



EuroCCP Receives FSA Approval As 'Recognised Clearing House'

by Steve Letzler

European Central Counterparty Limited (EuroCCP) announced March 31 that it received approval as a U.K. Recognised Clearing House by the Financial Services Authority (FSA), solidifying its position as a competitive, low-cost alternative for clearing and settlement in Europe. EuroCCP is DTCC's European subsidiary.

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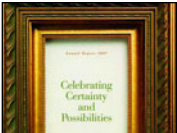
DTCC Rolls Out New Risk Management Model for Mortgage-Backed Securities

by Jim Conmy

DTCC's Fixed Income Clearing Corporation (FICC) implemented a new and more rigorous risk management model for its Mortgage-Backed Securities Division (MBSD) on April 21. "This new approach is one more step in our ongoing drive to reinforce safety and soundness in the markets we serve," said Douglas George, DTCC's chief risk

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New Underwriting System Is Set to Launch

by Edward C. Kelleher

DTCC's new underwriting system, including the New Issue Information Dissemination Service (NIIDS), will launch May 5, 2008. Municipal underwriters will have the option to begin using the system after they have completed their testing requirements or continue using current applications until August 29, 2008. The launch is subject to regulatory approval.

Called the Underwriting SOURCE (Securities Origination Underwriting & Reliable Corporate Actions Environment), the new system will streamline the process by which underwriters submit new-issue eligibility requests to The Depository Trust Company (DTC), a DTCC

subsidiary. The new NIIDS service will disseminate information on new municipal bond issues in real time to the industry. (Corporate issues are scheduled to transition in the fourth quarter.)



August 29, 2008, underwriters can choose to input their new municipal issues through SOURCE and whether to disseminate information through NIIDS. "Submitting new information and disseminating it through NIIDS are two distinct and separate processes," explained Russo.

Underwriters electing not to use the system during the optional period can continue to use current applications including PUND, WUN and the paper questionnaire for all municipal issues. Underwriters choosing to use the SOURCE must be registered for the new system and have successfully tested with DTC.

Reduced fees

Russo said underwriters using the SOURCE during the optional period will be able to take advantage of reduced underwriting fees. Existing fee schedules will apply to issues submitted via current applications.

"We encourage underwriters to submit their new underwriting deals into production through SOURCE during this optional period so they become more familiar with the new system," said Russo. "This will help ensure a smooth transition to DTC's new eligibility requirements, effective September 2, 2008, and the MSRB proposed rule change effective September 30, 2008." @

[For more information on the new underwriting system or for questions on registration, training and testing, contact Denise Russo at drusso@dtcc.com or 212.855.3731.]

MSRB extends deadline

Rollout of the system, originally scheduled for April, was pushed back one month after the Municipal Securities Rulemaking Board (MSRB), which establishes rules for the municipal bond industry, postponed mandating the use of NIIDS by municipal underwriters.

The postponement for three months was based on comment letters received from industry organizations, including The Securities Industry and Financial Markets Association (SIFMA) and the Regional Municipal Operations Association (RMOA) seeking the extension due to tight testing timeframes and the stresses of the unusual market conditions. Now the MSRB deadline to make NIIDS mandatory is September 30, 2008, subject to regulatory approval.

Four-month window

All underwriters have had the opportunity to begin testing SOURCE since March and DTC chose to launch the system in May. "Our goal is to give municipal underwriters four additional months to gain experience in using the new system, learning to submit new deal information, as well as use NIIDS to disseminate information on municipal securities," said Denise Russo, DTCC director, Product Management.

During the optional period through

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Structured Securities: SEC Approves Measures to Address Processing Bottlenecks

by Edward C. Kelleher

DTCC has begun implementing four major initiatives to help solve the processing problems and cost inequities of the structured securities market, after receiving the green light from the Securities and Exchange Commission (SEC) in March.

The initiatives, first proposed in a white paper titled “Transforming Structured Securities Processing” in September 2007, were developed by The Depository Trust Company (DTC), a DTCC subsidiary, and an industry task force that studied and analyzed the market for more than a year. The initiatives will help reduce the number of late principal and interest (P&I) payments each month as well as the number of adjustments made after incorrect P&I payments have been made.

“We’re confident that these measures will begin to streamline and help address the processing problems of the structured securities market,” said Simon Griffiths, an executive director with JPMorgan Worldwide Securities and a member of the industry task force that worked with DTCC. “We will monitor the initiatives and their impact on the market in the coming months and, after we’ve analyzed and studied the new data, we’ll determine next steps that DTCC and the industry task force should take.”

‘Quicker and more efficient’

The SEC’s approval order noted that “by enabling more Structured Securities to be DTC-eligible and by helping to make the reporting of information about Structured Securities more accurate and timely, the proposed rule change...should make the communication of payment rate

information on Structured Securities ... quicker and more efficient....”

Structured securities include collateralized mortgage obligations (CMOs) and asset-backed securities (ABS). They are essentially bonds or notes backed by a pool of mortgage loans for CMOs and

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– Simon Griffiths, executive director, JPMorgan Worldwide Securities

loan payments such as credit cards and auto loans for ABS.

“Inaccurate and late payment rates for structured securities remain the principal causes for these processing problems,” said Peter Gleeson, DTCC vice president, Asset Services. “This is further complicated by the complex flow of information and time-critical data among the many parties servicing these assets.

“These initiatives should help streamline and bring greater efficiencies to the process, as well as compensate those parties that

have suffered financial losses because of late or incorrect payment rates.”

The initiatives are:

- Extending the deadline for submission of payment rate information on structured securities to 3 a.m. Eastern Time on payable date;
- Creating two categories of structured securities – conforming and non-conforming;
- Charging an “exception processing fee” for non-conforming securities;
- Distributing a “paying agent” report card to the industry that tracks the performance of the six largest paying agents.

The previous deadline for paying agents to submit payment rate information to DTC in electronic form was preferably five, but no fewer than two business dates prior to payable date. The new deadline gives agents an additional 27 hours to submit payment rate information.

What’s non-conforming?

DTC will categorize all new structured securities issues after May 1, 2008, as either conforming or non-conforming. Conforming securities are those that will meet the new deadline for reporting rates. Non-conforming are those that are unlikely to ever allow paying agents to report rate information on time.

“DTC and the working committee examined and categorized more than 150,000 existing CUSIPs into conforming and non-conforming,” said Gleeson. “We expect that about 20% to 25% of new issues will ultimately be non-conforming and be charged the exception processing fee.

“The industry supports the processing

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DTCC Rolls Out New Risk Management Model *Continued from cover*

officer. “Recent market volatility underscores the value of world-class risk management practices across our industry.”

Utilizing the value-at-risk or VaR model widely employed in financial markets, the new model changes how MBS customer’s daily Clearing Fund obligations are calculated. It also extends the liquidation period for mortgage-backed securities to a more manageable three days from the single day allowed before.

The introduction of VaR for MBS brings a uniform approach to risk management across DTCC’s U.S. clearing corporations, including National Securities Clearing Corporation (NSCC), which handles equity, corporate and municipal bond trades, and FICC’s Government Securities Division.

Making the transition

Implementation of the new risk model for MBS followed a two-week “parallel period” during which participants continued to be governed by the previous methodology, but had access to the new reports and fund requirements.

Thus far, the new VaR methodology has resulted in a higher aggregate Clearing Fund level than what participants maintained during the second half of 2007. Almost a quarter of MBS customers, however, have seen reduced Clearing Fund obligations.

Customer benefits

Under MBS’s new approach, participants have a choice about how they want to margin for the trades they submit.

Firms that function as prime brokers, or maintain more than one account with FICC’s MBS, can post margin for each of those separate accounts, which is how MBS historically managed Clearing Fund collateral. Under the new practice, customers that maintain more than one account for clearing mortgage-backed securities trades will be able, if they wish, to aggregate their portfolios into a single account, and can then post margin against that unified portfolio obligation.

“Allowing customers to combine their separate portfolios simplifies collateral management and gives firms the possibility to reduce their overall collateral requirements,” said Murray Pozmanter, DTCC managing director, Clearing and Settlement Product Management. “Among other things, they may have offsetting trades within their aggregate portfolio and, by effectively netting them down, they’ll be able to reduce their overall Clearing Fund obligation.”

Another change is that Clearing Fund deficiency call payments for MBS customers will be due at 9:30 a.m. U.S. Eastern Time, reflecting their positions at the close of business the previous day. The former 2 p.m. deadline reflected customers’ position as of the same morning. In

addition, FICC is now obligated to notify firms whether they need to make up any collateral deficiency by 7 a.m., although on most days the deficiency call will have been issued sometime during the night.

Participants also have more flexibility in what they can use as collateral for their margin accounts. Earlier this year, DTCC introduced more diversified collateral requirements for all its clearing units, and rolled out the Clearing Fund Management system, an Internet-based administrative tool that gives customers hands-on management of their daily collateral needs.

Looking ahead

FICC’s longer-range goal is to create a system for common margining across both government securities and mortgage-backed securities trades, according to Pozmanter. “We want to reach the point where we have a system that allows customers who are long in one market and short in the other market to have the option to offset those positions, which would reduce their overall clearing fund obligations,” he said. @

[For questions about the new methodology, contact Heng Sun at hsun@dtcc.com or Guowen Han at ghan@dtcc.com. For questions about the new Clearing Fund requirements and VaR reports, contact Kevin Lewis at kewis@dtcc.com or Marc Golin at mgolin@dtcc.com.]



2007 Annual Report: Celebrating Certainty and Possibilities

by Melanie Best

Celebrating Certainty and Possibilities, the theme of DTCC's 2007 Annual Report, recognizes the ways DTCC is leveraging its core competencies to extend its reach across new products and into new markets.

Having mastered its core capabilities in clearance and settlement and earned the trust of the financial services industry, DTCC is seizing opportunities to design creative solutions that support the fast-changing needs of non-traditional customers and markets in the U.S. and overseas.

The "dynamic interplay between the 'basics' of DTCC's core strengths and experience and the 'creativity' involved in applying them to a far broader set of needs has never been more critical," wrote Donald F. Donahue, DTCC chairman and CEO, in the report's letter to stakeholders. "Our customers are entering new markets and devising complex new investment instruments, new risk transfer vehicles and more sophisticated market mechanisms, and demanding that we support them in these dramatic changes."

Highlights of 2007

DTCC's ability to draw upon its knowledge and experience to create and deliver innovations in financial services is amply documented in the record of 2007 accomplishments.

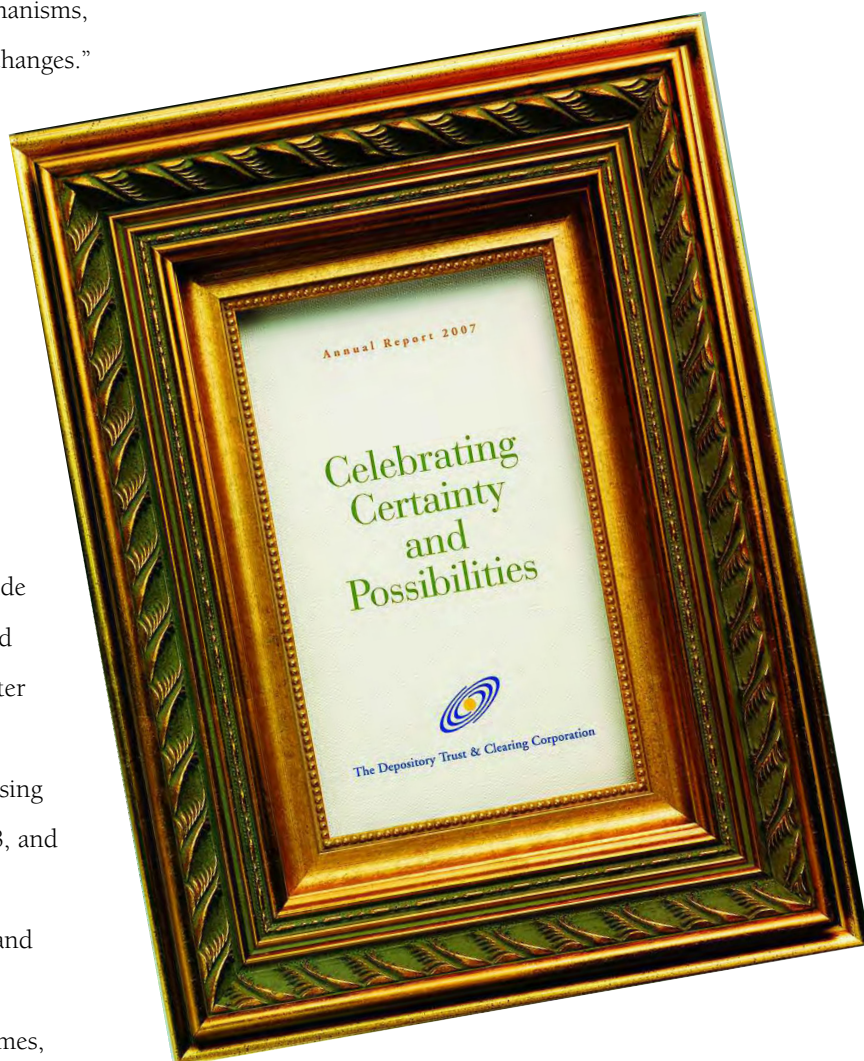
A high point of the year was being chosen by a consortium of global investment banks to provide clearance and settlement services to Turquoise, their new pan-European multilateral trading facility. Another key achievement was the build-out of DTCC Deriv/SERV's Trade Information Warehouse, including its launch of automated payment netting and central settlement for over-the-counter credit derivatives. The Asset Services unit finalized development of Loan/SERV, a service to streamline processing of syndicated commercial loans that is rolling out in 2008, and other business units implemented an array of service enhancements that will help customers lower their costs and reduce their operational risk.

Last year DTCC set another record for processing volumes,

settling \$1.86 quadrillion in transactions across diverse asset classes, up from more than \$1.5 quadrillion in 2006. The company returned over \$984 million in rebates, discounts and interest to customers, and cut 2008 transaction fees by \$198 million. And DTCC earned world-class customer satisfaction scores for the fourth consecutive year; the overall customer satisfaction score in 2007 was 91%.

Celebrating Certainty and Possibilities is illustrated with the work of nine great painters. The artists, from the Americas, Europe and Asia, represent a diversity of talent and global spirit of innovation. @

[DTCC's 2007 Annual Report will be mailed to customers at the end of April. If you have not received a copy by mid-May, you may request one by contacting Lorna Helwig at lhelwig@dtcc.com or order/view it online by visiting www.dtcc.com.]



Industry Joins Forces to Meet a Dematerialization

A midwestern insurance company made history in March when it quietly became the final exchange-listed company in the U.S. to become eligible for a direct registration system (DRS). It was the last of more 7,300 issues in circulation to become DRS-eligible.

The transition of the company, Kansas City Life Insurance, took effect March 31, the deadline for making all equity issues on the major and regional exchanges eligible for direct registration.

“We are very pleased to have worked successfully with DTCC in achieving 100% DRS compliance by the March 31, 2008, deadline,” said Noreen Culhane, executive vice president – Global Corporate Client Group, NYSE Euronext. “All of our listed securities are now DRS eligible. It’s an important milestone that further improves the efficiency of shareholder registration and benefits our listed companies, their shareholders and the industry as a whole.”

Getting to 100%

DRS gives registered equity owners the option of holding their assets on the books and records of the transfer agent in book-entry form. Through DRS, assets can be electronically transferred to and from the transfer agent and broker/dealer.

The exchanges – New York, Nasdaq and the American, as well as the regional exchanges – adopted standards in 2006 requiring

that all listed securities be eligible to participate in a system administered by a registered clearing agency such as The Depository Trust Company’s (DTC’s) Direct Registration System (DRS). These rules were effective for new listings beginning January 1, 2007, and were scheduled to become effective for all issues and companies on January 1, 2008. The exchanges later extended the deadline to March 31.

“Achieving 100% marks another milestone for the industry’s dematerialization drive and benefits all investors,” said Patrick Kirby, DTCC managing director, Asset Services. “The advantages of DRS include more accurate, quicker and most cost-efficient transfers, faster distribution of sale proceeds and a reduced number of lost or stolen certificates, which in turn reduces risk and cost.”

According to the Securities and Exchange Commission, the use of paper certificates “has long been identified as an inefficient and risk-laden mechanism” for holding and transferring securities.

Collaboration and next steps

“This was a massive undertaking on the part of all industry members, including the exchanges and the listed companies,” said Joseph Trezza, DTCC vice president, Asset Services. “We went to 7,300 DRS-eligible issues by the March deadline, from 1,400 in

Structured Securities *Continued from page 3*

fee since it is the underwriter – and not others in the processing chain – that creates non-conforming issues.”

The exception processing fee is a one-time charge of \$4,200 per non-conforming CUSIP. Annually, the aggregate structured securities performance “exception” monies will be allocated, pro-rata, to the DTC participants for whom DTC processes structured securities’ P&I allocations. This will help defray the additional “exception” costs and write-off expenses associated with handling these more problematic instruments.

Report cards

DTC has posted the first report card for paying agents on the DTCC website at www.dtcc.com. Although DTCC has been

issuing these report cards to the paying agents for several years, this is the first time the report has been made public.

Using Six Sigma quality standards, the report tracks the performance of the paying agents by name, including timeliness for non-conforming issues and accuracy for both conforming and non-conforming issues. DTC plans to issue a new report card each month with the previous month’s results.

While new structured securities issues coming to market have dropped substantially in 2008 because of current market conditions, DTC continues to pay out more than \$50 billion a month for an estimated 130,000 P&I payments, according to Gleeson. @



Noreen Culhane, executive vice president – Global Corporate Client Group, NYSE Euronext

'All of our listed securities are now DRS eligible. It's an important milestone that further improves the efficiency of shareholder registration and benefits our listed companies, their shareholders and the industry as a whole.'

January 2007." He noted that for many companies and their transfer agents, the DRS transition was a long and involved process. "In some instances, the transition included modifying a company's by-laws and obtaining the approval of its Board of Directors."

"Now that all issuers are DRS-eligible, our next step is to urge them to fully participate in DRS and automatically default to DRS statements rather than issuing certificates for new stock purchases," said Trezza. "The savings to the issuer, as well as the industry, will be substantial."

According to industry estimates, the annual cost of printing and issuing paper certificates total more than \$300 million, which includes \$49 million annually to replace lost or stolen certificates. @

A More Efficient DRS

With more than 7,300 issues now eligible for The Depository Trust Company's (DTC) Direct Registration System (DRS), the number of book-entry transactions that move positions electronically between DRS and DTC participant accounts will grow dramatically. This means DRS will experience higher volumes and greater processing challenges than ever before.

Currently, DRS handles more than 63,000 transactions a month, but a number of these transactions continue to be rejected. The reason? Data elements in the DRS account and DTC participant account – including the number of shares to be transferred and the social security or taxpayer information number – don't always match.

Working with industry groups, DTC has developed two enhancements to help address this processing problem, including a "move-all" functionality to the DRS system and providing two Social Security or tax information numbers for each transaction submission. Implementation of both enhancements, scheduled for November 3, 2008, is subject to regulatory approval.

Move it

The "move-all" functionality eliminates the need to match the number of shares being transferred and gives DTC participants three options to use in processing transactions:

- Move all the investor's full shares to the requesting participant's account;
- Move all the investor's full shares to the requesting participant's account and liquidate any fractions in the account, with the cash proceeds sent directly to the investor; or
- Move all the investor's full shares to the requesting participant's account, liquidate any fractions in the account, with the cash proceeds sent directly to the investor, and close the DRS/DRiP account.

The second enhancement will enable transfer agents to accept two Social Security or tax information numbers for each DRS transfer submitted by a participant. This will cover joint investor accounts where there are two numbers on an agent's record and allow the transfer agent to match either one of the numbers, helping to decrease the number of rejects.

FSA Approval *Continued from cover*

“We are delighted that the FSA has granted EuroCCP status as a U.K. Recognised Clearing House,” said Diana Chan, EuroCCP’s CEO. “Initiatives such as MiFID and the Code of Conduct are changing the landscape in Europe and allowing new service providers such as EuroCCP to help market participants further reduce transaction costs, improve efficiency and connect more seamlessly in today’s marketplace.” (See page 10 for more on these initiatives.)

EuroCCP also signed the voluntary European Code of Conduct for clearing and settlement, allowing for the interoperability of its services with other clearing and settlement houses and European trading platforms. (See article, page 9.)

Value of EuroCCP model

EuroCCP was selected to clear and settle for Turquoise, a new pan-European multilateral trading facility (MTF) created by a consortium of nine major global investment banks that will trade the most liquid equities in Europe. EuroCCP will use Citi’s Global Transaction Services as its settlement agent.

“We believe the value of our ‘at-cost’,

industry-governed business model will be attractive to European capital markets and their participants,” said Chan. “EuroCCP is already in active discussions with other MTF trading platforms to provide clearing and settlement services.”

The FSA approval of EuroCCP as a Recognised Clearing House followed a satisfactory in-depth review of all aspects of EuroCCP’s business arrangements as a critical market infrastructure.

How EuroCCP will work

EuroCCP will accept trades from Turquoise and other trading platforms. EuroCCP will guarantee trades upon receipt and validation, then net all transactions on all platforms in the same security into one amount for settlement per clearing participant. For trading firms that are not clearing participants of EuroCCP, these trades will be handled through general clearing participant relationships. EuroCCP will apply risk-

based margining, with appropriate levels of margin collected on a daily basis. Any unsettled obligations will be marked-to-market each day.

Citi will process EuroCCP’s settlement instructions for delivering and receiving



securities and related payments in various currencies through its local securities network at various national central securities depositories. Clearing participants do not need to change their settlement arrangements with existing settlement service providers.

EuroCCP is headquartered in London. It will be operated on an “at-cost” basis, and any excess revenues collected beyond the cost to support the operation will be refunded to participants. @



‘Initiatives such as MiFID and the Code of Conduct are changing the landscape in Europe and allowing new service providers such as EuroCCP to help market participants further reduce transaction costs, improve efficiency and connect more seamlessly in today’s marketplace.’ – Diana Chan, CEO, EuroCCP

EuroCCP Signs Code of Conduct

European Central Counterparty Limited (EuroCCP) announced on April 10 that it had signed the Code of Conduct for clearing and settlement during a meeting at the European Commission in Brussels. EuroCCP is DTCC's European subsidiary.

The Code was signed formally by Diana Chan, EuroCCP's CEO, in keeping with a commitment made by DTCC, EuroCCP's parent organization, when it was selected to provide a clearing and settlement



solution for Turquoise, a group of global investment banks creating a pan-European trading platform. By signing the voluntary Code of Conduct, EuroCCP agrees to enhance transparency and increase competition in the post-trade sector.

On March 31, EuroCCP received approval as a Recognised Clearing House from the U.K.'s Financial Services Authority (FSA). (See article, page 1.) That approval allows EuroCCP to begin clearing and settling trades for Turquoise and other multilateral trading platforms and exchanges in Europe.

Toward a new standard

"We believe EuroCCP can set a new standard in helping to reduce the costs of clearing and settlement in Europe," said Chan. "We are already in discussions with a number of trading platforms that are looking for an alternative low-cost clearing and settlement provider."

As a result of EuroCCP being approved by the FSA as a Recognised Clearing House and EuroCCP signing the Code of Conduct, the firm has published its fee schedule on its website. The fees are expected to be significantly less than other clearing organizations in Europe.

Chan pointed out that in addition to low fees for clearing and settlement, EuroCCP will provide added processing efficiencies. It is envisaged that financial firms that trade on any multilateral trading facility or exchange that uses EuroCCP can benefit by having their trade obligations netted down or reduced into one net settlement position each day per security, thereby requiring only one settlement for all trades on all platforms. Moreover, there will be one collateral amount to secure open positions across all platforms.

Code's key provisions

The Code of Conduct essentially requires stock exchanges, central securities depositories and central counterparties (such as EuroCCP) to open up competition in clearing and settlement.

Key among the voluntary provisions is that prices charged by clearing and settlement organizations be publicly disclosed and made comparable. The Code also establishes ground rules for access and interoperability between market infrastructures, building on the provisions under the Markets in Financial Instruments Directive (MiFID). MiFID fosters cross-border securities market integration by removing barriers to competition in the trading of securities. Finally, the Code requires that services be made available to users on an unbundled basis.

"We are charging very low fees," Chan said. "In addition, one of the key differences between us and some other clearing organizations in Europe is that we give back to clearing participants the full amount of interest earned on cash collateral, because of our 'at-cost' business model. For some firms, the spread they lose on the interest on cash collateral is a very significant hidden cost."

The fee schedule for EuroCCP is available at the company's website at http://www.euroccp.co.uk/docs/EuroCCP_Fee_Schedule_Mar2008.pdf. @

'At-Cost' Business Model

EuroCCP's "at-cost" business model means it will return any excess money beyond that required to fund the business to its participant firms in the form of rebates or discounts.

The organization is also user-governed, with a 13-member Board of Directors made up of participant firm representatives, three independent board members and two management representatives.

The participant organizations include Deutsche Bank, Goldman Sachs, Merrill Lynch, Citi, UBS, BNP Paribas, Credit Suisse and Morgan Stanley. The three independent directors are Edouard-François de Lencquesaing (former head of transaction banking and IT at Crédit Commercial de France), Iain Saville (former chief executive of CRESTCo Ltd.) and Derek Ross (former partner at Deloitte U.K.).

Initiatives to Improve Clearing and

Here are five key initiatives designed to improve the efficiency and safety of securities clearing and settlement in Europe. They have different but complementary objectives.

MiFID. One of the most important measures concerning the securities markets is the Markets in Financial Instruments Directive (MiFID), an E.U.-wide legal instrument that took effect in November 2007. MiFID, among other provisions, fosters cross-border securities market integration by removing barriers to competition in the trading of securities. The objective is to use effective competition as a means to ultimately lower the costs for issuers to raise capital and investors to trade.

MiFID sets the regulatory framework for electronic trading platforms (multilateral trading facilities or MTFs) to compete with national stock exchanges. A number of pan-European MTFs have been set up and some are in advanced planning stages. Together with the existing national stock exchanges, they will provide investors the possibility to seek out the best price for securities at the lowest transaction cost.



Removing Giovannini Barriers. Removal of the “Giovannini Barriers” means the harmonization of differences in market practices, infrastructure rules and procedures, legal requirements and tax processes that add to the cost of securities transactions across national borders in the E.U. By removing the differences, the cost would be lowered for market participants.

Progress on the removal of these barriers is monitored by the European Commission’s Clearing and Settlement Advisory and Monitoring Expert Group, CESAME. Diana Chan, EuroCCP’s CEO, is a member of this group.

The barriers are named after Alberto Giovannini, who chaired a working group that in 2002 identified 15 barriers to efficient cross-border clearing and settlement of securities in the E.U.



Code of Conduct. The Code of Conduct is a set of voluntary measures adopted in November 2006 by stock exchanges, central counterparties (CCPs) and central securities depositories (CSDs) to open up competition in clearing and settlement.

Under the Code of Conduct, an exchange in the E.U. cannot give a CCP an exclusive right to clear its trades. A CCP has to

agree to interoperate with another CCP that wants to clear for the same exchange. Likewise, a CSD has to give CCPs and other CSDs access to its services. Prices must be transparent and there must not be mandatory purchase of bundled services.

By ensuring that infrastructures can effectively exercise their right to compete, the Code of Conduct aims to provide market participants the possibility to choose the lowest cost provider for the best services in clearing and settlement.

Implementing interoperability, however, is proving to be more complex than policymakers had envisaged. The CCP community in Europe is working on resolving a number of issues, such as a CCP’s financial exposure to an interoperating CCP’s failure.

EuroCCP has signed the Code of Conduct. (See article, page 9.)



TARGET2 Securities. The European Central Bank (ECB) proposed in July 2006 to build a single platform, TARGET2 Securities (T2S), to which CSDs in the E.U. and potentially beyond could outsource the settlement function, thereby achieving pan-European scale economies.

T2S will settle equities, corporate fixed income securities and government bonds, functioning in certain aspects similar to the U.S. Fedwire Securities Services. Securities will be delivered against payment in central bank funds.

T2S is not mandatory and will not replace the CSDs, which will continue to exist as separate legal entities and provide asset servicing to their members. As currently planned, market participants will be able to access all markets covered by T2S via a single communication channel, whether they have direct membership of all participating CSDs or use one of the CSDs as a gateway to the rest.

The T2S platform should help improve liquidity management for market participants and accelerate the harmonization of market practices. What’s more, the positive impact of T2S on harmonization will not be limited to settlement. It is expected that corporate actions that involve the credit and debit of securities will also benefit from standardization within the T2S platform.

A public consultation has just concluded and the Governing Council of the ECB will decide whether to proceed with the project in June of this year. The success of T2S will simplify settlement arrangements for pan-European users of CSD services, such as EuroCCP.

The ECB has a Contact Group for Euro Securities Infrastructures (COGESI), a forum for central banks, market infrastructures and market participants to discuss developments in

Settlement in Europe

clearing and settlement in the euro area. EuroCCP is one of the market infrastructures that has been invited to be a member of this group.



ESCB-CESR Standards ESCB is the European System of Central Banks and CESR is the Committee of European Securities Regulators. These Standards are a European adaptation of recommendations originally developed for global securities markets by the CPSS-IOSCO Joint Task Force for Securities Settlement Systems. (CPSS is the Bank for International Settlements' Committee on Payment and Settlement Systems and IOSCO is the International Organisation of Securities Commissions.)

The CPSS-IOSCO Joint Task Force published a set of recommendations in 2001 for securities settlement systems and a second set in 2004 for central counterparties. The recommendations focused on the legal, financial and operational safety of market infrastructures.

In 2003, the ESCB and CESR modified the recommendations for securities settlement systems to suit the European context, primarily to accommodate the existence of CSDs that are also banks and that compete with banks. The ESCB-CESR Standards attracted strong resistance from the banking community, which did not consider it appropriate that recommendations intended for market infrastructures be extended to them in the form of

Standards. On the other hand, CSDs that were also banks were of the view that they should not be encumbered by stringent standards that could impede their ability to compete with banks. The Standards for securities settlement systems were put on hold in 2005, and the Standards for central counterparties were not published. Recently, E.U. policymakers decided to review and finalize them. @

By ensuring that infrastructures can effectively exercise their right to compete, the Code of Conduct aims to provide market participants the possibility to choose the lowest cost provider for the best services in clearing and settlement.



DTCC and the OTC Derivatives Industry Break

When the second-largest commercial printer in the world, Quebecor World Inc., filed for bankruptcy protection in Canada and the United States in January, firms holding over-the-counter (OTC) credit derivative contracts that referenced Quebecor needed to adjust their positions. This triggered the industry's first usage of functionality DTCC built for its Trade Information Warehouse to facilitate the automated processing of such trades when the market determines a "credit event," such as a default or bankruptcy, has occurred.

The International Swaps and Derivatives Association (ISDA®) publishes cash settlement protocols that have greatly simplified credit-event processing for the industry, said Frank De Maria, DTCC Deriv/SERV, chief operating officer. "The Warehouse data and functionality provide an automated operational infrastructure to support these protocols," he said. "And enabling holders to adhere transactions to the protocols in a centralized platform significantly streamlines the calculation of net payments."

'Easier and more straightforward'

The verdict on the inaugural deployment of the Warehouse's credit-event capability? "I can't believe how much easier and straightforward the entire default process has become," said Peter Katsanos, vice president, head of operations, Mizuho Alternative Investments LLC. "It's comforting to know that both counterparties to a transaction can agree in advance to the number of and amounts of all affected trades."

This is good news for the global OTC derivatives operations community in today's volatile market environment. "By processing the Quebecor credit event electronically, we are demonstrating how the Warehouse is helping industry players efficiently manage a wide range of complex, important and time-sensitive market situations," said De Maria.

How it worked

The Quebecor credit-event processing took place from January 22, the date the market determined it was a credit event, through March 4, the final settlement date. More than 18 dealers and 40 buy-side firms, representing approximately 90% of the eligible Warehouse contracts, participated in processing the event through the Warehouse.

After adhering to ISDA's Quebecor Protocol or to counterparty-specific side letters, firms were able to use the Warehouse to centrally process applicable trades.

The Warehouse calculated payment obligations for applicable single-name credit default swaps (CDS) and CDS indices based on the recovery rate of 41.25 cents on the dollar that was agreed upon by dealers at an auction administered by Creditex and Markit. For holders of CDS index contracts, a new coupon for the remaining components of the index was calculated and transmitted. Warehouse records were also updated with the correct factors for future coupon processing. Payment obligations for counterparties utilizing the Warehouse's central settlement services were included in the net payments that settled through CLS.

Ready for Real Time

DTCC added support for credit-event processing to the Warehouse in 2007, after extensive testing with market participants. While the pilot provided a good sense of how the Warehouse would perform if a credit event were triggered, it wasn't until Quebecor that the functionality was employed in a "real-life" situation.

Bringing customers live on this new functionality involved close collaboration and communications between DTCC and key industry members. Deriv/SERV relationship managers actively reached out to customers to explain the process of adhering their credit default swap (CDS) transactions through the Warehouse, assist them in their efforts and explain the benefits of automated credit-event processing.

Participants that chose to have their Quebecor transactions processed by the Warehouse needed to meet certain prerequisites, including direct adherence to the ISDA Protocol for the event or a signed bilateral side letter with their counterparty dealers and an agreement from counterparties to participate in this process.

New Ground in 'Credit-Event' Processing by Judith Inosanto

The Warehouse also prepared nightly reports summarizing participants' cash flows, which they could access through the platform and their digital certificate. This helped give firms a greater sense of certainty about their gross and net positions against their counterparties throughout the time they were processing the event.

Learning from experience

With this first automated credit event now concluded, DTCC is focused on expanding the functionality in preparation for future events.

"While Warehouse processing of the Quebecor credit event involved a relatively small group of market participants, it provided a good case study on the value in centralizing and automating the processing of these events," said De Maria. "It also allowed us to assess what else we can do to bring greater efficiency and security to the process. We have several significant enhancements to the credit event process that have been approved by the Credit Event Working Group and the DTCC Operational Management Group, and work is underway to bring them into



production over the coming months."

Priorities for Deriv/SERV include increasing the number of participants that adhere their transactions through the Warehouse, automating the selection of covered transactions, expanding the number of customers settling payment obligations in this centralized platform and extending product support to include other credit derivative instruments such as index tranches. @

DTCC Will Launch a New Service to Automate Master Confirmation Agreements by Melanie Best

DTCC's Deriv/SERV business will launch MCA-Xpress™ in the second quarter of 2008. This new service will automate the negotiation, execution and storage of master confirmation agreements (MCAs) for over-the-counter (OTC) equity derivatives. MCAs are a key component of the legal documentation that creates legally binding trades between two parties of OTC derivative transactions.

By automating the completion of MCAs, MCA-Xpress will help trading parties move their OTC equity derivative transactions to an electronic matching platform for post-trade processing, in turn reducing the costs and mitigating the risks of these transactions.

Deriv/SERV developed the new service in close consultation with market participants. To build the MCA-Xpress platform, existing industry-published equity MCAs were reconfigured into a user-friendly matrix. As a result, the service supports all industry-published equity MCAs, including the ISDA® Equity MCA Protocol. (ISDA is the International Swaps and Derivatives Association.)

Equity challenges

Among the varieties of OTC derivatives, equity products present unique challenges to market participants. Equity contracts embody multiple combinations of product types and geographic regions, resulting in more than 20 product categories and in

MCAs that are lengthy and complicated.

With transactions so complex and non-standardized, it has become common market practice to negotiate equity MCAs bilaterally in a highly manual fashion, which has led to processing backlogs similar to those that characterized the OTC credit derivatives market several years ago. These backlogs and their associated risks have caught the attention of regulators in the U.S. and U.K., and intensified efforts by the OTC derivatives industry to improve the transaction flow for the equity asset class.

"Market participants have been seeking a solution that bridges the gap between MCA execution and electronic trade

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New Service for Master Confirmation Agreements *Continued from page 13*

matching,” said Gina Ghent, first vice president, Business Development, DTCC Deriv/SERV. “By building an application to streamline the first stage of an OTC equity derivative trade – the negotiation of the MCA – Deriv/SERV is helping the industry move to electronic matching and confirmation of these transactions.”

How it works

MCA-Xpress consolidates over 20 MCA templates into six tabs categorized by major product type, sub-product type and region. The service provides users with their own private, secure locations on the platform to manage their MCAs. Counterparties select the dealer(s) with whom they wish to negotiate contracts and then, for each dealer, choose specific MCAs to negotiate.

DTCC Deriv/SERV's Operating Procedures include provisions to verify that an MCA executed through the service constitutes a legally acceptable method of qualifying the transaction.

Users can also upload and/or provide information related to MCAs that have been executed outside the service, including manually executed contracts. This feature helps the industry build a comprehensive database and audit trail for OTC equity derivative transactions.

MCA-Xpress provides the industry's first and only central hub where equity derivative MCAs are stored and where dealers and buy-side firms can access all the contracts they have executed with their counterparties.

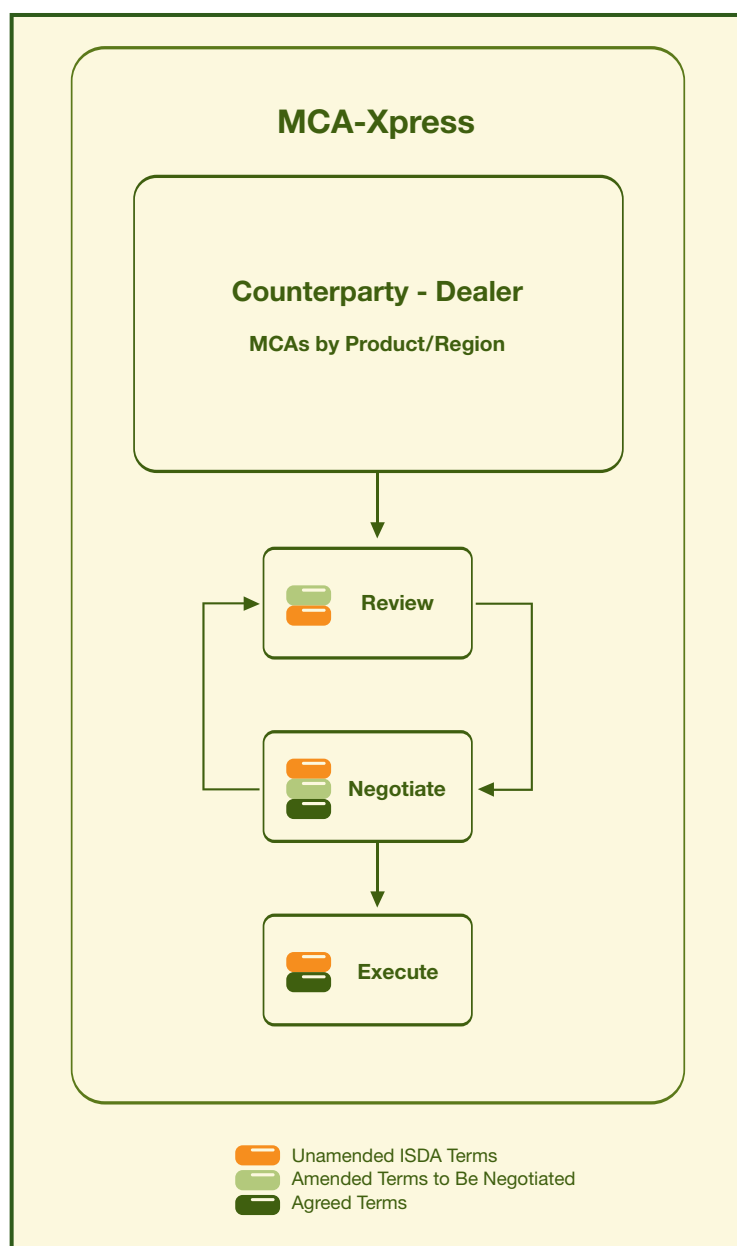
Automation gateway

When two counterparties execute an equity MCA, the firms can submit their transaction for electronic matching and confirmation to platforms such as Deriv/SERV. Given the historically low rates of electronic matching and confirmation for OTC equity derivatives, MCA-Xpress will increase the number of equity transactions that are processed post-trade on automated platforms – helping the industry attain its risk-mitigation objectives for this asset class.

MCA-Xpress' open architecture allows access to third-party service providers. If a party executes an MCA on MCA-Xpress, the firm can also apply those execution dates to transactions completed on paper or through another electronic matching and confirmation platform. Users can feed proprietary MCAs into MCA-Xpress by starting with an ISDA or industry-published template, adding other terms and then saving the template for negotiation and execution with future counterparties.

MCA-Xpress supports all industry-published MCAs, including ISDA's Equity MCA Protocol (Q208) and will add coverage of additional MCAs as soon as they are published.

Customers are enthusiastic about the new service, according to Ghent, who previewed the service in a series of user meetings in New York and London last year, and dealers began pilot testing in December. “The OTC derivatives industry is committed to strengthening its operational infrastructure and making OTC equity transactions more efficient,” she said. “With MCA-Xpress, DTCC has delivered to market participants the tools they need to meet this commitment.” @



Deriv/SERV's Novation Consent Service Facilitates Contract Assignments

by Melanie Best

One consequence of the recent turmoil in global credit markets has been an uptick in the volume of assignments, or novations, of over-the-counter (OTC) credit derivative contracts, as parties to many contracts have sought to exit their positions by assigning them to new counterparties.

Novation Consent, a new service launched this year by DTCC Deriv/SERV, is well-timed to handle this rise in assignment activity. The service automates the request, approval and notification procedures among the three trading parties involved in an OTC credit derivative contract assignment, as stipulated by the International Swaps and Derivatives Association (ISDA®) in its Novation ProtocolSM.

Novation Consent, developed

collaboratively between Deriv/SERV and market participants, will help major OTC derivatives dealers and other market participants meet the commitment they have made to regulators to have all novation requests for credit contracts submitted via electronic platforms rather than email by the end of 2008.

Deriv/SERV is committed to work with all other service providers in this space to collectively provide market participants with the most effective and efficient solution possible.

Toward streamlining

The OTC derivatives industry several years ago began working to improve the way trading parties assign positions to new counterparties, out of recognition that manual novation procedures elevated

operating risks and contributed to bottlenecks in post-trade processing.

ISDA in 2005 introduced the first version of its Novation Protocol to help standardize procedures for novating a contract position to a new party. Until that time, the party seeking to exit a contract, or Transferor, frequently did not notify or obtain the consent of its dealer counterparty, known as the Remaining Party, when it assigned its position to a new counterparty, the Transferee. As a result, dealers often did not learn the identity of their new counterparties in a timely fashion. The Protocol altered industry practice by instituting a notification and approval process, and it typically was carried out by three-way email communication.

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One Platform, Three-Way Communication

Novation Consent streamlines assignment processing by allowing firms to consolidate consents. Furthermore, it leverages the Trade Information Warehouse's power as a global repository of confirmed over-the-counter credit derivative transactions by retrieving trade data from the Warehouse and enabling users to submit assignments to automated matching and confirmation platforms such as Deriv/SERV's Matching and Confirmation service.

As stipulated under the ISDA Novation Protocol, when a party to an OTC derivative transaction wishes to exit that contract by assigning its position to a third party, that party must notify the Remaining Party (RP) and the entering Transferee and seek permission for the assignment from the RP.

With Novation Consent, all three parties communicate electronically on a common platform using point-and-click technology or FpML™-compliant messaging. The Transferor initiates the process by creating a pending novation. If the contract to be novated resides in the Trade Information Warehouse, the Warehouse automatically searches its database

and identifies a list of possible trades, and the Transferor selects the contract from the list. Alternatively, the Transferor can specify the trade reference identifier for the contract it is seeking to novate. Once the appropriate contract is identified, the Transferor specifies novation details, such as the names of the RP and Transferee, the novated contract amount, effective date, payment amount and payment date.

The Novation Consent platform then transmits the details electronically to the RP, which can accept or refuse the novation, and to the Transferee. The pending novation then moves to Approved or Refused status. If the novation is approved, the Transferor may request that the system auto-generate an assignment record to be submitted to the Trade Information Warehouse.

Separately, the RP and the Transferee submit their sides of the transaction to the Warehouse. All three sides are then matched and confirmed by Deriv/SERV.

Novation Consent can also be used for contracts that do not reside in the Warehouse. In those cases, the system does not auto-generate assignment records for the Warehouse.

Deriv/SERV's Novation Consent Service

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However, as the volume of novations has continued to grow, these email procedures have become an impediment to achieving straight-through processing.

"Deriv/SERV worked with the OTC derivatives industry to build an automated tool for the processing of novations fully compliant with ISDA's Protocol," said Frank De Maria, DTCC Deriv/SERV, chief operating officer. "We have designed Novation Consent to deliver the features trading parties have been seeking, in terms of speed, efficiency and interoperability across platforms."

Open access, broad coverage

"A critical feature of Novation Consent is its full interoperability with other platforms," noted Christopher Henshaw, vice president, DTCC Deriv/SERV. "Buyside firms, which are usually in the Transferor role, rely heavily on third-party service providers to manage back-office functions for their derivatives activities. For them, the open-access capability of our service is quite important."

Specific instruments covered by the Novation Consent service include all credit products currently supported by the Trade Information Warehouse: single-reference-entity credit default swaps (CDS) – including corporates, sovereigns, loans, asset-backed and mortgage-backed instruments – indices and tranches.

Customers can access the service through a variety of interfaces. High-volume users can connect via direct computer-to-computer real-time messaging, while lower-volume users can do so through a Web-browser interface. Internet connections are secured via a digital certificate issued by DTCC Deriv/SERV and a high-security encryption connection.

[To learn more, contact Chris Henshaw, DTCC vice president, Deriv/SERV, at chenshaw@dtcc.com or 212.855.1355.]

New Services Are Roll

A Tool for Easier Access

Insurance Services at DTCC is poised to pilot a new online tool that will simplify access to one of its fastest growing services, making agent licensing and appointment information widely available to the industry's rapidly expanding network of carriers and distributors. The desktop application, LNA AccessSM, represents the next level in Insurance Services' drive to work with the industry to automate insurance processing.

"This new user interface is part of our ongoing effort to expand access to and usage of our services by more distribution channels," said Lana Macumber, DTCC director, Strategy and Business Development, Insurance Services. Pilot testing for the new front-end application begins at the end of April, with the service scheduled to go live in early June.

The LNA family

The new standalone tool will allow users to manage appointments from start to finish in one format and application via direct online access to the capabilities residing in the full Licensing & Appointments (LNA) service, removing the need for manual intervention by the carrier in most cases.

LNA automates the two-way flow of information needed to manage producer information between insurance carriers and distributors to fulfill licensing and appointment requirements as mandated by state insurance departments.

"Real-time access to updated and accurate producer information is critical for all parties involved in the sales and service process," said Lenny Schmitt, DTCC director, Relationship Management, Insurance Services. "With LNA automating the information exchange for more carriers and distributors, LNA Access will provide an easy, direct connection to that information, even for those who do not need the full service. This can be particularly useful to the mid-size or smaller distributors."

Schmitt noted that the industry, which is eager to improve the producer experience, views the application as a key step toward fully electronic insurance processing and information exchange for annuities.

Strong demand

Firms lined up quickly to participate in the LNA Access pilot and, thus far, nine distributors and 15 carriers have signed on for the testing.

"The number of firms that are taking part in the pilot is an indication of the industry's interest in the product," said Cory Stark, DTCC product manager, Insurance Services. "Access to our automation services is a driver in bringing greater efficiency to the insurance industry, and the success of LNA Access could lead to the development of additional front-end applications for some of our other products."

For its first venture into direct access applications, Insurance Services contracted with Bridgeline, the company that worked with DTCC on the architecture and design of its new corporate website. "We are committed to give customers cost-efficient, quick-to-market processing solutions, whether we build them, buy them or partner to develop them," said Macumber.

To subscribe to the service

All insurance services distributors may sign up for this service. Firms that already use the full LNA service only need to request connection to DTCC's WebDirect Access and they will be granted free use of the application. This could be helpful for firms that currently only use some of the functions available, but would like to take advantage of LNA Access to request additional transaction types.

Firms that have Data-Services-Only (DSO) membership (meaning they don't utilize the NSCC clearance and settlement services) can sign on to use LNA Access, giving them the ability to view and download the LNA data. Distributors must identify their trading partners (carriers) that are also users of LNA to access the service. @

[For more information, contact Insurance Services at 1-888-382-2721 or email esc@dtcc.com.]

Automating Fund Transfers

As the last stages of the pilot for the Fund Transfers service move into full production, Insurance Services at DTCC is traversing new terrain on the road to automation for the insurance industry. With connectivity established and the fine-tuning of the application nearing completion, the pilot phase is scheduled to ramp up to full production in late May.

Fund Transfers is Insurance Services' inaugural product offered in a web-based platform rather than the traditional data-track, mainframe environment. It also represents the first of several services being developed using ACORD XML standard data messaging in a real-time environment.

"Fund Transfers is our first service that leverages web-based technologies to give customers greater ease of use, while moving the industry further toward straight-through processing," said John Ziambras, DTCC managing director and general manager, Insurance Services. "We plan to add two more services in the web environment over the next 18 months."

This newest capability in the family of Insurance Services products automates the processing of fund reallocations within a variable insurance product, a process about which regulators

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Extending the Benefits of LNA

The new LNA Access tool is designed to disseminate the benefits of the Licensing & Appointments (LNA) service more widely across the industry.

Users of the fully integrated LNA application have significantly reduced the operational costs and risks associated with traditional manual practices (copy, fax and phone), thanks to the electronic, paper-free processing of producer requests, same-day turnaround and synchronized producer records.

With expanding distribution channels for the sale of insurance products, the rising volume of new appointments of agents to represent those products, along with appointment renewals and agent information updates for each state and carrier, creates an information processing overload for distributors and their carriers.

Reflecting this growth, Insurance Services recorded a 10% increase in LNA volume in 2007 as DTCC processed more than 7 million LNA transactions, versus 6.4 million in 2006.

LNA Access will work as a standalone online data entry request and confirmation reporting tool, allowing distributors to enter requests to carriers for appointments and appointment terminations, producer terminations, address changes, representative ID number changes and license confirmations.

A key feature of the new application is LNA Import, whereby distribution customers will also have access to carrier transaction confirmations through an Excel-compatible file available and downloadable through the DTCC WebDirect platform.

have expressed concern regarding potential unethical business practices in broker-initiated transfers of funds. The new service will enable distributors to monitor representative-initiated transfers and reduce the risk of unauthorized transactions and the monetary penalties that can follow regulatory violations.

Collaborating to get there

The countdown to the Fund Transfers rollout has involved obstacles overcome and lessons learned. Since the beginning of the pilot phase in the fourth quarter of 2007, Insurance Services and its pilot firms have used a strong collaborative process to deal with web connectivity issues and all the other developmental challenges that come with new product specifications and a new data format in a different electronic environment.

“Carriers Genworth Financial, ING, Pacific Life and Prudential and broker/dealers Merrill Lynch and Smith Barney have worked diligently on the task of fine-tuning Fund Transfers,” said Craig Gurien, DTCC product manager, Insurance Services. “They have made major contributions to a product and a process that will help the industry more effectively handle growing regulatory requirements,” he said.

Using their proprietary or vendor-supported platforms, distributors and carriers can use this new service to automate the entire process of submitting a fund transfer, including acceptance or rejection of the request. Any agent that initiates a fund transfer can now be required by the distributor to complete the transaction through a centralized, supervised system that connects through DTCC. The carrier, distributor and agent will then share the same information and process, ensuring compliance with and an electronic record of the

transaction trail from first inquiry to final approval or rejection.

Anatomy of a pilot test

The early weeks of the pilot project dealt with the establishment of connectivity between DTCC and the test firms – a task that posed unique challenges for each firm. Once connectivity was resolved, the distributors and carriers developed

and exchanged “test scripts” – sample transactions of fund transfers – that involve “perfect case” scenarios or “reject” scenarios.

The reject scenarios contain errors in the form of missing data fields and improper data formats that could be identified by DTCC. They also contain information that must be evaluated by the carrier for adherence to business rules, such as a request for a transfer of funds that exceed the amount available in an account.

“Piloting a new product requires constant communication and great attention to the details of implementation,” said Randi Gordon,

DTCC vice president, Product Management, Insurance Services. “Our project team spends countless hours with the firms’ operations and technology people resolving issues great and small so that when the time comes for full production rollout, we have a service that is ready for use, producing benefits and return-on-investment for our customers.”

Now that test accounts and contracts have been exchanged, Insurance Services and the pilot firms are preparing to go into full production in late May, with more distributors and carriers expected to implement the service as its benefits become fully apparent. @

The new Fund Transfers service will enable distributors to monitor representative-initiated transfers and reduce the risk of unauthorized transactions and the monetary penalties that can follow regulatory violations.

Watch for @dtcc's Readership Survey

What do you think of @dtcc? We want to know. Next month, we will launch the @dtcc readership survey to gauge the publication's success in providing you with DTCC news and information that meet your needs. Your input will give us a better understanding of how the newsletter is received and how it can be improved. We value your opinions and want to hear from everyone. Thank you.



NSCC Will Strengthen Support For 529 Plan Processing

by Karen Gregory

National Securities Clearing Corporation (NSCC) is planning to further automate the processing of Section 529 Plans via enhancements to existing systems. 529 Plans, which are used by families to save for higher education, are handled on the Fund/SERV platform, the industry standard for mutual fund processing.

NSCC's goal of strengthening the infrastructure for 529 Plan processing dovetails with strong growth in this savings vehicle. In 2007, assets reached almost \$112 billion, a 23% increase over the \$91 billion recorded in 2006.

"By enhancing existing systems, we will be able to bring further efficiencies to this growing market segment quickly and cost-effectively," said Rita Gribben, DTCC product manager, Wealth Management Services.

The changes will be rolled out in 2008 and 2009.

Automation and savings

One industry executive who has spent considerable time analyzing the current environment for 529 Plans is Steve Cutka, vice president, Operations Relations Management for American Funds, and a member of the Investment Company Institute (ICI) Task Force for Fund-Sponsored IRAs and 529 Plans.

Cutka believes that Fund/SERV and Networking, a centralized record-keeping system through which all customer account activities can be exchanged and reconciled, will further help streamline 529 Plan processing.

Kathy Joaquin, director of Operations and Distribution, ICI, added, "The need for operational efficiencies for 529 Plan processing has increased as assets have grown. These changes would further automate processing and provide greater transparency of account information passed via NSCC. The enhancements that NSCC is planning, in addition to workflow changes for the industry, will result in more transactions through their systems, which will lower the cost of 529 Plan processing considerably for both funds and firms."

Preview of enhancements

Changes will include new asset-type indicators and additional personal-information codes for three services – Fund/SERV, Networking and Commission Settlement – that affect trading, account setups, confirmations and commission payments.

Other codes in Networking will enable a fund company to assign transaction categories that are true representations of the actual transaction. "These codes will provide firms with more accurate detail of their clients' transaction history that occurred at the fund," said Cutka. "With the increased use of Networking for Direct Accounts [those held directly at a fund company], these additional descriptions will allow firms to better track and post fund-generated activity."

Looking ahead

Areas of focus for future enhancements include investor applications. In the current environment, a fund company administering a 529 Plan is required to maintain the investor's application. However, if a broker/dealer or other intermediary firm were to retain the 529 Plan applications at its end, Networking's Level 3 membership could be used to streamline account reconciliation and provide transparency of information between a fund and a firm. Level 3, one of five different

reporting levels available to Networking users, allows firms to maintain full client control, handling orders, customer statements and tax reporting.

"Ideally, we would like broker/dealers to be able to create a standard application that would capture all the information necessary to open an account and then incorporate it into a broker/dealer's processing environment," said

Cutka. "Now, they have to manage different types of applications, retain them and know when to use them."

NSCC will continue to identify opportunities to ease the processing burdens for funds and firms, according to Gribben, such as creating digital-image functionality to transmit PDFs of required documents versus hard copy, which is now the norm. @



529

2008 Customer Survey: First Wave Rolls In

The first group of DTCC customers to be polled in the annual customer satisfaction survey submitted responses in February, and DTCC is now analyzing the results. Questionnaires will be sent to the second wave of customers in June.

“We want to thank the customers who took the time to participate in our survey,” said Paula Arthus, DTCC managing director, Relationship Management. “Our ability to assess and enhance the customer experience is directly dependent on the feedback we receive from the people who use our products and services.”

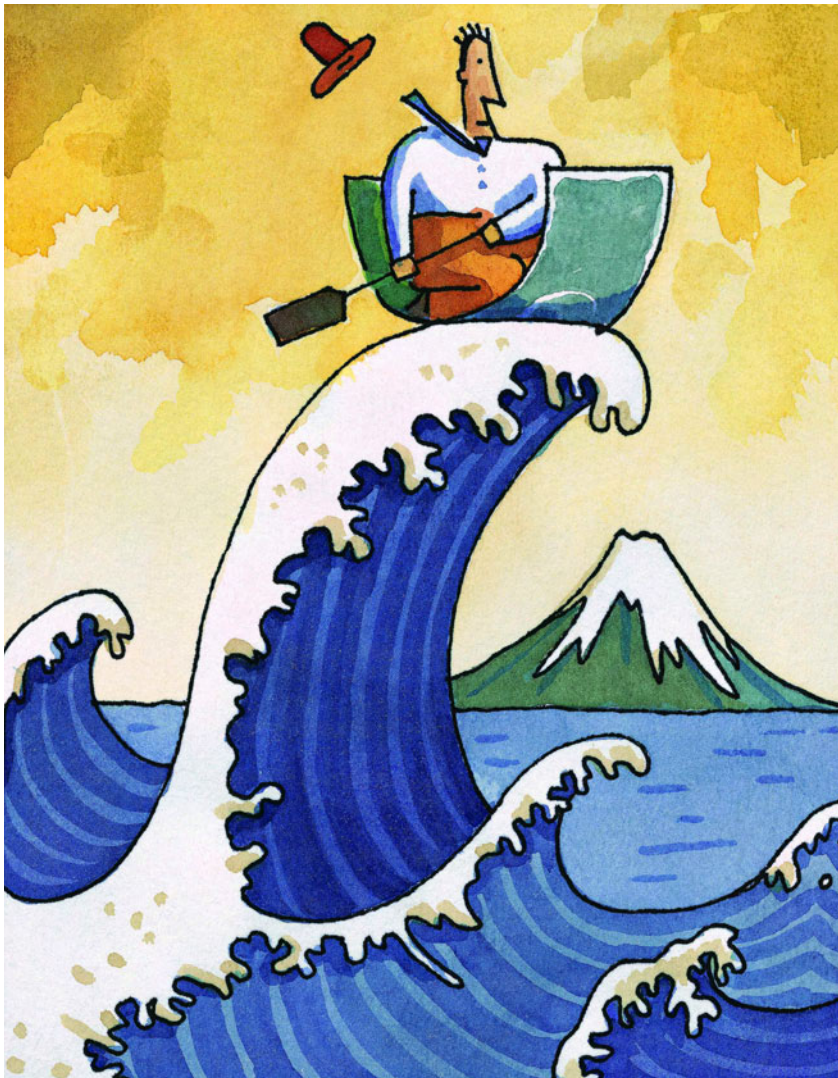
The February survey results indicate DTCC is on track to meet its overall customer satisfaction targets for 2008, said Arthus. “Receiving quantifiable customer data earlier in the year is invaluable because it enables us to obtain leading indicators on areas that require greater focus and to adjust action plans accordingly,” she said.

The company implemented this biannual approach to the

customer satisfaction survey in 2007, dividing the list of recipients into two groups. The split-timing methodology helps DTCC monitor customer satisfaction throughout the year, identifying and addressing concerns more quickly. It also provides up-to-date metrics to better track progress in making improvements.

This year, the response rate for the survey’s first wave was 22%, which is consistent with previous years. It is also higher than the average industry response rate of 12-15%, according to The Melior Group, the firm that manages DTCC’s survey process. Of the 1,545 customer contacts who received the survey, 344 responded. A similar number of contacts will receive the June survey.

Results from the two waves of the survey, which is one of DTCC’s primary vehicles for obtaining customer feedback, will be consolidated and analyzed as a whole. The results will be reported to customers and DTCC’s Board of Directors and business units in the fourth quarter. @



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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