

dtcc

Customer Satisfaction with DTCC: Steady at 91% by Helen Cunningham

Overall customer satisfaction with DTCC remained at 91% for the second year in a row, according to the latest customer survey. DTCC delivers “innovative products; solid service; consistency in processing; [and is] very responsive,” said one customer. “They are easy to work with. They get stuff done,” summed up another survey respondent.

The data also indicate DTCC’s ratings compare [continued on page 10]

DTCC Deriv/SERV Surpasses the 1,000-Customer Mark

by Judith Inosanto

DTCC announced in September that its DTCC Deriv/SERV subsidiary had signed its 1,000th customer, further solidifying its position as the industry standard for post-trade processing in the global over-the-counter (OTC) derivatives market.

DTCC Deriv/SERV has the largest community of users for automated post-trade processing services in the marketplace, with a customer base of derivatives dealers and buy-side firms in 31 countries. Today, according to market

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in this issue



Paper Certificates: 2008 Will Mark Turning Point



DTCC Makes a Strong Showing at Sibos



DTCC Hosts Leadership Forum

Pledging Securities Is Fully Automated Through DTC/Fed Interface

by Steve Letzler

Full automation is just around the corner for another industry process. Starting November 9, customers of DTCC subsidiary The Depository Trust Company (DTC) will be able to pledge DTC-eligible securities as collateral with Federal Reserve banks and the U.S. Treasury by sending real-time messages to the depository.

“The enhanced service capability should make the pledge and release requests more timely and efficient, which is critical during times of liquidity stress when banks wish to pledge DTC collateral to the Fed’s discount window,” said John Kiechle, DTCC vice president, Equity Clearance and Settlement.

Kiechle noted that pledges to the Federal Reserve Bank of New York averaged approximately \$130 billion per month during the first half of the year. (Collateral can be pledged to 12 Federal Reserve districts nationwide.) That

‘The enhanced service capability should make the pledge and release requests more timely and efficient, which is critical during times of liquidity stress when banks wish to pledge DTC collateral to the Fed’s discount window.’

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

average spiked during the sub-prime mortgage crisis in August and September, with collateral value hitting \$263.7 billion in September, more than double the first-half average.

Two phases

The automated interface between DTC and the Federal Reserve went live in January 2007. It automated the transmission of pledge information from DTC to the Fed, eliminating the need for manual intervention by the Fed.

However, to pledge or release securities, participants had to enter their input manually on DTC’s Participant Terminal System (PTS), a system that communicates directly with DTC’s mainframe computers. Once DTC accepted the information, it was then forwarded to the Fed.

The new capability fully automates this process, allowing firms to send ISO 15022 or real-time MQ messages to DTC to pledge or release DTC-eligible securities to the Fed.

Before and after the link

Prior to the January implementation of the DTC/Fed link, the Fed limited the number of daily transactions firms could conduct. Since January, DTC participant firms that are Fed members have had no limits on transaction volume and can pledge and withdraw as many DTC-eligible securities as necessary.

Securities can be pledged to cover a range of obligations, including Treasury taxes and loans, daylight (funds) overdrafts and book-entry daylight overdrafts. Most but not all DTC-eligible securities are accepted by the Fed for pledges. @

[For more information, contact Ashik Ramkalawon, DTCC manager, Clearance and Settlement Product Management, at aramkalawon@dtcc.com or 212.855.3558 or your local Federal Reserve Bank. Visit the Fed’s discount window Website at www.frbdiscountwindow.org.]

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Prognosis for U.S. Paper Certificates: 2008 Will Mark Turning Point

by James Conmy

In its campaign to eliminate paper stock certificates, the U.S. securities industry is making steady headway, according to speakers at a recent symposium on electronic stock registration sponsored by the Securities Industry and Financial Markets Association (SIFMA). And the results are being watched globally, they added.

“What the securities industry in this country is doing to eliminate paper certificates is of interest to the broker community worldwide,” said Susan Petersen, special counsel for the Securities and Exchange Commission’s (SEC) Division of Market Regulation. “This isn’t just about the U.S. market,” added Larry Morillo, managing director of Pershing LLC and longtime industry advocate of electronic share registration. “The entire world is watching.” The reason is that, in most of the world, paper certificates have already been eliminated and overseas investors don’t relish the idea of having to handle U.S. paper securities.

Among the speakers were Joseph Trezza, DTCC vice president, Asset Services, and Joseph Clemente, DTCC manager, Asset Services.

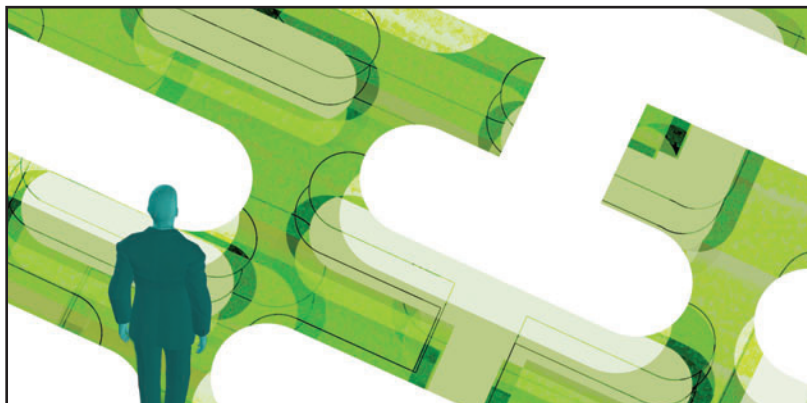
Advancing direct registration

At the start of 2007, major U.S. stock exchanges mandated that all newly issued equities be eligible for electronic registration via a direct registration system. Currently, DTCC’s depository subsidiary is the only registered clearing agency operating such a system. The Direct Registration System (DRS) allows investors to hold securities positions in their names, directly on the books of the transfer agent or issuer. It also allows shares to be transferred between a transfer agent and a broker electronically.

Starting in 2008, the exchanges are requiring companies to make all their outstanding shares eligible for DRS, which could result in eliminating both the need to issue paper stock certificates and the necessity of physically safeguarding them. To meet that goal fully, however, several speakers said both issuers and transfer agents need to fast-forward their preparations.

Good progress

Corporations have made substantial progress over the last year in eliminating paper certificates, according to DTCC’s Clemente. He said more than 3,000 companies now issue their stock electronically through DRS, and nearly 40% of the “withdrawal by transfer” requests DTC receives for the movement of securities positions now seek a simple – and less costly – statement of



ownership rather than issuance of actual paper certificates.

What’s more, noted Katie Sevcik, senior vice president and manager of Operations for Wells Fargo Shareowner Services, some 300 of the companies now issuing shares via DRS no longer deliver physical securities at all.

The decision to join DRS by the Walt Disney Company, whose colorful share certificates are actively collected or given as gifts, is also viewed as progress. “We’re making some headway,” said James Alden, director of shareholder services for Disney. “For instance, only about 15% of shareholders in the DRS program actually call us to ask for paper certificates.” In comparison, Charles Rossi, executive vice president for client services at Computershare and president of the Shareholder Transfer Association, stated that on average, only about 1% of DRS shareholders for other issuers request certificates.

In the year 2010

DTCC expects that dematerialization of the industry’s paper certificates will be 75% complete by 2010, which means far fewer certificates still outstanding. In some cases, Clemente said, certificates are being eliminated by attrition. “Nearly a quarter of all the bearer bonds held at our depository are maturing this year and will be retired,” he noted.

As part of its preparation for increased electronic registrations, Clemente said DTC has been working to make sure that all transfer agents undergo training on DRS and the use of DTC’s Fast Automated Securities Transfer (FAST) service, which enables agents to provide custody, transfer, deposit and withdrawal services electronically.

Pending questions

Speakers at the symposium pointed out a number of actions both issuers and the securities industry need to take in gearing up for next year’s

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U.S. Paper Certificates

Continued from page 3

requirement that all issues be DRS-eligible. Sevcik noted that many companies may have to obtain shareholder approval to amend their corporate bylaws to permit book-entry issuance of shares. “Even if state laws no longer require paper certificates, company rules may require them and not allow for DRS statement ownership,” she said. “These companies may run out of time to change this before the end of the year.”

Another big question for companies, according to Sevcik, is whether their shares will be completely dematerialized or still offered in physical form if shareholders ask for them that way.

Timing and look of statements

How frequently transfer agents might be required to send out DRS statements to shareholders remains open, also. As Kevin McCosker, vice president for Pershing, noted, the SEC currently does not require statements to be sent on any particular schedule, nor has the industry itself come to an agreement on a uniform look for DRS ownership statements. It is expected, however, that the SEC will soon be proposing regulations governing the schedule for generating transaction advices and statements to shareholders.

Transfer agent challenges

Transfer agents have several additional issues facing them, according to other speakers. These include:

- Broader insurance coverage agents need to have in place as part of keeping their membership in DTC's FAST program
- The need to overhaul transfer agent rules in general to reflect the changing requirements for electronic shareholding
- Creation of a mechanism for agents to become what is legally considered “a control location” so that broker/dealers can transfer management of smaller accounts over to them
- Creation of a new electronic messaging system broker/dealers and transfer agents can use to communicate directly with each other. @

Mutual Fund Solution Supports Customer Compliance

by Karen Gregory

October 16 was the date the Securities and Exchange Commission's “redemption rule” took effect, meaning mutual fund companies and their distributor partners had to be ready to exchange data. The “redemption rule,” intended to track and limit the short-term trading and market-timing of funds, refers to Rule 22c-2 under the Investment Company Act of 1940.

Working with customers and the mutual fund industry, DTCC's National Securities Clearing Corporation (NSCC) subsidiary created a service expressly to support these exchanges of information, leveraging the technology of one of NSCC's flagship Mutual Fund Services – Networking. The solution, finalized more than a year ago, ensured NSCC was ready to support customer compliance with Rule 22c-2.

Leveraging technology

Under Rule 22c-2, funds and firms must be able to initiate and respond to requests for shareholder information in omnibus accounts, which are the accounts broker/dealers and others set up for their investor clients.

Networking is used by funds and intermediaries to exchange and reconcile customer account-level activity and offers centralized settlement of cash dividends and capital gains distributions. The solution developed to support Rule 22c-2, called Networking for Standardized Data Reporting (SDR), is a separate data stream within the service for requesting and receiving information. It is protected by DTCC's secure and reliable infrastructure.

For firms that are participants of Networking, the information can be passed automatically through the service. For other firms, NSCC offers a Data Services Only (DSO) membership, which has fewer requirements than a full-service Networking membership, and allows for information-exchange only. DSO members can use Networking to pass information directly to the funds requesting it, or to their transfer agents. @

[For information on Networking for SDR, contact Wealth Management Services Marketing at 212.855.8877.]

Mutual Fund Processing Posts Steady Growth

by Karen Gregory

National Securities Clearing Corporation's Fund/SERV, a standardized, centralized hub for processing and settling mutual fund transactions, is on track to set a new volume record in 2007.

"Mutual fund assets under management in the U.S. totaled more than \$11 trillion at the end of August, continuing a steady growth pattern," said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. "Fund/SERV has the capacity to support this growth and handle it smoothly and reliably."

From January 1 through August 31, 2007, the total number of Fund/SERV transactions increased 20% over the same 2006 period, reaching 110.9 million valued at \$1.7 trillion. This compares with 92.6 million transactions valued at \$1.4 trillion in the 2006 period.

As of August 31, daily average

transactions grew 18% to 654,592 valued at just under \$10 billion, compared to 556,063 valued at \$8.3 billion the previous year.

Cutting fees

Higher Fund/SERV volumes have been accompanied by regular fee decreases.

Today, the gross fee is 11 cents per transaction (before rebates), a reduction that took effect in January 2006 from the previous 17.5 cents. This compares with 50 cents in 1986, when NSCC launched the service. In constant 1986 dollars, the current gross fee of 11 cents equates to approximately 5.5 cents.

Fund/SERV is used by nearly 1,100 fund companies, broker/dealers, banks and other intermediary firms. Considered the industry standard for processing fund orders, it provides a single link through which funds and firms can complete transactions, avoiding multiple individual

connections that are costly and inefficient. It also mitigates risk for customers through a central money payment system that nets down daily obligations to a single credit or debit amount.

Expanding range of products

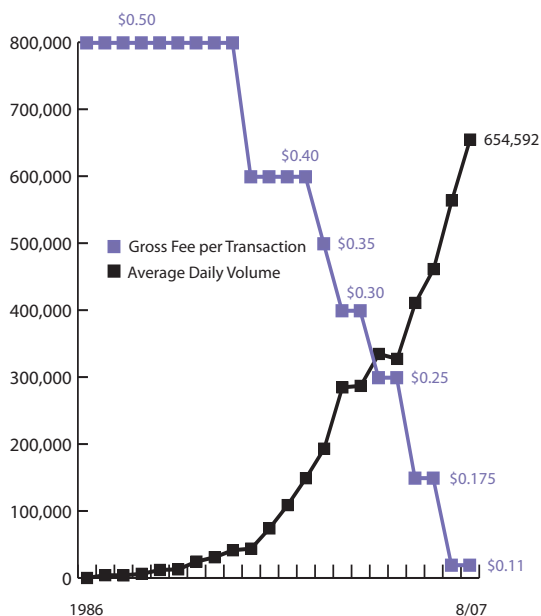
The types of funds supported on Fund/SERV have expanded over the years. Originally created with 1940 Act Funds in mind, the service has been expanded to include other pooled investment products such as bank collective investment trusts, stable value funds, separate accounts and Section 529 Qualified State Tuition Programs.

Retirement-program transactions – 401(k) and 403(b) plans, for example – handled through NSCC's Defined Contribution Clearance & Settlement (DCC&S) service now account for 35% of Fund/SERV's total volume, up from 28% at year-end 2006. @

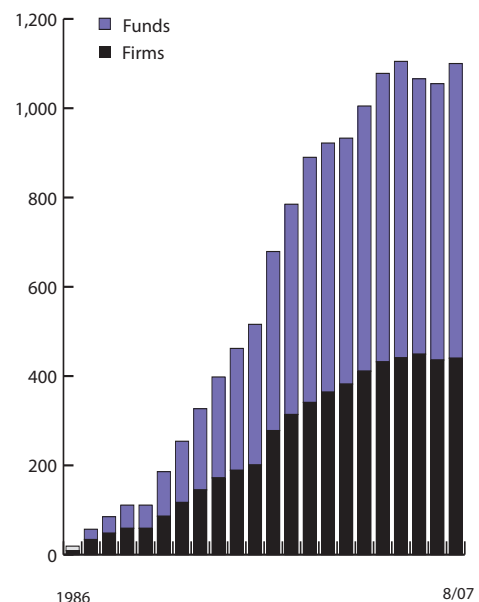
Fund/SERV

Mutual fund assets under management now total approximately \$11.5 trillion compared with \$716 billion in 1986. Fund/SERV has facilitated and kept pace with the industry's growth while steadily cutting customer fees.

Volume vs. Fees



Participants



Deriv/SERV Surpasses the 1,000-Customer Mark *Continued from cover*

participants, more than 90% of the credit default swaps traded worldwide are matched and confirmed on Deriv/SERV, up from 15% when Deriv/SERV was launched in late 2003.

In 2006, Deriv/SERV processed more than 2.6 million OTC derivatives transactions. Average daily processing volumes have more than doubled since then, from approximately 10,000 in late 2006 to between 20,000 and 30,000 today.

Milestone for the industry

“Surpassing 1,000 customers is an important milestone in our history of service to the OTC derivatives community,” said Janet Wynn, managing director and general manager, DTCC Deriv/SERV. “The industry’s rapid adoption of electronic processing services since Deriv/SERV was launched less than four years ago demonstrates market participants’ commitment to strengthening their operational infrastructure and reducing risk. We are proud to be helping them meet these goals.”

Deriv/SERV’s comprehensive processing platform supports multiple products and offers multiple functionalities. Its family of services includes automated matching and confirmation for a wide range of OTC derivatives products, payments matching and bilateral netting for OTC credit derivatives and maintenance of OTC credit derivatives contracts through to final settlement with its Trade Information Warehouse.

Deriv/SERV accommodates single name credit default swaps (CDS), CDS indices and tranches as well as both single name and CDS indices on loans, asset-backed and mortgage-backed securities. It also electronically matches and confirms OTC equity share and index options, swaps and variance swaps for the Americas, Europe, Japan and Asia Ex-Japan. These comprise all major OTC equity derivatives products

for which there are ISDA® (International Swaps and Derivatives Association) standard Master Confirmation Agreements. The service also supports vanilla interest rate swaps and swaption trade variants.

Deriv/SERV is the only post-trade service provider used by virtually all major global derivatives dealers to process all three OTC derivatives products, enabling market participants to manage these instruments on a single platform.

Trade Information Warehouse

DTCC Deriv/SERV launched last November its Trade Information Warehouse, the industry’s first and only global repository and comprehensive electronic platform for servicing OTC derivatives contracts over their multi-year lifecycles.

A database of the most up-to-date legally confirmed contracts, known as “golden copies,” that flow from Deriv/SERV’s matching and confirmation service constitute the foundation of the Warehouse.

Enhancements and expansion of Warehouse functionality are ongoing. Automated payment calculation was introduced earlier this year. Centralized support of ISDA credit event protocols went live in August and user acceptance testing is well underway for central settlement of payments, a service Deriv/SERV is offering in partnership with CLS Bank International.

In a March 2006 letter to global regulators, the leading derivatives dealers identified Deriv/SERV’s electronic platform and the development of the Trade Information Warehouse as “a major step forward in reducing operational risk and increasing operational efficiency in the credit derivatives market.”

Initially supporting credit derivatives, Deriv/SERV plans to extend the Warehouse to other OTC derivative products in response to market demand.

“Delivering a large-scale, global industry

initiative such as the Trade Information Warehouse from concept to launch in less than one year’s time exemplifies how DTCC leverages its knowledge capital and repurposes technology to help customers in an emerging market segment automate, create efficiency, reduce risk and lower cost,” said Peter Axilrod, DTCC managing director, Business Development.

Sustaining market growth

Deriv/SERV was launched following discussions with members of the OTC derivatives community who were concerned about operational risk in an industry with transaction volumes growing at warp speed. The need to automate was further magnified with global regulators expressing concern about the industry’s ability to securely sustain its growth level. According to ISDA, the total notional value outstanding for credit default swaps increased 309% to \$34.4 trillion at the end of 2006 from \$8.4 trillion at the end of 2004.

“Electronic processing platforms such as Deriv/SERV have not only helped market participants sustain industry growth, they also provided an essential structure for managing the volume surge during the recent turmoil in global credit markets,” added Axilrod.

Global services

DTCC’s global OTC derivatives services are offered by its subsidiary, DTCC Deriv/SERV LLC.

DTCC’s other global services to the securities industry include its Global Corporate Action Validation Service and EuroCCP, a U.K.-based clearing and settlement service for Europe. Initially EuroCCP will support Turquoise, a new pan-European trading platform being created by a consortium of major investment banks. @

DTCC Makes a Strong Showing at Sibos 2007

by Judith Inosanto

On the surface, there is a strong current pushing the markets towards global convergence, but it's important that we realize that other trends can pull us away from convergence, like a strong undertow that drags us away from shore," was the seascape metaphor Donald F. Donahue, DTCC chairman and CEO, used to describe global trends shaping the future of the securities market. Donahue was speaking at a Sibos 2007 panel titled "The 2013 Securities Landscape: Will You Still Be Part of It?"

Sibos is the annual industry conference on market connectivity, message standardization and interoperability in the global financial industry organized by SWIFT, the industry-owned organization that provides messaging services and interface software to more than 8,100 financial institutions globally.

This year, approximately 7,500 executives from financial institutions, central clearing organizations, system integrators, application and middleware providers, and consultants from all over the world attended Sibos. They shared ideas on how to bring greater market efficiency and security to global capital markets. The event was held in Boston the first week of October.

Global trends

At the opening-day session, Donahue said, "It is absolutely essential that the industry speak with one voice in support of initiatives – like the SEC's consideration of 'mutual recognition' between regulators overseeing components of the global market system – that promote and accelerate market convergence toward common standards, common operating methodologies and a fully interoperable global interconnected clearing and settlement system." He cited regulatory initiatives such as MiFID and Reg NMS as strong forces moving global markets in the right direction, promoting competition and change among participants.

MiFID, the European Commission's Markets in Financial Instruments Directive, creates a new legal framework for the provision of investment services in the European Union that is intended to foster competition and a level playing field between Europe's trading venues. MiFID's provisions will apply from November 1, 2007. Reg NMS refers to the Securities and Exchange Commission's Regulation National Market System, scheduled for full implementation later this year and designed to modernize regulations governing U.S. equity trading.



Donald F. Donahue

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How global markets will come together was a focal point of the discussion among the speakers, who also included Jan Bart de Boer, global director commerce, Global Brokerage, Clearing and Custody, Fortis; Adrian Farnham, chief operating officer, Turquoise (the new pan-European trading platform being created by a consortium of investment banks); Chris Foskett, managing director and global head, Financial Institutions Group, Citigroup; Till Guldemann, vice chairman, SunGard; and Anders Reveman, senior advisor to the European Central Bank on the Target 2 Securities project.

Donahue noted that while global mergers between exchanges are pushing markets towards similar approaches for technology and governance, not all trends are moving toward commonality. He pointed to regulators in Europe and North America as having different approaches when it comes to rules-based versus principles-based regulation, and noted there was a danger that movement toward common accounting standards could be negated through regional differences in implementation. Donahue called on the attendees to show their strong support for efforts to bring market regulations towards consistent, harmonized standards.

DTCC's presence

Other DTCC executives who participated in sessions at Sibos were Jill Considine, senior advisor to DTCC and former DTCC chairman and CEO, who moderated the panel "Securities Market Harmonisation: Can we Learn from the Payments Business?"

Bill Hodgson, DTCC first vice president, Business Development, DTCC Deriv/SERV,

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DTCC at Sibos 2007

served as a panelist at the session “The Evolving Role of Market Infrastructures in Supporting OTC Derivatives Post-Trade Processes.” DTCC Deriv/SERV, which provides automated services for the over-the-counter derivatives industry, recently signed its 1,000th customer (see page 1).

Michael Bodson, DTCC executive managing director, Business Management, Strategy and Marketing, was among several leading figures from the industry invited to comment on areas of momentum in financial services for the conference’s daily publication, Financial News at Sibos (10/02/07).

“The development and strong industry take-up of automated post-trade processing solutions have generated tremendous positive change in the over-the-counter derivatives market over the past few years,” said Bodson. “Not only have the new electronic infrastructure platforms enabled the OTC derivatives market to sustain its rapid growth, they also provided an essential structure for managing the volume surge during the recent turmoil in global credit markets.”

In addition to the three panelists, DTCC was in full force at the conference, with another 20 delegates participating to dialogue with industry peers and colleagues about issues including market infrastructure, processing efficiency, risk reduction and globalization.

DTCC also participated in the Market Infrastructures Forum, a meeting for securities market infrastructure participants organized by SWIFT, as well as the Global Securities Market Practice Group’s standards meetings, which are aimed at unifying standards and best market practices through the collaboration of national market practice groups globally.

On to CCP 12

DTCC closed out the week as a participant at the annual meeting for the CCP 12, an association of the world’s principal clearing organizations dedicated to improving clearing, netting and central counterparty (CCP) services. Donahue was a featured speaker at the meeting, where he and other panelists from Japan Securities Clearing Corporation and the European Association of CCP Clearing Houses addressed the current trends and challenges for CCPs. @

The Back Office Move

What kind of clearing company best serves the customer and the market – the at-cost, user-owned clearing model or the for-profit clearing organization that is embedded in an exchange?

This was a key question on the minds of attendees at a recent, first-of-its-kind seminar, “A Clearing Forum (Soup to Nuts),” that gave institutional investors the opportunity to explore some of the key dynamics on the clearing side of the business. Sponsored by JPMorgan, the all-day event was designed “to give center stage to the back office,” according to Ken Worthington, executive director, equity research, JPMorgan, who served as moderator.

More than 60 people from the buy-side of the industry attended the forum, which consisted of presentations by seven clearing executives, including Susan Cosgrove, DTCC managing director, Clearance and Settlement Product Management, as well as a provocative panel discussion on the challenges confronting the industry from the back office point of view and several lively question-and-answer sessions. The forum was held September 28 in New York.

Key issues

The seven presenters covered the waterfront of clearing responsibilities, including equities, fixed income, traditional commodities futures, other major derivatives, cash market and over-the-counter (OTC) trading.

Three issues dominated the discussions:

- The relative merits of the at-cost clearing entity versus the public-company, internalized model that operates as part of an exchange
- The growth of the OTC derivatives market and the emergence of newer processing capabilities for these instruments
- The ability of the clearing infrastructure to manage rapid growth and potential crisis scenarios.

Starting with the customer

David Hardy, head of Strategic Development, MF Global (and former CEO of LCH.Clearnet), provided the customer perspective. MF Global is a broker and clearing firm for exchange-listed futures and options that clears through major clearing houses globally.

Hardy raised his company’s concerns about fragmented clearing in Europe, stating that multiple clearing entities presented a challenge because of the need to commit collateral to several guarantee funds for separate clearing houses as well as meet the connectivity demands of each. He added that growth of the OTC derivatives marketplace is intensifying concerns over fragmentation.

While acknowledging product innovation and other benefits of competition provided by the for-profit exchange models, he pointed out that consolidation of clearing functions in organizations such as LCH.Clearnet and DTCC reduced costs and created market efficiencies that his firm could pass on to customers. He stressed that the emergence of a true European marketplace as opposed to

oves to Center Stage

by Ted Davis

the fragmented national market model that has dominated historically would benefit all users.

Hardy also cited the value of a pan-European model of clearing and settlement as represented by Turquoise (the pan-European trading platform being developed by a consortium of global investment banks) and its use of the DTCC subsidiary EuroCCP to achieve a unified clearing approach.

On the topic of innovation, Frazier Cowie, executive director of transatlantic business development, NYSE Euronext, and representing the Bclear OTC processing platform, stated that his industry experience has led him to believe that the advantage of innovation does not necessarily reside with the exchange-internalized clearing house. As an example of innovation in the independent clearing houses, he cited LCH.Clearnet's introduction of a swaps platform in the 1990s, at least 10 years ahead of its exchange counterparts.

Horizontal model

DTCC's Cosgrove described the "non-fragmented, at-cost, member-owned and member-governed" model as an engine of market efficiency.

Citing the enormous scale of DTCC's clearing capabilities in equities and fixed income, Cosgrove emphasized that leveraging the organization's technology and infrastructure produces cost savings, market efficiencies, risk reduction, security and reliability for users and their markets. She pointed to DTCC's continuous record of fee reductions and user rebates to illustrate DTCC's cost efficiency. She also outlined the scalability of DTCC's network, which has expanded beyond traditional stocks and bonds to include mutual funds, insurance products and OTC derivatives.

Roger Liddell, group chief executive of LCH.Clearnet, a user-owned European central counterparty, noted that connectivity to all market users differentiates the independent clearing houses from those integrated within an exchange. He cited his organization's recent fee reductions, along with its size, scale and technological strength in terms of its abilities to serve an expanding marketplace, OTC trading in particular.

Liddell contrasted the practice of the independent clearing organization to reduce cost and return excess revenue to users with the approach of exchanges that, as publicly owned companies, use cost reductions to benefit shareholders in the form of increased profits.

Vertical model

Speakers from the exchanges said the vertical model allows the exchanges to supply the tools and products the trader requires to pursue opportunities in the marketplace. They cited other



advantages for this model, including innovation and aggressive product development.

David Goone, senior vice president and chief strategic officer of IntercontinentalExchange (ICE, an electronic energy marketplace and commodity exchange), stressed that his organization focused on quick-to-market products to serve its customers' trading needs. Thomas Hammond, president and CEO of ICE Clear U.S., raised another point, asserting that customers trading on the exchange platform focused on the price savings that came from tighter trading spreads and the greater liquidity of their growing marketplaces and were less concerned about actual clearing or other back-office fees.

Kim Taylor, head of the for-profit CME (Chicago Mercantile Exchange) Clearing, a global clearing organization for derivatives, made a similar comment, saying users tend to take clearing services for granted and are far more concerned with what happens up front on the trading platform. She also noted that CME used its size and market growth to foster innovation, better service, better products and value for the end user.

Sam Gaer, executive vice president and CIO of NYMEX (New York Mercantile Exchange), gave another perspective of the public exchange with the vertically integrated clearing house. He stressed the strength of the risk management function of NYMEX's energy and metals exchange clearinghouse, both on the exchange and in the OTC arena. @

Customer Satisfaction Survey *Continued from cover*

favorably within the industry. The Melior Group, which conducts DTCC's annual survey, noted that when benchmarked against comparable survey questions for other financial institutions in its database, "DTCC scores above The Melior Group's industry average on almost all key metrics." Additionally, overall satisfaction is above the industry average for the fourth year in a row.

Customers first

"Putting customers first is a driving force in DTCC's business model," said Donald F. Donahue, DTCC chairman and CEO. "It starts with listening to our customers, understanding their business priorities and delivering products and services that anticipate and address their needs. It also entails an unwavering commitment to quality programs such as Six Sigma that enable us to lower costs, increase quality and efficiency, and employ metrics to track progress."

Donahue added that DTCC employees are the foundation for customer satisfaction. "We take great pride in the dedication and commitment of all DTCC employees in striving to not only meet

– but exceed – customer expectations," said Donahue. "Their efforts are an essential component of our ability to deliver consistently high customer service."

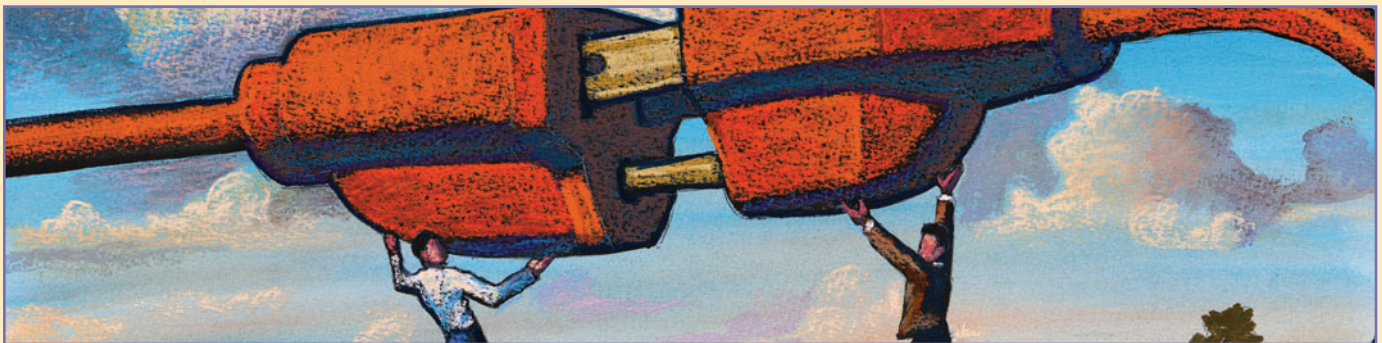
As a key component of the ongoing customer dialogue and DTCC's response to it, DTCC asks customers for feedback on its performance, and the Customer Satisfaction Survey is the primary tool for obtaining this feedback.

"We use the survey results to measure our efforts to improve customer satisfaction over the previous year; to isolate factors that may lead to lower satisfaction levels; and to identify opportunities to improve satisfaction going forward," said Paula Arthus, DTCC managing director, Relationship Management. "The survey feedback provides important input for developing metrics-driven customer satisfaction action plans at both the enterprise-wide and business-unit levels."

Driving perceptions

The four primary drivers of customer satisfaction with DTCC, according to The Melior Group's analysis of the data, are:

- **Transaction-processing capabilities.** Customers indicated 93%



Service and Relationships

Survey respondents increasingly recognize customer service and relationship management efforts as a major source of their level of satisfaction with DTCC," according to The Melior Group, which conducts DTCC's survey.

Customers are pleased with the ability of their particular Relationship Manager to meet their needs – 93% expressed satisfaction. When evaluating the role of relationship management, however, the survey results indicate more work needs to be done. Satisfaction increased from 79% in 2006 to 82% in 2007, but is still below DTCC's overall satisfaction level.

"This year's satisfaction with a client's particular Relationship Manager is better than last year, but we need to make further gains to improve our clients' assessment of overall relationship management capabilities at DTCC, including that of being a trusted advisor to the client," said Paula Arthus, DTCC managing director, Relationship Management.

"In addition to improving our sense of urgency when dealing with customer concerns, we need to spend more time with our clients – and that's part of the plan for relationship management going forward," Arthus added. "Whether at industry-sponsored gatherings, client-site visits or DTCC regional meetings, working with clients, being knowledgeable about the issues affecting their business and being able to architect solutions to those issues are key objectives for DTCC."

Survey respondents are keen for DTCC to expand into areas beyond their traditional products and services. Suggestions included, 'Expand into other operational processes that would result in savings.'

satisfaction (vs. 95% last year). "The number of trades they settle is phenomenal, great accuracy," commented one customer.

- **Commitment to quality.** DTCC received a 90% satisfaction rating, compared with 91% last year. "They continue to deliver quality solutions at a good price that is good for the industry," said a customer.
- **Customer service.** The satisfaction rating for this critical aspect of how DTCC serves customers was 84%, up 3 points from 2006. "The service has significantly improved over the last 18 months," said one customer. "I think they have done an excellent job of listening and responding accordingly," noted another.
- **Customer-centric.** This rating reached 80% satisfaction, a 4-point increase from 2006. "DTCC has increasingly become more open to suggestion and more proactive in working through their issues and industry problems," said one customer. Respondents also are keen for DTCC to expand into areas beyond their traditional products and services. Suggestions included "Expand into other operational processes that would result in savings;" "Think a little further outside the box;" "More focus on non-core products;" and "More aggressive addressing inefficiencies within the industry."

Key attributes

The survey asked customers to rate their satisfaction with various attributes/qualities that reflect DTCC's values and priorities. Of the 13 attributes measured, customers expressed the highest satisfaction with integrity: 95% (vs. 94% last year). "They reliably perform admirably to support our industry and our firm ... a trusted advisor," summed up one survey respondent.

"Customer confidence in DTCC's integrity and reliability is the baseline for our role in the industry," said Donahue. "Our customers entrust a critical component of their business to DTCC and they understand that we are absolutely committed to serving the industry with the utmost integrity." [continued on page 12]

The 2007 Survey Process

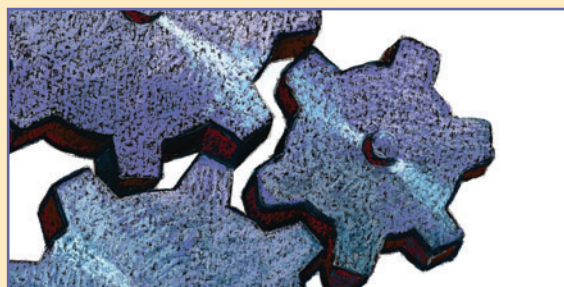
DTCC contracted The Melior Group to conduct its Customer Satisfaction Survey for the fourth consecutive year. The Melior Group is an independent research and consulting firm specializing in the financial services industry.

Altogether, 684 customer contacts took part in the 2007 survey, for a response rate of 22%, which is above the industry norm. Most of the customers surveyed (72%) use products and services from more than one product area.

This year, DTCC modified its approach to the survey, dividing the customer contacts into two groups and conducting the online poll at two separate intervals during the year. Also, as in previous years, The Melior Group interviewed a group of senior executives by telephone to assess their firms' overall satisfaction levels and to gather strategic information.

The twice-a-year methodology provides a more accurate overall reading of customer perceptions, according to The Melior Group. It also strengthens DTCC's ability to monitor customer satisfaction throughout the year, address specific customer concerns more quickly and obtain metrics to track progress in making improvements.

Results from the two online surveys, along with the telephone interviews, were consolidated and analyzed as a whole, to be reported to customers, DTCC's Board of Directors, the Business Reengineering and Quality Council and business units. DTCC also analyzed and distributed internally the feedback from each of the online surveys, which the business units used to develop plans to improve satisfaction.



Customer Satisfaction Survey

Ratings for other key attributes remained stable, including 82% satisfaction with effectiveness in reducing risk (vs. 84% in 2006) and 74% satisfaction for innovation (vs. 73% in 2006).

Focus on functionality

DTCC maintained strong satisfaction scores in key functional areas. The company received a 92% rating for the breadth of the product/service line (vs. 90% in 2006).

In addition, satisfaction with DTCC's product/service array was high: 12 of the 16 products that have been in the market for more than three years met or surpassed DTCC's goal of 85% satisfaction. (The 85% goal marked an increase from 80% for the previous three years.) "They absolutely deliver what the industry needs," said one customer.

DTCC's technology received 87% satisfaction for connectivity and 82% for hardware and software (both ratings up 1 point from 2006). "Overall, I feel DTCC strives to put forth excellent systems," said one customer. "They provide a value-added service to the community ... robust and sound systems," said another.

Customer satisfaction with "technology-related attributes" ranged from moderate to high, including a solid increase in the rating for DTCC's ability to anticipate customers' technology needs to 77%, up from 69% in 2006.

In the technology-related category, business continuity garnered the highest rating, with 90% satisfaction (vs. 87% in 2006), followed by "ease of use" at 89% (vs. 85% in 2006). An area requiring improvement is "leveraging the Internet," which received a 72% satisfaction rating, the same as last year. "We would like to use the Web features, but understand there are a few issues that need to be 'ironed out,'" said one survey respondent. "Please keep participants informed of this progress."

Problem resolution

Problem incidence declined for the third year in a row. Most customers surveyed (76%) did not experience a problem with DTCC in 2007, compared to 72% last year. That means 24% of customers had a problem, an incidence rate that is "fairly typical for major players in the financial services industry," according to The Melior Group.

The survey findings also indicate that the more severe the problem, the less frequent the occurrence. Of customers that faced problems

over the past year, 24% were significant, 42% moderate and 47% minor (some customers faced more than one type of problem). In a related category, customers indicated satisfaction with DTCC's "sense of urgency when responding to customer concerns," which increased to 80%, up from 75% last year. "While this is a strong step in the right direction, increasing our sense of urgency will be an area of focus across DTCC as part of the action planning process to address survey concerns," said Arthus.

"Data from previous surveys indicated that the more severe the problem, the less satisfied customers were with DTCC's ability to resolve it, which led us to focus on improving significant problem resolution," said Adam Bryan, DTCC managing director, Customer Service. These efforts are "starting to bear fruit," according to The Melior Group.

All together, 39% of survey respondents expressed satisfaction with DTCC's ability to resolve their significant problems, up from 24% in 2006. Satisfaction was lower for the resolution of moderate and minor problems. "However, this does not appear to have affected overall satisfaction in a negative way, suggesting customers feel DTCC is focusing its attention in the right place," said The Melior Group.

The Results Are In. Now What?

In September and October, The Melior Group is presenting results of the survey to DTCC's Board of Directors, Business Reengineering and Quality Council and officers.

Results also were distributed to all business managers and relationship managers to review customer feedback for their areas and to identify issues requiring immediate attention. Currently, the business units are conducting in-depth analyses of the data and developing action plans to tackle key themes of concern to customers. These plans will also reflect feedback obtained from customers in other forums over the course of the year, including advisory boards, meetings and call volumes.

DTCC also will mine the data to identify five key areas of focus at the enterprise-wide level. Teams and action plans will be created for each key concern.

DTCC's senior management team will approve the action plans, incorporating key aspects of them into the corporation's 2008 goals.

Customer recommendations for improving satisfaction with problem resolution included escalating problems more quickly and communicating more.

Talking to the customer

DTCC communicates with customers through a variety of mechanisms, including its Website, Development Agenda, annual report, Important Notices and customer newsletters, as well as via meetings, industry forums and committees.

This year, the customer satisfaction rating with DTCC's communications was 86% (vs. 85% in 2006). "Regardless of whether communication is focused on new products/services or information on the current array, customers feel adequately informed by DTCC, with actual dissatisfaction at 2% or less," said The Melior Group.

Customer comments include: "They are very good communicators;" "Good communications with problems and general information;" "Clear communications."

What's more, in a key communications-related category, satisfaction with DTCC being proactive in letting customers know when problems arise increased to 84%, up 6 points from last year.

Notwithstanding overall satisfaction with communications, many customers cited the desire for more. Suggestions for improvement included, "DTCC needs to communicate its benefits more frequently and formally;" "More communications about their strategy;" and "More information regarding new products and training on those products."

Another theme in the customer comments was the desire for more in-person contact. "Hold quarterly briefings for segmented customers," suggested one customer. Other recommendations included: "More senior-level meetings with DTCC leadership on industry trends" and "More interpersonal and media communication."

Leading the industry

Ratings for DTCC's industry leadership climbed to 85% satisfaction, up 5 points from 2006. Here is one customer's perception of DTCC on this score: "Global leaders. [We] want them to continue their customer-centered focus and embrace innovation on all levels and work to understand their customers. They work hard on this." Another said DTCC has developed a "more entrepreneurial internal culture that looks for new markets and opportunities."

When asked how DTCC could strengthen its leadership role, one customer said, "People have pre-conceived ideas of DTCC's spaces, and DTCC needs to define spaces outside this." Another said, "Continue to leverage their marketplace strength and position as a thought leader to combine to drive innovation in the industry and among participants."

Satisfaction with DTCC being proactive in letting customers know when problems arise increased to 84%, up 6 points from last year.

...

On the topic of partnering with DTCC, 91% of executives interviewed consider DTCC as a partner, citing the organization as an integral part of their business. 'They are very collaborative and interested in the success of my organization,' said one executive.

To gain insight into strategic issues on the minds of customers, the survey process included interviews with a group of senior executives to discuss issues related to DTCC's current and future role in the industry. "The comments made by these respondents are an important source of feedback on what we are doing well, where we could add additional value through the expansion of our capabilities in providing new services and how we can extend and enhance the delivery of our core services," said Tom Costa, DTCC managing director and general manager, Clearance and Settlement Group.

When asked to identify the issues of greatest concern to their firms now and for the next few years, many executives pointed to globalization and the need to address processing inefficiencies in global markets. Here are representative comments:

- "Globalization is the key issue."
- My concerns are "international consolidation of financial services infrastructure. What is DTCC's role in the global market?"
- "The international platform – consolidating clearance and settlement platforms across the world."

On the topic of partnering with DTCC, 91% of executives interviewed consider DTCC as a partner, citing the organization as an integral part of their business. "They are very collaborative and interested in the success of my organization," said one. Another summed up the partnership this way: "Without them, we have no product to offer our clients. They are an integral part of offering products in marketable fashion." @

DTCC Hosts Americas' Leadership Forum

DTCC recently hosted a three-day Leadership Forum. Participants included more than 50 executives from 25 market infrastructures that are members of the Americas' Central Securities Depositories Association (ACSDA), as well as seven delegates from depositories in the Asia-Pacific region, the Middle East and Europe.

The first-of-its kind program, which had simultaneous Spanish/English translation, was designed to facilitate an in-depth information exchange. The agenda included 22 DTCC executives, who presented case studies on their areas of the business, along with 22 executives from the ACSDA markets, who spoke about clearing, settlement, risk management and depository links in their organizations. Outside speakers covered topics such as the U.S. regulatory and compliance environment and payment systems. The program, held October 8-10, included visits to the New York Stock Exchange and the Federal Reserve Bank of New York.

"This forum was a tremendous opportunity to build practical knowledge, share experiences and gain insight from counterparts in the Americas and across the globe," said Monique Moura de Almeida, head of the Development Division at the Brazilian Clearing and Depository Corporation (CBLC). "Through our active dialogue, we identified many common challenges across markets, and came away with a better understanding of the issues we face in our fast-changing industry. The event was inspirational, as well as educational and informative."

In welcoming remarks to the group, Mary Ann Callahan, DTCC managing director, International, and president of ACSDA, noted that the forum "created a special opportunity for all of us to interact as industry colleagues and potential business partners."

Speakers from DTCC included Donald F. Donahue, DTCC chairman and CEO. "Growth is a key issue for all of us," he said to the group. "While the U.S. and Canadian markets have continued to grow, markets throughout Latin America have exploded with activity. Latin economies have matured to the point where they continue to hold and expand Latin capital. Taken together, the economies of all the Americas constitute a powerhouse. That's why this gathering through ACSDA is so important.

"You are part of the new wave of leadership," Donahue added, "and the new talent and imagination the industry is looking for."

William Aimetti, DTCC's COO, gave an overview of trends in global capital markets and how DTCC is responding to them. In closing the forum, Jill Considine, DTCC senior advisor and former DTCC chairman and CEO, said, "ACSDA has demonstrated wonderfully that it can open lines of communication, build a basis of trust, develop dialogue throughout the industry, and deepen our understanding of industry challenges."

ACSDA at Sibos

The Leadership Forum was scheduled the week after the annual Sibos meeting (see page 7), where ACSDA took the opportunity to raise its profile globally. ACSDA representatives participated in the annual Market Infrastructures Forum, circulated a special Sibos edition of the ACSDA newsletter with updates from all 22 member depositories and made a presentation about the association's activities that was open to all Sibos participants. In addition, ACSDA representatives from DTCC, Indeval in Mexico and CBLC Brazil represented the Americas in the Global Securities Market Practice Group's standards meetings. @



PHOTOGRAPHY BY SUE LEVINE

m with Global Participation



Donahue in FTSE Global Markets

Donald F. Donahue, DTCC chairman and CEO, was featured in the September/October issue of FTSE Global Markets magazine, a bimonthly publication of FTSE International Limited.

“The integration of global securities markets is now a given, and a trend that will only accelerate in the immediate term: look at the NYSE/Euronext deal, or the way Latin American countries are striking deals among themselves and the Iberian markets,” said Donahue. “Our strategy is to be in place to support those developments.”

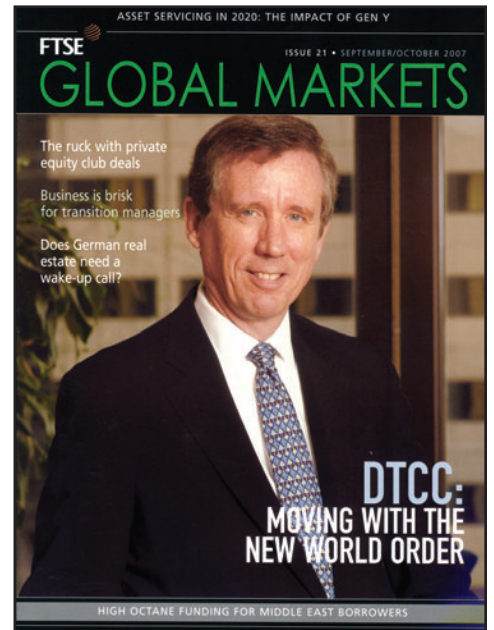
In discussing DTCC’s expansion into the global over-the-counter (OTC) derivatives market, Donahue said, “We focused initially on credit default swaps, but we designed the platform so that it could be expanded to support other OTC derivative instruments. We also worked in close tandem with customers to test trade confirmation and matching systems.” In addition, he commented on how DTCC has strengthened the Deriv/SERV

infrastructure by launching the Trade Information Warehouse, which provides an automated and standardized global central repository for derivatives contracts.

When asked about DTCC’s collaboration agreements (memorandums of understanding) with overseas depositories and clearing providers, Donahue cited DTCC’s agreements with China as an example. “As the financial industry becomes more and more a global business, China will play a major role. Our goal is to create an environment that will foster an open sharing of information and ideas, finding ways that we can work together to address market challenges and opportunities.”

The article, “DTCC: Moving with the New World Order,” covers other topics, including the expansion of DTCC’s London office to support its global services and DTCC’s reengineering of core systems for underwriting and corporate actions.

To access the magazine, visit www.ftse.com. @



DTCC’s CISO Named Top Information Security Executive

Jim Routh, DTCC’s chief information security officer, has been named Information Security Executive of the Year for the Northeast region by the Executive Alliance, an Atlanta-based creator and provider of leadership-recognition forums.

The panel of judges recognized Routh, who joined DTCC in 2005, for his leadership and innovative approach to

information security. He was one of 20 information security executives nominated for the award. Other nominees hold top information security positions at organizations including Credit Suisse First Boston, Bank of New York Mellon, ING US Financial Services, Raytheon, Quest Diagnostics, Verizon Wireless and PepsiCo. The nominees were honored at an awards ceremony held October 4 in New York. @



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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