



DTCC and Omgeo Partner on New Institutional Netting Service

by Crystal Bueno

DTCC and Omgeo are collaborating to create a new service for affirmed institutional equity trades that will streamline clearance and settlement, cut customer costs and reduce fails in this segment of the market.

Initially, it is estimated that more than 250,000 trades a day could be eligible for the proposed service, called ID Net, whose rollout is subject to approval by the Securities and Exchange [continued on page 6]

Donald F. Donahue Elected Chairman and CEO of DTCC; Jill M. Considine Retires in August

by Stuart Z. Goldstein

DTCC announced on April 25 that Donald F. Donahue has been elected by DTCC's Board of Directors to become chairman and chief executive officer (CEO), effective August 2007. Donahue was elected CEO last year.

The Board also elected William B. Aimetti as president and chief operating

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Global Standard Formats For Settlement



Insurance Services: A Compliance Solution



Deriv/SERV Gains Momentum

2006 Annual Report: Putting Customers First

This is the theme of DTCC's latest annual report, which highlights the broad mix of financial instruments and customers that DTCC supports, the enormous volumes and value of securities transactions it settles and the unique culture at DTCC, where employees always put customers first.

"We understand the pressure on our customers to reduce risk and costs is driving them toward strategies that include creating new investment instruments, risk transfer vehicles and much more sophisticated market mechanisms and capabilities," wrote Jill M. Considine, DTCC chairman, and Donald F. Donahue, president and CEO, in a letter to the company's stakeholders. "As time goes on, and as financial resources are invested across a broader range of markets, the nature of the financial services industry

will become even more diverse and complex. At the center of this global transformation is the need for a more efficient infrastructure."

An overview

The report describes how DTCC's infrastructure delivers quality and excellence by spotlighting both the organization's operational performance highlights, such as the milestone of settling more than \$1.5 quadrillion in securities transactions, along with DTCC's world-class Customer Satisfaction Survey scores in 2006.

Also featured are customers who offer their perspectives on how DTCC is leveraging

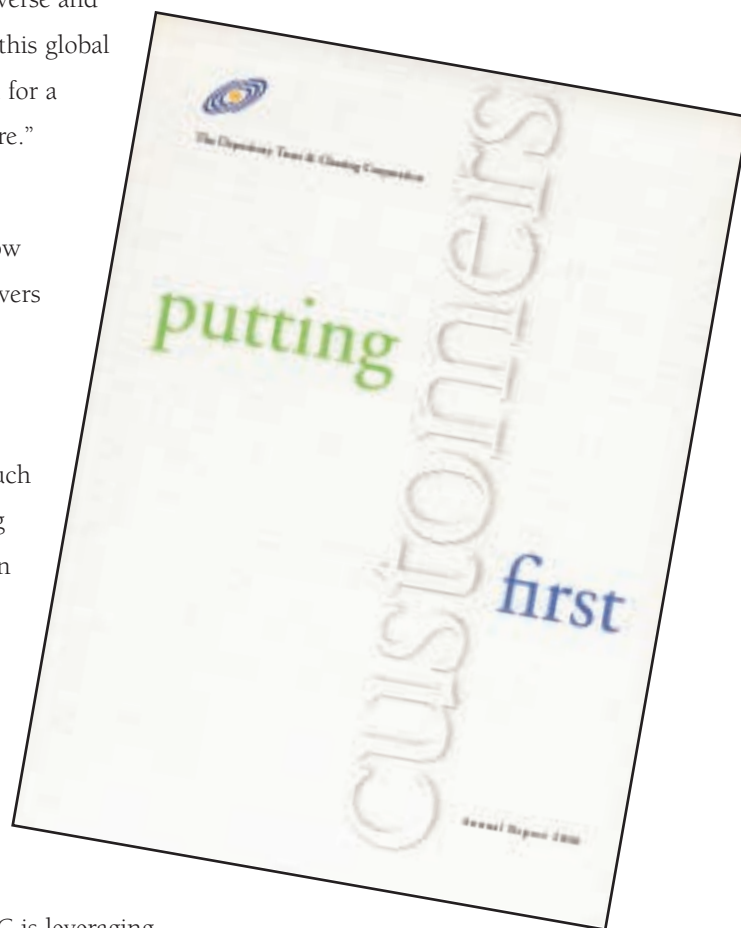
its experience and technology to bring complex, highly tailored and new solutions to market quickly. DTCC employees appear in the report, underscoring their vital role in helping DTCC achieve excellence.

The publication includes a snapshot of the organization's newest products, including the Trade Information Warehouse for over-the-counter derivatives, the ID

Net service, the Global Corporate Actions Validation Service and several new Wealth Management Services.

DTCC's operational performance as well as its financials are also covered. For instance, in 2006, DTCC again experienced record volumes across most of its business segments. DTCC subsidiaries processed on average \$6.1 trillion worth of transactions each business day, up 8% over 2005. The organization also returned more than \$580 million in rebates, discounts and interest to customers last year, and again reduced customer transaction fees, expected to result in \$81 million in savings for 2007. @

[To receive the report, contact Lorna Helwig at lhelwig@dtcc.com with your name and mailing address. The report will also be available online at www.dtcc.com in June.]



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officer (COO) of DTCC. Aimetti was elected COO last year. His new appointment will also be effective August 2007.

Both Donahue and Aimetti will serve as directors on DTCC's Board.

Jill M. Considine, DTCC's current chairman, will be stepping down in August, as part of a long-term corporate succession plan that she introduced. The Board has asked Considine to continue to serve DTCC as senior advisor.

Succession planning

"This decision is part of a prudent, long-term effort to ensure a phased-in succession plan that's in keeping with our responsibility for certainty and reliability in post-trade clearance and settlement, and that positions the organization for the future," said Considine. "Don Donahue and Bill Aimetti are enormously talented executives and proven leaders, who have played a major role in building DTCC into the world's largest post-trade infrastructure organization."

In addition to his new role at DTCC, the holding company, Donahue will become chairman and CEO of its core subsidiaries: National Securities Clearing Corporation (NSCC), The Depository Trust Company (DTC) and the Fixed Income Clearing Corporation (FICC). Aimetti will likewise become president and COO of DTCC, as well as its core subsidiaries.

Donahue, a 20-year veteran of DTCC and DTC, has served as CEO of DTCC since May 2006. Aimetti, a well-known and respected industry veteran, has served as DTCC's COO since May 2006.

Considine's legacy

"The Board would like to publicly acknowledge and thank Jill Considine for her terrific leadership of DTCC. Jill took on this role during a period of tremendous change in the securities industry. Through her vision and steady hand, she led the

historic drive to consolidate several clearing corporations serving vertical markets and a depository into a single infrastructure organization, known as DTCC. This has saved the industry hundreds of millions of dollars in operating costs and fee reductions – and has helped to ensure that U.S. capital markets are among the most competitive in the world," said Stephen P. Casper, presiding director of DTCC's Board and chairman and CEO of Fischer Francis Trees & Watts, Inc.

"Jill's accomplishments at DTCC are numerous. They include her stewardship on September 11, 2001, when she made the tough decision to keep DTCC open, only 10 blocks from the World Trade Center, to ensure \$280 billion in securities transactions were settled that day and \$1.8 trillion were settled that week. Her actions during that period were critical to the reopening of the U.S. financial markets the following week, and to sustaining global confidence in the resiliency of U.S. capital markets.

"She has also played a major role in transforming DTCC's organizational culture to one of certainty, and with a commitment to quality, innovation and dedication to its customers and employees. Last year, DTCC received a 91% overall customer satisfaction survey score, the third year in a row customers gave the company such high scores. Jill has also expanded DTCC's business activities into the OTC [over-the-counter] derivatives market, led the launch of Omgeo, a joint venture with Thomson Financial, and has positioned the company to be a global service provider that is able to respond to the challenges that such globalization will inevitably bring. Her efforts to put forward a multi-year succession plan for DTCC underscore the type of forward-thinking leadership that remains her legacy," said Casper. @



Donald F. Donahue



Jill M. Considine



William B. Aimetti

NSCC Will Accelerate Delivery for Bond and UIT Trades That Match on or After Settlement Date

by Jim Conmy

To reduce risk and cost in processing trades involving corporate bonds, municipal bonds and unit investment trusts (UITs), DTCC's National Securities Clearing Corporation (NSCC) subsidiary plans to institute new procedures in September to ensure that any trade matched by 11:30 a.m. Eastern Time, on or after settlement date, will settle that same day.

The new procedures, subject to regulatory approval, will help participants avoid the problems that occur when trades do not settle within the standard three-day time frame, and speed up the transfer of funds and securities involved in the trades.

Inter-dealer trades

Most trading in corporate bonds, municipal bonds and UITs currently takes place over the counter rather than on an exchange, and the trades are submitted for matching and trade reporting to the Real-Time Trade Matching (RTTM) system.

Normally, firms send the details required to match their inter-dealer bond trades to RTTM within 15 minutes of the trade's execution with the expectation that the trades will settle in the routine T+3 settlement cycle. Under current procedures, however, if the two sides to a trade don't actually match until T+3, the trade cannot settle until T+4, creating risk and uncertainty for both the buyer and seller.

In order to settle these "as-of" trades more promptly, NSCC is making preparations to begin – in September – feeding any settlement-eligible trade that matches by 11:30 a.m., on or after settlement date, into its Continuous Net Settlement (CNS) system for settlement that day.

"As-of" trades that still can't be matched by the 11:30 a.m. deadline on settlement date will continue to settle the day after the match takes place, as is current practice.

Better customer service

"Customer satisfaction is the critical issue here," said Walter Roesch, a Merrill Lynch director and member of the RTTM Working Group. "If the trade doesn't settle by T+3, the securities can't be delivered and the money can't exchange hands, so no one is happy.

"Also, in the absence of routine delivery," Roesch noted, "firms can incur additional costs, such as expenses for separate delivery. So the more we can keep the process on track, the better for all parties."

Notification steps

When a trade is matched by 11:30 a.m. on settlement day, NSCC has several ways to notify the brokers involved that their trade will, in fact, settle that day.

"RTTM settlement disposition messages are available to inform firms when and how trades will be staged for settlement within NSCC," said Ed Fanning, DTCC director, Clearance and Settlement Group. "The trades will also appear in NSCC's Cycle 2 Supplemental Consolidated Trade Summary report, which goes out at 1:00 p.m.

"What's more," Fanning said, "RTTM Web will be modified to show the delivery date, which is the settlement date for the trade at NSCC, in addition to the submitted settlement date on the trade." The end-of-day NSCC Bond Contracts report also reflects the settlement date of the trade at NSCC.

Testing

To ensure that customers can receive and read all the messages and trade summaries reporting the new settlement procedures, DTCC will make available test versions of real-time trade messages, settlement disposition messages, end-of-day contract files and the supplemental consolidated trade summary. @

[To obtain message output, contact Al Eppich at aepich@dtcc.com or 212.855.7594 or Aileen Rose at arose@dtcc.com or 212.855.7565. To obtain end-of-day contract files or the Supplemental Consolidated Trade Summary, contact DTCC's Enterprise Service Center at 888.382.2721, option 1, and then option 4.

To learn more about this initiative, contact Ed Fanning, DTCC director, Clearance and Settlement Group, at efanning@dtcc.com or 212.855.7623.]



DTCC Gives Customers the Option to Use Global Standard Formats for Settlement

by Crystal Bueno

DTCC's drive to standardize its technologies takes another step forward this month, as The Depository Trust Company (DTC) begins making the ISO 15022 global message standard available for certain settlement-related transactions. The remaining settlement transaction message formats are targeted to be available by October.

DTC will support both ISO 15022 and its traditional formats during an extended transitional period. However, the company expects that the redesign of its core book-entry processing system, to be implemented early in the next decade, will require the exclusive use of ISO format messages.

To use ISO 15022 for DTC settlement, firms will need to take certain steps to prepare their systems.

Benefits of the global standard

"Customers will be able to submit and receive settlement notifications in real time, day and night, using internationally accepted standards," said Javette Laremont, DTCC director, Clearance and Settlement Product Management. "This translates into cost savings, risk reduction, global interoperability and greater overall efficiency."

When fully implemented, this change also will strengthen the industry's business continuity by enabling customers to send night deliver orders for immediate processing and receive real-time output from the night cycle.

Enterprise-wide push

DTCC has been working to advance the use of global standards across its systems since the beginning of the decade, gradually transitioning customers away from the organization's traditional formats. "Over the next several years, our goal is to introduce the consistent use of

global messaging standards to all our applications," said Donald F. Donahue, DTCC president and CEO.

Business lines that already employ international formats and standards include the Global Corporate Actions Validation Service,

Deriv/SERV, the Canadian depository link, the Inventory Management System (IMS), the Omgeo/DTC real-time link and Real-Time Trade Matching. DTCC is also building global standards into the redesign and consolidation of its core systems for securities underwriting and corporate actions.

Key benefits

The rollout of the ISO 15022 standard for settlement followed a successful pilot with a global broker/dealer earlier this year to send and receive settlement-related transactions and commands for payment orders via 15022 messaging.

"Some customers view ISO 15022 as a key element of their settlement infrastructure, since it presents a uniform method by which information can be identified and programmed once, and then reused as needed," said Laremont. "What's more, it is widely used by many European and Asian firms, which contributes to its value for firms operating globally."

Here are some benefits of communicating settlement status and details using this standard:

- The customer's internal reference number as a part of the message submission, called the Customer Transaction Identifier (CTID), can now be carried throughout the transaction, and included on ISO output back to the customer. This simplifies tracking and monitoring of messages and transaction processing.

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Standard Formats For Settlement

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- Messages can be linked to track processing throughout the entire transaction lifecycle. This feature also allows for the more efficient management of partial transactions, because positions are classified based on currently settled, pending settlement and to-be-settled positions.
- Structured fields replace previously used free-form text, standardizing communications at the outset of each transaction. This contributes to reducing message units and thus communication costs.
- ISO messaging will give DTC the ability to easily modify fields for improved functionality that participants can migrate to as necessary.

Transaction timetable

In early May, DTC published an Important Notice spelling out the transaction types that can now be handled via ISO message types. These include payment orders, deliverer and receiver confirmations, settlement status and advice, settlement allegation and IMS transaction commands, and acknowledgements and error messaging from the DTCC Universal/CDTS hub.

In June, specifications for deliver order message formats will be published, with the remaining specifications, including collateral pledges and memo segregation, available in October.

“ISO 15022 messaging for settlement will help customers to leverage their global infrastructure,” said Laremont. “For DTCC, offering this messaging standard will help achieve consistency across our systems, while positioning us to move toward retiring the traditional message formats.” @

[For more information on ISO messaging for settlement, contact Javette Laremont, DTCC director, Clearance and Settlement Product Management, at 212.855.2414 or jlaremont@dtcc.com.]

New Institutional Nett

Commission (SEC). DTCC and Omgeo plan to launch the service in two phases, starting with a pilot scheduled for late this year.

“We’ve seen a 15-20% increase in institutional trades over the past couple of years, which has also meant an increased number of steps, risks and costs in the clearance and settlement process,” said Susan Cosgrove, DTCC managing director, Clearance and Settlement Group. “On top of that, pressure to reduce costs has led industry participants to demand greater efficiency. The ID Net service will address these concerns and will benefit all parties involved in institutional trading by combining and netting trades, which in turn reduces risks.”

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.

How it works now

Unlike exchange trades and most prime broker trades, institutional equity trades do not currently flow into National Securities Clearing Corporation’s clearance and settlement systems for netting. Rather, the institutional trades settle on a trade-for-trade basis.

In addition, investment managers tend to split up traditional “block trades” and submit them for execution to multiple broker/dealers or electronic communication networks (ECNs), with each broker/dealer or ECN delivering the mini-blocks to custodians. The result is multiple deliveries to a given custodian for a given customer, rather than a single delivery for the total number of shares.

What About Fixed Income Trades?

ID Net is a new service being developed by DTCC and Omgeo to streamline the clearance and settlement of institutional equity trades by bringing them into NSCC’s Continuous Net Settlement system.

For the fixed income side, institutional trades in mortgage-backed securities already settle through FICC’s Mortgage-Backed Securities Division. Institutional trades in U.S. government securities continue to settle outside FICC’s Government Securities Division, unless they are submitted through the sponsored membership program.

ing Service *Continued from cover*

What will change

The first phase of the new service is anticipated to launch in pilot by year-end 2007. It will take Omgeo's TradeSuite affirmed institutional trades that are eligible for ID Net and "break" them into their component parts. In other words, the broker side of the trade will be netted with the broker's Continuous Net Settlement (CNS) obligation and the bank side will be processed to/from an NSCC omnibus account. Incomplete trades will be reversed out of the process at 11:30 a.m. Eastern Time on settlement date.

The second phase of the service, which will combine multiple deliveries to the same custodian/beneficial customer, is targeted for implementation in 2008. At the investment manager level, it will take the netted trades, combined into blocks by security, customer and settlement date, and make deliveries to and from custodians, significantly reducing the number of deliveries and associated custodian costs.

Who and what are eligible

Eligibility is based on the participants, the underlying security, the type of trade and the timing of affirmation.

ID Net will be a service for members of DTCC clearing agency subsidiaries. Broker/dealers must be both NSCC members and DTC participants, and custodian banks must be DTC participants. And although not considered direct participants in the service, investment managers and their client customers ultimately receive the benefits of ID Net when participants – the settling broker/dealers and banks – subscribe to the service.

Initially, only equity CUSIPs eligible for CNS – which have also been affirmed

before 9 p.m. on T+1 – will be combined in the ID Net service. Corporate and municipal bonds and unit investment trust (UIT) issues will be excluded. Also excluded are the first day of new issues, issues undergoing a mandatory or voluntary reorganization, CUSIPs with a CNS buy-in and securities appearing on the SEC's Reg SHO list.

A customer-friendly solution

DTCC is designing the ID Net process flow to minimize technology development on the part of customers. In Phase I, banks will receive Machine Readable Output (MRO) listing the original receiving or delivering broker in the same fields that they appear today. Optionally, banks may program their systems to read the Omgeo Depository Third Party field to determine if the trade was processed through ID Net.

To brainstorm the business requirements and develop a conceptual design for this initiative, DTCC and Omgeo formed a working group of broker/dealers and bank customers in February.

"When customers came to us with this idea for a new netting capability, we saw its potential benefit as another strategic step towards more efficient settlement processing," said John Kiechle, DTCC vice president, Clearance and Settlement Group. "This is a good example of building

a service that lays the foundation for the future." @

[To learn more about ID Net, contact John Kiechle, DTCC vice president, Clearance and Settlement Group, at jkiechle@dtcc.com or 212.855.3900.]

'When customers came to us with this idea for a new netting capability, we saw its potential benefit as another strategic step towards more efficient settlement processing.'

– John Kiechle, DTCC vice president, Clearance and Settlement Group



DTCC and Industry Advance Goal to Bring Greater Efficiency To Structured Securities Processing

by Edward C. Kelleher

DTCC and industry representatives will be making recommendations to help remedy the processing problems of the structured securities market by the end of the third quarter of this year, while continuing to work toward permanent solutions for this fast-growing market segment.

DTCC discussed processing problems with structured securities in a white paper issued last June that noted, “thousands of these transactions fail to be processed in an accurate and timely manner each year.” At that time, DTCC and several industry organizations, including the Securities Industry and Financial Markets Association (SIFMA), formed working groups that include paying agents, servicers, underwriters, banks and brokerage houses to determine how the processing problems can be rectified.

Notification problems

Structured securities include collateralized mortgage obligations (CMOs) and other asset-backed securities (ABS). CMOs are bonds backed by a pool of mortgage loans and issued by various organizations, including Fannie Mae, Freddie Mac, investment banks and insurance companies. ABS are structured bonds or notes backed by loan payments or accounts receivables, such as credit cards or auto loans.

Processing challenges faced by the industry include late and inaccurate notification of payment rates for these issues, which in turn leads to thousands of post-payable adjustments that amount to \$800 million on an average monthly basis.

“New issues of CMOs and ABS continue to show rapid growth,” said James Balbo, DTCC managing director, Asset Services. “The average monthly distribution of principal and interest for CMOs by DTCC’s depository has rocketed from \$9.5 billion in 2001 to \$65.1 billion in 2006, with a peak-day distribution of \$73.4 billion.”

Balbo said the working groups believe that the structure of the securities themselves remain at the heart of the processing problems. In fact, for some securities – even if everyone did their job and met their deadlines with accurate information – it would not be feasible to get and pay the proper rates on a timely basis.

Impact of late reporting

Currently, paying agents – those agents that distribute the monthly principal and interest payments – are supposed to provide payment rate information to The Depository Trust Company (DTC) “preferably five days but no fewer than two business days prior to the payable date,” which is generally the

25th of each month. However, the most recent statistics show that:

- More than 59% of payment rates are not reported as of close of business two days prior to payment date
- Almost 15% of payment rates are not reported as of close of business one day prior to payment date
- Almost 1.4% – or approximately 1,500 payment rates – are not reported by close of business on payment date.

The impact of these delays on processing is tremendous. In 2006, more than 7,500 CMO or ABS transactions had to be adjusted or reversed after payment, leading to post-payable adjustments of \$800 million in an average month. Industry officials estimate that this number could go as high as \$2 billion. These 7,500 transactions represent a 0.56% post-payable adjustment rate for structured securities, in contrast to the 0.16% post-payable adjustment rate for all other issue types processed by the depository.

Scoping out solutions

Balbo said the working groups have looked at several recommendations including moving the payment day from the 25th to the 27th of each month, or spreading the payment date throughout the month, or making the processing deadline later on the payment date. He expects the working groups to make decisions and new recommendations to the industry in the third quarter.

“We’ll continue to meet and dig deeper into the structure of these securities. We will keep a dialogue open with the paying agents and other segments of the industry because the problem continues to grow. As the processing volumes grow, so do the problems and risks for the industry,” Balbo said. @



NSCC Prepares to Automate Non-Standard Settlement Trades *by Melanie Best*

Non-standard settlement, considered the “last bastion of non-automated trades,” is about to be modernized. After several years of industry study, system redesign and customer testing, National Securities Clearing Corporation (NSCC) has readied its Continuous Net Settlement (CNS) system to accommodate equity trades that are subject to non-standard settlement.

“The Street wants to be able to treat non-standard items like any other trade,” said Robert Yodice, DTCC director, Clearance and Settlement Group. “And once a final leg of testing is completed, anticipated by mid-year, this long-standing

position movements among member firms, and significantly streamline what has been a labor-intensive process.”

A gain for automation

As post-trade processing became increasingly automated over the decades, non-standard items remained an exception. Non-standard settlement trades represent a small percentage of the market, Yodice noted – around one-tenth of one percent of all equity trades, or 600 to 700 trades per day in 2006. But “it was a window we needed to close,” he said.

The work of automating these trades began when NSCC embarked on a

addressing the myriad technical, operations, legal, customer service, auditing and other aspects of integrating non-standard settlement trades into CNS.

A new risk paradigm

Arguably the most complex issues centered around risk management for cash and next-day settlement items – in particular, assuring NSCC’s capacity to guarantee trades that settle in fewer than three business days. NSCC, in its role as central counterparty, needs to make sure it has an appropriate amount of clearing fund to cover the exposure caused by trades submitted by members.

“In today’s system, Risk Management processes trades overnight and collects clearing fund the next morning,” said Jisun Burton, DTCC director, Risk Management. “Settling non-standard items in CNS presented us with a whole new paradigm. Throughout this project we wrestled with questions that go to the heart of the central counterparty’s role. Questions such as, how can we guarantee something before we see it or before we have a chance to collect clearing fund? How do we calculate the exposure we won’t see?”

Starting with history

To account for the added risk incurred by the counterparty settling same-day and next-day trades, Risk Management revised its methodology for clearing fund calculations and created a new clearing fund component. This component, known as the Shortened Process Cycle charge, or SPC, is participant-specific.

“We devised a methodology that uses a participant’s prior activity on these types of trades as the starting point,” Burton explained. “This approach yields an SPC

What Is Non-Standard?

Settlement of an equity trade is “non-standard” when it deviates from the normal T+3 time frame. For equities, non-standard settlement items fall into three primary categories: cash, next-day and sellers’ option transactions.

Under exchange rules, cash transactions must trade and settle on the same day; next-day transactions settle on the day following trade date; and, as the name suggests, the parties to a sellers’ option transaction decide when, from trade date to as many as 180 days in the future, settlement will occur.

Cash, next-day and sellers’ option trades have always been recorded and reported by NSCC in its daily and intra-day trade reports. But, until now, rather than settling through the CNS automated system and being included in participants’ netted positions, these trades have settled on a trade-for-trade basis between the counterparties, with brokers using messengers and envelope services to complete settlement on time.

industry goal will be realized.”

Chuck Winterer, senior vice president, First Clearing LLC, noted this enhancement is a long-awaited and welcome addition to the equity clearance and settlement process. “The ability to record, net and settle non-standard trades along with regular transactions in an electronic format brings a new level of efficiency to the settlement environment,” said Winterer. “It will reduce traffic and

redesign of the CNS system early in the decade. “The broker/dealer community, acting through various committees of the Securities Industry Association” – now the Securities Industry and Financial Markets Association – “asked us to build into the CNS redesign the capability to settle non-standard trades,” recalled Yodice.

Guided by input from industry representatives, NSCC’s multidisciplinary team set to work on the project,

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Insurance Services Leverages a Solution to Support Re

DTCC's Networking for Standardized Data Reporting (SDR) – a solution developed in 2006 to help mutual fund companies comply with the Securities and Exchange Commission (SEC) Rule 22c-2 under the Investment Company Act of 1940 – is now gaining traction with the insurance industry, which is also subject to requirements under this rule.

Over the past several months, DTCC's Insurance Services business has been working with customers to enhance Networking for SDR to meet their Rule 22c-2 needs.

What is required

Rule 22c-2 is known as the “redemption fee rule.” Under this rule, mutual fund companies must be able to request and obtain certain shareholder data for

positions held in omnibus accounts from their distribution intermediaries, including insurance companies, by October 16, 2007.

Last year, DTCC moved to help the mutual fund industry comply with this rule by expanding the functionality of its Networking service. Networking, created in 1988, has been used by mutual funds to exchange account-level information, balance their records with the same information, and provide customers with monthly statements that accurately reflect their investment activities.

With the expanded service, fund companies gained access to a new data stream to request and obtain the information relating to Rule 22c-2. Funds can then evaluate this information for patterns of market timing and frequent-

trading activity to enforce their market-timing policies, which could result in restricting the account for purchases, and to impose redemption fees, if applicable.

Now DTCC is applying this service's capabilities to the insurance companies that must supply the information to mutual funds.

Insurance industry perspective

Robin Pikor, assistant director, U.S. Wealth Management, at The Hartford, recently talked about the progress being made to enhance Networking for SDR for the insurance industry.

Pikor is a member of the Investment Company Institute/NAVA Variable Annuity SDR work group that was formed to initially look at the viability of using the service and that is now developing with DTCC an application that meets the

Non-Standard Settlement Trades *Continued from page 9*

charge that, on any given trading day, is based on the probability of the exposure these trades can cause.”

Throughout the development process, Risk Management tested the methodology extensively and performed impact studies to determine how different members would be affected.

Into the net

While Risk Management addressed the risk implications of integrating non-standard trades into CNS, NSCC's Product Management and Technology groups retooled all the relevant trade applications to accommodate the changes.

According to previous protocols, NSCC designated non-standard settlement trades as non-settling items with a “Z” on output, thereby excluding them from CNS. Under

the reconfigured system, non-standard items that are CNS-eligible will be processed like any other CNS trade and included in the netting that results in one position per CUSIP per broker.

Ineligible for CNS

Even with the system redesign, non-standard settlement items will not be 100% automated. In the case of cash trades, because of the operational rules governing CNS, any items that come in after 11:30 a.m. Eastern Time – the cut-off for inclusion in that day's settlement cycle – will revert back to “Z non-settling” status, with settlement occurring outside of CNS, via receive and deliver instructions between brokers.

Also settling outside CNS will be any cash, next-day or sellers' option trades

involving securities that NSCC deems not eligible for CNS, as well as trades whose securities are undergoing a corporate action. These will settle trade for trade.

Going mainstream

Trades requiring non-standard settlement have consistently comprised a tiny fraction of NSCC's daily processing volumes. But it is possible that the numbers are small because the handling of these non-standard trades has been so labor-intensive and time-consuming for brokers.

“Once non-standard trades go mainstream, flowing through CNS, it is possible more of them will be executed in the market,” said Yodice. “But how much could volumes grow? It's too soon to know.” @

Regulatory Compliance

by Karen Gregory

specialized requirements of insurance carriers and distributors of variable annuity, life insurance and retirement products.

Q: Why is the insurance industry interested in using Networking for SDR?

A: It will allow insurance companies to communicate with fund companies using DTCC's secure, consistent pipeline for data sharing across recordkeeping systems and fund partners. Protecting our customers' information is crucial to our company and the industry, and using a proven channel is an important benefit to us.

Q: What will carriers need to do to program for SDR?

A: Many insurance companies are faced with a number of recordkeeping systems to consider as they perform their comprehensive reviews. One of the challenges is the ability to standardize the data in the various systems and also maintain a link to the source system, which will make it easy to communicate back and forth systematically and provide more transparency. The committee performed a review of the SDR formats and discovered that we need a few more data fields to help the recordkeepers respond quickly to fund companies.

For example, we require an identifier – a contract or participant number – that will facilitate our ability to map any follow-up request back to the source system. Carriers also use a unit value versus a share amount in their recordkeeping systems, and the share amount would need to be calculated outside of the recordkeeping systems. So we've recommended a unit value indicator.

The Hartford is creating a warehouse of all transactions from their various recordkeeping systems. The warehouse holds the history for many of our admin systems and will interface with Networking for SDR to respond promptly to fund company requests.

Q: What needs to be done to translate “fund language” to “insurance language” in the data dictionary?



Robin Pikor, assistant director, U.S. Wealth Management, The Hartford

Networking for SDR will allow insurance companies to communicate with fund companies using DTCC's secure, consistent pipeline for data sharing across recordkeeping systems and fund partners.

A: The working group found areas that needed to be redefined or that required more information. We used Insurance Services' Financial Activity Reporting* transaction codes to translate from insurance transactions to fund transactions and identified additional transaction codes to facilitate the communication of data between fund and insurance companies.

For instance, “free-look” transactions give customers buying variable annuities the right to cancel a contract within a certain period of time, and fund companies thought it was important to be able to identify this particular type of transaction. We also identified annuitization transactions, whether they are partial or full withdrawals of money from an annuity; and credits, which are transactions used by the variable annuity and variable life products.

Corrections are also handled differently from the way broker/dealers may process, so we had to ensure that the funds could recognize a correction easily and not misinterpret the activity as frequent trading. Some recordkeeping systems used in the insurance industry require several days to correct a misapplied purchase by reversing or redeeming the original purchase and reprocessing.

Q: How will Networking for SDR be introduced to the insurance industry?

A: Our first steps will be to revise the Technical and Best Practices Guides, obtain comments from the work group and then go to the larger SDR group for final comments. After that, it will be distributed to the industry at large. @

[Financial Activity Reporting (FAR) transmits pertinent financial transaction information about an annuity or life insurance contract from carriers to distributors. This information includes free looks, cancelled contracts, large investments followed by immediate withdrawals and loans on variable contracts. FAR is a tool that helps the insurance industry comply with the anti-money-laundering provisions of the USA PATRIOT Act and general suitability regulations.]*

How DTCC Prices Securities to Strengthen Risk Management

by Helen Cunningham

As part of its comprehensive risk management infrastructure, DTCC maintains a single database that establishes market prices for all the securities processed by its regulated subsidiaries.

“The centralization of this function, which previously was managed at the subsidiary level, ensures pricing consistency across the enterprise and allows for optimal intra-day price monitoring and analysis by Risk Management,” said Cheryl Lambert, DTCC managing director. “It also creates a single point of contact for customers with inquiries about the pricing of their securities held by DTCC subsidiaries.”

What’s more, centralization has bolstered business continuity in that only one database would have to be restored in the event of a disruption in operations.

How the information is used

The Central Price Database houses data for National Securities Clearing Corporation (NSCC) and The Depository Trust Company (DTC), as well as for Fixed Income Clearing Corporation’s (FICC) two divisions: Government Securities and Mortgage-Backed Securities. “Everything bridges back to one system,” said Gregory Kalina, DTCC director, Risk Management.

The subsidiaries’ use of the pricing information varies. For instance, to complete settlement each day, NSCC and FICC need pricing data to mark-to-market every security being settled. On the depository side of the business, use of the information includes for valuing the collateral (which consists of securities and cash) that participants pledge to cover their direct obligations to DTC, among others.

Risk Management includes pricing and other information (such as ratings and

terms to maturity) in its calculations for establishing the haircut the depository applies to that collateral depending on the instrument. The haircut, a discount on the market value of all non-cash collateral, protects the depository against intra-day price fluctuations. Haircuts can range from 2-100% of market value and are applied based on how DTCC’s line-of-credit banks value the collateral, the availability of prices, the type of security, credit ratings and the price volatility of the particular security.

In another example, DTCC needs price data to calculate requirements for its Clearing Fund, which is collateral posted by customers to cover the costs of closing out trades in the event a member goes out of business.

The price is right

To obtain the information that feeds into the Central Price Database, DTCC works with multiple vendors. “We are in constant daily contact with all our vendors to be sure their information is accurate and in sync with our internal analyses of the numbers,” said Kalina. “If a price appears to be off, we challenge the vendor, asking for clarification or further research.”

To ensure the quality of information received is consistently high, DTCC has, over the past several years, expanded the number of vendors it works with. In addition, the Risk Management group conducts monthly performance reviews of all vendors, tracking their accuracy rates.

How the database works

“Each night, we receive files from our vendors with the latest pricing information,” Kalina said. “As the data are transmitted, our systems automatically run a check for any discrepancies or anomalies, such as files that may be out of

date or contain too many changes from the previous day.”

Once DTCC’s risk management systems accept the files, the prices flow into the Central Price Database, making the information available to the rest of the organization. “Areas of the company that need prices look into the database and pull the information they require into their systems and applications,” said Kalina.

The latest information also populates Risk Management’s applications and reports, so that the group can conduct ongoing analysis of exception items that require monitoring.

Looking ahead

DTCC will expand the Central Price Database to meet the organization’s requirements both domestically and globally. For example, once FICC’s Mortgage-Backed Securities Central Counterparty is up and running, scheduled for 2008, the database will include pricing information on mortgage pools.

In addition, Risk Management is gearing up for DTCC’s expansion overseas, including price information for the securities that will trade on the new pan-European trading platform being developed by seven major financial institutions.

DTCC’s EuroCCP subsidiary was selected in April to provide a clearance and settlement solution for this initiative, called Turquoise, and EuroCCP services will include risk-based margining, with appropriate levels of margin collected on a daily basis and any unsettled obligations being marked-to-market each day. @

[For questions about DTCC’s Central Price Database, contact Gregory Kalina, DTCC director, Risk Management, at gkalina@dtcc.com or 212.855.5763.]

Deriv/SERV Gains Momentum as Single Confirmation Platform For OTC Derivatives

by Judy Inosanto

Deriv/SERV has established itself as the only platform used by virtually all major global derivatives dealers to electronically match and confirm over-the-counter (OTC) credit derivatives, interest rate derivatives and equity derivatives.

Already the de facto standard for automated processing of OTC credit derivatives, Deriv/SERV is gaining support for processing an expanded range of OTC interest rates and equity products, from both global dealers and buy-side participants.

“With volumes of OTC derivatives instruments expanding in the marketplace at a rapid pace and new products entering the financial arena with much greater frequency, automated services such as Deriv/SERV have become essential tools for both the dealer community and buy-side firms to remain efficient,” said Ric Okun, senior vice president, PIMCO. “Deriv/SERV has been incredibly responsive to meet these recent demands ensuring market standards are applied uniformly through its highly transparent platform.”

New product additions

New equity products that were added to the service in April include Asia Ex-Japan (AEJ) share and index options; AEJ share and index swaps; and Japan share and index variance swaps. These additions further expand Deriv/SERV's equity coverage, which already included the major North American and European share and index options, swaps, variance swaps, as well as Japan share and index options.

DTCC expects to be able to support by year-end virtually all major equity products for which there are International Swaps and Derivatives Association (ISDA®) standard Master Confirmation Agreements (MCAs).

Automated support for ISDA's new and revised definitions of the standard rates and reference terms for interest rates swaps transactions were also added to Deriv/SERV last month. Deriv/SERV matches and confirms a broad range of



Ric Okun, senior vice president, PIMCO

swaps and swaptions as well as all post-trade events for interest rates.

New credit products recently added to the service include credit default swaps (CDS) on single-named asset-backed securities and CDS on loans. Deriv/SERV currently supports the complete universe of credit derivatives products and post-trade events for which there are standard ISDA MCAs.

Industry as catalyst

“Collaborating with the dealer and buy-side community, DTCC is serving as a catalyst for large-scale automation for OTC derivatives processing,” said Peter Axilrod, DTCC managing director, Business Development. “In the past three years, the industry's commitment to improve efficiency and reduce operational risk has only grown as we further develop the Trade Information Warehouse with CLS, our central settlement partner, and expand the depth and breadth of the Deriv/SERV

family of services.”

Deriv/SERV has the largest community of users for automated post-trade processing in the marketplace, with more than 800 dealer and buy-side customers in 30 countries. Broader dealer usage of the service along with these product additions allows Deriv/SERV's buy-side customers the ability to match and confirm a comprehensive range of OTC derivatives instruments and post-trade events on a single platform.

Global derivatives dealers and buy-side firms worldwide attribute to Deriv/SERV a key role in increasing automated processing rates, which contributes to minimizing operational risk and strengthening the market's infrastructure. This helped market participants achieve an 80% reduction in the backlog of unconfirmed credit derivatives trades in the market by June 2006 – a major commitment made by the leading dealers to global regulators.

Populating the Warehouse

“Adding a broader group of OTC derivatives products to the matching and confirmation service makes our overall platform more robust as it will allow our customers to populate the Trade Information Warehouse with even more confirmed contracts,” said Janet Wynn, DTCC managing director and general manager, Deriv/SERV. “This is especially beneficial as we look to move the Warehouse's functionality beyond credit derivatives.”

The Warehouse is designed to extend to other OTC derivatives products including interest rates, equities and commodities. (See page 14 for an update on the Warehouse.) @

[ISDA® is a trademark of The International Swaps and Derivatives Association.]

Full Speed Ahead for the Trade Inform

DTCC and market participants are moving full speed ahead with Deriv/SERV's Trade Information Warehouse, a global infrastructure that automates and standardizes the recordkeeping and processing that takes place after an over-the-counter (OTC) derivatives trade is confirmed.

"The Warehouse gives our customers a single place to reconcile their deal books," said Janet Wynn, DTCC managing director and general manager, Deriv/SERV. "It will eliminate multiple, manually intensive bilateral contract lifecycle administration and payment processes, significantly reducing contract administration costs and risks."

Since the Warehouse went live in November 2006, DTCC also has been focused on expanding it. "In a very short timeframe, DTCC and its customers have defined and scheduled a series of value-added features that will enhance the Warehouse's capabilities in 2007," said Peter Axilrod, DTCC managing director, Business Development.

Into the Warehouse

Beginning with the Warehouse's launch last November, all new trades submitted to Deriv/SERV for electronic confirmation go straight into it, which marks a huge advance for the industry. "We drew a line in the sand with the launch in November," said Wynn. "Since then, every contract confirmed on Deriv/SERV flows into the Warehouse, gaining the benefits of automated record-keeping."

Pre-November 2006 trades are being backloaded into the Warehouse by global dealers and pilot buy-side firms. "Backloading is essential to gain the full automation benefits of the Warehouse," said Wynn. "Trades outside the Warehouse will not benefit from standardized, automated payment processing or credit event automation – all of which are Warehouse features we're delivering this year."

The good news is that backloading is progressing rapidly and the Warehouse now holds hundreds of thousands of contracts. "The excellent progress to date shows a serious commitment by the major OTC derivatives dealers to strengthen the market

infrastructure by getting their trades into an automated, standardized environment," said Wynn.

Enhancements to the Warehouse

"We've already rolled out automated payment calculation functionality, and we're building centralized, automated capabilities to process credit events," Axilrod said. "We're also working with CLS Bank to implement central, automated settlement, linking the Warehouse with CLS's multi-currency settlement capabilities."

In February, the Deriv/SERV team introduced the second Warehouse release, which automates payment calculations for contracts that are fully matched in the Warehouse (known as "gold" records).

"During development, we worked closely with major dealers and buy-side firms to reach agreement on detailed standards for

Q&A on Interest Rate Derivatives

Deriv/SERV Today, DTCC's quarterly newsletter for customers of the service and other industry participants, published a Q&A with Bill Stenning, DTCC vice president, Business Development, in its 1Q2007 issue. Below is an excerpt from the interview. To subscribe to Deriv/SERV Today, send an email to editor@dtcc.com. To view this issue online, visit derivserv.dtcc.com.

Deriv/SERV Today: Are there any differences in processing [interest] rates transactions from either credit or equities through Deriv/SERV? Are existing credit and rates customers required to do anything to begin sending transaction data to the system?

Stenning: While each of these products has its own nuance, in essence, there aren't any differences in processing credit, rates or equity derivatives trades through Deriv/SERV. It is the same platform operating in fundamentally the same way.

From a user perspective it doesn't get much easier. If a client is already a user of Deriv/SERV for either credit or equities, they simply have to email us to request that we "switch them on" for rates, allowing them to add rates to their portfolio of Deriv/SERV products within a day or two. @



payment calculations,” said Axilrod. “We looked at the different approaches across the market and, in consultation with an advisory group of experts, made decisions about exactly how payments should be calculated under a variety of circumstances.”

At this stage, firms are not relying on the Warehouse calculations, but they are cross-checking them against their own calculations. “Because of the complexities and the various types of payment calculations, we want to have a substantial period of time

for Warehouse-generated payments to run in parallel with firm-generated payments before Warehouse payments are used in the central settlement process later this year,” added Bill Hodgson, DTCC vice president, Business Development.

Coming in Q3

In the third quarter, automated credit event processing capabilities are scheduled for launch. Today’s process for credit events relies on phone calls, emails and faxes to establish the correct industry implementation of each event. This automated process is aimed primarily at supporting the published International Swaps and Derivatives Association protocols for settling obligations resulting from credit events.

“We’re building centralized credit event messaging and processing that will allow firms to handle credit events in an efficient manner to assure complete and accurate processing industry-wide,” said Hodgson. “Firms will be able to go to one place to view the details of each event, communicate with their counterparties and view the economic effects of an event applied in an automated way for both payments and net cash settlement.”

Central settlement in Q4

To deliver central settlement, DTCC is partnering with CLS Bank International, a global provider of multi-currency settlement services, to build an integrated payment processing infrastructure for Warehouse contracts.

“Through central settlement with CLS, Warehouse payments will take place automatically,” said Hodgson. “Payment instructions will be generated by the Warehouse, bilaterally netted, and settled by CLS in immediately available central bank funds. Through the net funding processes employed by CLS, Warehouse bilateral nets will be further netted on a multilateral basis, resulting in one net funding obligation per currency.”

A limited go-live of central settlement is slated for the fourth quarter of this year, with dealers and pilot buy-side firms testing central settlement in small groups with their counterparties. @

What Is the Trade Information Warehouse?

An extension of DTCC Deriv/SERV, the Trade Information Warehouse is a centralized and secure global infrastructure for processing OTC derivatives over their lifecycle, which could last for many years.

It consists of two components:

- A comprehensive trade database containing the primary record of each contract
- A central technology infrastructure that automates and standardizes post-trade processing, including record keeping, payment calculations and settlement, notional adjustments and contract term changes over a contract’s life.

The Warehouse’s central trade database is automatically populated with all Deriv/SERV transaction details so that post-trade processing flows automatically from agreed-upon trade terms. Initially supporting credit derivatives, the Warehouse is designed to be extended to other OTC derivatives products including rates, equities and commodities.

DTCC Names Douglas George as Chief Risk Officer

by Stuart Z. Goldstein

DTCC named Douglas George to the new position of managing director and chief risk officer on April 26. George will lead DTCC's Enterprise Risk Management (ERM) efforts, including the management of credit and market risk associated with all DTCC subsidiaries' clearing, settlement and depository activities, assessing operational and strategic risk issues for DTCC and its growing involvement in the delivery of global services. He will also oversee the planning of new technology to support enterprise-wide risk analysis and the development of new strategies to mitigate risk for DTCC and its member firms.

George has more than 30 years' experience in risk management, payment systems and securities settlement and clearing operations.

Distinguished career at Citi

Most recently, George served as managing director and head of Payment Systems Risk Management for Citigroup, Inc., a position he held since 1996. In this capacity, George oversaw the development of a firm-wide program for identifying, measuring, monitoring and managing Citigroup's credit, legal, market, operational, sovereign and cross-border risks associated with the firm's membership or participation in nearly 600 exchanges, depositories, clearinghouses and payment systems worldwide.

At Citigroup, George was a founding Board member of CLS Group Holdings, A.G. and CLS Bank International, which oversees the world's largest foreign exchange payment system.

'Critical juncture for DTCC'

"Last year, DTCC settled in excess of \$1.5 quadrillion worth of securities transactions," said Donald F. Donahue, DTCC president and CEO. "Understanding and managing the risks associated with the scope and breadth of the customers and financial products we support across our subsidiaries is a critical component of what we do for the financial services industry. And the globalization of financial markets, the trading of more complex instruments and the application of new technologies all make the management of risk that much more challenging.

"At this critical juncture for DTCC, we're thrilled to have someone as eminently qualified and with the broad global experience that Doug George is bringing to DTCC. While DTCC subsidiaries have a terrific track record in managing risk over the past 30-plus years, that success has been based on our ability to

anticipate and plan for change. Doug George will bring a new level of leadership and experience at a time when our business activities are becoming more complex and we're expanding the range of global services we offer," said Donahue.

Overview of the function

At DTCC, the Risk Management group focuses on the exposure associated with the post-trade processing and settlement of trading in equities, municipal bonds, corporate bonds, unit investment trusts, government securities, mortgage-backed securities, money

market instruments, mutual fund and insurance transactions. In addition, it oversees the management of risks associated with the custody, book-entry delivery and asset servicing activities supported by DTCC's depository.

George will take over a group of some 50 risk management professionals, including highly trained risk analysts, quantitative analysts and risk technology systems professionals, all of whom are involved in the monitoring of risk associated with the activities of the broad range of customers of DTCC subsidiaries, which together represent

about 2,500 financial services companies.

An industry veteran

Prior to joining Citigroup, George was with the Chase Manhattan Corporation for 25 years. From 1986 to 1996, he was senior vice president and chief credit officer for Geoserve, a division of Chase that included Treasury Management, Global Securities, Corporate Trust, Securities Lending and Trade Finance services. During this period, George also served as vice chairman of Chase Manhattan's New Products Approval Committee (1995-1996) and as a member of Chase's Credit and Risk Management Committee (1991-1996).

Earlier in his career, George was a divisional manager for the Middle Market of Chase Bank (1980-1986), with full profit-and-loss responsibility for the division's 220 client managers. Before that, George held several positions in Chase's Corporate Bank.

George graduated from New York University (NYU) with a B.A. degree in accounting. He completed his M.B.A. at NYU's Graduate School of Business (with honors), following three years of military service in the United States Army as a first lieutenant. @



Douglas George

SUE LEVINE

DTCC Names Patrick Kirby Managing Director, Asset Services Group

DTCC named Patrick Kirby as managing director, Asset Services Group, on April 30. In his new post, Kirby will be responsible for managing the custody and asset servicing businesses of The Depository Trust Company (DTC), a DTCC subsidiary, as well as the Global Corporate Actions Validation Service under the DTCC Solutions LLC subsidiary.

Kirby joins DTCC from Citigroup Capital Markets and Banking, where he was managing director and global operations head of Cash Products. He began his career at Citi in 1998, assuming positions of increasing responsibility at the firm's New York and London offices. Those positions included managing director for Trade Processing Operations; director for Global Loan and Treasury Operations; senior vice president and global processing head for Settlements; and first vice president, London Fixed Income and Equity Operations.



Patrick Kirby

increasingly complex instruments and corporate action transactions. And our corporate actions announcement business continues to expand, covering corporate actions announcements from more than 160 countries around the world.”

Kirby will report to Robert McGrail, DTCC executive managing director for Domestic and International Core Services.

Prior to joining Citi, Kirby was with ING from 1995 until 1998, where he served as assistant director of Global Markets in London and vice president, New York Operations. He also served as vice president of U.S. Equity Operations for S.G. Warburg and Co., Inc., and senior vice president of Securities Operations for Lehman Brothers from 1987 to 1995. He also worked for The Bank of New York.

Kirby was a member of the steering committee of the Federal Reserve Working Group on Government Securities, and a member of the Securities Industry and Financial Markets Association (SIFMA) Senior

Operating Committee, SIFMA Corporate Bond and Syndicate Underwriting Committee, Fixed Income Clearing Corporation (FICC) Government Operations Committee and the FICC Mortgage-Backed Operations Committee.

He graduated from New York Institute of Technology with a bachelor's degree in accounting and marketing. @

'Wealth of experience'

“Pat brings a wealth of equity and fixed income operations experience to this position,” said Donald F. Donahue, DTCC president and CEO. “He is joining DTCC at a significant point in time. We are engaged in reengineering our corporate actions and underwriting processing systems to provide better support for our customers both in the U.S. and elsewhere as they handle

Managed Accounts Solutions: Moving Forward with MMI Data Standards and the DTCC Platform

A one-day conference hosted by **The Money Management Institute** and **DTCC**

Wednesday, June 27, 2007

Bayard's, One Hanover Square, New York, NY

The seminar is open to all, with a focus on issues of particular interest to:

- COOs of asset management firms in the retail managed accounts space
- Technology and operations leaders seeking increased efficiencies
- Asset management firms exploring potential solutions related to adopting and implementing managed accounts standards.

To review the seminar agenda and for registration information, call 212.855.8877.

What you can expect to learn from this seminar:

- How managed accounts standards and centralization benefit you and your business by reducing costs and increasing operating margins
- Progress to date by the industry: sponsors, managers, outsourcers and vendors
- How industry partnerships can expedite and streamline new and existing platform business using the standards and DTCC's central platform
- Next steps: what you can do and how you can do it.

Penson Financial Services Canada Chooses DTCC for Global Corporate Action Information

by Steve Letzler

Penson Financial Services Canada Inc. has chosen DTCC's Global Corporate Action Validation Service (GCA VS) to automate, streamline and reduce risk for corporate actions. Penson is the first Canadian clearing firm to sign up for the service.

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 offers the broadest corporate actions coverage of any service in the world.

Ensuring accurate data

"As a leading Canadian carrying broker, we have an absolute need to receive high-

quality, fast and accurate corporate actions for Canadian securities, as well as securities in the U.S. and many other countries" said Terry Bourne, executive vice president and chief operating officer of Penson Financial Services Canada.

"With the GCA Validation Service, we'll be able to take advantage of multiple vendor feeds that are checked against each other, along with the resources and experience of DTCC to help ensure the accuracy of the data," Bourne said. "We expect it will free up resources, allowing us to focus on other areas where we can add significant value for our clients."

Outsourcing solution

"We are excited to have a large clearing firm like Penson sign on to the service, because it means the data will be shared by a number of firms that get clearing data through Penson," said James Femia, DTCC managing director and head of the Global Corporate Action business. "There is a definite movement in the industry to outsource global corporate action announcement information as a way to improve the data that firms get on corporate actions globally, while reducing their costs and risks."

Penson Financial Services Canada joins a growing number of major global financial institutions and buy-side firms using the GCA VS, including Credit Suisse First Boston, JP Morgan Securities, Merrill Lynch, Raymond James, Abbey Financial Markets, First Clearing and UBS, among others.



'As a leading Canadian carrying broker, we have an absolute need to receive high-quality, fast and accurate corporate actions for Canadian securities, as well as securities in the U.S. and many other countries.'

– Terry Bourne, executive vice president and chief operating officer, Penson Financial Services Canada

GCA VS provides customers with worldwide coverage through service centers in Shanghai, London and New York. The service allows customers to outsource functions that are largely manual, costly and are not core competencies or competitive advantages for investment firms. @

SPEECHES

Donald F. Donahue, DTCC president and CEO, gave the keynote address at the Securities Industry and Financial Markets Association's 34th Annual Operations Conference on April 30. Below is an excerpt from Donahue's remarks, titled "DTCC: A Look Ahead."

As many of you realize, we're not the old DTC anymore. We're not the old NSCC anymore. We're a different organization. We're a thought leader, an innovator and a company that is quick to market with solutions for the industry. We work hard at listening to you, our customers. And our aim is to not only serve our customers, but to exceed your expectations.

If there is any confusion about this, we hope it was put to rest two weeks ago with the announcement by the Turquoise trading consortium about DTCC's new role in Europe. Turquoise is a groundbreaking development in the European capital markets, responding to the challenge thrown down by the European Commission with the promulgation of the Markets in Financial Instruments Directive [MiFID] and the broad series of changes it will force in the operation of the European capital markets.

Turquoise itself involves seven global investment banks that plan to launch an entirely new platform for equity trading all across Europe, to "go live" in conjunction with the implementation of MiFID in November. Following a competitive request-for-proposal process, Turquoise selected DTCC's EuroCCP subsidiary to provide clearance, settlement and risk management services for this new, pan-European trading platform, a very significant milestone for our organization.

The announcement signals how far we've come from the old days. It's a vote of confidence in our ability to deliver a large-scale, cross-border project within an ambitious timeframe. It also assures all of

the world's capital markets that the infrastructure is poised to move as quickly as the markets themselves. I want to acknowledge and thank Citi for partnering with us as the settlement agent to bring this new clearing and settlement service to the European market.

The Turquoise announcement is just one of many recent signals that the most revolutionary change in

our immediate future will be the increasing integration of the global securities markets – a development that we believe will accelerate in the coming months.

The most notable of these signals to those of us in the United States, of course, is the "watershed" event that took place on April 4th with the closing of the merger between NYSE Group and the Euronext exchanges. The creation of NYSE Euronext, and the other intercontinental trading platforms that clearly will arise in response, offers the prospect of a complete transformation of the industry, an evolutionary leap to a globally integrated market for world-class equity issues, with investor orders

from all around the globe interacting in a seamless virtual market offering highly efficient access to a global pool of liquidity.

And to support this evolutionary leap, the clearance and settlement infrastructure must transform just as rapidly to provide for the seamless interconnection of clearing processes and guarantees, leading to seamless interaction of linked settlement facilities to process the trades through to completion. @

[To read the entire speech, visit www.dtcc.com, click Thought Leadership, then Speeches.]

The Turquoise announcement is just one of many recent signals that the most revolutionary change in our immediate future will be the increasing integration of the global securities markets – a development that we believe will accelerate in the coming months.

DTCC's 2007 Customer Satisfaction Survey — With a Difference

by Helen Cunningham

DTCC is taking a new approach to its Customer Satisfaction Survey. This year, the company is conducting the survey at two separate intervals, rather than once annually, splitting the list of recipients into two groups to avoid over-surveying individual customers. The first group of customer contacts received the survey in March and the remainder will receive it in June.

The Customer Satisfaction Survey is one of DTCC's primary vehicles for obtaining customer feedback on products, services and corporate initiatives.

"Last year, we supplemented the annual survey with interim 'tracking surveys' to keep feedback from our customers as current as possible, and the additional information proved extremely valuable for monitoring our customer satisfaction initiatives over the course of

the year," said James Koster, DTCC managing director, Relationship Management.

Now DTCC is formalizing this approach by conducting the full survey biannually. "Having survey feedback from two points in time will strengthen our ability to monitor customer satisfaction, allow us to address specific customer concerns more quickly and give us up-to-date metrics to better track our progress in making improvements," said Koster.

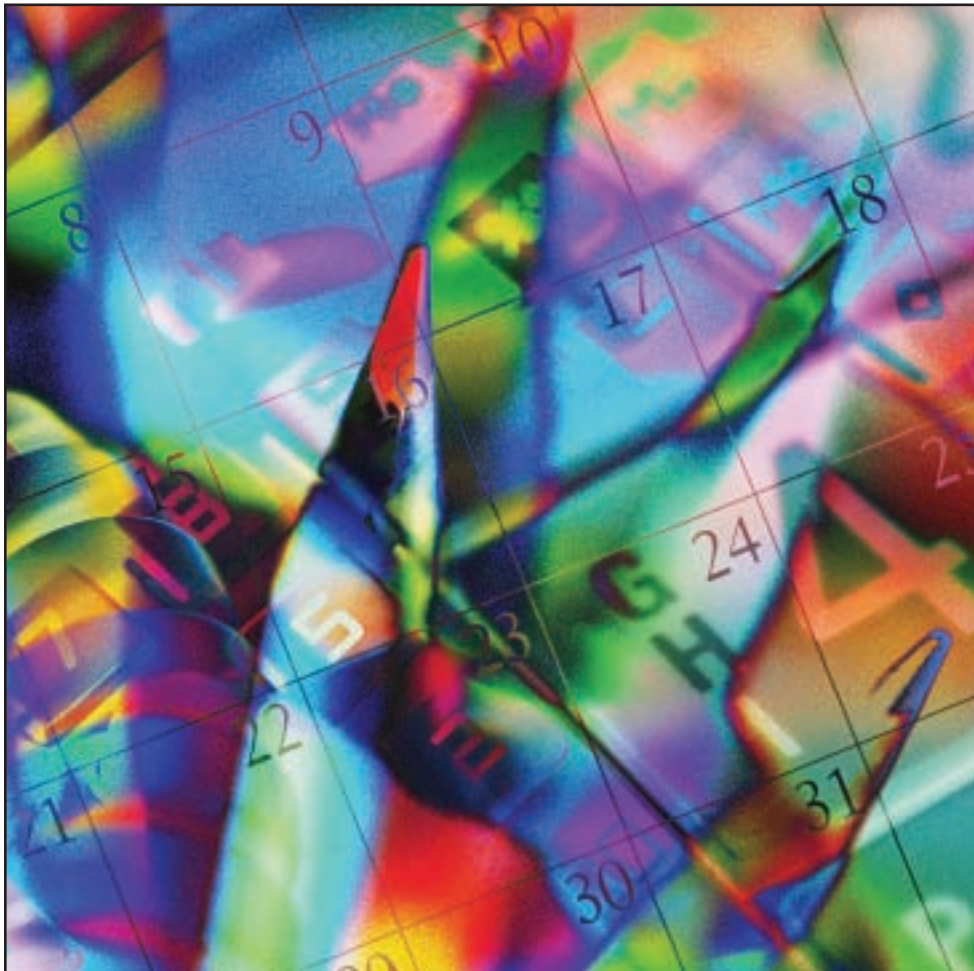
This split-timing methodology provides a more accurate overall reading of customer perceptions, according to The Melior Group, which manages DTCC's survey process.

Results from the two surveys will be consolidated and analyzed as a whole, with the findings presented to DTCC's customers, Board of Directors, Quality

Council and business units in October. DTCC also analyzes and distributes the customer data from each survey internally. The March results are already being used by DTCC's business units to develop action plans for improving customer satisfaction.

The survey takes about 15 to 20 minutes to complete, is distributed via email and can be completed online.

"We welcome customer participation in the survey and we will make every effort to ensure our products and customer service reflect the feedback we receive," said Koster. "At DTCC, we are firm believers that improving the customer experience begins with listening." @



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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