



dtcc

DTCC and LCH.Clearnet Announce Plans to Merge and Create World's Leading Clearing House

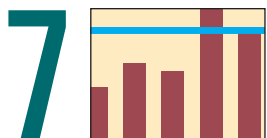
DTCC and LCH.Clearnet Group (LCH.Clearnet) jointly announced on October 22 that they have signed non-binding heads of terms regarding the proposed merger of the two companies. The merger proposal aims to create the world's leading clearing house, which would operate a user-owned, user-governed model, with LCH.Clearnet moving to an at-cost-based structure comparable to DTCC's within three years. [continued on page 2]

DTCC Processes Credit Event for Lehman Brothers

DTCC announced on October 22 that its Trade Information Warehouse (Warehouse) successfully completed the automated credit event processing and settlement of over-the-counter (OTC) credit default swap (CDS) contracts related to the Lehman Brothers Holdings Inc. (Lehman) credit event. This processing resulted in approximately US\$5.2 billion in net funds transfers from net sellers of protection to net buyers of protection.

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DTCC and LCH.Clearnet *Continued from cover*

As a result of the transaction, LCH.Clearnet shareholders would receive total consideration of up to €739 million (€10 a share), the majority of which would be funded through LCH.Clearnet's revenue.

Euroclear, currently the largest shareholder in LCH.Clearnet, with a holding of 15.8%, intends to support the transaction in principle and remain a shareholder of LCH.Clearnet HoldCo, and to thereby cement a strong partnership in European post-trade solutions.

It is anticipated that the proposed merger will result in significant synergies and efficiency gains, largely derived from technology savings, as well as significantly enhanced economies of scale. In addition, for the first time, both the U.S. and Europe would be supported by a common infrastructure. As a result, the companies expect further reductions in the

costs of LCH.Clearnet's and DTCC's services, most notably for equities in both Europe and America.

The combined group would focus on maximizing value to users while ensuring the highest standards of risk management. Its clearing and depository infrastructure would be underpinned by a significant breadth of financial expertise, proven risk management capabilities, volume capacity and market-leading technology solutions.

The range of markets and services covered would be broad and diverse, and would include such asset classes as equities, fixed income instruments, exchange-traded derivatives and commodities, mutual funds, annuities and over-the-counter (OTC) products such as interest rate swaps, credit default swaps, carbon emissions and freight contracts. Clients served globally would include several thousand broker/dealers, banks, institutional investors, hedge funds, trust companies, mutual funds and insurance carriers and other third parties that market financial products.

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User benefits

The management of both parties believe that users would benefit from:

- A global at-cost, user-owned, user-governed clearance and settlement infrastructure, dedicated to serving the needs of its users and which, once the cost of operations has been covered, would return excess revenue to users in the form of rebates, discounts or tariff reductions.
- Significant anticipated cost savings deriving from IT synergies; enhanced economies of scale; integrated and efficient collateral management and other operational efficiencies. Initial indications suggest that synergies would amount to approximately 7% - 8% of the combined group's operating costs. These cost-saving estimates are based on internal analysis by the parties and are subject to completion of due diligence and confirmation from independent third parties.
- A transatlantic clearing house of significant financial strength, offering the robustness in processing capacity and operational capabilities required to underpin today's financial markets.
- Sophisticated risk-management capabilities, the resilience of which has been proven in both companies during the current financial markets crisis.
- Access to default funds and potentially increased cross-margining, which maximize the efficacy of members' capital contributions and provide a safeguard in volatile market conditions.

- The leveraging of financial services expertise across the group in order to develop innovative, market-leading clearing and settlement solutions for established and emerging asset classes, in partnership with market participants.

Merger terms

The non-binding heads of terms include the following main provisions:

- DTCC will acquire 100% of the ordinary shares in LCH.Clearnet. The transaction will result in LCH.Clearnet shareholders receiving total consideration of up to €10 a share. The consideration will comprise: DTCC voting shares; shares in the vehicle acquiring LCH.Clearnet, which carry rights to receive LCH.Clearnet future profits available for distribution for up to three years; and a pre-closing special dividend from LCH.Clearnet. On the basis of €10 a share, the approximate implied equity value of LCH.Clearnet would be €739 million. Assuming no changes in share count, the total number of new DTCC voting shares issued to LCH.Clearnet shareholders will be 12,186, representing 34% of DTCC's enlarged share capital. The terms of the definitive agreement remain subject to completion of satisfactory due diligence.
- The combined group will follow DTCC's existing practice of regular mandatory rebalancing of its shareholder base to ensure that share ownership is in line with usage. Consequently, within 12 to 18 months of the completion of the merger, it is intended that there will be a rebalancing among the former LCH.Clearnet shareholders to bring ownership fully into line with usage.
- Former LCH.Clearnet shareholders will have substantial representation on the board of LCH.Clearnet HoldCo and Roger Liddell will be the CEO of the new LCH.Clearnet HoldCo and Donald F. Donahue will be the chairman. LCH.Clearnet will also benefit from having significant representation on the board of DTCC, including management representation.
- Following the payment of all the deferred consideration to shareholders, which is expected within three years, LCH.Clearnet HoldCo intends to move to an at-cost-based service delivery model on a basis consistent with that currently operated by DTCC.
- With effect from the completion of the merger, all of the newly combined group's European business will be brought under common management to provide the most economic and effective service to users. Following resolution of certain key commercial, legal, tax and regulatory issues, it is intended that DTCC's existing European subsidiary, EuroCCP, will join with the new LCH.Clearnet HoldCo to form a single European clearing business.

Euroclear plc support

Euroclear, which is LCH.Clearnet's largest shareholder with a

holding of 15.8%, has agreed to support the merger in principle, subject to final terms and conditions.

Immediately after the completion of the proposed transaction, it is expected that Euroclear will acquire a similar proportion of shares in the new LCH.Clearnet HoldCo. This investment will help cement a strong partnership between the two organizations, allowing Euroclear and LCH.Clearnet to maximize service advantages and efficiency opportunities for users.

Timing

LCH.Clearnet and DTCC shall continue negotiating on the basis of the non-binding heads of terms. LCH.Clearnet and DTCC anticipate being in a position to sign definitive documentation and announce the detailed terms of the transaction by March 15, 2009.

The signing of binding transaction **[continued on page 4]**

More on LCH.Clearnet

LCH.Clearnet is the leading independent central counterparty (CCP) group in Europe, serving major international exchanges and platforms, as well as a range of over-the-counter (OTC) markets.

It clears a broad range of asset classes including securities, exchange-traded derivatives, energy, freight, interbank interest rate swaps and euro- and sterling-denominated bonds and repos; and works closely with market participants and exchanges to identify and develop clearing services for new asset classes.

As a CCP, LCH.Clearnet sits in the middle of a trade, assuming the counterparty risk involved when two parties (or members) trade. When the trade is registered with LCH.Clearnet, it becomes the legal counterparty to the trade, ensuring the financial performance; if one of the parties fails, LCH.Clearnet steps in. By assuming the counterparty risk, LCH.Clearnet underpins many important financial markets, facilitating trading and increasing confidence within the market.

Initial and variation margin (or collateral) is collected from LCH.Clearnet members; should they fail, this margin is used to fulfill their obligations. The amount of margin is decided by LCH.Clearnet's highly experienced risk management teams, who assess a member's positions and market risk on a daily basis. Both the soundness of the risk management approach and the resilience of its systems have been proven in recent times.

LCH.Clearnet is regulated or overseen by the national securities regulator and/or central bank in each jurisdiction from which it operates.

DTCC and LCH.Clearnet

Continued from page 3

documentation is subject to a number of conditions including consultation with the Works Council in the French subsidiary of LCH.Clearnet, the approval of shareholders, including receipt of binding commitments to support the transaction from certain LCH.Clearnet shareholders, the approval of relevant regulators and certain tax authorities and the completion of satisfactory mutual due diligence.

Commenting on the proposal, A. Chris Tupker, chairman of LCH.Clearnet, said, "The critical role and value of clearing houses has been highlighted by recent events. The merger of our companies will enable our users to benefit from a broader geographic footprint and a greater range of expertise as well as realizing important efficiencies and economies of scale.

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— A. Chris Tupker, chairman of LCH.Clearnet

"For our shareholders, the merger would offer the opportunity of receiving a substantial consideration. Furthermore, it would enable both the European and U.S. financial communities to benefit from the services of a user-owned, user-governed, at-cost model across a broader range of markets and asset classes."

Donald F. Donahue, DTCC chairman and CEO, added, "By combining DTCC and LCH.Clearnet's natural synergies and complementary skills, we expect our customers will not only see significant cost savings in the clearance and settlement of the many securities and instruments we already service, but also greater access to a more diverse range of product offerings and support of emerging asset classes. A good example is the potential to leverage the expertise between Swapclear's support of interest rate derivatives and Deriv/SERV's capabilities in credit default swaps."

"We are also very excited to gain the expertise and shared commitment to serving customers that is so evident among LCH.Clearnet employees. DTCC has grown over the past decade through the combination of multiple clearing corporations and depositories. Our success, as an organization, is tied to our ability to work, collaborate and partner with others in the industry, never losing sight of our larger goal to reduce risk and costs for our users." @

DTCC Processes Credit Event For Lehman Brothers

Continued from cover

The portion of this net funds settlement allocable to trades between major dealers was settled through the normal settlement procedures of CLS Bank (the world's central settlement bank for foreign exchange, and the central settlement provider to the Warehouse) for Tuesday, October 21, without incident.

In November 2006, DTCC established its automated Trade Information Warehouse as the electronic central registry for credit default swaps. With a client base that includes virtually all global derivatives dealers and more than 1,100 buy-side firms in 31 countries, the vast majority of credit default swaps traded have been registered in the Warehouse. In addition, all of the major global credit default swap dealers have registered in the Warehouse the vast majority of all contracts executed among each other before the Warehouse's November 2006 launch.

At the time of the bankruptcy of Lehman Brothers Inc., approximately \$72 billion in credit default swaps written on Lehman Brothers were registered in the Warehouse.

Payments calculation

One of the many central servicing functions of the Trade Information Warehouse is to calculate payments due on registered contracts, including cash payments due upon the occurrence of the insolvency of any company on which the contracts are written.

Calculated amounts are netted on a bilateral basis, and then, for firms electing to use the service, transmitted to CLS Bank, where they are combined with foreign exchange settlement obligations and settled on a multilateral net basis.

Currently all major global credit default swap dealers use CLS Bank to settle obligations under credit default swaps. It is expected that all major institutional players in the credit default swap market will use the same process for settlement by the end of 2009.

For Lehman Brothers Holdings Inc. the calculated amounts netted in the Warehouse on a bilateral basis amounted to approximately \$21 billion. The \$5.2 billion net funds transfer represents the net of these nets. @

DTCC Addresses Misconceptions About Credit Default Swaps

On October 11, DTCC issued the following statement regarding the credit default swap market.

The idea that the industry lacks a central registry for over-the-counter (OTC) credit default swaps (CDS) is grossly misleading and has resulted in inaccurate speculation on a number of matters, including the overall size of the market, its role in the mortgage crisis and the size of potential payment obligations under credit default swaps relating to Lehman Brothers. The extent to which such speculation has fueled last week's market turmoil is difficult to determine.

The facts are these:

Central Trade Registry. In November 2006, DTCC established its automated Trade Information Warehouse as the electronic central registry for credit default swaps. Since that time, the vast majority of credit default swaps traded have been registered in the Warehouse. In addition, all of the major global credit default swap dealers have registered in the Warehouse the vast majority of all contracts executed among each other before that date.

Size of the Market. Reported estimates of the size of the credit default swap market have so far been based on surveys. These surveys tend to overstate the size of the market due to each party to a trade separately reporting its own side. Thus, when two parties to a single \$10 million trade each report their "side" of the trade, the amount reported is \$20 million, which overstates the actual size by a factor of two since both reports relate to a single \$10 million contract.

When examining the outstanding amount of actual contracts registered in the Warehouse (not separately reported "sides") as of October 9, 2008, credit default swap contracts registered in the Warehouse totaled approximately \$34.8 trillion (in U.S. dollar equivalents). This is down significantly from the approximately \$44 trillion that were registered in the Warehouse at the end of April this year.

Percentage of the Market Related to Mortgages. Less than 1% of credit default swap contracts currently registered in the Warehouse relate to particular residential mortgage-backed securities. Mortgage-related index products also have some components relating to residential mortgages and, as a whole, also constitute a relatively small fraction of total credit default swaps registered in the Warehouse.

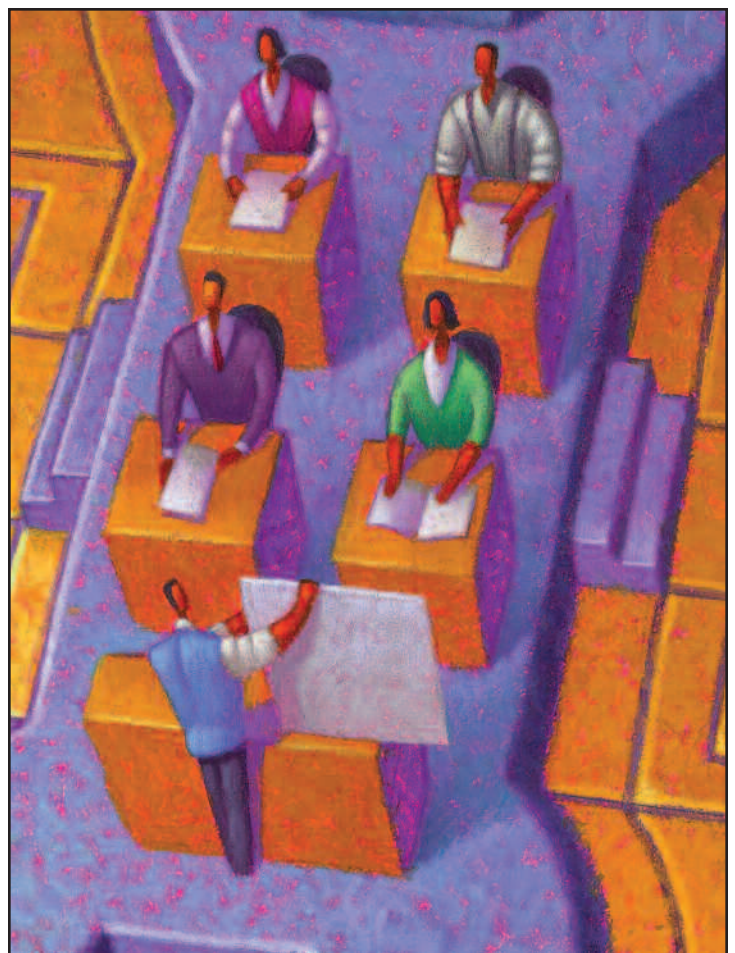
Payment Obligations Related to the Lehman Bankruptcy. One of the many central servicing functions of the Trade Information Warehouse is to calculate payments due on registered contracts, including cash payments due upon the occurrence of the insolvency of any company on which the contracts are written.

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Currently, all major global credit default swap dealers use CLS Bank to settle obligations under credit default swaps. It is expected that all major institutional players in the credit default swap market will use the same process for settlement by the end of 2009.

The payment calculations so far performed by the DTCC Trade Information Warehouse relating to the Lehman Brothers bankruptcy indicate that the net funds transfers from net sellers of protection to net buyers of protection are expected to be in the \$6 billion range (in U.S. dollar equivalents). (See page 1 for article on the completed processing of this credit event.)

DTCC has long supported the U.S. and global capital markets as a critical part of their operational infrastructure. We stand ready to play a constructive role in whatever overall regulatory environment ultimately emerges for the credit default swap market. We do believe, however, that whatever environment emerges should be based on assessment of the facts as they stand, rather than speculation. @



DTCC Works with Industry Through Market Turmoil by Helen Cunningham

Commenting on the recent period of unprecedented worldwide financial turmoil, Donald F. Donahue, DTCC chairman and CEO, emphasized how DTCC has been working with customers, the markets and regulators to deliver unparalleled risk management and rock-solid processing reliability, amid soaring volumes and unnerving volatility.

“The industry’s infrastructure is robust and operating smoothly,” said Donahue. “During this time of extraordinary market stress, we are fulfilling our role and responsibility to bring certainty and risk management to a critical area of the financial system, working behind the scenes to keep the markets functioning seamlessly.”

With the industry moving through uncharted territory, DTCC’s Relationship Management and Customer Service groups have been keeping the lines of communication open with customers, gathering and sharing information on rapidly changing events and working collaboratively to address problems that have arisen.

“We are making every effort to support customers and answer their questions; to provide updates as quickly and as best we can; and to work with firms in addressing the problems and unknowns that confront the industry during this period of rapid consolidation and recapitalization,” said Donahue.

DTCC and the industry have confronted several major issues during this time of market stress (described in articles in this issue and in future editions of @dtcc). One area of particular attention from the regulators and industry members broadly continues to be the market for credit default swaps. DTCC played a major role in handling some of the events in this market, and helped clarify some of the misinformation appearing in the media about the market. See articles on pages 1 and 5.



Noting that DTCC, like all its customers, has faced innumerable challenges and tough decisions during the past two months, Donahue added, “When the dust settles, we plan to apply the lessons learned to make the industry’s infrastructure stronger and more resilient.”

Maintaining a steady hand

Across DTCC, business areas have maintained a steady hand during the protracted period of uncertainty.

Fixed Income Clearing Corporation (FICC) is managing the wind-down of several hundred billion dollars worth of mortgage-backed securities and Treasury trades. On October 21, FICC’s Mortgage-Backed Securities Division (MBSD) advised the industry that the liquidation process for forward open commitments involving Lehman Brothers, Inc. had been completed and that no loss allocations will be imposed on MBSD member firms as a result of the liquidations of these forward trades. (A future issue of @dtcc will cover this story in greater detail.)

National Securities Clearing Corporation (NSCC) has been seamlessly processing record volumes (see page 7). The Depository Trust Company (DTC) continues to service assets and disseminate timely, accurate information on corporate actions globally. EuroCCP, DTCC’s European subsidiary, processed a peak volume day of 400,000 transactions in Europe on September 22 (see page 8).

On another front, DTC worked with the Federal Reserve Bank of Boston to ensure smooth implementation of a new government program to provide liquidity to the money markets.

This program (which differs from the Federal Reserve Board’s creation of the Commercial Paper Funding Facility announced on October 7) took effect September 22 and is expected to remain in place through January 30, 2009. It is called the Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility.

“The program is intended to help restore liquidity to the asset-backed commercial paper markets and thereby to help money funds meet demands for redemption,” said the Federal Reserve on its website. “In ordinary circumstances, they would have been able to meet those demands by selling assets. Recently, however, many money markets have become extremely illiquid, including the asset backed commercial paper markets.”

To address certain operational and timing issues related to the pledging of asset-backed securities as collateral, DTC and the Federal Reserve worked together and agreed to synchronize their timelines, enabling customers to pledge DTC-eligible securities on the same day they were seeking to borrow funds from the Federal Reserve. @

DTCC Processes Waves of Surging Equity Volume by Craig Donner

Cappping one of the most volatile trading weeks in the history of Wall Street, DTCC seamlessly processed a record 209 million sides on Friday, October 10, 2008, a 15% increase over the previous record of 182 million achieved September 18.

“Despite the extreme volatility that continues to grip the markets, DTCC is bringing much-needed stability and soundness to the industry by processing record volumes of transactions without disruption,” said Donahue F. Donahue, DTCC chairman and CEO, on October 14. “In the United States, what’s significant is that we have a unique vantage point because of our centralized risk management oversight of trading activity across more than 50 exchanges and ECNs, including the New York Stock Exchange, Nasdaq and American Stock Exchange. We can pinpoint exposure and modify margining requirements quickly, which is especially critical during periods of market volatility.”

More than 19 billion shares changed hands on October 10 in trading on the major markets. (The number of transactions is

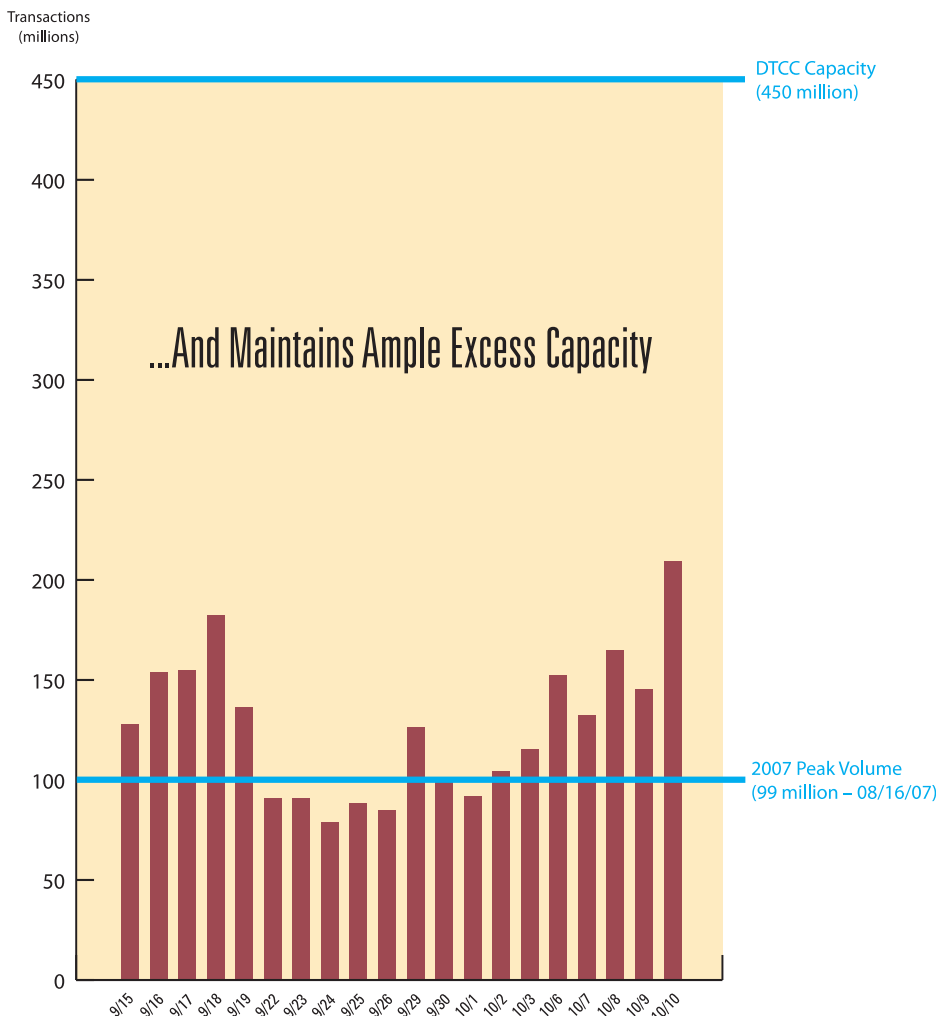
different from shares; a single NSCC transaction, also called a side, can be for any amount of shares – for instance, 100 shares or 1,000 shares – and can be for the buy-side or sell-side of a trade.)

DTCC’s extensive risk management system includes rigorous standards for membership, capital adequacy standards, financial disclosure and financial surveillance of participants, which are essential in protecting the soundness of the capital markets.

Another significant value that DTCC brings in managing risk is “netting down” or reducing the number of trade obligations requiring financial settlement, which also minimizes securities movement and reduces systemic risk for the industry.

The 209 million sides processed on October 10 represent the fifth volume record achieved since the financial turmoil began on September 15. During that week, DTCC processed record volumes on four consecutive days, including 182 million sides on September 18, 155 million sides on September 17, 154 million sides on September 16 and 128 million on September 15. The 209 million sides processed October 10 is 112.5% higher than the 2007 peak day of August 16, 2007.

DTCC Handles Record Equity Volumes



Capacity and backup

DTCC is able to handle extreme market spikes because it has invested over the years in its technology infrastructure, which can handle 450 million sides per day. As a result, investors and financial firms can be confident that DTCC remains a steady force ensuring that their transactions will be processed.

In addition to managing risk, DTCC has to ensure adequate systems backup to support the markets. In its 30+ year history, DTCC’s family of companies has never experienced a system outage or service interruption that prevented clearance and settlement.

Lowest fees in the world

“DTCC members pay the lowest equity clearance fees in the world – just about a third of a penny per side,” Donahue said. “Baked into that one-third of a penny are enormous processing capacity and the most comprehensive risk management and business continuity programs in the world. These programs are designed to protect our members and guarantee that trades will be completed under both ordinary and extraordinary circumstances, which has the potential to save financial firms millions of dollars, especially when the markets are in turmoil.” @

New Firms Sign with EuroCCP as Turquoise Sees Transaction Volumes Hit 400,000 a Day

by Stuart Z. Goldstein and Steve Letzler

European Central Counterparty Limited (EuroCCP) announced on September 22 that it had already hit a peak volume day of 400,000 transactions as clearing and settlement services for the Turquoise pan-European trading platform extended to 1,300 securities in 13 European national markets.

In addition, EuroCCP announced that four new customers have signed on to use its low-cost clearing and settlement platform, including MF Global U.K., Numis Securities Ltd., Parel S.A. and Pershing Securities Ltd, bringing the total number of clearing participants to 19 firms.

Strong early results

EuroCCP began initial operations on August 15 in two markets, Germany and the U.K., involving just a handful of securities. During the next five days, 11 more markets were added. The number of securities increased rapidly over the next three weeks.

Trade volume on Turquoise is expected to reach at least 5% of the total European trading volume in stocks by year-end, according to Eli Lederman, CEO of Turquoise. Lederman noted recently that Turquoise volume was running about 1% of total volume in the stocks it trades prior to entering full production.

In the period between launching across all 13 markets and securities on August 29 and September 16, EuroCCP cleared and settled more than 1.6 million sides and netted those transactions down by about 98% to 32,004 total settlement obligations. In addition, EuroCCP volume surpassed 400,000 transactions on September 16, exceeding the threshold for a price reduction for the first time. This threshold was achieved only 23 days after the launch of EuroCCP's operations. Price reduction is based on volume exceeding a 400,000 daily average for a calendar month, and average volume did not exceed that level for September, but the 400,000 transaction milestone indicates that EuroCCP achieved significant volume increases in its initial month of operation.

'Laudatory' customer feedback

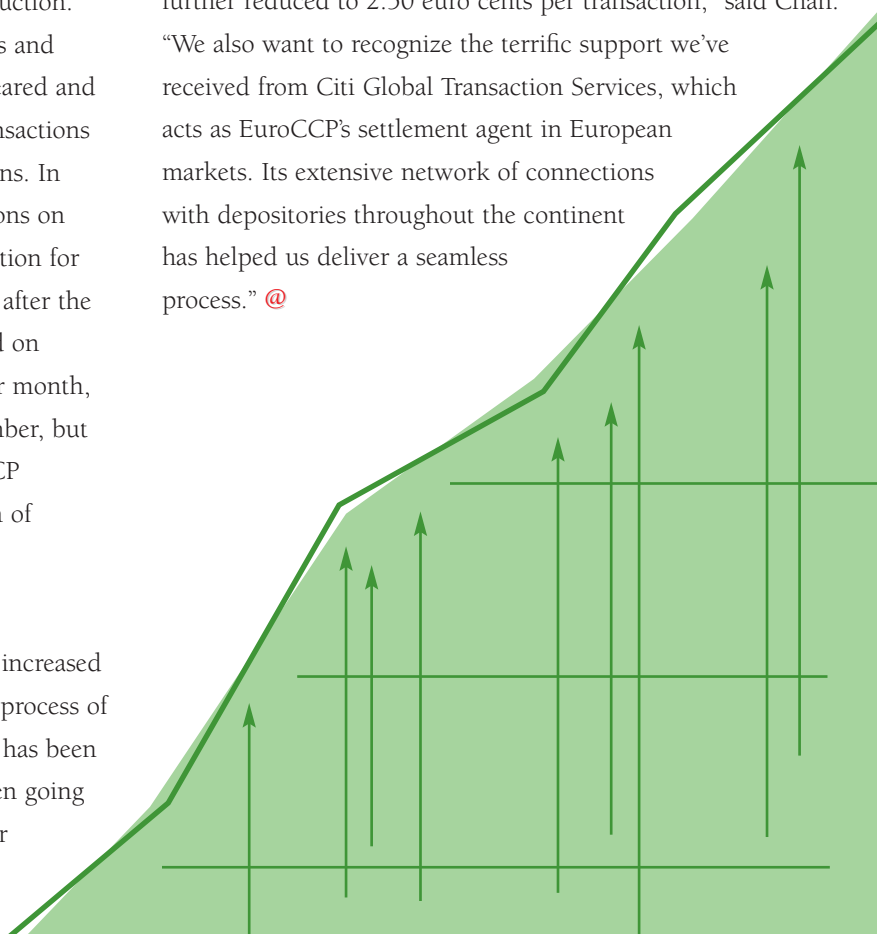
"At Turquoise, we applaud EuroCCP's efforts to bring increased efficiency and a lower aggregated cost for the combined process of trading, clearing and settling trades. Customer feedback has been laudatory that clearing and settlement activities have been going so smoothly to date in all markets," said Lederman. "Our success to date only further underscores the confidence we have in EuroCCP's expertise and knowledge."

"We expect to continue to see strong, steady volume growth as more and more European firms look for a competitive edge in seeking less costly venues to trade, clear and settle," said Diana Chan, CEO of EuroCCP. "Having successfully reached this milestone, EuroCCP will continue to focus on increasing our member base, the securities we process and the markets we can settle at so that we can provide the fullest clearing and settlement capabilities to trading platforms and to our participants."

Unique pricing structure

EuroCCP has a pricing structure that is unique in the industry. The volume thresholds apply to all trading platforms and all clearing participants, regardless of their size. This means if the total volume of transactions processed by EuroCCP averages above the pricing threshold for an entire month, all clearing participants, regardless of how much they trade individually and which platform they trade on, benefit from the reduction in fees.

"We are extremely pleased with our ability to begin to deliver the commitment to market participants to lower their cost of clearing so soon after launch. We are now looking forward to the next threshold, 800,000 transactions, when the cost will be further reduced to 2.50 euro cents per transaction," said Chan. "We also want to recognize the terrific support we've received from Citi Global Transaction Services, which acts as EuroCCP's settlement agent in European markets. Its extensive network of connections with depositories throughout the continent has helped us deliver a seamless process." @



DTCC Appraised as a CMMI Level 3 Organization by Crystal Bueno

DTCC announced on October 2 that it has been appraised at a Capability Maturity Model Integration (CMMI) Level 3, the only U.S. financial services organization to have achieved this rating across its entire enterprise.

This internationally recognized assessment from the Software Engineering Institute (SEI) of Carnegie Mellon University is a coveted designation, and the bar for attaining a CMMI Level 3 standard is high. It means that DTCC's entire Applications Development and Maintenance (ADM) division – a group of approximately 500 information technology employees located in DTCC's U.S. offices and overseas – has established effective, efficient and well-defined processes and procedures in software development and delivery.

"This is an enormous achievement that reflects our world-class performance capabilities and the quality mindset across our organization," said Donald F. Donahue, DTCC chairman and CEO. "A CMMI Level 3 designation is something that sets us well apart from other financial organizations, and is respected around the world."

Best practices

CMMI, the measure of excellence in improving organizational processes in government and industry, is a framework of best practices that guide an organization to improve quality and reduce software development costs by using reliable and repeatable processes.

Specifically at DTCC, being assessed as a CMMI Level 3 organization means that DTCC has demonstrated its implementation of

these "best practices" that directly link management and technology initiatives to business objectives. With reliable, well-defined and continuous improvement processes, DTCC will reduce costs, lower risk and improve product quality and timeliness of delivery for technology solutions supporting the financial services industry.

"CMMI Level 3 is achieved only by those elite organizations that are completely dedicated to quality in the management and development of products and services," said William Aimetti, DTCC president and COO. "It signals to our customers and the industry just how seriously we take our quality process improvement initiatives."

At DTCC, CMMI practices dovetail with other industry recognized process-improvement methods, including Six Sigma and the Information Technology Infrastructure Library (ITIL). Firms undergoing a formal CMMI assessment are rated on their software development

standards from Level 1 (the lowest) to Level 5 (the highest). Achieving Level 3 represents the solid institutionalization of all 18 CMMI Level 3 process areas across the ADM organization.

An independent Lead Appraiser from Borland, certified by the SEI, performed the assessment on 152 unique projects over a three-week period in September, in conjunction with an appraisal team of DTCC personnel. The assessment consisted of intensive examinations on-site, closely evaluating DTCC's processes and procedures, as well as interviews with many ADM staffers.

"In this increasingly competitive financial services world, quality in our products and services as well as the technology support we provide to customers help us transcend market spaces, borders – and market turbulence," said Donahue. "Achieving CMMI Level 3 distinguishes and differentiates us from the competition." @



Customer Satisfaction with DTCC Hold

Overall customer satisfaction with DTCC has been posted at 91% for the third year in a row, according to results from the 2008 customer survey, which was conducted at two intervals: in February and in June. Based on comments from the respondents, the high level of overall satisfaction was due in large part to DTCC's customer service/relationship management efforts, communications, responsiveness, customer-centric orientation and the quality of its personnel.

Here are some representative verbatims from the people who participated in the 2008 survey.

- DTCC helps me reduce my operating costs; helps me communicate with my customers.
- They add value and reduce risk.
- They are unbiased in their problem solutions, good thought leaders and solution-focused.
- They are constantly reevaluating and thinking entrepreneurially; they don't rest on their laurels.
- DTCC is in tune with customer needs and provides solutions. Very results-focused and professional group.
- The services are embedded and fundamental to the services we offer.
- Highly competent, roll-up-your-sleeves attitude.
- They listen.

Industry benchmarks

DTCC's satisfaction ratings compare favorably within the financial services industry. "DTCC exceeded the industry average for 13 of 14 comparative metrics

and met the industry average for the remaining metric," according to the Melior Group, the independent marketing research and consulting firm that conducts DTCC's annual survey. Last year, DTCC exceeded the industry average for 11 out of 14 metrics.

For overall satisfaction, 2008 marks the fifth consecutive year DTCC has exceeded the industry average.

Altogether, 717 customer contacts took part in the 2008 survey, for a response rate of 22%, also above the industry norm.

Longstanding dialogue

"DTCC's ability to support the industry, day to day and in times of market turbulence, is based on our continual dialogue with customers," said Donald F. Donahue, DTCC chairman and CEO. "By understanding their business priorities, we can leverage DTCC's strengths in terms of automation, standardization, risk management and economies of scale to deliver services and capabilities that meet their needs and contain their costs."

Donahue added that the enterprise-wide reliance on quality programs, such as Six Sigma, Capability Maturity Model Integration (CMMI) and Information Technology Infrastructure Library (ITIL), helps ensure DTCC meets its commitments to the industry. "We have embedded a quality mindset across our organization," he said. "The quality filter brings rigor, standards and accountability to all aspects of the business, helping us cut internal costs, increase quality and achieve efficiencies, while using metrics to track results."

The annual survey is one of DTCC's primary tools for obtaining metrics to track customer satisfaction, added Paula Arthus, DTCC managing director, Relationship Management. "The survey results help us assess customer perceptions of DTCC; measure satisfaction with products, services and customer service; gather intelligence on emerging industry needs; and identify areas we need to target for improvement," she said. "We carefully analyze the data – both the scores and the customer comments – and then develop metrics-driven action plans to address customer concerns."

Key 'relationship attributes'

For the 12 key "relationship attributes" evaluated in the 2008 survey, customers expressed the highest satisfaction with integrity: 94%.

"DTCC's reputation is built on integrity and reliability," said Donahue. "Our customers count on us to handle critical aspects of their business, cost-effectively and reliably, and DTCC has demonstrated during 35 years of operation that it fulfils this mandate with the utmost integrity."

All the relationship attribute satisfaction scores remained steady or increased from 2007. Ratings include:

- **Transaction processing capabilities..... 93%**
- **Commitment to quality..... 90%**
- **Communications with customers..... 86%**
- **Effectiveness in reducing risk..... 85%**

When survey respondents were asked to identify issues of concern to their firms, one customer answered this way: "Risk, risk, risk." Another said, "Risk

91% 91% 91%

s at 91% for Third Year Running by Helen Cunningham

management architecture and risk exposure, especially with credit environment that we are in today.” Indeed, risk was a prevalent theme this year.

“Risk has always been a priority for DTCC,” said Donahue. “We fully share the industry’s sense of urgency about managing and mitigating risk and, over the past five years, we have significantly upgraded our risk capabilities to help the industry manage heightened risk. Going forward, we will be well positioned to use the knowledge gained from the recent market turmoil to further fortify our risk infrastructure.”

Concerns about pricing

Pricing was another concern cited by survey respondents.

At the same time, customer satisfaction with DTCC’s efforts to help them understand its pricing strategy was on the low side, at 74%. This score marks a 7-point improvement from 2007, when satisfaction was 67% for this category.

“We’ve made progress in this critical area, but we need to do more. We need to give customers greater clarity about our pricing structure and their net cost of doing business with DTCC,” said Arthus. “Our goal is to simplify our billing and reporting, and improve communications and transparency regarding net customer costs.”

This year, DTCC made two changes to its pricing policies that address these issues, according to Arthus. “For NSCC and FICC, we now return any revenue above a targeted margin level the next month, with the balance of the excess revenues going back in the annual rebate in March of the following year,” she said. “Also, we will begin giving firms an estimate of their annual rebate in December, so they can accrue for it before closing out their year-end books. Planning

for improved billing and MIS is also underway.”

Problems and resolutions

Problem incidence increased in 2008, with 29% of customers experiencing problems with transactions processed through DTCC (whatever the ultimate cause), compared with 24% in 2007. When asked to describe “significant” or “moderate” problems encountered, survey respondents most often cited information quality (such as late, missing or incorrect data) or technology (connectivity, outages or downtime).

“Clearly, we need to redouble our efforts to address the slippage,” said Arthus. “This is obviously easier if DTCC itself is the

cause of the problem, and tougher to do if the problem originates from outside DTCC, such as from a paying or transfer agent. Whatever the cause, however, this will be an area of focus in 2009.”

Despite the higher incidence rate, satisfaction with problem resolution improved this year, with 52% of survey respondents expressing satisfaction with DTCC’s ability to resolve their problems (vs. 47% in 2007). What’s more, satisfaction with the resolution of “moderate” problems rose markedly.

“DTCC not only maintained the gains in satisfaction achieved last year relative to the resolution of problems, but engineered a 15-point **[continued on page 12]**

Technology Ratings

Customers perceived progress on the technology front over the past year, based on the 2008 customer survey results. Satisfaction with DTCC’s capacity to leverage technology to create industry-wide solutions climbed to 85%, up 10 points over 2007. And satisfaction for innovation increased to 80%, up 6 points over last year.

The gains are attributable in large measure to DTCC’s sustained drive to strengthen its technology organization, which culminated in the October announcement that DTCC had attained CMMI Level 3, the only U.S. financial services organization to have achieved this rating across its entire enterprise. (See article, page 9.)

Suggestions for improvement in the technology area focused on three areas: ease of use, Internet service expansion and system enhancements.

In other measures for this category, DTCC’s technology received 86% satisfaction for connectivity (vs. 87% in 2007) and 84% for hardware and software (vs. 82% in 2007). One customer said, “DTCC is doing a good job so I would say they need to stay on the cutting edge since things move so quickly in IT.” In the words of another, “Technology upgrades have been great; DTCC needs to continue technology upgrades.”

For speed to market with new products and services, satisfaction remained at the lower end of the spectrum with a 68% rating, a 5-point increase over 2007. “Anticipate market trends; provide more timely (quicker) solutions to industry issues,” was one customer’s comment on this point.

Customer Satisfaction *Continued from page 11*

increase in satisfaction relative to the resolution of moderate problems (from 29% in 2007 to 44% in 2008),” wrote the Melior Group in its analysis of DTCC’s survey results.

Dissatisfaction with problem resolution declined on an aggregate level to 18% in 2008 from 30% in 2007, with the greatest improvement in the category of “significant” problems.

“The survey indicates that customers are satisfied with the handling of their problems when the resolution is speedy and the person addressing the problem takes ownership for it, providing good communication from start to finish,” said Arthus. “Conversely, the absence of these factors leads to dissatisfaction, which tells us exactly where we need to focus to further strengthen our problem resolution capabilities.”

The timeliness of communications is another essential component of problem resolution. In fact, being proactive in letting customers know when problems arise emerged as a key driver of customer satisfaction in 2008, according to the Melior Group. Indeed, when respondents were asked to describe the actions they would most like DTCC to take to improve problem resolution, better communication was at the top of the list.

“The survey results show that customers feel better served when we are proactive in letting them know about a problem and keeping them up to date on progress in resolving the issue,” said Arthus, noting that DTCC will continue to strive to improve the timeliness and content of

service disruption/outage communications in the coming year.

Talking to the customer

“Good communications make good partners,” said one customer in the 2008 survey.

This year, customers expressed 86% overall satisfaction (same as 2007) with DTCC’s communications vehicles.

“Customers are moderately to highly satisfied with DTCC’s communications

‘We fully share the industry’s sense of urgency about managing and mitigating risk and, over the past five years, we have significantly upgraded our risk capabilities to help the industry manage heightened risk. Going forward, we will be well positioned to use the knowledge gained from the recent market turmoil to further fortify our risk infrastructure.’

– Donald F. Donahue,
DTCC chairman and CEO

vehicles on virtually all attributes tested,” summed up the Melior Group. Ratings covered the website, Important Notices, the @dtcc newsletter, service disruption/outage communications, the Development Agenda, the annual report and product brochures.

Customer comments included: “They are good listeners and good communicators.” “Communication has improved.” “Continue to keep clients informed.”

While overall satisfaction with communications remains high, many customers continue to ask for more. Here are a few comments:

- More frequent communications on high-level initiatives.
- More contact and communications in general.
- Communicate more broadly in the industry what they do, what they have done, what they are planning to do – beyond the web site.

Products and services

DTCC received an 88% rating for the breadth of its product/service line (vs. 92% in 2007). Satisfaction with actual products was mixed, ranging from highs of 93% for Settlement-Related Services; 92% for the Global Corporate Action Validation Service and 90% for Continuous Net Settlement to a low of 66% for Non-Cede & Co. Custody Services.

Arthus noted that business managers for each product area are studying the survey results for their areas of the business and developing action plans to address customer concerns. @

919191%

ID Net Extends Netting Benefits To Institutional Trades

by Craig Donner

A new service offered by two DTCC subsidiaries extends the benefits of netting to institutional trade settlement. Called ID Net, it allows brokers to combine their affirmed institutional equity trades with other trades that they may have in National Securities Clearing Corporation's (NSCC's) Continuous Net Settlement (CNS) system.

"ID Net brings to institutional transactions the same netting benefits that broker-to-broker trades have enjoyed for many years: streamlined clearance and settlement, reduced costs and fewer fails," said Susan Cosgrove, DTCC managing director, Equity Clearance and Settlement Group. "At the same time, it meets the needs of the custodian banks that are on the other side of settling these trades by continuing to process their part of the transactions on a trade-for-trade basis."

The service is a joint offering of NSCC and The Depository Trust Company (DTC), in collaboration with Omgeo, DTCC's global joint venture company that provides post-trade processing services for the institutional marketplace. ID Net received regulatory approval in June 2008.

Customer perspective

Using ID Net, broker/dealers can net institutional equity trades that are eligible for CNS and have been affirmed before 9:00 p.m. on T+1 with their other CNS trades in each issue, reducing their aggregate value of settlement and securities movements.

Certain customers began using ID Net in July, with additional broker/dealers and banks scheduled to come on board before the end of the year. It is estimated that as many as 250,000 daily institutional delivery transactions could be eligible to flow through CNS via ID Net.

"Institutional trading has experienced significant growth in recent years but, until now, this segment of the industry could not take advantage of the cost savings, increased certainty of settlement and risk reduction that netting delivers," said Matthew Fischer, vice president of Goldman Sachs, one of the service's first customers. "Since we began using ID Net, our clearance and settlement costs have dropped, we are completing more deliveries sooner and we face less risk. We look forward to gaining additional operational efficiencies in the future as more custodian banks become ID Net users."

Custodian banks also benefit from ID Net, according to Laura Hughes, vice president of SunTrust Bank. "We've been using ID Net for about three months and the streamlined settlement process is already paying dividends," Hughes said. "It has enhanced our operational efficiencies and allowed us to increase productivity by

reducing the volume of information that needs to be manually inputted."

The service's straightforward implementation was another plus. "ID Net easily adapted to our existing systems, and the transition has been transparent and seamless," said Hughes. "DTCC worked closely with our team at SunTrust to ensure a smooth rollout with minimal impact on the bank."

SEI is a leading global provider of wealth processing and investment management services, which are offered through its Global Wealth Services solution. As a component of this solution, SEI processes ID Net trades in production on behalf of its bank clients.

"ID Net's capabilities are consistent with our commitment to deliver cutting-edge wealth processing services to our customers," said David Campbell, senior vice president for SEI's Private Banking business. "DTCC was very supportive of both SEI and our mutual clients' needs during testing, which ensured a smooth production implementation."

How it works

Before the launch of ID Net, an affirmed institutional equity trade settled on a trade-for-trade basis at DTC. The new service essentially separates the trade into two parts, allowing the broker to combine its institutional trades with its other trades in CNS, while the bank, acting as custodian for the investment manager's client, continues to settle on a trade-for-trade basis.

Here's how it works. Each transaction is confirmed and affirmed/matched through Omgeo's TradeSuite system. Omgeo then sends eligible trades to the ID Net service, which nets them with the subscribing broker's other CNS activity, reducing that firm's total value of settlement. ID Net is a voluntary service, so both the clearing broker and clearing agent need to subscribe for a trade to be eligible for ID Net.

Simultaneously, the custodian bank either receives from or delivers to the broker shares versus payment on a trade-for-trade basis via two new omnibus accounts created by NSCC.

ID Net delivers settlement cost efficiencies on several fronts. The DTC Institutional Delivery (ID) settlement fee for participants has been cut in half to only 2.5 cents for all eligible trades, with brokers potentially reaping additional savings through reductions in CNS and Inventory Management System (IMS) costs. @

[To learn more about ID Net, contact Stephen Wasserman, DTCC director, Clearance and Settlement, at swasserman@dtcc.com or 212.855.3270.]

DTCC Launches New Global Reconciliation Service For the Syndicated Loan Market

by Edward C. Kelleher

DTCC announced on September 24 the launch of its Loan/SERV Reconciliation Service that will help automate and streamline the processing of syndicated commercial loans by enabling agent banks and lenders to view and reconcile loan positions on a daily basis.

The Reconciliation Service is global, the first of its kind and one of a suite of DTCC products under development that will make Loan/SERV a comprehensive, integrated solution for the loan market. Loan/SERV is offered by DTCC Solutions LLC, a DTCC subsidiary.

'A giant step'

The service went into full production the week of September 24 when Citi, a leading agent bank, began sending its loan data to DTCC Solutions. The data include details of commitment balances for each lender in each facility as well as transactions that change those balances such as assignments or commitment reductions. The Reconciliation Service enables lenders to submit and reconcile their loan transaction and position records against those of the agent or view and download the agent information for their own processing.

"This is a giant step for the global syndicated loan market because it will help provide the loan industry with an industry-wide automated facility to reconcile balances daily," said Atilla Karasapan, managing director, Citi. "By making sure that both the agent and lender are on the same page, the service will help ensure accurate and timely servicing of loans."

"With the Loan/SERV Reconciliation Service, lenders submit transactions and position balances to DTCC Solutions," said

Christopher Childs, DTCC vice president, Global Loans Product Management.

"DTCC Solutions then compares the data against the agent submission and, via a web interface, displays the differences online for both the agent and lender. The system allows agents and lenders to highlight the erroneous records and communicate with one another on a solution. System security means that lenders can only view records that relate to their loan transactions and positions."

Global solution

For lenders that do not want the full Reconciliation Service, Loan/SERV offers position reporting, where lenders can view the agent position records and transactions online and notify the agent whether they agree or disagree with the current position. DTCC has been working with an advisory committee of five leading global banks – The Bank of New York Mellon, Barclays Capital, Citi, Deutsche Bank and The Royal Bank of Scotland – in developing Loan/SERV.

"Together, these banks represent a significant share of the global syndicated loan market," said Childs. "Their support, expertise and input have been invaluable and they will continue to guide us as we introduce a comprehensive suite of services to automate this market."

"DTCC is focused on providing a global solution that works in Europe, North America, Asia and other markets and our customers' business represents this," said Childs.

DTCC has also formed a European consultation group with over a dozen participants 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 Royal Bank of Scotland to assist with the European development and deployment of Loan/SERV later in 2008.

"We look forward to testing and launching the European service in the fourth quarter, after consultation with the group. The benefits are significant and we've had overwhelming support from across the European loan community," said Mathew Keshav Lewis, DTCC vice president, European Loans Product Management.

Messaging to come

Reconciliation is the first of two services that Loan/SERV will introduce this year. In the fourth quarter of 2008, Loan/SERV's Messaging Service will be launched, providing a safe, secure automated network for the transmission, receipt and online storage of industry standard loan messages.

The Messaging Service will bring standardized loan-servicing language to the marketplace by adopting FpML™ (Financial products Markup Language), the e-commerce electronic language with widely proven success in over-the-counter derivatives trading. (FpML is a trademark of the International Swaps and Derivatives Association.) The standardized messages are being developed by the industry through the Loan Syndications and Trading Association (LSTA) and the Loan Market Association (LMA). For maximum flexibility, Loan/SERV also allows users to view FpML messages via a web-based interface. The Loan/SERV Messaging Service will allow for message routing, workflow management, processing and online storage. @

DTCC Names New General Auditor

by Crystal Bueno

DTCC announced on October 1 the appointment of Robert Peiffer as managing director and general auditor. In this position, he will lead all internal audit activities of DTCC and its global subsidiaries.

Peiffer will be based in New York and, in accordance with DTCC's normal governance procedures, will report to the chairman of the DTCC Audit Committee, one of the committees of DTCC's Board of Directors.

Peiffer came to DTCC from Merrill Lynch, where he served in senior roles in both Internal Audit and Compliance, most recently as the COO for Merrill's Global Compliance area. During his nine years with Merrill, Peiffer worked in Hong Kong, Tokyo, London and New York.

Extensive industry experience

Prior to joining Merrill Lynch, Peiffer also worked for UBS and Bank of America in internal audit roles. Peiffer began his career as an external auditor for Price Waterhouse (now PricewaterhouseCoopers), providing audit services to financial services clients including broker/dealers, retail and consumer banks, asset managers and private equity firms, working in Washington D.C., Budapest and Hong Kong in his nine years with that firm.

"Rob has been involved in nearly 1,000 audits over the past 10 years and brings substantial experience leading operational and technology audits of complex financial institutions. He is a proven leader and brings a clear understanding of best practices in

internal audit, compliance and enterprise risk management functions," said Donald F. Donahue, DTCC chairman and CEO. "We are especially excited by his extensive experience working outside the U.S., bringing first-hand understanding of the complex business and regulatory challenges of working in these markets.



Robert Peiffer

"This is an exciting and challenging time for risk management and control professionals," said Donahue. "At DTCC, we have no higher priority than meeting our risk mitigation responsibilities, and strong, objective Internal Audit and robust Compliance and Risk Management functions are critical to meeting this goal."

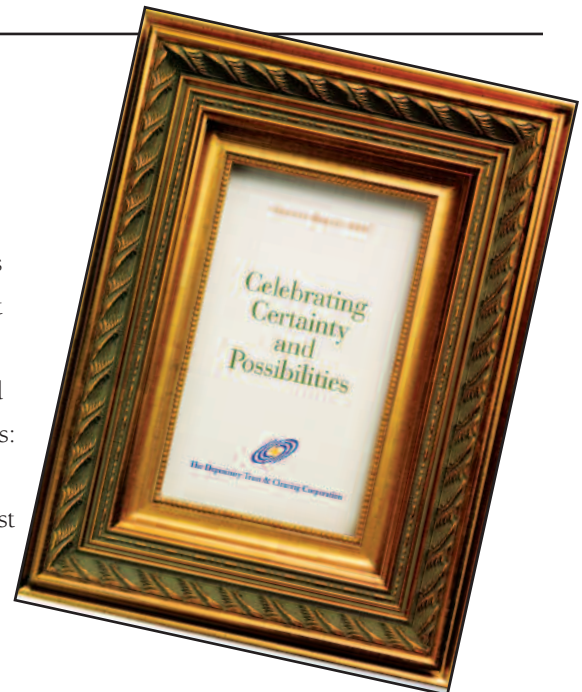
Peiffer holds a bachelor of science degree in business from Miami University (Ohio) with a triple major in accounting, finance and decision sciences. @

Annual Report Wins 3 Gold Awards

DTCC's 2007 annual report, Celebrating Certainty and Possibilities, garnered an unprecedented three gold awards in the 22nd Annual International Annual Report Competition (ARC). This marks the tenth year that DTCC has achieved this global recognition. The competition this year drew 2,100 entries from 28 countries.

Celebrating Certainty and Possibilities earned the gold for overall annual report in these categories: Financial Services: Brokerage and Commodity; Banking and Financial Services; and Financial Services: Self-Regulatory Organization.

The ARC Awards are the world's largest annual report competition. Twenty-one financial institutions competed for recognition this year. @



GCA Validation Service Speeds Up Data

The Global Corporate Action Validation Service (GCA VS) now gives customers intra-day feeds from DTCC's depository, a capability that satisfies the market's growing demand for more timely access to corporate action announcements. GCA VS is offered by DTCC Solution LLC, a DTCC subsidiary.

"This enhancement marks the first time the depository is offering intra-day file feeds on corporate action events," said Brett Lancaster, vice president, DTCC Solutions LLC, and head of the Global Corporate Actions area. In the past, GCA VS customers received end-of-day file feeds, the same format used for depository customers.

In addition, as customers request faster delivery and more accurate corporate actions data, GCA VS is responding by gathering its own information – and for many companies, that comes from press releases, prospectuses and letters of transmittal.

"When we launched GCA VS back in 2003, we focused mostly on validating other data providers' information," said Lancaster. "Now, the service gathers information via press releases, which announce corporate actions in multiple languages directly from some 18 newswires, and we're looking to automate this process by working with newswire providers to accept machine-readable feeds."

Speedier delivery

DTCC is one of the few organizations in the world that offers broad, global coverage of corporate actions. GCA VS provides information on corporate actions announcements globally to customers, tracking more than 2 million securities in 160 countries and 16 languages. In 2007, the service provided more than 1 million corporate action announcements and more than 3 million announcements of scheduled payments on fixed income instruments.

U.S. corporate actions generally make up about 60% to 65% of the world's total corporate action announcements, and almost all of these flow through DTCC's Depository Trust Company (DTC), as the central securities depository for the U.S. While customers can get updated information from DTC by using a terminal to directly query the depository's mainframe, a full file of the announcement information had only been available at the end of the day, and that usually was loaded into customer systems the next day.

With GCA VS now getting six intra-day feeds from DTC, the information is sent to its customers during the day, updating data in their files immediately upon receipt. Dividend events (including principal and interest payments, cash dividends, dividend

reinvestments, capital gains, special cash distributions, spin-offs, stock splits and stock dividends) are received six times a day from DTC; redemption events (partial and full calls) are received six times a day; and reorganization events (including tenders, mergers, conversions and puts) are received three times a day.

"With customers receiving updated information directly from GCA VS, they no longer face the time and trouble of trolling to find the data by using mainframe inquiries," said Lancaster.

"Instead, they can obtain information on corporate actions on the day that information is announced and added to our systems. And of course, that applies to most updates and changes as well."

Raising the bar

GCA VS uses service level agreements (SLAs) with its customers



Service Delivery to Customers

by Steve Letzler

to guarantee corporate actions data within certain coverage, accuracy and timeliness deadlines, according to Lancaster. If the targets are not met, the service gives back some of the money it charges.

Earlier this year, GCA VS began to recast its SLAs to make them more aggressive. Originally, for non-voluntary events, SLAs were based on getting the event into a clean and approved state by “important date minus 7 days,” regardless of how early the event was announced in the market. The new SLAs require GCA VS to

validate the event with all data available in the market by “added date plus 1 day.”

“The initiative was completed by the end of September,” said Lancaster, “and now every event type is subject to the new SLA except for cash dividends and U.S. calls, which will remain at ‘important date minus 7 days.’ We set an industry standard by introducing customer SLAs when we first began offering this service. Now, we have raised the bar to guarantee our customers get the data faster than ever before.” @

Customer Satisfaction: GCA Validation Service Ranks at Top of the Charts

by Steve Letzler

Customers of the Global Corporate Action Validation Service (GCA VS) gave it a 92% overall satisfaction rating in DTCC's 2008 customer survey, placing it among the organization's most highly rated products and services. GCA VS also achieved the largest gain in customer satisfaction for the past year, posting a 12-point increase over 2007's overall satisfaction rating of 80%.

“We redoubled our focus on listening to customers to ensure we are addressing and anticipating their needs throughout the year,” said John Colangelo, DTCC managing director, Operations/Business Reengineering and Quality. “We also adhere to rigorous standards across our New York, London and Shanghai operations, which contributes to the accuracy and timeliness of GCA VS data, along with speedy responses to customer inquiries.”

In the 2008 survey, customers indicated high satisfaction for the processing of mandatory events (90%), help desk service (88%) and the browser tool (88%). Colangelo, who noted that the volume of global corporate actions announcement is growing at just over 5% a year, credits the GCA VS staff and its “follow the sun”

mentality for the high levels of customer satisfaction.

Results that speak to customers

“Service delivery is a top priority, and for GCA VS, this starts with listening to customers in all the markets we serve and giving them error-free, timely data,” said Peter Gleeson, DTCC vice president, Operations. “We also work seamlessly across three continents, which is essential for a global service, and are willing to adapt procedures and technology to meet customers' needs.”

“To continually evaluate and improve the customer experience, the GCA VS team uses Six Sigma methodologies,” said Brett Lancaster, vice president, DTCC Solutions LLC and head of GCA VS. “We picked a handful of metrics that the customer cares about and, every day, we make sure we hit the numbers.”

For instance, GCA VS has service level agreements (SLAs) with customers that require it to meet certain performance levels or return a portion of its fees. For the composite SLA, DTCC must meet deadlines at least 99% of the time. So far this year, the service is exceeding this target with a 99.8% level, the equivalent of a 4.32 Six Sigma level (out of a possible 6.0).

GCA VS also has a remarkably low weekly error rate of two-one-hundredths of 1%. And, in a change that resonates with any customer who has ever called a help desk, the team has slashed help desk ticket resolution time from an average of more than 50 hours in July 2007 to fewer than 5 hours in July 2008.

The results have paid off not just in higher customer satisfaction, but also in additional business, said Lancaster, who noted that the sales pipeline for the service is as strong as it has ever been in the five years the service has been operational.

Evolution of a service

When DTCC first launched GCA VS five years ago, “We expected to handle fewer than 10,000 events each month, and cover about 700,000 securities,” said Lancaster. “Now, we handle about 100,000 events each month, covering more than 2 million securities globally, and we are adding more data on a regular basis. We have come a long way – our clients have recognized our efforts and our ongoing commitment, and have given us their thumbs-up in the customer satisfaction scores.” @

[See page 10 to read about the complete customer survey results.]

Industry Places 403(b) Information-Sharing Project on Hold

by Ted Davis

DTCC announced that an information-sharing project – developed with the insurance and mutual fund industries to help the 403(b) institutional retirement plan sector meet upcoming regulatory requirements – has been placed on hold for the remainder of 2008.

“We listen carefully to what our customers say and develop services that meet their expressed needs,” said Adam Bryan, general manager, DTCC Insurance & Retirement Services. “In this case, our customers would prefer to revisit the situation in the first quarter of 2009, when information-sharing counterparts will be in a better position to evaluate their requirements and processing models, and make more informed decisions about the implementation of a DTCC solution.”

Background on the initiative

The project calls for DTCC to automate and centralize information sharing among vendors, plan sponsors and third-party administrators about employee contract activity in 403(b) retirement plans in order to comply with Internal Revenue Service (IRS) rules. The DTCC Insurance & Retirement and Wealth Management Services business areas, with their industry working group, had completed initial development of the data service in preparation for testing.

Barbara Simon, DTCC vice president, Product Development,

Wealth Management Services, said, “We will preserve the work, and we are fully prepared to go forward if our mutual fund and insurance clients find that the new regulatory environment supports a continuation of the project. We appreciate all the efforts of the working group to manage the development of the proposed service within a tight timeframe.”

Beginning January 1, 2009, 403(b) plan sponsors will be required to confirm to the IRS that individual contract holders are compliant with IRS regulations concerning such contract transactions as loans and hardship withdrawals. Vendors, employer plan sponsors and third-party administrators will be required to share employee contract information in order to certify all individual account activity.

DTCC's initiative was a response to the industry's request to provide a mechanism that would allow trading parties to send and receive 403(b) contract data in a controlled, standardized, secure manner, using data formats and best practices developed with the SPARK Institute (Society of Professional Asset Managers and Record Keepers).

SPARK has been working since early 2007 with its members, in conjunction with DTCC Wealth Management Services and Insurance & Retirement Services, to standardize data layout formats to support the information-sharing requirements. The organization represents the retirement plan services industry. @

DTCC Wins Award for Work on Structured Securities

DTCC was honored for its work in processing structured securities, receiving an “Award for Excellence” from Operations Management newsletter in its seventh annual awards program held in New York this October.

The monthly newsletter, published by Institutional Investor magazine, covers back-office and infrastructure issues of broker/dealers, investment adviser firms and custodian banks. The Awards for Excellence honor industry leaders in several categories. DTCC was named the winner of “Best Operations Innovations” for steps taken to streamline the processing of structured securities. Other nominees in this category included SEI and Bank of New York Pershing.

Kudos from customers

In nominating DTCC, Operations Management wrote that

“while processing structured securities...has always been difficult, the asset class has made its way into the spotlight...as volumes have increased and structures have become more complex.”

DTCC, working with the industry, identified “pain points and determined how best to ease them.... Most importantly, the affected participants have applauded the utility for its efforts and expect that the situation can only improve.”

In accepting the award, Peter Gleeson, DTCC vice president, Operations, said this was “a perfect example of how DTCC works with the industry to bring new efficiencies, reduced risk and lower costs” to securities processing.

Nominations for the awards come from industry members as well as Operations Management editors. Industry leaders are interviewed about the nominees and their work and are encouraged to vote in the awards process. @

FICC Seeks to Expand Collateral for GCF Repos by James Conmy

As part of an ongoing effort to expand the types of securities available as collateral for its fast-growing GCF Repo Service, Fixed Income Clearing Corporation (FICC) has received approval from the Securities and Exchange Commission (SEC) to allow the use of STRIPS as collateral in GCF Repo transactions. (STRIPS stands for Separate Trading of Registered Interest and Principal of Securities.)

STRIPS are U.S. Treasury and agency securities that have had the interest-payment coupons separated or “stripped” from the principal, creating zero-coupon securities and separate payment securities from what was originally a single Treasury bond or note. The new securities can then be traded separately. Nearly \$170 billion of fixed-rate Treasury notes and bonds are currently held in stripped form.

Additional liquidity

“Allowing STRIPS to qualify as collateral could generate considerable additional liquidity at a critical time for the credit markets,” said Murray Pozmanter, DTCC managing director, Clearance and Settlement Product Management.

Widely used for short-term financing, GCF (General Collateral Finance) Repurchase Agreements can be traded throughout the day without requiring the allocation of collateral or cash payment for each transaction. Instead, collateral only needs to be presented at the end of the day. FICC then nets all the trades, sharply reducing the financial obligations required for settlement.

Collateral FICC currently accepts for GCF Repos includes most Treasury securities, non-

mortgage-backed government agency securities, fixed- and adjustable-rate mortgage-backed securities and Treasury Inflation-Protected Securities (TIPS).

Interchangeable

Because this collateral is relatively interchangeable within basic categories, parties to a 30-day GCF Repo, for example, do not have to put up the exact same securities each day when collateral is reallocated.

The result is a highly liquid market that provides great flexibility. Since there’s no need to deliver securities in exchange for payment for each transaction, GCF Repos are especially useable in tri-party arrangements where a third party can “match” the two parties in a transaction and then both collateralize and administer the repo agreement.

Logical step

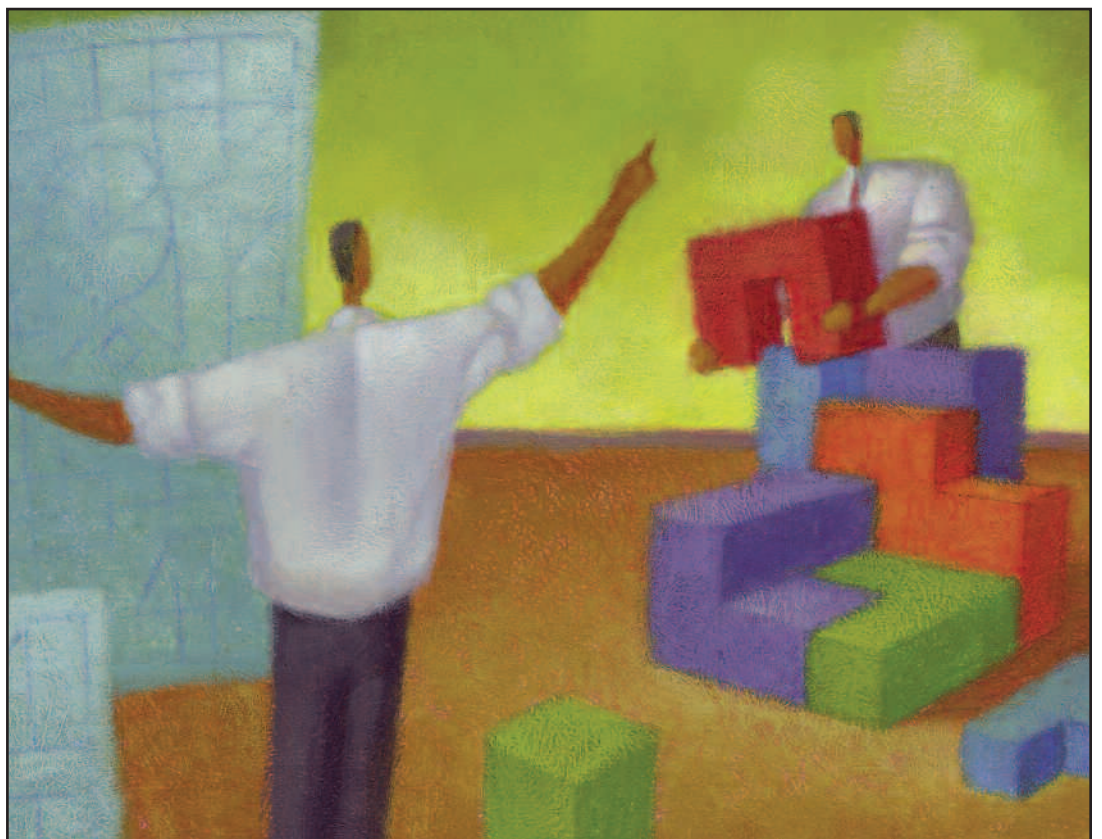
“Adding STRIPS to the collateral mix will make these repos even more flexible and useful,” said Lisa Meiselman, DTCC

director, Clearance and Settlement Product Management. “FICC already accepts STRIPS as collateral in the netting of delivery-versus-payment repos, so extending their use as collateral for GCF Repos is a logical step.”

Earlier this year, after a five-year hiatus, FICC reinstated its GCF Repo Service for trades between customers that settle at different settlement banks – either The Bank of New York Mellon or JPMorgan Chase. Since then, trading volume in GCF Repos has climbed steadily. By July, average daily trading volume was \$770 billion, up from about \$500 billion daily earlier in the year.

Other financial instruments FICC is reviewing as potential collateral for its GCF Repo service include real estate mortgage investment conduits (REMICs) issued by federal government-sponsored enterprises and corporate bonds. @

[For more information, contact Elke Jakubowski at 212.855.7581 or at ejakubowski@dtcc.com.]



Report from the 2008 BDUG Meeting

The annual meeting of the industry's Bank Depository User Group (BDUG), held in Scottsdale, Arizona, September 14-17, was attended by approximately 100 bankers, guest speakers and exhibitors.

Speakers included many DTCC subject-matter experts and senior executives from Omgeo, the Office of the Comptroller of the Currency (OCC) and many other industry organizations. The meeting is a forum for BDUG members to learn more about DTCC's initiatives and to share information and insights with peers on industry issues.

Robert McGrail, DTCC executive managing director, Domestic and International Core Services, gave the keynote address. Among topics covered in his remarks, McGrail discussed DTCC's risk management capabilities, which are "such a critical part of the value proposition DTCC brings to the industry." (See excerpt, page 21.)

"The 2008 meeting was a success," said Mark Cashion, vice president, M&I Trust Company, and vice chairman of BDUG. "The interactive breakout sessions and general sessions were beneficial to everyone and generated further action steps for the BDUG Steering Committee in 2009."

New initiatives

At the meeting, BDUG communicated its decision to work more closely with other industry organizations and associations to help champion the perspective of banks on industry issues by appointing an industry liaison.

"BDUG has informally cooperated with other industry organizations over the years," said Veneta Kokenes, senior vice president, Bank of America, and current BDUG chairperson. "Now, the Steering Committee believes the time is right to have an individual focused solely on interaction with others in the industry to best represent and educate our membership. We are excited about this new role and have seen early success on a number of industry issues."

In addition, BDUG is now a member of the Securities Industry and Financial Markets Association's Ad Hoc Committee for Dematerialization.

Another important BDUG initiative aims to tackle the challenges involved in processing class action lawsuits. The session on this topic, led by Francis McGovern, professor of law at Duke University, and Adam Savett, head of securities class action services at RiskMetrics Group, a consulting firm specialized in financial risk management, generated strong interest among attendees. The discussion focused on the increasing complexity of class actions globally and the need to bring greater efficiency to the processing of these events.

A BDUG sub-committee that focuses on this issue is expanding its reach to collaborate with other parties involved in class action lawsuits, including the legal community, institutional filers and the claims administrators. The goal is to collaborate on ways to streamline the end-to-end process for handling class actions.

Also on the agenda

Other presentations covered services offered by DTCC subsidiaries and Omgeo, along with topics including the OCC's current examination priorities with a focus on operational controls, FAS 157 fair-value measurements and Depository Trust Company initiatives, including the Participant Browser Services (PBS) and corporate actions reengineering.

Next steps

Follow-up discussions on many of the annual meeting topics will be held via BDUG-sponsored webinars and conference calls during the coming year, culminating in the 2009 annual meeting at the Sandpearl Hotel in Clearwater, Florida, October 18-21, 2009.

"BDUG's annual meeting is recognized within the industry as an outstanding opportunity for the group's membership to network and discuss common issues," said Richard Lanning, DTCC director, Relationship Management. "I look forward to working with the Steering Committee to plan the 2009 meeting and, because it will be in Florida, we will take advantage of the many DTCC subject-matter experts available locally from our Tampa facility." @

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Risk Management and Costs of Doing Business With DTCC

The BDUG keynote address by Robert McGrail, DTCC executive managing director, Domestic and International Core Services, covered risk in the markets generally; how DTCC manages financial and operational risk; ongoing efforts to reduce customers' cost of doing business with DTCC; and an overview of the business. Below is an excerpt from his remarks, delivered September 14.

Risk focus at DTCC

For the last several years – beginning well before the credit crunch hit a year ago – we have been deeply involved in testing and revamping our risk management systems. We stress test our risk systems to determine what kinds of exposures we'd have to deal with under severe market conditions. Every three months, in fact, we evaluate our exposures in the context of a market move comparable to the 1987 market crash. We use the results of these tests to understand how effectively we could handle such a major market downturn today. In today's volatile markets, risk management is crucial to our member firms. It's what allows traders to do what they do and then go home and sleep at night.

We also regularly put our systems through "war games" that simulate the possibility that one of our member firms is failing. This requires us to go through the steps we would have to take to respond to such an event. As it turned out, this critical component of our risk management process proved prescient....

The other kind of risk we have to address, as you know, is operational risk. No one wants to incur a loss because of some failure in an operation or a procedure. The recent market turmoil, for example, has been accompanied by torrential trading volumes. At DTCC, we currently operate and maintain live data and business links within U.S. markets with 51 separate alternative trading systems and nine individual exchanges. So we clearly need to be able to cope with unanticipated surges in trading volume.

For equity trading, the volumes coming through all those links are extremely high. Last year, we handled 6.75 billion equity trades – or 13.5 billion sides. Just three months ago, we processed a record 198 million billable equity sides in a single day for the U.S. market. *[Editor's note: Since McGrail spoke, NSCC set a new daily processing record. See article, page 7.]*

Rebates, discounts and cost control

We're always looking for ways to reduce fees so that we can not only give you money back, but give you more than before. We're also looking at ways to get this money back to you faster than ever before.

This year, we made our largest fee cut ever. By the time the year is over, we expect to have given more than \$220 million back to our customers in reduced fees. For next year, we're anticipating an additional net fee reduction of more than \$70 million.

The reasons behind this are simple. First, if we can reduce our operating costs and achieve economies of scale from rising volumes – and we have been able to do both – then you should get your money back. Secondly, when we're in a position to give it back, you should get it back ASAP.

As I think you know, when we reduce fees for services, it reflects our efforts to keep customer costs in line with the actual use of a service. If volumes surge and we can achieve greater economies of scale, we want to move those savings back to you. That's why we pay refunds.

Our goal is to return funds to you promptly so that they can be recorded for the year in which they were paid. In that way, your bookkeeping – and ours – will more accurately reflect the actual costs of doing business.

It's been our practice to refund excess fees monthly to the clearing corporations, and if there is a final refund for the year, that is sent by the next March. But this procedure doesn't always get money back to you soon enough. As a result, total refunds for a calendar year aren't always reflected in your P&L. Instead, they often end up being recorded on the next year's records. And so the distortion from one year gets carried over into the next.

To avoid that as much as possible, we now return any revenue above a targeted margin level to our clearing participants on a monthly basis. We hope to speed up end-of-the-year returns as well. And we're working to institute monthly discounts for depository users too.

The fact is, we are the lowest-cost trade processor in the world. And we intend to retain our title as the lowest-cost provider, even as we step up our efforts to manage and mitigate risk in an ever-broader and more challenging environment. @

DTCC Will Host AIP Forum

DTCC is hosting a one-day Alternative Investment Product Forum on Friday, November 15, 2008, at its New York office. The forum is open to those who process alternative investment products (AIP), with a focus on issues of particular interest to:

- Broker/Dealers
- Transfer Agents
- Fund Sponsors
- Hedge Fund Administrators
- Hedge Funds and Funds of Hedge Funds

On Thursday, November 14, DTCC will host a welcome cocktail at Delmonico's

Restaurant from 5:30 to 7:30 in the evening. The conference begins the following morning with a buffet breakfast where Michael Spellacy, managing partner of Boston Consulting Group, will discuss the findings of a recently conducted survey about the most pressing concerns of top hedge fund managers.

Attendees will also learn more about DTCC's AIP service (offered by National Securities Clearing Corporation, a DTCC subsidiary) and its impact on the alternative administration landscape, including:

- The status of market acceptance of AIP

- How the AIP service can streamline the investment process, reducing risks and increasing operating margins – benefiting investors and service providers alike
- Addressing the challenge of immobilizing subscription and redemption documents
- How the AIP service increases efficiency, lowers costs and improves customer satisfaction
- Next steps: what firms can do to get up and running.

To review the seminar agenda and register, visit www.dtcc.com/aipforum. @



A New Customer Publication from Insurance & Retirement Services

DTCC Insurance & Retirement Services has introduced a new publication for customers called Insurance Quarterly (IQ), which replaces the earlier Insurance Services Newsletter.

“We launched this publication to give customers in the insurance industry an overview of the latest news and information from DTCC Insurance & Retirement Services,” said Adam Bryan, who became general manager for this business in June 2008. “At this critical juncture for the insurance industry, DTCC is working with firms and regulators to

move insurance processing into a fully electronic environment, and the newsletter will serve as a key vehicle for keeping customers fully apprised of developments.”

DTCC recently changed the name for this business to DTCC Insurance & Retirement Services from Insurance Services to better reflect the brand and the unit's objectives for the future, including more focus on the retirement income area.

To subscribe to the Insurance Quarterly publication, send an email to editor@dtcc.com. @



DTCC's Managed Accounts Service Gains Momentum by Karen Gregory

UBS Financial Services Inc., one of the largest providers of managed accounts in the U.S., has joined the DTCC Managed Accounts Service (MAS), a centralized platform designed to automate and standardize communications among sponsors, investment managers and service providers.

"We are extremely pleased to partner with DTCC on this initiative. The managed accounts industry is a prime candidate for standardization, which will result in efficiencies that can be passed on to clients," said Stephen Roussin, managing director and head of Investment Solutions, UBS Wealth Management U.S.

According to The Money Management Institute, current assets under management for managed accounts are \$1.4 trillion, reflected in large part by high-net-worth households and 78 million baby boomers looking to preserve capital accumulation and minimize the impact of taxes.

Growing membership

Ann Bergin, managing director and general manager, DTCC Wealth Management Services, noted, "UBS is one of the foremost sponsors in this industry, and to have them join our charter members, Citi's Smith Barney and Global Transaction Services businesses, is particularly gratifying to us. Their commitment to the service is further evidence of the importance of industry protocols to remove obstacles to growth and allow market participants to concentrate on product innovation and customer service."

DTCC announced on October 16 that Smith Barney and Global Transaction Services have gone into full production with MAS, after a test period and successful migration of their systems to the new platform.

Smith Barney, the largest sponsor of managed accounts in the U.S., has nearly 30% of the managed account market, according to Cerulli Associates. Investment Administration Services, a unit of Citi's Global Transaction Services, is a leading provider in the U.S. managed account outsourcing market and provides operations services to investment managers with over 75,000 managed accounts. Both Citi businesses are charter participants in MAS, which is being provided by DTCC Solutions LLC, a subsidiary of DTCC.

Extending support

DTCC's infrastructure supports virtually all of the securities markets in the U.S., from equities and fixed income, to mutual funds, insurance investments and over-the-counter derivatives. "By

providing the managed accounts marketplace access to our infrastructure, we can extend the same security, reliability and economies of scale that our other customers enjoy," explained Bergin.

Chandresh Iyer, managing director and head of Citi's Investment Administration Services, explained, "Connecting the Global Transaction Services portal to DTCC's gateway will bring a new level of operational scalability to our business and to our clients. As a premium provider in the managed accounts space, we look for ways to unleash the full potential of these accounts and, at the same time, allow our multiple investment manager and sponsor clients to focus on customization and premier client services."

Smith Barney's Managing Director Dana Fowler added: "We are very pleased to be at the forefront of launching a service that is the first to address operational issues that have traditionally been roadblocks. We look forward to working with our external investment advisor partners to incorporate it into their internal systems."

Benefits of the service

MAS provides an efficient and secure process for sharing data required to open and support managed accounts. Most messages today are transmitted through disparate technology platforms or manually. Depending on the size and complexity of an investor's account, a sponsor could have separate connections to multiple investment managers, increasing the potential for errors, delays and high operational costs.

DTCC's service will mitigate these risks and streamline communications among all parties involved with different types of managed accounts. These accounts include single- and dual-contract separately managed accounts, where sponsors use the expertise of one or multiple investment managers; and unified managed accounts, which are individual accounts containing numerous investment products – mutual funds, stocks, bonds and exchange-traded funds, for example, in addition to separately managed accounts.

MAS operates on DTCC's secure telecom network, which today provides connectivity to virtually all trading parties in the U.S. @

What's New at DTCC?

New VP of Global Sales, Asset Services

DTCC has named Caroline O'Shaughnessy to the new post of vice president, Global Sales for Asset Services.

In this position, O'Shaughnessy will manage a global sales team to market and



Caroline O'Shaughnessy

sell a wide variety of asset services products to both the buy- and sell-sides of the financial services industry. She will also help determine customer needs across DTCC's multiple operating subsidiaries to identify opportunities to cross-sell products and services. O'Shaughnessy, who will be based in London, will report to Patrick Kirby, DTCC managing director, Asset Services, who is based in New York.

O'Shaughnessy comes to DTCC from Reuters Enterprise Information, a division that provides market data products for pricing, reference and corporate actions, where she developed and managed a business team to create new alliance partnerships with a broad range of software and redistribution vendors.

Prior to Reuters, she worked at Telekurs Financial Ltd., where she managed all

aspects of vendor and alliance management, and at Interactive Data Corporation, where she rose to regional sales director for Europe.

"Caroline brings a wealth of sales management experience to this position. She has made major contributions to all the organizations she worked for, surpassing revenue targets, helping establish global alliances and partnerships, and building successful sales teams to market and sell a broad range of software and data services," said Kirby.

"At DTCC, Caroline's experience will help promote many of our services including our Global Corporate Actions Validation Service and AccuBasis," Kirby added.

Important Reminder On Important Notices

Starting November 15, customers wishing to be notified when Important Notices from The Depository Trust Company (DTC) are published must subscribe to RSS newsfeeds from DTCC's website. The option to receive Important Notices via email is being fully phased out. Customers also can view Important Notices on DTCC.com at any time.

DTCC is notifying all customers who still receive the notices via email of the change, advising them to switch to the RSS service before mid-November.

To subscribe to RSS newsfeeds for DTC Important Notices and other information, customers can visit DTCC.com's Subscription Center, or contact newsfeeds@dtcc.com for assistance or to learn more about the benefits of this service.

Online Membership Application Is Coming

DTCC is developing a web-based membership portal that will serve as

the central document repository and the communication tool for applicants during the DTCC membership application process. The first phase of this feature is expected to be available in early 2009.

The new portal, accessible via DTCC.com, will streamline and expedite the application process, reduce paperwork, and facilitate easier communication between applicants and DTCC, while creating an electronic record of all correspondence. The portal will cover all membership types and all DTCC subsidiaries except EuroCCP, which has different process requirements. @



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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