



## What's on DTCC's Technology Horizon for 2008?

by Helen Cunningham

**D**TCC has issued its 2008 Development Agenda, which will be updated quarterly. The agenda gives the industry an overview of DTCC's major technology projects, organized by areas of the business.

To give customers a high-level perspective on the agenda, @dtcc spoke to Donald F. Donahue, DTCC's chairman and CEO; William Aimetti, DTCC's president and COO; and Michael Bodson, DTCC's executive managing director, Business Management, Strategy and Marketing.

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## DTCC Will Automate Syndicated Loan Processing

by Edward C. Kelleher

**D**TCC has announced the launch of Loan/SERV, a new and evolving suite of services to help automate and streamline the processing of syndicated commercial loans.

Syndicated loans are complex structures involving multiple lenders for each borrower, with an agent bank acting as the liaison, transmitting information back and forth between parties. The primary loan transactions can be made in multiple currencies, may

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**Jasdec Leads Education Effort on Dematerialization**



**New Database for Mutual Fund Industry**



**Peridrome Links to Managed Accounts Service**

# DTCC Will Automate Syndicated Loan Processing *Continued from cover*

include a combination of term and revolving loans, and are routinely traded in the secondary market.

## Growing global market

The syndicated loan market continues to grow in both complexity and volume. According to industry estimates, global syndicated lending reached US\$4.5 trillion in 2007, up 13.4% from 2006 and a 32% increase over 2005.

“Today, the loan process is essentially manual and information is faxed between market participants,” said Christopher Childs, DTCC vice president, Product Manager for Syndicated Loans. “This results in millions of faxes going out into the market each month. Add to this the exponential growth in loan trading volume in the secondary market and agents find themselves swamped in recordkeeping requirements. This can lead to manual errors, backlogs of unsettled trades and mistakes in payments to primary and secondary investors.”

DTCC's Loan/SERV platform will start with the introduction of two services in 2008, including a Loan Commitment Position Reconciliation service, which will enable agents to reconcile lender positions on individual loans every day. This is scheduled for the third quarter of 2008. A second Loan/SERV service will be an automated, secure communication network through which agent banks can transmit standard loan messages to both lenders and borrowers, scheduled for launch in the fourth quarter of 2008.

## Efficiency, certainty, reduced risk

“We want market participants in the syndicated commercial loan space to know that DTCC is committing the full weight of this organization – our talent, IT experience and quick-to-market capabilities – to help create greater efficiency, certainty and reduced risk for this sector,” said Donald F. Donahue, DTCC Chairman and CEO. “Our goal is to evolve and deliver a broad range of automated and value-added services in this market sector in the same manner as we did with Deriv/SERV in the over-the-counter [OTC] derivatives market.

“In three short years, we've played a leadership role in driving matching and confirmation rates in OTC credit derivatives to 85-90% from 15%, and our Trade Information Warehouse is providing that market with an automated safety net to track and service OTC derivative contracts over their lifecycle.

“We know that DTCC can deliver a similar, tangible result for the syndicated loan market, working closely with the firms that trade in these instruments,” Donahue said.

DTCC's operating business model is unique because it is a user-owned and user-governed organization that operates on an “at-cost” basis. This means that as it gains economies of scale from volume growth, profits are returned to DTCC members in the form of rebates,



Christopher Childs, DTCC vice president, Product Manager for Syndicated Loans

discounts and fee reductions.

## Reconciliation tool

“The new reconciliation tool we'll introduce later this year will enable lenders and agents to detect errors earlier in the process and prior to cash payments occurring,” said Childs. “Agents and lenders have to update their records each time a loan is traded or its attributes change. Currently, these changes are updated by agents and lenders independently of each other. With the growing secondary market and increasing number of investors, it's important that agents and lenders know that changes to loan commitment records are updated correctly.”

Loan/SERV will use the FpML™ (Financial products Markup Language) standard, and DTCC will leverage existing technology to build the secure network for the syndicated loan market and incorporate the new standard messages to be established by the participating industry members. Messages will either be routed directly to lenders or they can obtain the information by accessing a Web-based message hub.

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

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# FICC Proposes Streamlined Matching For Repo Trade Submissions

by Jim Conmy

In an effort to streamline trade processing and minimize intra-day credit risk for its customers, DTCC's Fixed Income Clearing Corporation (FICC) is proposing to amend its rules to mandate "demand comparison" submission and processing for all blind-brokered repo trades.

Under "demand comparison," intermediaries such as brokers that have been approved as "demand trade sources" can submit trades for comparison. Dealers would still submit their trades, but any blind-brokered trade submitted to the clearing corporation by a demand trade source will be considered compared upon receipt.

The proposal, which FICC is preparing to send to the Securities and Exchange Commission (SEC) for review, stipulates that only those inter-dealer brokers or other intermediaries that FICC approves can submit trades for demand comparison.

## Sooner the better

Currently, repo transactions come into FICC either for traditional bilateral comparison, which requires submission from both sides to the trade, or for "locked-in" comparison, which occurs when a trade has been compared operationally before it is even submitted to FICC. Locked-in comparison, however, is only used for auction awards. The clearing corporation then steps in to take on counterparty risk and guarantee completion of the repo trades as soon as the transactions are matched and compared.

"The idea is to streamline this traditional repo trade processing by being

able to compare a trade from a single data source, such as an inter-dealer broker, who has access to both sides of the trade," said Elke Jakubowski, DTCC vice president, Clearance and Settlement Product Management. "This makes it easier to compare transactions earlier in the day. And the sooner a trade is compared and guaranteed, the sooner we can reduce the intra-day credit exposure the original counterparties have to each other."



## Built-in safeguards

FICC's proposal also has built-in safeguards to prevent the comparison of any trade that a dealer might not recognize or approve. If a dealer fails to recognize or "doesn't know" a trade submitted on its behalf, the dealer can send a "DK" or "Doesn't Know" message to the demand trade source via FICC's Real-Time Trade Matching (RTTM) system. As soon as the clearing corporation's Government Securities Division receives such a "DK" message, the demand trade is no longer eligible for comparison.

"At this point," Jakubowski said, "if we receive a DK, the only way the trade can move ahead for comparison is for the DK to be removed. For example, the trade would become eligible for comparison again if the dealer, after reviewing the trade, decides its DK message is in error and withdraws it." The trade could also move on to comparison if the FICC-approved broker that originally submitted

the trade data modifies the data in a subsequent submission and the two parties to the trade do not object.

"Demand" comparison is not a new concept. It has long been used for municipal bond trades if the underwriting of the bond is syndicated. When the syndicate manager submits the trade details through FICC's RTTM system, the trade is automatically marked as matched and held for submission on settlement day.

## Size can matter

"Because of the size of repo trades, they can sometimes pose a greater risk than cash trades," said Murray Pozmanter, DTCC managing director, Clearance and Settlement Group. "Even just one or two unmatched repo trades can suddenly inflate a customer's Clearing Fund requirements and pose risk for the clearing corporation and our other customers. That's why we want to simplify and speed up trade comparison," he said.

What FICC is proposing is that all blind-brokered repos must be submitted for demand processing, and the brokers will have until 4 p.m. to do so. In turn, dealers will have another half hour – until 4:30 p.m. – to DK any trade they don't agree with. All trades coming in after the 4 p.m. cutoff time will revert to bilateral matching. @

# What's on DTCC's Technology Horizon

## *What does the Development Agenda tell the industry about DTCC's strategic direction?*

**Donahue:** The Development Agenda provides a clear sense of DTCC's strategic intent for 2008 and beyond. For example, the initiatives in the derivatives area signal our plans to offer customers a robust suite of over-the-counter derivative services, which are increasingly relevant given conditions in the market today. What's more, we are developing these services with a focus on "plug and play," meaning they are designed to seamlessly fit together with complementary services offered by other providers. This approach underscores our willingness to collaborate with other organizations to meet the industry's needs for additional levels of service and functionality.

Other priority areas include the work under way to support the U.S. exchanges as they forge global alliances and DTCC's launch of our EuroCCP subsidiary. A great deal of activity is taking place in the European clearing space and it is imperative that DTCC be there to play a role in that shifting environment. We are focused on getting EuroCCP off the ground in early 2008 so that we are solidly positioned as the landscape evolves.

We also are expanding the scope of our core services, giving customers more streamlined ways of handling their traditional activities. At the same time, we are leveraging these traditional services and extending them into new asset classes. One example of this approach is our new syndicated loan service.

## *What are examples of initiatives taking place behind the scenes at DTCC to strengthen the industry and customer service?*

**Aimetti:** Let's start with capacity planning. DTCC continually sets new volume records in the processing of daily transactions across its product lines. In fact, for some of our businesses, it seems the highest processing day for the previous year almost becomes the daily average in the following year. So it is critical to the safety and soundness of the markets that we stay ahead of the volume curves.

In the equities business, NSCC set a new single-day processing record of 112.5 million sides on January 23. Currently, these systems have the capacity to process 280 million sides a day and, in 2008, we plan to increase that to 450 million sides, for both our clearing corporation and risk applications. In the mortgage-backed business, our target is to achieve two times the peak-processing day for our EPN [Electronic Pool Notification] application. We also will increase the capacity of Deriv/SERV's Trade Information Warehouse by threefold this year.

A project that reflects our focus on replacing legacy systems is

the redesign of the ATP, or Account Transaction Processor, system. ATP is the core system for all transaction activity affecting clients' security positions held at the depository. It also checks transactions against system risk management controls and other business rules. This multiyear initiative will migrate away from ATP's legacy coding language and increase the system's processing flexibility, expanding its ability to support additional services domestically and internationally. Our first objective is to address the code migration, which we will start with the first release in March of this year, followed by quarterly releases extending through 2009 that will be transparent to our customers.

At the other end of the spectrum is a change that will enhance the customer experience in communicating with DTCC. We are introducing new password reset technology that will enable customers to reset passwords either through the telephone or a web browser, without contacting DTCC's Customer Support Group, thus putting total control in the hands of our clients.



Donald F. Donahue

## *DTCC has a series of new business initiatives across its business lines. Could you elaborate on these?*

**Bodson:** The most visible new initiative is the launch of EuroCCP. This project is, in many ways, emblematic of DTCC today. It is an indicator of our international aspirations, our ability to work with customers in a new manner and our capacity to leverage core competencies to reduce cost and risk for the industry globally.

Another exciting development is our entry into the syndicated loan business, which is a global market with high risk and high volumes in need of standardization and automation. To build this service, we are leveraging our Deriv/SERV technology and customer relationships, and we're taking a global approach, working with U.S. and European banks.

For the fixed income market, we will advance the central

counterparty for mortgage-backed securities, an initiative that is fundamentally changing the way the business is done in this sector. When you think of major markets that have been around for years without the benefit of a central counterparty, this one jumps off the page. We have worked hard to gain industry buy-in and enthusiasm for the concept, as well as unanimity of view in terms of how it will work, and in 2008 we will start to roll it out.

In Wealth Management Services, we expect to bring the AIP [alternative investment product] service to market and to grow the customer base for the new Managed Accounts Service. Both these



William Aimetti



Michael Bodson

products are designed to bring automation and efficiencies to rapidly expanding industry segments.

In the insurance industry, what is really exciting is how DTCC is taking a thought-leadership role. The push this year is to work with the carriers and distributors to establish a strategic view of straight-through processing in the annuity space, using our capabilities and understanding of the marketplace to help streamline processing. In Q1, we plan to publish a white paper outlining how we will collaborate with the industry to achieve greater automation, standardization and centralization.

In Asset Services, a key area of focus will be the rewrite of our corporate action platform, which is a multiyear endeavor. We will be working closely with customers to establish new standards and new approaches that leverage existing systems while laying the foundation for the future growth and global expansion of this business. This year, our emphasis will be on the announcement capability; we plan to complete development by the end of this year and begin user testing in early 2009.

On the underwriting side of the rewrite, we have completed most of the development work for the new municipal securities service and will begin final testing in March in order to meet the regulatory mandate to have it live by June.

### *Could you talk about risk management at DTCC?*

**Donahue:** Over the last five years, we have substantially upgraded the risk capabilities of our subsidiaries, and we are now extending that coverage to EuroCCP. So we have a very robust risk model that enables us to manage the bulk of exposure along the risk distribution curve. In this year's Development Agenda, the risk management section includes multiple initiatives that will further strengthen our key risk capabilities – the services that help people sleep at night – making these capabilities even more robust.

At the same time, as is occurring across the industry, our attention is also focused on the tail risks, meaning the exposure at the outer edges of a portfolio's risk distribution curve. Since last summer, the issue of managing these types of risk has very much been the focus of attention for everyone in the industry. At DTCC, we're spending a lot of time thinking about how we can strengthen our ability to address the

more extreme risk situations through "war gaming" and other types of efforts to deepen our understanding of these possible scenarios.

### *What is DTCC doing to further fortify its technology organization this year?*

**Aimetti:** To drive process improvements within the technology arena, we have three major initiatives for 2008.

We expect to obtain full CMMI Level 3 certification as an external confirmation of the success of our efforts to enhance our ability to contain costs and increase speed to market in delivering technology solutions. [CMMI, or Capability Maturity Model Integration, is an internationally recognized set of best practices and standardized processes that help organizations strengthen their software development practices.] Level 3 will mark a milestone because, according to our research, DTCC will be the first U.S.-domiciled financial services institution to achieve enterprise-wide CMMI Level 3 certification.

In the Infrastructure organization, **[continued on page 6]**

we follow an analogous framework called ITIL [Information Technology Infrastructure Library]. This year, we will further extend our use of ITIL standards to achieve process improvements within computer operations and network services.

Another 2008 objective is the implementation of detailed service level agreements between our technology organization and our business people for all key products. This concept builds on a traditional measure of performance in the technology arena – systems availability, which is geared to ensuring clients always have access to our systems to conduct their business. Now, in addition to uptime availability, we will measure key aspects of the customer experience with the goal of continually improving it. For example, is output delivered in a timely manner? What is the response time for customers in accessing an application?

*DTCC has hired a number of senior executives over the past year. What does that say about the organization's strategy?*

**Donahue:** In part, it is recognition that we need to routinely replenish the stock of intellectual capital inside the company with people who have hands-on experience working with new financial techniques, new trading strategies and new instruments.

To fully understand the issues facing the industry today, we have to have the right people at the table. We understand that leavening our existing intellectual firepower and the classic DTCC understanding of industry issues with the experience of people who have been in the trenches at our member firms dealing with tough issues from that vantage point makes for a powerful combination. Bringing all this knowledge and experience together is the key to developing even more robust and tailored solutions for the industry.

## The Development Agenda Gets a Makeover

**D**TCC has made several changes to the Development Agenda, with the goal of making it more customer-focused and easy to use. The changes reflect feedback from customers requesting more communication on DTCC's strategic direction, including technology projects and timetables.

"We restructured the Development Agenda to make it easier for customers to identify specific development initiatives relevant to their business," said Matthew Stauffer, DTCC vice president, Product Management and Marketing. "The new format also standardizes how we present the information and organizes it in a more accessible manner – for example, highlighting the benefits, impact and whether an initiative is voluntary or mandatory."

Additions to the Agenda include:

- A timeline that gives customers a quarterly snapshot of key milestones for each initiative, such as the timing for testing and implementation. Each quarter, this timeline will be updated to report on the status of each project, for example, whether it is completed or delayed.
- The Client Segment Matrix, which indicates the type of client – for example, broker/dealer or transfer agent, likely to be impacted by each project.
- Overviews written by DTCC managing directors for each business area, commenting on major trends in their industry segments and how the Development Agenda reflects DTCC's response to these trends.
- A new Reference Material section that provides links to materials about each initiative, such as Important Notices or brochures.

*[For comments or suggestions on the Development Agenda, contact Matthew Stauffer, DTCC vice president, Product Management and Marketing, at [mstauffer@dtcc.com](mailto:mstauffer@dtcc.com) or 212.855.5919.]*

*DTCC recently created a Steering Committee for Architecture. What will it do?*

**Aimetti:** We have an Architecture Office whose mandate is to help us mitigate risk and gain efficiencies in the technology side of our business, and the Steering Committee is an enabler to meet these objectives.

The committee has a twofold charter. First, it will ensure DTCC is abreast of technology innovations in the industry. We will evaluate new capabilities and determine whether DTCC wants to take advantage of them. Second, it will set standards for technology development at DTCC and ensure they are followed across the organization.

The primary focus of our Architecture Office and Steering Committee will be on the distributed side of the business, rather than the mainframe side, because that is where a lot of the new technology is emerging and that is where many of our product lines are either running or migrating to.

*Is there a common thread to DTCC's new business initiatives?*

**Bodson:** Yes, DTCC's ability to build upon core competencies to deliver quick-to-market solutions that reduce cost and risk for large

# NSCC Hits New Record for Transactions Processed by Crystal Bueno

National Securities Clearing Corporation (NSCC) started the new year with two back-to-back volume records, processing 112.5 million and 102.7 million transactions on January 23 and January 22, respectively. These days also marked NSCC's first time processing more than 100 million billable sides in a day. NSCC is a subsidiary of DTCC.

The peak on January 23, the largest trading day in history, surpassed by 14.2% the record of 98.5 million transactions set on August 16, 2007.

"Processing volumes in our equities business have been increasing rapidly over the past decade," said Susan Cosgrove, DTCC managing director, Clearance and Settlement Group. "Not only do we see new levels for trading volume, those levels are sustained and compounded year over year. For the last several years, our new average daily volume has tracked the previous year's peak days." For example, in 2007, average daily volume was 53.9 million vs. 2006's peak day of 50.1 million.

The benefits of increasing volume are shared with customers in the form of lower fees, as NSCC gains economies of scale which translate into lower pricing. For 2008, NSCC lowered fees for its clearing services, which is expected to result in approximately \$88 million in annual savings to the industry.

## Boosting capacity

"Bearing in mind safety and soundness being of highest priority," Cosgrove said, "we will ensure our ability to handle the escalating volumes by significantly boosting the capacity limits of our equities clearance and risk management systems to 450 million sides per day by the end of this year." The systems can currently process up to 280 million sides per day.

At NSCC, activity is reported as transactions processed, while market volume is calculated in terms of shares traded. A single transaction can be for any amount of shares and represents the buy-side or sell-side of a trade.

## Netting factor

NSCC's Continuous Net Settlement system nets down or reduces the total number of trades, or sides, requiring settlement. For example, on January 23, NSCC reduced the value of obligations requiring settlement by 99% to \$32.3 billion from \$2.4 trillion. On a yearly basis in 2007, netting reduced financial settlement by 98% to \$5.2 trillion from \$283 trillion.

"Netting is a critical function that NSCC delivers to U.S. capital markets," said Cosgrove. "We are committed to improving settlement efficiency and reducing operational risk and costs even as volumes rise." @

groups of users. Another theme is our capacity for listening to customers and being responsive, flexible and creative in addressing their needs.

We are always looking to help the industry get to the next level. We are always exploring opportunities to leverage our capabilities in terms of automation and standardization to help customers reduce cost and risk. And this entails having a clear understanding of DTCC's strengths. We will go where DTCC can make a difference. We will not go into businesses that don't leverage our core competencies.

It's also important to remember that DTCC's reputation for delivering solutions and providing high levels of service is built on our core business. We can't ever lose sight of the fact that, at the end of the day, the engine that makes DTCC successful is our core business. That really is the jewel in the crown and from that comes all these other new and exciting business opportunities.

*When you think about the strategic vision for DTCC, is it different today than it would have been a year ago, given the volatility in the markets?*

**Donahue:** No, on the contrary. In many respects, rapid activity on DTCC's part to deliver on the Development Agenda is even more important in an environment like this.

Initiatives like the new syndicated loan service and the expansion of our derivatives services are drivers in helping the industry develop strategies to strengthen overall risk management. That is all the more reason why DTCC has to work to deliver these capabilities faster than might have been required under different market conditions. @

## Peak Market Activity

	June 8, 2006	Aug. 16, 2007	Jan. 23, 2008
<b>Transactions</b>	50.1 million	98.5 million	112.5 million
<b>Value of Transactions</b>	\$1.02 trillion	\$2.23 trillion	\$2.38 trillion
<b>Final Settlement Value</b>	\$16.6 billion	\$31.1 billion	\$32.3 billion
<b>Netting Factor</b>	98%	99%	99%

# Jasdec Leads Education Effort on Dema

by Judith Inosanto

The Japan Securities Depository Center, Inc. (Jasdec), the central depository for Japan's stock market, is leading the way in educating investors about the benefits of dematerialization and ensuring a seamless transition to a paperless environment.

In its 2007 annual report, Jasdec noted that dematerialization will mark the final stage of fundamental reform of securities clearing and settlement in Japan. While an effective date for dematerialization has not been determined legally, market participants have set a January 2009 target date to eliminate all paper stock certificates and move to an electronic book-entry transfer system for recording securities ownership. A legal effective date will be specified by a Cabinet Order at a later date.

## Nationwide media campaign

"Through a mass media advertising and marketing campaign, Jasdec is raising public awareness about its electronic book-entry transfer system and is urging investors to submit physical stock certificates for preparation of conversion to electronic ownership," said Yasuo Shiina, director, Corporate Planning Department, Jasdec. "We believe it is vital to publicize dematerialization and proper registration of stock ownership through Jasdec to ensure shareholders know that their ownership rights are protected without any further action on their part."

Jasdec noted that shareholders who are holding physical certificates but have registered them properly with the issuer of the stock or its transfer agent are assured that their rights are also protected. These types of physical certificates will be credited to a special account maintained by the issuer. Should a shareholder decide to sell these shares, he or she will need to

take certain procedures to transfer them to the broker for the transaction.

Jasdec first launched its dematerialization campaign in 2006 with a series of television commercials and radio broadcasts airing on a regular basis nationwide in the mornings and evenings. Print ads were also created and placed several times a year in newspapers and



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## 社債がペーパーレスに!

詳しくは、[www.jasdec.com/sb/](http://www.jasdec.com/sb/)

平成18年1月10日、「社債のペーパーレス制度」がいよいよ始まります。

「ペーパーレス制度」は、有価証券の券面を発行することなく売買・決済等を電子的な記録により行う新しい決済制度で、世界の各資本市場においても導入が見込まれています。今後日本では平成18年1月10日より社債等がスタートし、その後、投資信託さらには株式が段階的に実現する予定です。

<制度対象となる社債等>	投資家の皆さまへ	発行者の皆さまへ
社債(私募債形式も含む)*	○本制度は決済の効率性や利便性を向上させると共に、より高い安全性を確保することで、流通市場のさらなる発展を目指しています。 ○お持ちの社債券が無効になることはありませんが、マル優や公共法人、共済組合等の税制措置が変更となる場合がございますのでご注意ください。	○本制度により、物理的な券面発行が不要となり、発行コストを軽減できます。 ○本制度への参加手続きに際しましては、一定期日までに「ほふり」に対して同意書等を提出していただく必要があります。
地方債		
特殊法人債、地方道路公社債等の地方公債が発行する債券		
外国または外国法人の発行する債券(サムライ債等)		

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**お手持ちの上場株券は「ほふり」へ。**  
平成21年6月までの法令で定める日に、上場株券も一斉に電子化(ペーパーレス化)されます。上場株券をお持ちの投資家の皆さまは、証券会社を通じて「ほふり」に株券を預託されることで、電子化(ペーパーレス化)への移行がスムーズに行えます。

# aterialization

economic magazines as a way to reach the target audience of shareholders aged 50 and over, who are considered more likely to keep stock certificates on hand.

Approximately 10 television commercials and a significant number of print ads were designed by Jasdec with its advertising agency, Nikkeisha, Inc., to illustrate a variety of scenarios and situations Jasdec officials believed would

resonate with their target audience. A prominent figure in several of the print ads for the dematerialization of corporate bonds is a goat, based on the belief that goats like to eat paper, thus symbolizing a move to becoming paperless. The key message in all the ads is aimed at reversing the accepted and traditional behavior of preserving physical certificates and raising investors comfort level with going electronic, noted Shiina.

## Gaining stockholder support

“Raising awareness and gaining shareholder support for dematerialization will help decrease risk, increase security and reduce costs, which will benefit the industry and investors,” said Joseph Trezza, DTCC vice president, Asset Services, who has authored several articles on dematerialization in the U.S. “Jasdec’s leadership efforts in encouraging investors to convert their paper certificates to electronic records is an excellent example of what can be done globally to help achieve dematerialization goals.”

Dematerialization efforts in Japan got a boost through the 2004 passage of the Stock Settlement Rationalization Law. The goal of the legislation passed by Japan’s parliamentary body, the Diet, is to streamline and accelerate settlement for all kinds of securities trades, including stock trades, and to reduce the risks and costs involved in stock issuance and trading. Japan implemented dematerialization for government bonds in January 2003, commercial paper in March 2003,

corporate bonds in January 2006, investment trusts in January 2007 and exchange-traded funds (ETFs) in January 2008.

DTCC also has various communications initiatives to educate stockholders on dematerialization in the U.S. In addition to articles written by DTCC executives for industry publications, ongoing commentary in the general press, participation in industry forums on this topic and articles in the customer newsletter, DTCC has a section of its corporate website ([www.dtcc.com](http://www.dtcc.com)) devoted to dematerialization. It includes information for the financial community and general public, as well as Federal and state regulatory initiatives for going paperless.

By March 31, 2008, 100% of U.S. exchange-listed issuers will be required to be eligible for the Direct Registration System (DRS), a key initiative for dematerializing U.S. securities certificates. This time last year, only about 25% of exchange-listed issuers were DRS eligible.

## Closing in on 100%

Jasdec’s advertising campaign, which will continue through commencement of dematerialization in 2009, has been an effective method for communicating with Japanese investors, noted Jasdec.

The company indicated that the number of shares in Jasdec’s custody now stands at 83% of all outstanding shares listed on Japanese stock exchanges. Online surveys, according to Shiina, indicate that Jasdec’s publicity efforts have contributed to the increase in public awareness of dematerialization. @

“Through a mass media advertising and marketing campaign, Jasdec is raising public awareness about its electronic book-entry transfer system and is urging investors to submit physical stock certificates for preparation of conversion to electronic ownership.”

—Yasuo Shiina, director,  
Corporate Planning Department, Jasdec

# CCP12 and CSDs Plan April Conferences In Tokyo on Evolving Global Environment

by Steve Letzler

CCP12, an international organization of central counterparty (CCP) clearing organizations, is planning a global conference in Tokyo from April 16-18 to focus attention on how global trading markets will evolve and what that will mean for the post-trade infrastructure supporting such trading.

"It will be our first major conference since 2001 and comes at a time when CCPs are focused on addressing the new global trading realities," said Amarilis Sardenberg, chief operating officer of the Brazilian Clearing and Depository Corporation (CBLC) and chair of CCP12.

In addition, a global meeting of the regional central securities depository associations will be held in Tokyo on April 16. This update meeting, coordinated by the Japan Securities Depository Center Inc. (Jasdec), will bring together representatives from the Asia-Pacific Central Securities Depository Group (ACG), Americas' Central Securities Depositories Association (ACSDA), European Central Securities Depositories Association (ECSDA), African and Middle East Depositories Association (AMEDA) and the Association of Eurasian Central Securities Depositories (EACSD).

DTCC will be a major contributor to both conferences and will host a reception

bringing attendees from both market infrastructure groups together on the evening of April 16.

## Who will be there?

"The 2008 Global CCP Conference will involve the 20 clearing organizations that now make up the CCP12 body, along with invited representatives of some 20 other CCPs," Sardenberg noted. "Our local hosts for the CCP event, Japan Securities Clearing Corporation and Tokyo Stock Exchange, join CCP12's other members as sponsors, including DTCC."

Additional industry perspectives will be offered by invited speakers from exchanges, multilateral trading facilities and electronic communications networks, as well as major dealers and clearing agents. The topics to be discussed include cross-border trading, risk management and globalization of markets and the challenges those trends will bring to CCPs.

Workshops are also planned to focus on some of the key issues CCPs face in the global trading environment, including addressing the minimum requirements for linking CCPs globally. Regulators are expected to engage in a panel discussion to share views on the changing regulatory environment and changes needed to foster the evolution of the markets. @

## Latin American Cen

Senior executives from CAVALI ICLV S.A., Peru's central depository, and Depósito Central de Valores (DCV), the Chilean central securities depository, visited DTCC's headquarters in December and January, respectively, as they prepare to implement their new services as Depository Trust Company (DTC) participants.

Both were approved to operate on a delivery-versus-payment (DVP) basis at DTC, enabling them to support their own members' need to settle not only U.S. securities but related U.S. dollar cash obligations in DTC's settlement system.

## Streamlining capital flows

"We are delighted to have been able to upgrade our level of operating at DTC to include DVP settlement services," said Francis Stenning, chairman and CEO of CAVALI. "This is an important initiative for CAVALI and our customers because it helps streamline the clearance and settlement of capital flows between the Peruvian and U.S. markets." Eduardo Noriega, a member of CAVALI's board, joined

## 'Breaking new ground'

What attracted me to EuroCCP was the idea that we are going to play a significant role in shaping the future and the industry," said Diana Chan, CEO of EuroCCP, in a CEO profile titled "Breaking new ground" published in the current issue of Investor Services Journal. EuroCCP is DTCC's European subsidiary, created to provide clearing and settlement services in Europe.

Chan, who was named CEO of EuroCCP in November 2007, also said, "We are going to introduce high-quality, low-cost and secure clearance to Europe that is also volume resilient. Even though we are a start-up, we are leveraging 30 years of DTCC's experience in bringing efficiency and certainty to financial markets. ... As a market infrastructure, we need to be robust and perfectly reliable. As a start-up, we need to be entrepreneurial and deliver a better, more cost-effective version of what users want." @

# Central Depositories Expand Access to DTCC's Depository

by Judith Inosanto

the meeting with Donald F. Donahue, DTCC's chairman and CEO.

In 1997, CAVALI became the first Latin American depository to be approved for a direct access account to DTC's services. CAVALI also became a DTCC shareholder in 2006.

## New DTC-DCV link

In December 2007, Chile's DCV became the first depository in more than 20 years to be approved by DTC as a new central securities depository participant with immediate access to DVP settlement services. This new link will connect DCV's participants to DTC's other participants, in order to facilitate cross-border trading on U.S. issues.

"With trading across markets growing in prominence, we see becoming a DTC participant as an important step in building the global infrastructure to provide DCV's members with better access to the U.S. market," said Fernando Yañez, chief executive officer, DCV.

During DCV's visit to New York, Yañez, Sergio Baeza, chairman of the board, and Javier Jara, internal counsel, met with Donahue to discuss current trends shaping the world's capital markets. DTCC management members also meeting with the DCV delegation included William Aimetti, president and COO; Michael Bodson, executive managing director, Business Management, Strategy and Marketing; Mary Ann Callahan, managing director, Global Relations; and Paul Arthus, managing director, Relationship Management.

## Collaboration in the Americas

"We are pleased to be expanding our collaboration with our colleagues in Latin America. Our recent meetings have been valuable not only in ensuring the links between our organizations are seamless, but also to open further dialogue about ways to develop our services to meet the operational demands of a more global market," said Callahan, who is currently president of the



SUE LEVINE

From left to right: Sergio Baeza, chairman of the board, DCV; Donald F. Donahue, chairman and CEO, DTCC; Fernando Yañez, CEO, DCV; and Javier Jara, internal counsel, DCV, during DCV's visit to DTCC.



PRALAKTA SHAH

Francis Stenning de Lavalles, chairman and CEO, CAVALI (left), and Donald F. Donahue, chairman and CEO, DTCC, at a December meeting at DTCC.

Americas' Central Securities Depository Association (ACSDA). Both Stenning and Yañez are ACSDA Executive Committee members. @

## More on CAVALI and DCV

CAVALI provides its participants, Peru's financial intermediaries, with settlement and registry services for their client investors. CAVALI currently has 30 participants, including brokerage houses, banks and pension fund managers. Through providing advisory services for depositories in Bolivia and Dominican Republic, CAVALI also owns 20% of each and serves on their boards.

DCV, as Chile's national Central Securities Depository, holds nearly US\$179 billion on deposit (December 2007), and settled between US\$1 billion and \$1.5 billion in transactions daily in 2006. DCV's 155 shareholders include commercial banks and pension funds, each with a 30% shareholding; the Santiago Stock Exchange with 23%; the Electronic Stock Exchange with 6%; life insurance companies with 10%; and other small shareholders with the remaining 1%.

# New Database Makes Life Easier For the Mutual Fund Industry

by Karen Gregory

The mutual fund industry now has its first-ever centralized source for rules-based processing and information through Mutual Fund Profile Service, which was launched last year after a major reengineering. Profile is one of the Mutual Fund Services offered by DTCC's National Securities Clearing Corporation subsidiary.

The service is providing the industry with a solution to a longstanding challenge: how – from a central point – to easily disseminate vital information about fund securities to broker/dealers, banks and other intermediaries, and how to update that information in a way that streamlines the process for fund companies.

## New functionality

The new Profile database is structured on a hierarchical model, where information entered at one level flows automatically to other levels that should contain the same information, reducing data entry and maintenance requirements. The structure begins at the Management Company level and continues logically through Share Class, Portfolio and Security Identifier levels.

Several new functions allow funds to update and delete share classes, fund portfolios and security issue identifiers. For instance, as a precaution, Profile shows a “warning” message on the DTCC WebDirect screens prior to a fund company deleting any share class name or fund portfolio name.

“This feature gives funds a greater understanding of the global impact that a change or delete action will have on their relational data,” said Rita Gribben, DTCC director, Product Management, Wealth Management Services.

## More to come in 2008

“The work we’ve done is an important beginning, but there is much more we can do to tap into the value of this dynamic database,” said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. “This will be a prime focus for us in 2008.”

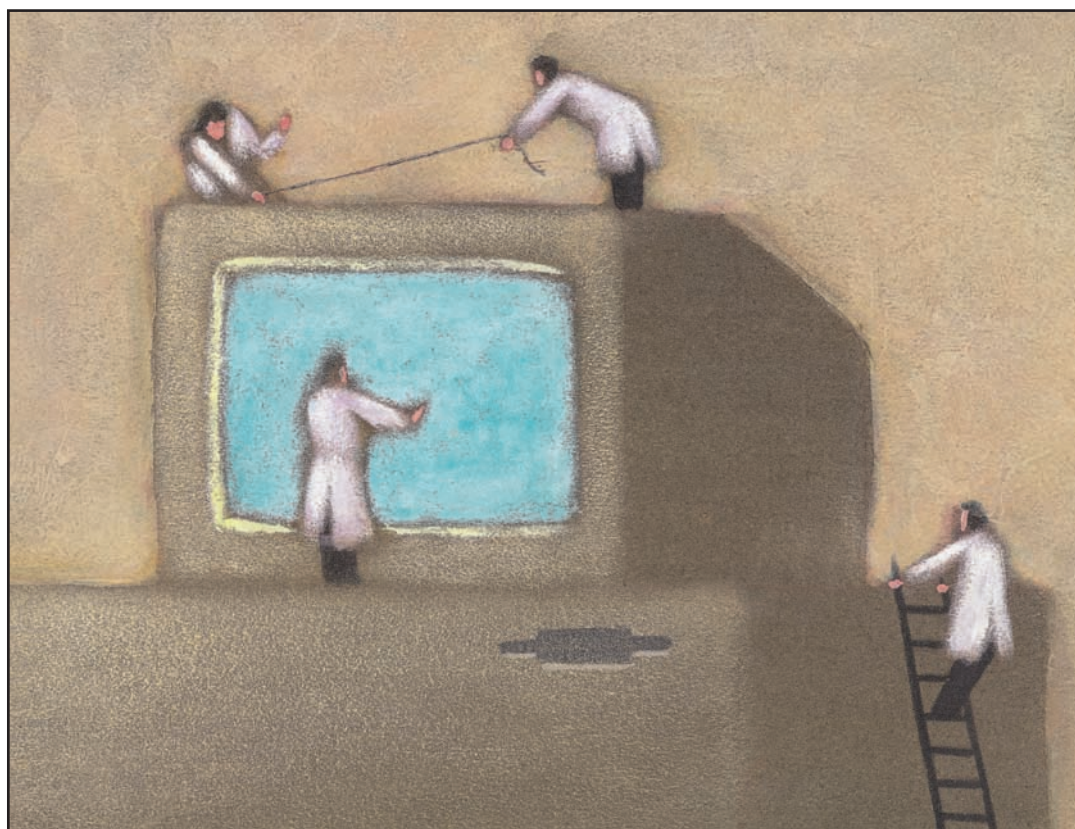
In January, Gribben and Barbara Simon, DTCC vice president,

Product Development, met with members of the Investment Company Institute’s Profile Steering Committee subgroup to map plans to further enhance the service in 2008. The group identified a list of upgrades, 20 of which will be addressed as Phase 1 enhancements, scheduled for delivery mid-year.

The scope of Phase 1 will include new edits within the system to allow funds to cross-check the information they have entered and validate accuracy at the appropriate hierarchy levels, adding to Profile’s functionality new reporting tools for funds. Other enhancements in development will further improve data accuracy and provide funds with new auditing and reporting capabilities.

Working with the Profile Steering Committee, DTCC also will update several key documents – the Best Practices and WebDirect User Guides, the Technical Manual and the Data Dictionary. The dictionary lists and defines all the fields in the database; these are needed by firms for operational processing and to comply with fund prospectus and distribution policies.

“By expanding Profile’s flexibility to make it easier to populate and retrieve data and maintain the database, we can expand its usefulness as an operational, regulatory and compliance tool, and enhance reporting procedures for both funds and firms,” Simon explained. @



# Major Service Provider, Peridrome, Will Link To the Managed Accounts Service

by Karen Gregory

Peridrome Corporation, a leading provider of business process management (BPM) solutions to the wealth management industry, joined DTCC's Managed Accounts Service (MAS) in late January, making it the ninth service provider to link to the service.

Today, managed accounts are processed through disparate technology platforms or through manual processes, increasing the potential for errors, delays and high operational costs. DTCC's MAS will act as a centralized, automated gateway through which accounts can be opened and maintained, mitigating these risks and streamlining communications among investment managers, sponsors and service providers. The service operates on DTCC's secure SMART telecom network, which today provides connectivity to virtually all trading parties in the U.S. and which will expand access to the growing number of firms active in the managed accounts space. MAS is offered through DTCC Solutions LLC, a subsidiary of DTCC.

## Breakneck growth in assets

"We're very pleased to add Peridrome to those firms that have shown such strong support for our efforts to launch this service," said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. "The managed accounts industry is growing at such a dramatic rate that assets under management have already exceeded projections that were made for 2011. The industry clearly needs a solution that will bring about operational efficiencies to help support its growth and minimize risk."

Managed accounts of all kinds – including separately managed accounts, unified managed accounts and multiple-style portfolios – currently have assets under management of \$1.5 trillion, according to the Money Management Institute (MMI). Research firms, such as Tiburon Strategic Advisors and Financial Research Corp., are

forecasting that by 2012 assets could swell to twice that number.

"DTCC's new service represents a key part of the straight-through processing infrastructure required for the managed accounts industry to scale," said Gib Veconi, president of Peridrome. "Peridrome is delighted to partner with DTCC, whose vision and commitment have propelled the managed accounts industry's move to electronic communications."



Gib Veconi, president, Peridrome

Veconi also co-chairs the MMI's Operations and Communications Standards Committee, of which DTCC has been an active participant. The committee develops message standards for use among industry participants.

## How the platform will work

Peridrome will offer a gateway between its Dash BPM platform and MAS. The platform provides automated workflow and business process management. It integrates with a firm's core portfolio accounting and trading systems to enable straight-through processing of requests to open new accounts and service existing accounts.

Peridrome will provide a seamless connection to MAS, allowing its customers to receive client requests electronically through DTCC's network using standardized messages, significantly increasing operational efficiency and reducing risk.

## Testing with Citi completed

In early January, DTCC announced it had successfully completed end-to-end testing of the initial phase of MAS with two Citi businesses, Smith Barney and Global Transaction Services, both of which are charter members of the service.

Smith Barney has nearly 30% of the managed account market, according to Cerulli Associates. Investment Administration Services, a unit of Citi's Global Transaction Services, has more than 30% of the managed account outsourcing market, and provides operations services to investment managers with over 80,000 managed accounts and \$160 billion in managed accounts assets. @

## List of Service Providers Grows

Peridrome is the latest in a growing number of leading service providers that are connecting to the Managed Accounts Service (MAS) and providing middleware to their customers, which streamlines and expands access to the service for industry members.

Service providers connected to MAS include:

- Evare, LLC
- ITG
- Octavian, Inc.
- Redi2 Technologies
- SEI
- SunGard Transaction Network
- Thunderhead
- Vestmark

# Now Available for Insurance Customers: Product Usage Reports

by Ted Davis

Customers of Insurance Services now have access to a new analytical tool that will help them track and manage their technology resources.

The Participant Information and Efficiency Report (P.I.E.R.) provides monthly summaries of a firm's utilization activity for all products offered by the Insurance Services business. Comparable reports were already available for many products and services offered by The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC).

"P.I.E.R.s contain all kinds of useful processing and settlement data that marketing, financial and other key managers can use for their business planning purposes," said Leonard Schmitt, DTCC head of Customer Relationship Management for Insurance Services. Noting that many firms have been receiving these reports for other DTC and NSCC services, Schmitt added, "Customer feedback consistently indicates that P.I.E.R.s are a valuable tool for managing technology budgets, so we decided to extend the capability to include Insurance Services."

## P.I.E.R. review

Carriers, broker/dealers, banks, insurance agencies and other members of Insurance Services can download their monthly P.I.E.R. from the member section of DTCC's website via DTCC WebDirect. They are available on the fifth business day of each month, at no cost.

The reports for Insurance Services capture data starting in December 2007. Eventually, they will include the latest 12 months on a rolling basis. They offer product-specific views of the firm's trading relationships and transactional volume activity. For products with a money settlement component, they include the firm's gross settlement amount by month.

P.I.E.R.s start with a firm's overall transaction volume by product, as well as a breakdown of product usage by its customers. For example, they include the firm's top-10 trading relationships by product based on volume and the top-10 trading relationships based on settlement amount. In addition, P.I.E.R.s offer comparative data on Commissions (COM), Applications (APP) and Subsequent

Premiums (SUB), Licensing & Appointments (LNA), Automated Customer Account Transfer Service (ACATS) and more.

To download the reports, a firm's authorized Access Coordinator can establish P.I.E.R. access for designated employees. If the firm does not have an Access Coordinator, it can initiate the authorization process, which takes approximately two weeks. Information on P.I.E.R. contents and instructions on downloading can be found at [www.dtcc.com/products/insurance/suite/pier](http://www.dtcc.com/products/insurance/suite/pier).

## Other activity reports

P.I.E.R. data are available for NSCC and DTC members. NSCC provides activity reports on Equities, Continuous Net Settlement, ACATS, Mutual Fund Services and Insurance Services. DTC supplies data on Settlement Services, Principal/Dividend/Interest Payments, PINS, Physical Processing and Potential Savings. @

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# View from Davos: Regulation and Capital Market Competition

The 2008 World Economic Forum, held in Davos, Switzerland, January 23-27, included a session on regulation and capital market competition.

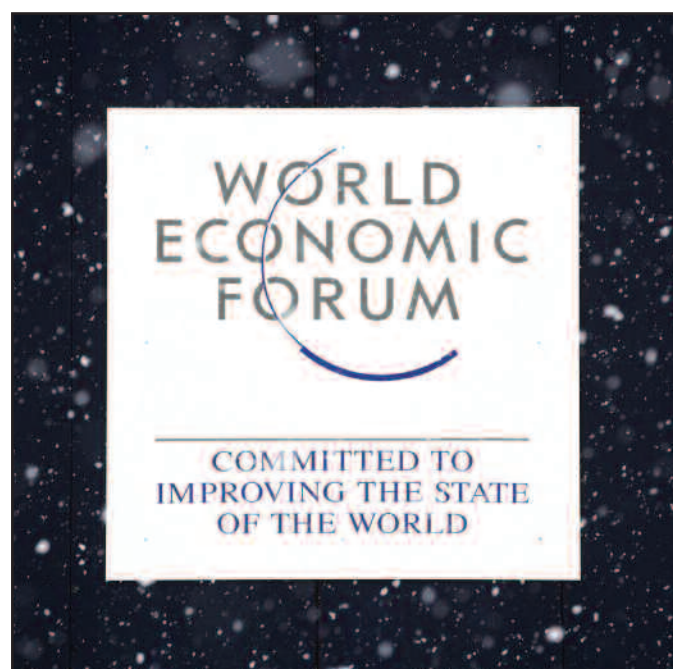
Moderated by Howard Davies, director of the London School of Economics and Political Science, the panel consisted of Marcus Agius, chairman of Barclays; Charlie McCreevy, commissioner, Internal Market and Services, European Commission; Duncan Niederauer, CEO, NYSE Euronext; and James Turley, chairman and CEO, Ernst & Young.

Here are key insights from the session as reported on the World Economic Forum website ([www.weforum.org](http://www.weforum.org)).

- The integration of global financial markets requires a corresponding harmonization of regulatory systems, including the mutual recognition of registration, disclosure, capital adequacy and accounting standards. Progress has been made, as seen by the adoption of the Basel I and Basel II bank capital accords, and the efforts to promote the convergence of International Finance Reporting Standards with the U.S. GAAP [Generally Accepted Accounting Principles]. However, more needs to be done.
- The past few years have seen a “sea change” in attitudes among U.S. regulators, particularly at the Securities and Exchange Commission (SEC). U.S. authorities no longer insist on the superiority of U.S. standards, recognizing that in a fully globalized market it is not realistic to expect all participants to conform to the regulatory practices of one country.
- While the recent collapse of the U.S. sub-prime mortgage market – and the subsequent spread of financial volatility to other global markets – highlights the need for regulatory coordination and cooperation, it is important for regulators not to overreact. Policymakers, in particular, need to avoid the temptation to pass legislation simply for the sake of appearing to “do something” about the crisis.
- That said, a regulatory response to the crisis is inevitable. The financial services industry should take a proactive approach and consult with regulators about possible reforms. Given the complexity of the issues, any regulatory response will fail without “massive buy-in” from market participants.
- The major credit rating agencies can expect increased regulatory scrutiny, particularly in the EU. Perceptions of conflicts of interest in their relationships with securities issuers, in particular in their compensation practices, ensure that “things will not remain exactly the same.”
- The crisis has also highlighted the danger of focusing regulatory

attention in the wrong areas, based on perceptions of risk that may be misplaced. For example, recent years have seen repeated calls in the U.S. and the EU for tighter regulation of hedge funds and private equity funds. Yet the sub-prime losses have been most heavily concentrated in the most heavily regulated entities in the system – the commercial and investment banks.

- The trend towards cross-border consolidation of financial exchanges – as seen by the 2006 merger of the New York Stock Exchange and Euronext into the first transatlantic bourse – has helped “catalyze” the issue of regulatory harmonization. In particular, it has forced regulators to confront the conflict between the U.S. emphasis on rule-based regulation and the European preference for principles-based standards.
- Even with the U.S. market, this conflict remains problematic, as seen by the differing approaches taken by the SEC and the Commodities Futures Trading Corporation (CFTC), which has authority over the listed futures and options markets. The SEC traditionally has favored a rules-based approach, while the CFTC has shown a greater willingness to use principles-based concepts. Given the tight links between the derivatives and equity markets, this dichotomy is increasingly problematic. For this reason, the U.S. Treasury has encouraged the two agencies to reconcile their differences.
- In the wake of Société Générale’s recent “rogue trader” scandal, financial institutions will need to redouble their efforts to manage risk and prevent fraud. @



# DTCC Year-End Financial Reports Are Available Online

by Steve Letzler

The 2007 financial reports for DTCC and its regulated clearing subsidiaries will be available at the end of February.

All the reports are posted in pdf format on DTCC's website at [www.dtcc.com](http://www.dtcc.com) under "Legal and Regulatory" and "Financial Statements."

The reports cover the financial results of DTCC's three regulated clearing subsidiaries, National Securities Clearing Corporation (NSCC), The Depository Trust Company (DTC) and Fixed Income Clearing Corporation (FICC), as well as the combined financials

for the entire DTCC complex, which include all three regulated subsidiaries, plus DTCC Solutions LLC and DTCC Deriv/SERV LLC. The reports also factor in other income, such as that received from Omgeo, DTCC's joint venture with Thomson Financial, and interest income.

In 2007, DTCC once again experienced all-time-high volumes in most major categories, which resulted in record revenue and record discounts and rebates to customers. DTCC operates on an "at-cost" basis, with revenue over and above the costs required to run the business rebated to users. @

## DTCC's Annual Global Tax Forum: April 25 in New York

DTCC will host its ninth Annual Global Tax Forum on Friday, April 25, at Bayard's at One Hanover Square, New York, N.Y., from 8:30 a.m. to 12:30 p.m. The program will include:

- Keynote speakers who will discuss recent changes in international tax withholding and tax treaties.
- An update on the foreign and domestic tax services offered by The Depository Trust Company, a DTCC subsidiary.
- The latest on cost-basis reporting and legislation.

DTCC offers this annual forum free of charge to its customers but space is limited and attendance is on a first-come, first-served basis. The half-day event will be open to non-participants this year for a nominal fee of \$150.

Email invitations, including an agenda, will be sent to DTCC tax clients in March. If you would like more information or would like to attend the forum, please contact Ian DeSacia at [ide\\_sacia@dtcc.com](mailto:ide_sacia@dtcc.com) or 212.855.3448 or Roxana Argintescu at [rargintescu@dtcc.com](mailto:rargintescu@dtcc.com) or 212.855.5306. @



*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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