Donald F. Donahue, DTCC president and CEO.

In this new position, Bodson, 49, will be responsible for consolidating the product management of all DTCC business lines, strategic planning, relationship management and marketing under one umbrella. This role includes oversight of DTCC's core clearance and settlement businesses for equities and fixed income, its custody and asset servicing businesses, and the processing support provided to the mutual fund and insurance sectors, as well as DTCC's growing role in automating the post-trade processing of over-the-counter (OTC) derivatives.

Meeting customer expectations

"Mike Bodson is an enormously talented and respected leader in financial services," said Donahue. "His broad industry knowledge, strong management skills and years of experience working in Asia will bring tremendous advantages to DTCC, as we are challenged to anticipate and develop new infrastructure services more rapidly than ever before while extending our reach globally."

Donahue said this new senior executive position will create a more rigorous business process management approach that will fully leverage the talent and resources the firm has to address changing customer requirements, including the increased volume of trades in alternative asset classes (such as derivatives), the continued globalization of the financial

services industry, the evolution of technology and industry consolidation.

"The challenge for DTCC is that customer expectations are accelerating at almost warp speed," said Donahue. "There's a whole new level of innovation required of us, and a much shorter time period for us to develop the kinds of capabilities the industry needs. And if we can't do it, our customers won't hesitate to seek a competitor of ours that can. We have to work smarter and faster than ever before. Like our customers, we'll have to gear up for business 24/7, not just in this market, but in markets and time zones throughout the world."

Bodson is a former Board member of DTCC and, until recently, was managing director and global head of operations at Morgan Stanley, responsible for supporting the Institutional, Retail and Asset Management groups.

Bodson was with Morgan Stanley for over 20 years. Prior to his most recent

position, he was global head of the Institutional Securities Operations Group, supporting all equity, fixed income and commodities products. He also had responsibility for operational risk, business continuity planning and information security.

Before that, he served as divisional operations officer for the Institutional Securities Group and head of the Enterprise Information Group. In the mid-1990s, he served as head of Finance, Administration and Operations for Morgan Stanley Japan in Tokyo and, prior to that, he held similar responsibilities for Morgan Stanley Asia in Hong Kong.

Bodson joined Morgan Stanley in 1986. Before that, he worked at Bear Stearns and Price Waterhouse.

He has dual degrees from Boston College, graduating summa cum laude, with majors in Accounting and English. He is also a certified public accountant. @

Bodson will be responsible for consolidating the product management of all DTCC business lines, strategic planning, relationship management and marketing under one umbrella.



Michael Bodson

DTCC Outlines Business Continuity Initiatives for 2007

by Melanie Best

DTCC has completed the “big-ticket items” that have dominated the organization’s business continuity planning (BCP) agenda over the past five years. These include establishing new remote facilities and significantly accelerating the speed for replicating data among the company’s multiple data centers.

“At this point, we are state of the art in business continuity, but that doesn’t mean we have stopped paying attention to it,” said Donald F. Donahue, DTCC president and CEO. “On the contrary, we are continually reinforcing and reassessing our continuity capabilities.”

This year, DTCC is turning its attention to a diverse array of BCP initiatives. Many of these are ongoing efforts and one, preparing for an influenza pandemic, is also gaining momentum throughout the financial services industry.

External focus

As always, confirming the connectivity capabilities of DTCC’s largest customers remains a priority. “Customers currently required to test annually with DTCC number in the low 200s,” said Ken Wright, DTCC director, Corporate Business Continuity, adding that these firms account for the bulk of the business across DTC, NSCC and FICC. “All these customers are required to test connectivity between their back-up sites and DTCC’s multiple data centers at least once a year.” (It is not necessary to conduct tests from customers’ primary sites because this occurs during the normal course of business throughout the year.)

In the area of vendor BCP – that is, ascertaining whether key vendors are capable of supplying critical goods and services during an unplanned business interruption – Wright has been



Evolving responses

Pandemic planning, an emerging concern in the general corporate BCP community, marks the newest addition to DTCC’s multi-faceted continuity program. DTCC has created an in-house task force dedicated to the issue. And through its membership on the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC), DTCC is contributing to the work of U.S. government agencies to get critical infrastructure ready to respond to and recover from an influenza pandemic.

“We want to be prepared to address any situation that could prevent people from getting to the office,” said George Perretti, DTCC managing director, Corporate Business Continuity. “We’ve seen from the SARS outbreaks in Asia and from other past events that workforce availability will periodically be affected, and we want to make sure our financial infrastructure is prepared to handle these situations.”

The company’s post-9/11 approach to preparing for business interruptions and emergencies enhances its ability to confront a pandemic, Perretti said. In the pre-9/11 world, he noted, DTCC and other financial services companies focused on being able to evacuate and relocate staff to alternate sites in the event of a natural disaster or other emergency. “Since then, we’ve focused on geographically dispersing our people and operations to withstand disruptions and threats.”

collaborating with DTCC’s Legal department to craft standard BCP language for inclusion in future vendor contracts.

Wright’s team also drew up a vendor questionnaire covering BCP capabilities. This year, the group is distributing the questionnaire to some 175 vendors and will analyze the responses to refine the company’s contingency planning.

Across the organization

Internally, DTCC will conduct 10 to 12 tabletop exercises for various sites and departments in 2007. The tabletops present participants with emergency scenarios and allow them to enact disaster-recovery actions appropriate to their business area. Among those slated for tabletops this year are the executive leadership team, teams in the Infrastructure division and command teams at the remote sites.

To keep pace with the growth of DTCC’s operations abroad, DTCC will put more emphasis this year on refining and testing recovery plans for the London and Shanghai offices. “We’re looking more closely at what we can do for our overseas facilities,” said Wright.

“Over the years, the commitment to business continuity from DTCC’s leadership team has never waned,” said Perretti. “For those of us who think about these issues every day, support from the top makes our job easier.” @

Abbey Financial Markets Chooses DTCC for GCA Information

by Steve Letzler

Abbey Financial Markets has chosen DTCC's Global Corporate Action Validation Service (GCA VS) to automate, streamline and reduce risk for corporate actions.

Abbey Financial Markets is the latest customer to join a growing international group of customers that have selected GCA VS to provide global corporate actions data.

For the front and back offices

The GCA VS provides a centralized source of corporate action announcements for equities and fixed-income instruments traded in more than 160 countries in Europe, Asia-Pacific and the Americas. It provides the broadest corporate actions coverage of any service in the world.

"We believe DTCC has the infrastructure and resources in place globally to support the industry's move to a single, standardized source," said Steve Jennett, head of Operations at Abbey Financial Markets.

"With GCA VS, we'll be able to ensure the consistency and quality of corporate action information used across our organization. Timely corporate action information is essential in our front office to identify trading opportunities, and in the back office to drive client notifications, while helping to mitigate some of the processing risk for corporate actions."

Abbey Financial Markets went live with the ISO 15022 version of the service. The ISO 15022 international messaging standard, which is used by many firms internationally, is offered in addition to a proprietary format of GCA VS and a real-time Web browser.

Meeting global requirements

"DTCC is committed to delivering a world-class solution for corporate action announcement information. We're delighted to have been selected as Abbey Financial Markets' global provider," said James Femia, DTCC managing director and head of the Global Corporate Action business. "We're investing substantial resources to ensure GCA VS is delivering comprehensive, accurate and timely information that meets

the global requirements of our customers."

Abbey Financial Markets joins a growing number of major global financial institutions and buy-side firms using the GCA VS, including Credit Suisse First Boston, JPMorgan Securities, Merrill Lynch, Raymond James, First Clearing and UBS. @



Steve Jennett, head of Operations at Abbey Financial Markets

Testing for Specified Pool Trade Matching Is Under Way

DTCC's Mortgage-Backed Securities Division (MBSD) is currently conducting customer testing for the matching of specified pool trades for mortgage-backed securities. This function is a key building block for the creation of a new central counterparty for MBSD clearing members.

The tests are designed to make sure market participants can submit and receive interactive messages that allow them to match the specified pool mortgage-backed securities being traded.

It is important that every customer know how to handle the new interactive messages, according to Melanie Serman, DTCC director, Clearance and Settlement Group. "Even firms that do not trade specified pools must be prepared to receive advisory messages about the pools in case a contraparty submits a specified pool trade against them by mistake," she said. @

[To confirm plans for testing, customers may contact DTCC Relationship Management at 800.422.0582 or by email at rmsupport@dtcc.com. To coordinate test times and obtain test scripts, contact Aileen Rose at 212.855.7565 or by email at arose@dtcc.com.]



DTCC Opens Insurance Services to Broker/Dealers That Create Retirement Income Programs

DTCC announced that registered broker/dealers that create and sell non-insurance retirement and other benefit programs through distributing broker/dealers can now be supported through DTCC's Insurance Services platform.

A Securities and Exchange Commission rule filing submitted by DTCC's National Securities Clearing Corporation (NSCC) subsidiary paves the way for broker/dealers to leverage DTCC's Insurance Services platform to automate processing and support the administrative handling of these wrap-like non-insurance retirement and other benefit programs. These tailored retirement products will grow as the baby-boomer generation enters retirement.

Insurance Services is a business unit of NSCC.

Wrap-like

These wrap-like programs are similar to annuities in that they allow for retirement investing based on the bundling of multiple investment options, typically mutual funds. The programs are considered non-insurance because they are not themselves insurance products, nor are they governed by state insurance regulations.

The rule filing, which became effective Dec. 13, 2006, allows broker/dealers to offer their own retirement programs to plan sponsors through distributing intermediaries. These broker/dealers can now qualify as direct NSCC insurance carrier/retirement services members. Previously, only insurance carriers could qualify for this type of membership.

The rule filing also expands the types of products Insurance Services can process to include non-insurance retirement and other benefit plan products. Until now,

Insurance Services has provided services for the annuity and life insurance markets.

This new service complements the functionality offered on NSCC's Fund/SERV® system, which the program broker/dealers can use for communication to the mutual funds that are in the program's underlying investments.

"With 78 million baby boomers

'With 78 million baby boomers entering retirement in the next few years, there will be a huge transition from the accumulation stage to the distribution and payout stage, which opens the door for a wide range of new retirement products.'

— John Ziambras, DTCC managing director, Insurance Services

entering retirement in the next few years, there will be a huge transition from the accumulation stage to the distribution and payout stage, which opens the door for a wide range of new retirement products," said John Ziambras, DTCC managing director, Insurance Services. "We believe our services are well positioned to support this new market, in the same way we have supported annuities and life insurance through operational and cost efficiencies, reduced risk and a simpler way of doing business."

Broker/dealers and other entities offering these programs will be able to leverage a number of key Insurance Services reporting solutions, including:

- Commissions, which automates compensation payments and provides same-day money settlement to broker/dealers, banks and other distributors
- Positions, which gives broker/dealers, carriers and, indirectly, their customers access to detailed information about their investment programs, including current asset values
- Financial Activity Reporting, which allows distributors to track daily investment activity and meet compliance requirements related to monitoring for market timing, late-day trading and money laundering.

"With this change, we can now expand the reach of our services to more customers and have them rely on DTCC Insurance Services to automate and standardize information exchange for retirement programs," said Jeanann Smith, DTCC senior relationship manager, Insurance Services. @

Technology at DTCC: A Special Series

Part II: In the article that follows, William B. Aimetti, DTCC's COO, talks about how DTCC has positioned its technology organization to meet the industry's needs. An interview with DTCC President and CEO Donald F. Donahue about the 2007 Development Agenda, appeared in the February issue and is available at www.dtcc.com

How has DTCC evolved its Information Technology (IT) organization to meet the industry's increasingly diverse and complex technology needs?

Over the past five years, we have fundamentally transformed our IT organization. That transformation is grounded in the adoption of technology-industry standards that have brought a new level of discipline to how we develop applications and manage the infrastructure that supports those applications. For customers, the benefits of this standardization drive include lower costs, fewer defects, improved speed to market and

organization, we have a comparable initiative. We are implementing standards to achieve process improvements, based on a model called ITIL, which stands for Information Technology Infrastructure Library.

What is DTCC's approach to outsourcing as part of the overall technology strategy?

We have had an outsourcing program in place for several years. In prior years, we called it "consulting help," which was used to augment our full-time staff when our demand for labor was greater than our supply. The difference now is that we are

Ultimately, we entered into strategic partnerships with all three firms, negotiating service agreements that include a series of safeguards. For instance, we built in protection against rate increases. For the first two years, our rates were frozen, with subsequent increases indexed to the U.S. consumer price index. We are also protected against foreign exchange risk.

Having multiple partners in India also gives us flexibility, as well as a form of checks and balances. For instance, we might use one firm for development and

We are firm believers that DTCC does not have to invent all its technology solutions. We are always looking to team with companies whose expertise is complementary to our own. The goal is to establish partnerships that help us roll out solutions faster and at lower cost.



better service.

On the software development and testing front, we rely on a methodology called Capability Maturity Model Integration, or CMMI, which originated at Carnegie Mellon University. CMMI has five levels of certification that companies obtain based on their development capacity. DTCC now has Level 3 certification for six CMMI practices and, in 2007, we will add two more categories. In 2004, we obtained Level 2 certification in all CMMI disciplines. These accomplishments put DTCC in an elite class, especially among financial services firms.

On the Infrastructure side of our IT

able to obtain resources from locations outside the United States at more economic rates. This staffing strategy allows us to ramp up our resources quickly, enabling DTCC to meet its technology development commitments.

To create this program, we researched top-tier outsourcing firms, invited five of them to make presentations to us and whittled the list down to three organizations based in India: Tata Consultancy Services, Cognizant and Polaris. Then we went to India to do our due diligence, which included evaluating each firm against a detailed questionnaire as well as physical inspections of their facilities.

another for testing.

We also decided to diversify geographically to avoid having too much work concentrated in one country. Now we have a strategic partnership with IBM, which has an outsourcing facility in Brazil, and we are looking to diversify into Canada, as well.

How does DTCC manage potential security risks associated with outsourcing?

All the people from outsourcing firms who work for DTCC go through a rigorous screening process, managed by our Internal Security department, which works

industry's continually expanding requirements. Part I in the series, an dtcc.com under Newsletters.

closely with local authorities on background checks. And from an information security standpoint, none of the offshore developers has access to DTCC's production systems; they can only access our development environment, which is completely isolated from the production environment.

What is DTCC's approach to partnering on technology initiatives?

We are firm believers that DTCC does not have to invent all its technology solutions. We are always looking to team

compared with 30 minutes previously, which represents a huge gain for the industry's resiliency.

In other cases, we look to leverage off-the-shelf software packages. If a firm has software we need, we'll acquire it, customize it where necessary and then implement it. As I mentioned previously, we have strategic partnerships with several outsourcing organizations, and we also consider Verizon and AT&T strategic partners. We review our strategic directions with these providers and brainstorm how they can help us achieve our objectives.

significantly cut the industry's overall operating expenses by leveraging DTCC's infrastructure and processing capabilities, and the industry is now realizing those financial benefits, as well.

In 2003, the year we began insourcing, we were paying SIAC approximately \$60 million a year for its services, including people, computer power, software, etc. Now our total cost for those same services is approximately \$20 million – which is a \$40-million-a-year savings.

So insourcing has helped DTCC cut overall expenses and was one factor that enabled us to reduce customer fees in



William B. Aimetti, DTCC chief operating officer

with companies whose expertise is complementary to our own. The goal is to establish partnerships that help us roll out solutions faster and at lower cost.

Business continuity is a good example of this approach. When we determined that we needed to accelerate the replication of data among our multiple processing sites, which are thousands of miles apart, we entered into a partnership with EMC Corporation. We developed a significantly faster replication capability and successfully implemented it last year. Now we move information among our data centers in less than two minutes,

You have talked about outsourcing; now let's turn to insourcing. Could you describe the benefits of the SIAC (Securities Industry Automation Corporation) insourcing project?

Our primary goal with insourcing, which entailed moving NSCC and FICC applications and network connections from SIAC into DTCC, was to strengthen business continuity by providing out-of-region data recovery for these subsidiaries. That was a multi-year initiative completed in 2005.

On top of the continuity benefits, the project presented an opportunity to

2006 and again this year. Those savings also free up capital for DTCC to invest in non-traditional product areas, such as Deriv/SERV and the Global Corporate Action Validation Service.

In the 2006 Customer Satisfaction Survey, DTCC posted improvements in all questions pertaining to technology. To what do you attribute those ratings?

I think the positive scores reflect many of the things we've talked about: strengthening business continuity; putting standard processes and disciplines in place; knowing when partnerships will

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Technology at DTCC

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deliver the best result; deploying an outsourcing strategy; seizing every opportunity to reduce costs.

However, although all these are very favorable factors, the most important aspect is systems reliability. Our Infrastructure organization is dedicated to ensuring that all our applications are available to customers for their use, nearly every minute of the business day. This reliability, coupled with outstanding business continuity execution, creates tremendous credibility and trust with our customers.

Lastly, the survey scores are directly attributable to the caliber of our people. At DTCC, we have a tremendously talented and dedicated IT group. And we have a track record for retaining good people. We invest in them and develop their skills, which further benefits the organization.

How do you plan to make further customer satisfaction gains in 2007?

We have two main areas of focus in the technology organization this year.

First, we will be rolling out internal service level agreements [SLAs] for most product areas. These are agreements between IT and DTCC's

product areas that monitor the performance of our networks and software. They clarify customer expectations and provide accountability by tracking items that are important to customers, such as the timeliness of input and output, schedules for systems availability and timeframes for resolving customer queries.

The SLAs both support and reflect our commitment to use metrics to assess performance, which dovetails with our second area of focus, which is to expand the use of Six Sigma within IT. We will be introducing new metrics to measure performance on the premise that you can't improve unless you know where you stand, and you don't know where you stand unless you can measure it. So we will deploy the Six Sigma methodology more broadly to establish the criteria we need to measure, and then set targets with the goal of continually improving our processes. @



DTCC Expands European Presence

DTCC opened a new City of London office at Broadgate West to support a growing range of global offerings and a customer base that increasingly operates around the world.

“By strengthening our London presence, we'll have an even broader base to provide our customers with increased service and support throughout Europe,” said William Aimetti, DTCC's COO. “Since nearly half of our customers are firms that operate globally, we are committed to expand our facilities in Europe to meet the growing needs of our global customers, who are looking to DTCC to help them reduce operational costs, streamline processing and manage risk wherever they operate.”

GCA Validation Service's Global Capabilities

DTCC's Global Corporate Action Validation Service staff, who provide information on corporate action events in 160 countries, speak the following languages: English, Bahasa (Indonesia), French, German, Hindi, Italian, Japanese, Korean, Mandarin, Polish, Russian, Spanish, Ukrainian, Gujarati (India), Lithuanian and Portuguese.



ce as Part of Growing Support for Global Services *by Lisa Argento*

Regional customer center

The DTCC London office serves as the regional customer center for its global services, including DTCC Deriv/SERV and the Trade Information Warehouse for over-the-counter (OTC) derivatives, the Global Corporate Action Validation Service (GCA VS) and a new service being developed for the alternative investment product (AIP) market. In addition, the London office provides a critical liaison to DTCC's European counterparts and industry organizations, as well as global hedge funds.

The office supports a range of functions, including relationship management, software development, business development and day-to-day customer support. DTCC has more than doubled its London staff over the past year and anticipates additional staffing to meet its growing market needs in Europe.

Snapshot of global businesses

- **DTCC Deriv/SERV.** With approximately 800 customers from 30 countries, this service plays an important role in bringing automation and reducing operational risk for the global OTC derivatives market. DTCC recently launched the Trade Information Warehouse, working closely with key OTC derivatives market participants, to build a global post-trade infrastructure that automates and standardizes record keeping, event processing, payment calculations and settlement over the life of a contract, which could extend five or more years.
- **Global Corporate Action Validation Service (GCA VS).** This service provides corporate action announcements for equities and fixed income instruments traded in Europe, Asia-Pacific and the Americas. Customers include a growing number of major global financial institutions and

buy-side firms, including Credit Suisse, JPMorgan Securities, Merrill Lynch, Raymond James & Associates, Inc., UBS and Abbey Financial Markets, among others. An office in Shanghai, which covers corporate actions in the Asia-Pacific region, also supports GCA VS. (See related article on page 6.)

- **Alternative investment products (AIP).** "Another force driving the expansion is our new automated processing service for alternative investment products, one of the fastest growing areas in the global financial markets," said Aimetti. "We've been working with a pilot group of hedge funds, fund administrators and broker/dealers to design this new platform, which will accommodate global hedge fund investors and support settlement reporting in multiple currencies." The pilot began in February and, pending regulatory approval, will launch later this year. @



New Risk and Collateral Rules Strengthen Risk Management for

The year 2007 is bringing major changes to risk evaluation and clearing fund requirements for customers of both DTCC's Fixed Income Clearing Corporation (FICC) and National Securities Clearing Corporation (NSCC).

Later this year, for example, DTCC will be implementing the revised clearing fund collateral requirements announced last year. The aim of the new rules is to bring common margining standards across NSCC and FICC, allowing customers of both clearing corporations to post similar collateral to meet clearing fund requirements. Previously, customers of FICC's Mortgage-Backed Securities Division (MBSD) had different guidelines from Government Securities Division (GSD) customers, and NSCC customers had still another set of guidelines to follow.

Meanwhile, in February, FICC began implementing its new, more sophisticated, value-at-risk methodology for determining clearing fund requirements for its GSD customers. The new model constantly measures the risk that a customer's portfolio and positions could pose to the clearing corporation each day, and then adjusts collateral requirements accordingly. In conjunction with this, FICC also put into practice its new procedures to return excess clearing fund deposits each day – if customers ask for them – rather than once a month.

Making cash management easier

“Excess clearing funds can amount to a large amount of money for some of our members,” noted Cheryl Lambert, DTCC



Roundup of New Risk Requirements

Here is a summary of DTCC's new risk requirements and practices, the dates they were implemented or are scheduled to be put into use, and how DTCC clearing customers are affected.

10/06: Daily calculation of GSD clearing fund premiums

The new collateral premium rules DTCC introduced in October 2006 have generally been well received, according to Cheryl Lambert, DTCC managing director, Risk Management. “The new rules let us increase or lower the premium based more closely on the risk presented, rather than employing a fixed formula that didn't always reflect the degree of risk,” she said.

2/1/07: New clearing fund deficiency call timetable

The deadline for GSD members to satisfy clearing fund deficiencies has been moved up to 9:30 a.m. Eastern Time instead of an hour later.

The deadline was moved up an hour because any clearing fund deficiency a member owes must be paid before FICC can release funds back to the member via

DTCC's Clearing Corporations by James Conmy

managing director, Risk Management. "Being able to request the return of excess funds on a daily basis allows our members to manage this money more effectively as part of their overall cash management process."

Kicking off changes for the year, FICC began in February to move up by one hour the time when GSD members must satisfy any clearing fund deficiencies. Those deficiencies must now be satisfied each day at 9:30 a.m. Eastern Time, rather than 10:30. In this way, FICC's automated cash settlement process, which was introduced for GSD members in mid-2006, can proceed by the 10 a.m. deadline.

Building on last year's changes

These changes follow the new rules for calculating clearing fund premiums that FICC put into effect last October. That new formula ties any premiums to be levied on a customer's fund much more directly to daily market risk than the previous methodology.

In conjunction with these changes, FICC has also made new reports available on the "Report Center" where its members can get access to their new value-at-risk and daily clearing fund reports online. @

[For more information, contact Jisun Burton, DTCC director, Risk Management, at 212.855.5760 or by email at jburton@dtcc.com.]



the automated daily cash settlement system where settlement occurs at 10 a.m.

2/5/07: Using value-at-risk to determine collateral needs

FICC's new method for judging whether its GSD members need to increase – or reduce – their overall clearing fund deposits took effect Feb. 5, 2007, raising general fund requirements for some customers but lowering them for many others.

2/5/07: Daily return of excess clearing fund collateral

In conjunction with the use of the value-at-risk methodology, FICC's Government Securities Division also began, as of Feb. 5, 2007, to return excess clearing fund deposits on a daily basis rather than monthly, subject to certain conditions. Customers must request the return of the deposits.

When FICC returns excess clearing fund deposits, the funds are credited to the customer's clearing fund account at its agent bank.

Because customers will normally receive excess deposits daily rather than monthly, the old monthly report will be discontinued.

In its place, FICC will provide an update on the funds returned each day via the Internet at its Report Center.

Late 2007: New standardized collateral requirements

In addition to all the other changes being introduced, DTCC's Risk Management unit is standardizing and revising the basic types of collateral that customers may use to meet their clearing fund requirements.

For NSCC customers, collateral will have to be made up of at least 40% in cash and the remainder in a combination of U.S. Treasury securities, government agency securities and mortgage-backed securities issued by government agencies or entities sponsored by the federal government.

For FICC customers, the required mix will be 40% in cash or cash plus U.S. Treasury securities, and the remainder in a combination of the other three types of eligible securities. @

Omgeo Leverages DTCC's Infrastructure

In a collaboration that leverages DTCC resources and strengthens the industry's business continuity, Omgeo recently completed the consolidation and migration of its data centers into DTCC's environment.

This hosting arrangement enables Omgeo to benefit from DTCC's robust infrastructure, while centralizing internal network support for all its services in a single facility. Previously, DTCC hosted one Omgeo offering, Omgeo CTM, while its other services resided in multiple Omgeo facilities.

Omgeo, a joint venture between DTCC

and Thomson Financial, is the global provider of post-trade, pre-settlement processing services for the institutional

market with more than 6,000 customers worldwide. "The data center consolidation was a critical initiative for our company," said Dave Cutright, Omgeo's managing director of

Technology. "It provided an opportunity to streamline our network, upgrade our servers and take advantage of all the resiliency and security of DTCC's data structures."

DTCC's facilities afford state-of-the-art business continuity capabilities, including

multiple, geographically dispersed data centers and out-of-state recovery, as well as a host of resources devoted to security and compliance.

The two-year project was the result of close cooperation between DTCC and Omgeo's technology groups. "This is the first time DTCC has hosted another entity's infrastructure," said Randy Walther, DTCC systems director, Information Services. "To ensure a seamless transition, a new environment was created in our facilities that ran parallel to Omgeo's environment, allowing the team to test until the transition."

The cutover in November of last year was seamless and transparent to Omgeo customers. @



New DTCC Certification Exams *by Albert Stern*

DTCC has expanded its customer certification program to include two additional areas of the business: Clearance and Settlement. These certifications, also available for Asset Services, are provided through DTCC's customer training service, DTCC Learning. Candidates gain certification after passing exams that assess their knowledge and skill.

Exams for these additional areas of the business are scheduled for May 16 (Settlement) and June 20 (Clearance). The Asset Services test was held in March.

The two-hour tests, administered online in a proctored environment, will be offered at DTCC's New York and Tampa locations, as well as at approved remote sites. They will be scheduled again for the fourth quarter of this year.

The certification program, designed to address the industry's evolving needs for working with DTCC, establishes standards of competency for using services offered by its subsidiaries. "We teach best practices," said Rosemary Kurti, DTCC vice president, Customer Training and Information Products. "If an employee is certified, an employer can be confident that he or she fully understands how to best leverage DTCC's systems and services." @

[For more information on certification and the preparatory e-learning and training options available, visit the DTCC Learning Website at <http://learning.dtcc.com> or call DTCC Learning at 888.258.6393.]



SPOKEN

With this issue, @dtcc introduces a periodic column that will excerpt noteworthy speeches of relevance to the financial services industry. If you have suggestions for speeches to consider, send an email to editor@dtcc.com.

Developments in the Global Economy and Implications for the United States, from remarks by Timothy Geithner, president and chief executive officer, Federal Reserve Bank of New York, at the Council on Foreign Relations, 1/11/07.

•••

2006 marked the fourth successive year of a global expansion that has been remarkable for its strength, for its breadth, and for its stability in the face of economic shocks and uncertainty in the geopolitical realm.

This period of broad-based growth in income has been supported by a number of important fundamental forces.

Rapid technological innovation and greater economic integration have brought stronger growth and higher levels of productivity. The acceleration in productivity growth that occurred in the United States in the second half of the last decade seems likely to remain intact. And productivity growth is accelerating outside the United States, most strikingly in some of the large emerging economies.

Financial innovation and greater integration of national financial systems have contributed to the strength of real economic activity by improving the allocation of resources within and among economies. Improvements to risk management and to capital cushions are likely to have made the financial system more stable and more resilient.

And macroeconomic policy has improved around the world....

These factors are each fundamentally important, and they are, of course, interrelated. The policies that delivered better inflation outcomes, more openness and competition and stronger financial systems were critical to fostering an environment in which improvements in productivity and growth could occur.

This expansion has also been notable for the financial conditions that have prevailed over the past several years. Long-term interest rates have remained relatively low in nominal and real terms. Equity and

other asset prices have moved higher. Credit spreads have declined to quite low levels. Market participants report exceptionally high levels of liquidity. And volatility, both realized and expected, has remained low across many different types of financial assets, markets and economies.

This general constellation of market conditions and asset prices is unusual, at least in comparison to what we have seen over the past several decades. This has been a distinguishing feature of the present expansion, but it is not something we fully understand, and we cannot be confident in judgments about how durable it will prove to be.

•••

The global financial system is in the process of very dramatic change. The changes of even just the last five years are extraordinary, in terms of the size, and strength, and scope of the major global firms, the role of private leveraged funds, the extent of risk transfer and the increase in the size of the derivatives market, the change in the structure of the credit market, the increase in and changes in the pattern of cross-border financial flows.

These changes, and others, seem likely to have made the financial system both more effective in moving capital to its most productive use and more stable and resilient over time. But they do not, of course, mean the end of systemic risk in financial markets. They could in some circumstances work to magnify rather than mitigate stress. Central banks, supervisors and those running the major private financial institutions need to continue to work to ensure that what Jerry Corrigan calls the “shock absorbers” in the financial system – capital and liquidity and the operational infrastructure – are sufficiently strong and robust to withstand economic and financial conditions more adverse than we have seen in the recent past. @

[To read the entire speech, visit www.newyorkfed.org, click News and Events, then Speeches.]

'Business As Usual' with Change in Daylight Saving Time

On March 11, the day of the change in Daylight Saving Time (DST), all DTCC subsidiaries operated normally, supporting clearance and settlement of close to \$5 trillion in securities transactions.

DTCC announced on February 28 that it had completed internal testing and updates to its software systems, network hardware, servers and desktops in preparation for the DST change, and did not expect the new schedule to have any negative impact on computer systems or customers.

No customer impact

The new schedule for DST in the U.S., Canada and Bermuda impacts date and

time processing functions in computers and applications, as well as electronic devices that have built-in DST rules. The change extends DST by four weeks, starting three weeks earlier than usual on March 11 and ending one week later on November 4.

In the U.S., the time change is part of the Energy Policy Act of 2005; Canada and Bermuda adopted the new schedule to remain consistent with U.S. time.

"We wanted to assure customers that our business activities would not be impacted by this change in the clocks," said William Aimetti, DTCC's COO.

"Similar to our contingency plans and efforts for Y2K, we worked closely with

our hardware and software vendors for the past several months. We were confident our systems were prepared to handle all normal clearing and settlement activities."

DTCC also had extra staff on hand on the night of March 10 to monitor and address any issues that might have emerged during the time changeover. As expected, the transition was seamless.

Most companies rely on automated time adjustments to their systems. As a result, failure to take appropriate action could result in the time being off by one hour for four weeks each year for computers and applications in the U.S., Canada and Bermuda. Countries that interact with these three could also be affected. @



JIN X. CHOI



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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