




# DTCC Launches New Global Messaging Service For Syndicated Loan Market

*by Edward C. Kelleher*

**D**TCC has launched its Loan/SERV Messaging Service that will provide a secure and automated network for the transmission of standard loan messages between agent banks and lenders in the syndicated loan market.

The global Messaging Service is the second in a suite of DTCC products that will make Loan/SERV a comprehensive, integrated solution for the syndicated loan market. [continued on page 2]

## DTCC White Paper Details Challenges Posed by Cost-Basis Legislation

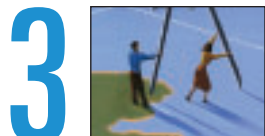
*by Edward C. Kelleher*

**B**rokers, transfer agents, mutual funds and issuers face significant challenges in complying with new cost-basis legislation, according to an industry white paper issued in December by DTCC.

The paper, called “Complying with New Cost-Basis Legislation: What Brokers, Banks, Transfer Agents, Mutual Funds and Issuers Need to Know,”

[continued on page 7]

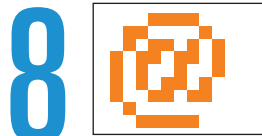
### in this issue



**3** Steps to Ease Customer Capital Requirements



**4** How the Infrastructure Supports the CDS Market



**8** New Online Access Tool for Insurance Customers

# DTCC Launches New Global Messaging Service

*Continued from cover*

Currently, loan information is faxed back and forth between agent banks and lenders, leading to errors caused by manual processing. The Messaging Service takes widely used loan information such as interest and principal payments, rate resets, drawdown notices and ongoing fee payments and provides a secure and automated network for the transmission, receipt and online storage of these loan messages.

## Global messaging

The global standard loan messages have been developed by The Loan Syndications and Trading Association (LSTA) in the U.S. in cooperation with The Loan Market Association (LMA) in Europe.

“We’re delighted that DTCC has incorporated the industry’s standard loan messages into its new service,” said Bram Smith, interim executive director of the LSTA. “The messages will go a long way to boosting efficiencies and reducing communication errors in loan processing. The standards will give banks and lenders greater control over their communications and improve the reliability and timeliness of their

communications in both the primary and secondary markets. We hope that all market participants will begin using the standard messages.”

The messages are available for use by all loan market participants.

## E-language

“The standard loan messages and the Loan/SERV Messaging Service employ FpML™, the industry-standardized e-commerce language, which the LSTA has worked to advance for the benefit of the global market,” said Christopher Childs, DTCC vice president, Global Loans Product Management. “FpML has already

proven itself in the over-the-counter derivative-trading markets where it combines speed, accuracy and security to provide an effective communication vehicle.” (FpML is a trademark of the International Swaps and Derivatives Association.)

The Messaging Service will employ DTCC’s proprietary SMART (Securely Managed and Reliable Technology) network to transmit and receive messages, but customers will have the added flexibility of using other communication networks such as SWIFT, Childs said.

**The Messaging Service will employ DTCC’s proprietary SMART network to transmit and receive messages, but customers will have the added flexibility of using other communication networks such as SWIFT.**

Lenders and institutions that do not want to receive electronic messages directly into their processing systems are able to log on to a Loan/SERV messaging hub via a web browser to view and process their messages.

## Reconciliation

DTCC launched its Loan/SERV Reconciliation Service in the U.S. in September 2008 and in Europe in November 2008. The Reconciliation Service automates the processing of syndicated commercial loans by enabling agent banks and lenders to view and reconcile loan positions on a daily basis. Both the Reconciliation and the Messaging Services are the only services that process syndicated loan information on a global basis.

“DTCC is focused on providing a global solution that works in Europe, North America, Asia and other markets. We need a solution to serve the increasingly global base involved in syndicated loans,” said Childs.

Leading agent banks such as Citi and Deutsche Bank are already using the Reconciliation Service and J.P. Morgan will begin using it in the first quarter of 2009. DTCC will continue to work with its advisory committee of leading global banks – The Bank of New York Mellon, Barclays Capital, Citi, Deutsche Bank and The Royal Bank of Scotland – in developing Loan/SERV.

DTCC’s European consultation group for Loan/SERV includes more than a dozen members from across the agent, custodian/trustee and buy-side communities, including Barclays Capital, Blue Bay, Cheyne Capital, Citi, CQS, Deutsche Bank, European Credit Management and The Royal Bank of Scotland.

Loan/SERV is a service offering of DTCC Solutions LLC, a wholly-owned subsidiary of DTCC. @

## Contents

1. DTCC Launches New Global Messaging Service For Syndicated Loan Market
1. DTCC White Paper Details Challenges Posed by Cost-Basis Legislation
3. NSCC and OCC Take Steps to Ease Customer Capital Requirements
4. How the Industry’s Infrastructure Supports the Credit Default Swap Market
4. DTCC Teams with JPMorgan Chase to Sponsor Industry Conference
5. New System Ready to Process 144A Securities
8. DTCC Gives Insurance Customers a New Online Access Tool
9. SEC Approves Eliminating Paper Certificates for Withdrawals-by-Transfer
10. FolioDynamix Links to Managed Accounts Service
11. AIP Service Processes First Transactions
12. Mutual Fund Services Extend to Investment Managers

# NSCC and OCC Take Steps to Ease Customer Capital Requirements

by Craig Donner

To ease the burden on customer firms and enhance their liquidity, National Securities Clearing Corporation (NSCC), in conjunction with the Options Clearing Corporation (OCC), recently received expedited approval from the Securities and Exchange Commission (SEC) to amend the agreement that governs margining requirements for options exercises and assignments (E&A).

The amendments, which cover risk margin known as “volatility” charges collected by both organizations, took effect for the November expiration of option E&As and will remain in place until November 1, 2009, unless extended by mutual agreement.

“The changes will allow billions of dollars of duplicative risk margin to be returned to customers three business days sooner, freeing up capital during a time of tight credit and ongoing market volatility, without having an adverse impact on risk management,” said Douglas George, DTCC managing director and chief risk officer. “In November alone, our customers saved nearly \$1.6 billion in volatility charges and, going forward, we estimate that number could top \$2 to \$3 billion in an average month.”

In 2009, NSCC and OCC will review and update the provisions of their accord and expect to make further modifications to improve the respective margining requirements.

## Freeing up capital

NSCC’s risk-based margining requires the collection of a volatility charge on E&A positions to protect against a member’s default. The OCC collects both mark-to-market and volatility charges to cover its risk and to make good on its guaranty to NSCC. However, in many cases, the volatility charges collected by both clearing corporations overlap because they cover the same risk for the three-day period preceding settlement. As a result, members end up double-posting margin through settlement date.

In recent months, the impact of the overlapping charges on financial firms has become more pronounced as market volatility has led to an increase in risk margin at both clearing corporations.

The rule changes accelerate NSCC’s guarantee for E&A positions to the morning of T+1 when the member meets its 10 a.m. NSCC clearing fund requirement. Previously the guarantee took effect midnight of T+1. In addition, OCC will calculate its obligation to NSCC by marking it to the previous day’s close on T+1 (or on T+2 and T+3 if OCC had collected that morning’s mark-to-market payment).

Once the member meets its NSCC clearing fund requirement, NSCC assumes responsibility for settling these positions – and OCC is liable only for the mark-to-market that it has already

collected. In other words, OCC has no risk to margin and NSCC is covered by its own collection of margin.

With these changes, OCC is able to return its volatility charge on the morning of T+1 instead of the fourth business day (T+4) following the transmission of E&A positions to NSCC, eliminating three business days of double collection and freeing up billions of dollars in liquidity for financial firms.

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# How the Industry's Infrastructure Supports The Credit Default Swap Market

**D**onald F. Donahue, DTCC chairman and CEO, gave the keynote address at the Global Market Structure Conference in New York on December, an event co-sponsored by DTCC and JPMorgan Chase. Donahue talked about how the recent U.S. government intervention, forced mergers and the proposed increase in financial regulation will impact the global market structure. The following excerpt covers the role played by the industry's infrastructure in mitigating risk in the over-the-counter (OTC) derivatives market. To read the entire speech, visit [www.dtcc.com](http://www.dtcc.com), click Thought Leadership, Speeches & Presentations.

The story of the credit default swap (CDS) market is one of many that underscores the vital role played by the industry's infrastructure....

Quite a few regulators, politicians and members of our industry have voiced concern about the operational risks associated with the CDS market. And yet, in my judgment, the CDS market actually is supported by an infrastructure that is among the most highly developed for any OTC derivative asset class, thanks to DTCC's automated Deriv/SERV matching platform as well as our Trade Information Warehouse.

Working with our customers, we built an infrastructure for this market that works. We handled the final disposition of hundreds of billions of dollars in credit default swaps that referenced Lehman, Fannie, Freddie Mac, WaMu – and even the three major banks in Iceland.

We held these swaps contracts in our Trade Information Warehouse, the central registry we built specifically to serve this market. The Fannie and Freddie contracts were a particular challenge because the agencies were part of virtually every credit

default swap index out there – and we had to account for all of them. By the time we were done, we had netted some \$7 billion in swap contract payments going through settlement down to \$429 million.

Earlier this year, we also took charge of moving Bear Stearns' CDS dealbook of about 150,000 open contracts to various subsidiaries of JPMorgan Chase. Given the values involved, and the scrutiny this market was under, it would have been a nightmare if every one of these contracts would have had to be modified individually – and manually. The industry would probably still be sorting it out. But because we've automated this process, we were able to complete most of the swing in just 48 hours, and it was transparent to our customers. Proof positive – in both of these examples – that the OTC market infrastructure can provide the necessary level of operational resilience.

Last month, we began publishing data from the Warehouse to provide a better picture of what actually is going on in the CDS market and, frankly, to puncture some of the wilder fantasies about how the credit default swap market was going to bring about the end of the world. Since the beginning of November, we've been publishing data on the amounts of



## DTCC Teams with JPMorgan Chase to Sponsor Industry Conference

**D**TCC partnered with JPMorgan Chase to cosponsor a conference designed to expand knowledge about the financial services industry. Held in New York on December 2, the all-day Global Market Structure Conference drew more than 100 people, including representatives from financial institutions, infrastructure organizations, exchanges and rating agencies.

DTCC Chairman and CEO Donald F. Donahue delivered the keynote address, which focused on the state of the capital markets and the global economy (see excerpt above). Donahue's speech kicked off panel discussions on consolidation vs. interoperability in clearance and settlement and the future of cross-border market structures.

Also on the agenda were Mary Ann Callahan, DTCC managing director, Global Relations & Development, who spoke about the Latin America infrastructure and EuroCCP's Neil Henderson, managing director, Product Management, who served as a panelist in the discussion on developments in European clearance and settlement. @

# New System Ready To Process 144A Securities

by Edward C. Kelleher

CDS outstanding. So the OTC market infrastructure can deliver the necessary level of trading transparency as well.

Nonetheless, many observers wonder why this market does not have a central counterparty. In fact, for many months now, regulators in both the United States and Europe have been urging the creation of a central counterparty for this market. In response, the clearing corporation, which is now a part of ICE, has announced it wants to build one. NYSE-Euronext and other exchanges have noted that they're interested in creating a central counterparty too.

At DTCC, we've been working with all these parties on this project, and we're examining the possibility of creating central counterparties for other sectors of the OTC market as well.

A central counterparty in these markets would do what it does in all markets. It would help to reduce risk. Central counterparties, as we know, require their participants to put up collateral in case there are problems with a trade. Central counterparties are also in a position to monitor their members' trading positions. If a participant's trade book exceeds the central counterparty's risk guidelines, the participant will have to put up more collateral. And this process would certainly help render some of the risk from the CDS market. It would be prohibitively expensive to place big, wild bets. We certainly expect that you'll be seeing one or more live central counterparties in the CDS market by the end of the year. @

The Depository Trust Company (DTC) has successfully completed testing of a new service that will support the processing of unregistered Rule 144A equity securities and provide asset servicing and centralized book-entry settlement for these and other securities.

Rollout of the service, called Security Holder Tracking Service (SH Tracking Service), is subject to approval by the Securities and Exchange Commission (SEC). "With end-to-end testing complete, we're ready to go into full production with this service once we receive SEC approval, which is expected shortly," said Daniel Thieke, DTCC vice president, Asset Services.

## Alliance testing

DTC, a subsidiary of DTCC, tested the service with the PORTAL Alliance, a group formed in 2007 to address the needs of the 144A equity securities market. The alliance was formed by Nasdaq and leading securities firms including Bank of America, Barclays

Capital, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, JPMorgan, Merrill Lynch, Morgan Stanley, UBS and Wachovia, all of which took part in the testing.

Under SEC rules, companies can sell 144A securities without registering them with the SEC provided certain shareholder criteria are met. The issues must be held by a Qualified Institutional Buyer (QIB), usually a large institutional investor with more than \$100 million in assets, and the total number of investors for each security is limited to 499 QIBs.

**Settling 144A transactions is complicated by the fact that the issues must be tracked and the shareholder limit must be certified before the securities can settle. In developing the new service, DTC leveraged its Inventory Management System (IMS) which gives customers control over the order and timing of submission of securities for processing.**

## Leveraging IMS

Settling 144A transactions is complicated by the fact that the issues must be tracked and the shareholder limit must be certified before the

securities can settle. In developing the new service, DTC leveraged its Inventory Management System (IMS) which gives customers control over the order and timing of submission of securities for processing.

With the SH Tracking Service, the issuer of the 144A security appoints an administrator that is responsible for determining if the shareholder limit has been met and if the transaction should proceed. DTC then allows the administrator to access the IMS and determine when the transaction should proceed. Administrators can only access those transactions they have been authorized to handle by the issuer.

"When these securities come to DTC for settlement, the IMS, in effect, verifies whether it is a valid transaction. If the administrator approves, DTC will settle the assets through DTC's settlement system," said Thieke.

Although the SH Tracking Service was developed to address the specific concerns of Rule 144A issues, it will also be used for other types of securities for which the number of beneficial owners require some level of control by a third party. @



# AccuBasis: Taking the Chill Out of Cost-Basis Compliance

Clearance and Settlement - Equities and Fixed Income

● **Asset Servicing**

Global Corporate Actions

OTC Derivatives

Mutual Funds

Managed Accounts

Alternative Investments

Insurance

Cost-basis legislation signed into law on October 3, 2008, is sending chills down the spines of issuers.

Failure to report accurate cost-basis information to your investors and the IRS can result in stiff penalties.

Let AccuBasis take the chill out of cost-basis compliance. It's accurate, fast and cost-effective.

Want to know more about the legislation and AccuBasis? Contact Joyce Rosen at [jrosen@dtcc.com](mailto:jrosen@dtcc.com) or 212.855.3935



*The Logical Solutions Provider*

AccuBasis is a service offering of DTCC Solutions LLC, a wholly-owned subsidiary of The Depository Trust & Clearing Corporation, and NetWorth Services, Inc.

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# DTCC White Paper Details Challenges Posed by Cost-Basis Legislation

## Continued from cover

discusses the compliance issues and problems that each of these groups face as they prepare to meet the complexities of cost-basis reporting.

The new cost-basis legislation was signed into law in October as part of The Emergency Economic Stabilization Act of 2008, commonly referred to as “the bailout bill.” It poses new challenges for brokers and others as they must begin to report accurate, adjusted cost-basis information to investors and the Internal Revenue Service (IRS). Brokers and banks, for example, may have to obtain or calculate missing cost-basis information; transfer agents will need to capture and track new cost-basis data; and mutual funds will need to calculate cost-basis information for a variety of investment plans including dividend reinvestment plans (DRiP).

## Get ready

“We’re encouraging the industry to start preparing for cost-basis reporting as soon as possible,” said Lori-Ann Trezza, DTCC vice president, Product Development. “While the deadlines appear to give financial intermediaries sufficient time to prepare for cost-basis reporting, the reality – in the case of stock, for example – is that the ramp-up time is short considering the decisions that need to be made and system changes that may have to be implemented and testing to be done.”

The legislation will be implemented in three phases. Cost-basis reporting must begin for:

- All equity stock acquired on or after January 1, 2011.
  - All mutual funds and dividend reinvestment plans shares acquired on or after January 1, 2012.
  - Other specified securities types, such as debt issues, options, private placements acquired on or after January 1, 2013.
- Broker, transfer agents, mutual funds

and issuers also must decide if they will “be guided by the legislation as written – only reporting cost basis on securities acquired after the implementation dates – then (they) must keep track of those share lots where cost basis is to be reported and those lots where cost basis is not to be reported,” the paper states. “The mechanics involved in developing and maintaining a dual system can be just as difficult as one that will report on all share lots in an investor’s portfolio.”

## Industry issues

The paper highlights cost-basis challenges facing intermediaries:

- **Brokers and banks:** “...One of the major problems they face in reporting cost basis rests in the fact that the shares they hold may have been delivered to them from another broker, bank, custodian or transfer agent without cost-basis information or with inaccurate cost-basis information. The receiving broker may have the task of updating and recalculating missing or inaccurate cost-basis information.”
- **Transfer agents:** “...Shareholder recordkeeping systems will need to be upgraded to capture and track share lots – those shares accumulated at different times under different circumstances: gifts, reinvestment shares, ESOP shares, voluntary cash purchases, transfers into and out of the registered name...”
- **Mutual fund companies:** “...Their cost-basis calculations are complicated by the fact that they include dividend reinvestment plans, multiple purchases and sales and frequent distributions in a given investor’s account.”
- **Issuers:** “While their shareholders have often complained about the lack of accurate and accessible cost-basis information, many issuers have hesitated to provide it. Issuers do provide component information on cost basis,

but they won’t do the calculation for the investor, fearing that the information could be inaccurately or incorrectly reported and lead to legal implications.”

## Buy, build or partner

All financial intermediaries will need to examine their shareholder accounting systems and decide how they will upgrade and “determine if they will buy, build or partner to handle the complexities of implementing an adjusted cost-basis accounting system.”

The paper also reports on DTCC’s automated cost-basis solution – Accubasis, which could be one of the solutions that firms look to for an electronic service that performs complete and historical cost-basis accounting and meets the new legislative requirements.

“The paper outlines the obstacles and roadblocks we see ahead for our customers. We want them to see the steps they will need to take in complying with the new requirements,” said Trezza. “At the same time, they may want to consider AccuBasis in their cost-basis planning.”

Through a variety of platforms and applications, AccuBasis provides adjusted cost-basis information quickly, accurately and efficiently for a broad variety of financial firms in the securities industry. In its 2008 Investment Guide, Forbes Magazine called the cost-basis information provided by AccuBasis “definitive.” And when the Internal Revenue Service National Research Program conducted its 2005 Tax Gap Report, it used an earlier version of the current AccuBasis system to prepare its findings.

*[To view or download “Complying with New Cost-Basis Legislation: What Brokers, Banks, Transfer Agents, Mutual Funds and Issuers Need to Know,” visit [www.dtcc.com](http://www.dtcc.com), click Thought Leadership, White Papers. For more information on AccuBasis, contact Joyce Rosen at 212.855-3935 or [jrosen@dtcc.com](mailto:jrosen@dtcc.com).] @*

# DTCC Gives Insurance Customers a New Online Access Tool

by Ted Davis

**D**TCC has introduced a new online tool that enhances usage of Licensing & Appointments (LNA) – one of the core automation solutions from its Insurance & Retirement Services business unit. LNA Access makes accurate agent licensing and appointment information more easily available at lower cost to insurance carriers and distributors (broker/dealers, agents and other representatives) who market insurance products.

Since insurance is regulated at the state level, each state has different licensing regulations for agents appointed by carriers to sell insurance products. The LNA solution, launched in 2001, automates and standardizes the two-way flow of agent information between carriers and distributors related to state licensing and appointment requirements. LNA Access allows distributors to manage appointments from start to finish in one application directly online, almost entirely removing the need for manual intervention by the carrier.

## Benefits of access

Raymond James is one of the leading pilot firms in the implementation of LNA Access. “This application added real value right from the beginning,” said Beth Maziad, vice president, Raymond James, Life and Annuity Operations. “Immediate confirmations from the carriers and the ability to process multiple transactions with a couple of clicks are just two of its many capabilities. Agents can now move more quickly to the business of marketing the products and providing better customer service.”

“Distributors and carriers that use the fully integrated LNA system have reduced their operational costs and risks associated with manual practices, such as copy, fax and phone, thanks to electronic, paper-

free processing of producer requests, streamlined data exchange, same-day turnaround and synchronized producer records,” said Lana Macumber, DTCC director, Strategy and Business Development, Insurance & Retirement Services. “LNA Access expands the reach of this solution by bringing its benefits to distributors who may choose not to develop the fully integrated system.”

Improving the experience of the representatives who sell insurance products is important in a marketplace of competing financial products.

“LNA Access is a huge advantage for us,” said Tammie Leibold, department supervisor, PRIMEVEST Financial Services, Inc., Registration and Licensing. “We can now provide our reps with simple screen access to LNA information without all the paper and time-consuming manual processes that make it more cumbersome to do business.”

## Industry drives development

With the significant growth in LNA usage and customer demand for online access, Insurance & Retirement Services developed the front-end application in partnership with Bridgeline, a vendor that has worked with DTCC on other projects.

According to Macumber, LNA Access is

the first front-end application developed by Insurance & Retirement Services. “The insurance industry views LNA Access as a ‘proof-of-concept’ that demonstrates DTCC’s capabilities to produce other front-end applications for some of our core solutions. We work with the industry and vendors to provide easier access to our services and expand the automation of insurance processing across distribution channels.”

In a successful pilot program in May 2008, nine distributors and 15 carriers worked with DTCC and Bridgeline in defining the user data entry screens, providing recommendations, as well as testing the functionality. The process generated a ready-to-use product without the need for development commitments from firms already struggling with technology resource allocation.

“We are extremely pleased to see this application brought to market so quickly and effectively,” added Maziad of Raymond James. “The way DTCC developed and delivered LNA Access was great; we were given a working, user-friendly application that produces immediate benefits – a tool that we can continue to refine and integrate to generate even more efficiencies with the full LNA process.” @

## How LNA Access Works

**L**NA Access works as a separate data entry request and confirmation 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 also have access to carrier transaction confirmations through an Excel-compatible file available and downloadable through the DTCC WebDirect platform.

All Insurance & Retirement Services distributors may sign up for LNA Access. Firms that already use the full LNA solution only need to request access to DTCC’s WebDirect service and they will be granted free use of the application. Firms that have Data-Services-Only (DSO) membership (firms that don’t utilize the NSCC money settlement services) can sign on to use LNA Access, giving them the ability to request and download LNA data.

# SEC Approves Eliminating Paper Certificates For Withdrawals-by-Transfer

by Edward C. Kelleher

The Securities and Exchange Commission (SEC) has approved a rule change by The Depository Trust Company (DTC), a DTCC subsidiary, to eliminate issuing physical certificates for withdrawals-by-transfer (WTs) beginning January 1, 2009. The move will cover all issues that participate in DTC's Direct Registration System (DRS), which currently includes more than 5,900 issues, or over 80% of the DRS-eligible issues.

DTC first announced plans to eliminate WTs of physical certificates in July when it filed the proposed change with the SEC. DTC will now process WTs in DRS statement form. (If permitted by an issuer, investors may take their DRS statement to their transfer agent and exchange it for a physical certificate.)

## DRS statements

DRS is a book-entry system that enables investors to register their shares electronically with the issuing company or its transfer agents. Instead of a paper certificate, investors receive a statement of their holdings. In 2008, all the major and regional exchanges in the U.S. modified their listing requirements to mandate that in order to list on the exchange the security must be eligible for a direct registration system. (DTC is the only registered clearing agency operating a DRS.)

"Eliminating the need for DTC to issue physical certificates in withdrawals-by-transfer transactions is another advance for the industry's drive toward dematerialization," said Joseph Trezza, DTCC vice president, Operations. "More customers are requesting that WTs be processed as DRS statements rather than as physical certificates." In November of this year, more than 44% of all WTs were

processed as DRS statements. That compares to just 21% processed as DRS statements a year ago.

Both the industry and the U.S. government continue to encourage dematerialization of equity securities, because paper certificates are inefficient, expensive to issue and can be lost or stolen.

## Move-all

In another push for increased efficiencies, DTC's new "move-all" functionality facilitating the electronic transfer of issues between DRS and DTC participant accounts, went into full production in November 2008.

Currently, DRS handles more than 54,000 transactions a month, but some of these transactions continue to be rejected because data elements in the DRS account and the DTC participant account – including the number of shares to be transferred and the Social Security or taxpayer information number – don't match.

The "move-all" functionality eliminates the need to match the number of shares being transferred. It will further streamline DRS processing problems and is expected to eliminate more than 5,000 rejects a month.

The new functionality gives DTC customers three options to use in processing transactions:

- Move all the investor's full shares to the requesting DTC participant's account;
- Move all the investor's full shares to the requesting DTC participant's account and liquidate any fractions in the account, sending the cash proceeds directly to the investor;
- Move all the investor's full shares to the

requesting DTC participant's account, liquidate any fractions in the account, sending the cash proceeds directly to the investor, and close the investor's DRS/DRIP or other plan accounts.

Another enhancement, which will help decrease the number of rejects, enables transfer agents to accept two Social Security numbers or Tax Identity 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 will allow the transfer agent to match either one of the numbers, helping to decrease the volume of rejects.

"Putting move-all functionality into place and eliminating physical certificates for withdrawals-by-transfer were industry-wide efforts and we could not have developed and implemented these changes without ongoing and detailed input from many segments of the industry," said Trezza. @



# FolioDynamix Links to Managed Accounts Service

by Karen Gregory

**D**TCC has added FolioDynamix, a leader in technology platforms and services to the growing number of firms committed to using the Managed Accounts Service, a centralized platform designed to automate and standardize communications among sponsors, investment managers and service providers.

The company has a 6% market share of the managed account consultant programs in the U.S., according to Cerulli Associates, and managed account assets under management were \$16 billion at the end of the third quarter 2008.

DTCC's service provides a single gateway for the managed account industry to exchange information on account initiations, as well as ongoing customer profile updates and account maintenance. Most of this information is transmitted through disparate technology platforms or

manually, resulting in errors, delays and high operational costs. By automating and centralizing this information, the Managed Accounts Service will reduce those risks. It is provided by DTCC Solutions LLC, a subsidiary of DTCC.

## **Straight through to breakthrough**

"By connecting to the Managed Accounts Service, we'll be able to offer our client base a straight-through connection to a platform that is a breakthrough solution for this industry," said Aaron Schumm, senior vice president in charge of product for FolioDynamix. "This kind of one-to-many communications network can have a significant effect on the industry, because for the first time members will be able to grow their businesses without the counterproductive expense of supporting multiple technology platforms and proprietary systems. The net effect allows sponsors and investment

managers to gain operational efficiencies, while helping to minimize investment time delays for the end client."

"To have the support of the service-provider and vendor communities is extremely important, as they provide their sponsor broker/dealer and investment manager customers with a direct link to the service," said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. "This makes adoption easier and, therefore, the benefits of the service can be spread across the industry more quickly."

FolioDynamix offers technology and investment service solutions to major sponsors, registered investment advisors, asset management firms and banks. The company processes more than 3.8 million accounts daily, with a growing segment of the account base attributed to the managed accounts industry. @



# AIP Service Processes

## First Transactions

by Crystal Bueno

**D**TCC announced December 1 that two charter clients of the Alternative Investment Products (AIP) service – BNY Mellon Shareowner Services and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation – have completed testing and gone into production with live data. AIP is a service offering of DTCC's National Securities Clearing Corporation (NSCC) subsidiary.

Created with the collaboration of industry leaders, the AIP service is designed to bring significant efficiencies to a firm's operations and support market growth through an automated, centralized platform. In addition to linking broker/dealers, fund managers, administrators and custodians, the service provides end-to-end processing of alternative investments such as hedge funds, funds of funds, private equity, real estate investment trusts (REITs) and limited partnerships. AIP will also support pre-trade fund profiles, trade subscription documentation, money settlement and post-trade reporting.

### 'Streamlined administration'

"This new platform provides a central clearing facility for operational functions, automating certain pre-trade data collection and all processes related to trade orders, account settlement and post-trade reporting," said a representative from BNY Mellon Shareowner Services. "For our clients and their selling partners, additional sales should result as administration and management become more mainstream while for us, this streamlined administration eliminates many manual administrative processes."

"The AIP service now enables us to provide our customers and their clients with the ability to view equity, fixed income, mutual fund and alternative investment positions on one statement," said Gerald Gregorio, managing director in the customer processing and services group at Pershing. "The end result is that introducing broker/dealers, registered investment advisors and money managers will be able to better manage their clients' investment portfolios in a more effective and efficient manner."

### Centralized, consolidated information

Processing alternative investment products is currently handled through hardcopy, fax, email, phone calls and spreadsheets, and the lack of automation and centralization prolongs the transaction process, creates tremendous risk and blocks potential distribution channels. Not only is manual processing of these instruments error-prone, it also hinders business growth as volume outpaces the industry's ability to manage it.

"Growth projections in the alternatives space are aggressive;

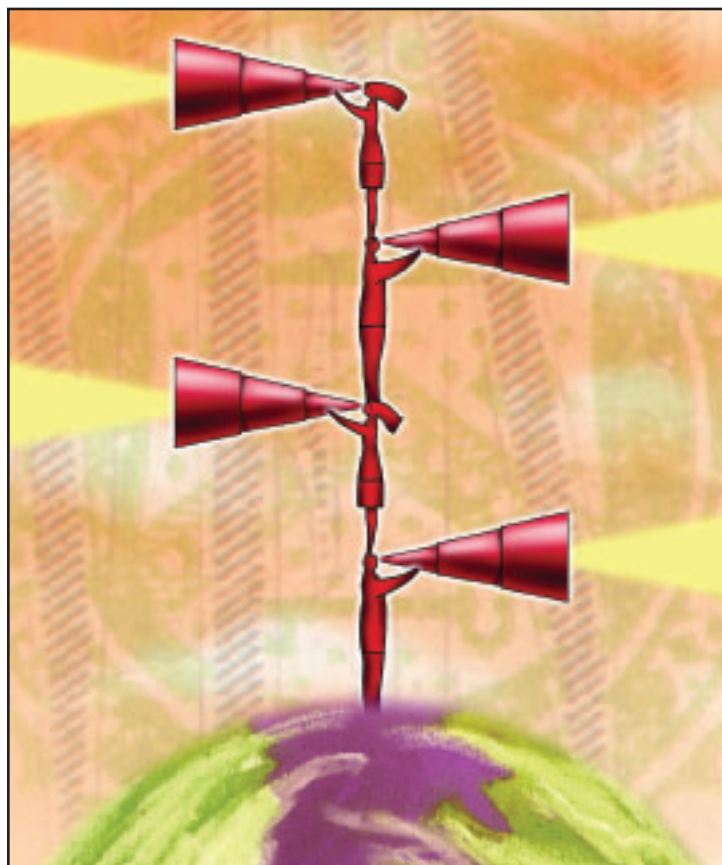
however operational scalability has become a focus as participants position themselves to exploit these opportunities," said Ann Bergin, DTCC managing director, Wealth Management Services. "We believe our AIP service can make a marked difference in the ability to penetrate currently untapped distribution channels for these products."

### Feedback from customers

In an outreach to customers, DTCC recently sponsored its first AIP Customer Forum on November 14. This customer "think tank" brought together almost 100 customers from 50 leading firms to address issues facing the industry, including increased regulatory scrutiny, risk management, processing, settlement and operational best practices.

Based on feedback from customers at the Forum, DTCC's further enhancements to the AIP service will address the operational issues that are most burdensome for the business today, including requirements for certain legal documents and physical signatures.

The AIP service was developed at the request of, and in consultation with, industry participants worldwide. NSCC received regulatory approval from the U.S. Securities and Exchange Commission to launch the AIP service in May 2008. @



# Mutual Fund Services Extend to Investment Managers by Karen Gregory

An adjustment to NSCC's rules will, for the first time, give investment managers who oversee managed accounts programs direct access to Fund/SERV® and other Mutual Fund Services. This rule change will simplify the process of managing mutual funds that are part of an investor's managed account portfolio.

Until now, investment managers had to process fund orders through a third party, typically their company's mutual fund unit or the sponsor broker/dealer. Information would then have to be communicated back to the investment manager, a process that has been complicated and prone to errors. By using Fund/SERV, which has helped the fund industry grow to its peak of \$12 trillion, investment managers will now be able to automate, centralize and standardize purchases, exchanges and redemptions.

## Point of entry

"DTCC's entry into the managed accounts business line allowed us to identify an opportunity to further streamline operations for both our managed accounts and mutual fund customers," said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. "Streamlining fund processing for investment managers is an example of how

we support the evolving needs of our customers and then look to leverage our infrastructure to increase efficiencies."

To use Fund/SERV and other Mutual Fund Services, which are provided by DTCC's National Securities Clearing Corporation (NSCC) subsidiary, investment managers will become limited members of NSCC (as Investment Manager/Agent Members). Money settlement for the transactions will be handled by a full member of NSCC, generally either the manager's mutual fund unit or the sponsor broker/dealer.

## Industry perspective

"DTCC has created a solution that will be particularly useful within the fixed-income managed accounts space," said Anne Kruczek, senior vice president and head of Administration and Operations at Federated Investors, Inc. "Pooled investment vehicles are the premier choice within the traditional fixed-income managed account portfolio as they offer increased ability to control diversification and risk management of the portfolio at lower managed account minimums. Connectivity will simplify the trading of these investments and increase efficiency for both investment managers and sponsors."

Federated Investors, Inc., which has provided customized separate account

management since 1973, manages \$24.5 billion in fixed-income assets.

"Allowing the managed accounts industry access to the exceptional Mutual Fund Services that DTCC provides will improve back-office processing for our membership," added Christopher Davis, president of The Money Management Institute. "Replacing transactional methods that are complicated, time-consuming and costly with a model that exemplifies DTCC's unmatched expertise will ensure that managed investment solutions stay on pace as the fastest growing segment in the investment advisory industry." @



*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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