



DTCC Develops Cost-Basis Solution To Meet New Federal Reporting Requirements

by Crystal Bueno

DTCC is developing a solution to help financial firms and other market participants comply with a new January 2011 mandate requiring the reporting of adjusted cost-basis information to investors and the federal government.

The new law, part of the Emergency Economic Stabilization Act signed in October 2008, will require firms to not only report accurate, adjusted cost-basis information to investors and [continued on page 2]

Customer Satisfaction With DTCC: 91% for Fourth Year

by Helen Cunningham

Customers gave DTCC a 91% overall satisfaction rating in 2009 for the fourth consecutive year. In addition, according to results from the annual customer survey, the number of respondents who are “extremely satisfied” with DTCC increased over 2008.

The high level of satisfaction is attributable to factors including DTCC’s integrity, commitment to quality, effectiveness in reducing risk, reliability, technology and transaction-processing capabilities, according to data from the respondents. Customers also noted a decline in problem incidence combined

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Cost-Basis Solution *Continued from cover*

the U.S. Internal Revenue Service, but to also pass cost-basis information between financial intermediaries when assets move from one firm to another.

Leveraging technology

To help the industry meet the federal mandate without having to make a huge capital investment, DTCC will leverage the existing technology of its successful Cost-Basis Reporting Service (CBRS), an automated system launched by National Securities Clearing Corporation (NSCC) in 2003.

CBRS currently provides financial firms with the ability to pass customer cost-basis information, but only on assets transferred through NSCC's Automated Customer Account Transfer Service (ACATS). Pending approval from the U.S. Securities and Exchange Commission, the new

version of the system will not calculate or store cost-basis information for firms, but will effectively extend the efficiencies and capabilities of CBRS to transfer agents, issuers, mutual funds, custodian banks and broker/dealers to move cost-basis information – from one financial firm to another – on both ACATS and non-ACATS transactions.

'Reporting challenge'

"Many in the industry had approached us to help solve this impending reporting challenge because they recognized that DTCC has the proven infrastructure and technical expertise to meet the federal mandate under such a short timeframe," said Michael Bodson, DTCC executive managing director, Business Management and Strategy. "This service enhancement is a natural fit for DTCC and complements our suite of post-trade processing services, including our mutual funds and corporate actions businesses."

With customers on a tight deadline to comply with the upcoming reporting changes, DTCC's strategy is to finalize business requirements before the end of this year, make the necessary coding changes, test the system early next year and be ready to roll out the enhanced version of the CBRS system for participant testing by Q3 2010.

"This enhancement represents the value of an industry utility like DTCC to develop solutions that allow our customers to meet regulatory requirements, drive down costs and improve efficiencies," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. "Leveraging our existing platform means the industry won't have to invest in building a new system from scratch to serve as the common hub, and it also eliminates the need for individual firms to expend limited resources to build their own multiple systems and processes."

With customers on a tight deadline to comply with the upcoming reporting changes, DTCC's strategy is to finalize business requirements before the end of this year, make the necessary coding changes, test the system early next year and be ready to roll out the enhanced version of the Cost-Basis Reporting Service for participant testing by Q3 2010.

Industry input

DTCC has worked closely over the past several months with a broad coalition of market participants to develop the initial business requirements for enhancing CBRS, including hosting an industry steering committee that includes broker/dealers, transfer agents, mutual fund companies and industry organizations such as the Investment Company Institute, the Securities Transfer Association and the Shareholder Services Association.

"The changes required to comply with the new cost-basis legislation are complex and impact many systems within our industry," said Kevin McCosker, director, Asset Services, Pershing LLC. "DTCC's expanded Cost-Basis Reporting Service will allow entities to electronically pass along cost basis and eliminate future processing costs and paper flow, and is critical to helping the industry comply with the legislation." @

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DTCC Names Chief Systemic Risk Officer by Steve Letzler

DTCC has appointed Anne (Nan) Noonan to the new position of managing director and chief systemic risk officer.

Noonan will oversee the management of the systemic risk framework for DTCC and its subsidiaries to ensure DTCC can readily identify and assess the systemic risk implications for all existing and new DTCC products, activities, processes and systems.

In leading these efforts for DTCC, Noonan will collaborate closely with DTCC subsidiaries' direct regulators – the Securities and Exchange Commission, the Federal Reserve Bank of New York and the New York State Banking Department – and with regulators globally on systemic risk issues. She will also work closely with Douglas George, DTCC's chief risk officer, to review DTCC's enterprise-wide risk management methodology. She will have leadership responsibility for identifying systemic risk management changes needed, and developing and implementing those solutions. Noonan will report to Larry Thompson, DTCC's general counsel.

'New demands'

"DTCC has a very strong track record for safeguarding the industry during times of crisis – and in working with regulators in the U.S. and globally," said Donald F. Donahue, DTCC chairman and CEO. "However, the experience of the financial crisis over the past two years has cast a very bright light on the risks that exist at the level of the financial services system as a whole.

"We are delighted to have someone with Nan's extensive background in risk management join DTCC," said Donahue. "We can expect that there will be new demands that infrastructure organizations like DTCC remain at the forefront

in meeting business and regulatory requirements on systemic risk issues across all our operations."

Broad industry experience

Noonan joined DTCC from CLS Bank International in New York, where she was executive vice president and global head of Risk Management and Regulatory Affairs, a post she held since 1999. As a founding member of CLS Bank International, Noonan played a key role in orchestrating and negotiating regulatory approval with approximately 25 central banks and regulators for the purpose of eliminating foreign exchange settlement risk, with daily transaction flows of \$3-5 trillion, and expanding CLS Bank's settlement service to other products.

She served as a director on the Board of CLS Bank International, as a member of the CLS Management Committee and as an executive member of the CLS Bank Risk Management Committee.

Prior to that, Noonan served as a vice president at J.P. Morgan & Co., Inc., in a progressive series of roles with added responsibility, from 1978 to 1999. She was a member of the Global Foreign Exchange Settlement Risk Reduction Project, the Group of Twenty private-sector effort to champion and later create CLS Bank. She not only acted as the group's principal regulatory liaison, but also co-authored the business requirement specification for CLS. Before that, she worked with J.P. Morgan Securities, Inc., and Morgan Guaranty Trust Company of New York in various management positions.

Noonan received a bachelor of science degree from Seton Hall University, and participated in the Executive Leadership program offered by INSEAD in France. @



Nan Noonan, DTCC managing director and chief systemic risk officer

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– Donald F. Donahue, DTCC chairman and CEO

DTCC and Markit Join Forces to Develop Comprehensive Solution for Syndicated Loans

DTCC and Markit, a leading global financial information services company, have announced plans to bring together key services for the loan market in order to offer a comprehensive solution for the processing of syndicated loans. The initiative aims to increase efficiency and help reduce counterparty and operational risk in the multi-trillion-dollar syndicated loan market.

Markit will combine Markit WSOData, ClearPar and DTCC's Loan/SERV Messaging Service and will link to other Markit and DTCC Loan/SERV services. DTCC is expected to contribute its Loan/SERV Messaging Service to Markit's electronic loan settlement platform. The Loan/SERV Messaging Service is a safe, secure and automated network for the transmission, receipt and online storage of industry-standard loan messages in FpML format.

Cash settlement

The combination of DTCC's electronic messaging and Markit's loan settlement platform

will improve communication between buy-side and sell-side market participants significantly. In addition to contributing its Loan/SERV Messaging Service, DTCC will connect the new Markit platform to other existing and future Loan/SERV products for loan reconciliation and cash settlement including Delivery versus Payment (DVP).

Markit's platform, which integrates parts of its WSO portfolio management software and services, will be enhanced further after Markit acquires ClearPar, an automated syndicated loan operations platform, from FIS. That acquisition is expected to close by the end of this year.

Straight-through processing

"We're pleased that Markit and DTCC have come together to provide this solution to the loan market," said Michael Bodson, DTCC executive managing director, Business Management and Strategy. "The Loan/SERV Messaging Service will help eliminate

faxes and associated back-office costs while greatly improving the reliability, timeliness and accuracy of syndicated loan communications. This service and future Loan/SERV products will help move the syndicated loan market closer to straight-through processing."

"The syndicated loan market is one of the largest credit asset classes and we have been working with the industry on a global settlement solution that will connect buy- and sell-side participants electronically for the first time," said Armins Ruis, Markit's executive vice president and global co-head of Fixed Income. "It is only by improving communication across the marketplace that



we can speed loan settlement times and reduce operational risk to bring about a more transparent and liquid loan market."

Right direction

"Participants in the syndicated loan industry have long agreed on the need to move to electronic-based processing," said Andrew Gordon, CEO and president of Octagon Credit Investors. "In addition, there is a necessity in the industry to provide transparency in the closing and settlement process. The combined solution to be provided by Markit and DTCC is a positive step in that direction, as long as the majority of the loan community adopts the solution."

The DTCC Loan/SERV Messaging Service is expected to be incorporated into the Markit loan settlement platform in the first half of 2010.

Loan/SERV is a service offering of DTCC Loan/SERV LLC, a subsidiary of DTCC. @

DTCC Launches Contract Reconciliation For Global Syndicated Loan Market

by Edward C. Kelleher

DTCC has launched its Loan/SERV Contract Reconciliation Service, which greatly enhances and expands reconciliation capabilities for the global syndicated loan market.

The Contract Reconciliation Service, in addition to enabling agent banks and lenders to reconcile loan positions on a daily basis, takes loan reconciliation to a more detailed level. It will provide market participants with information on interest rates, margin and fee calculations, drawn and unutilized balances, payment-in-kind balances and a host of other data that will further automate and streamline the processing of syndicated loans.

DTCC introduced its earlier Reconciliation Service in 2008, which enabled agent banks and lenders to view and reconcile loans at a total commitment balance level.

More loan information

“Contract Reconciliation represents phase two of our Loan/SERV reconciliation process and provides 30 new data fields that help identify and correct processing errors before they lead to settlement problems,” said Mathew Keshav Lewis, DTCC vice president, European Loans Product Management.

“The Loan/SERV Contract Reconciliation is the first and only global service that can provide reconciliation at all levels, from commitment and facility level down to the individual contracts, with all of the relevant transaction detail,” said Lewis.

Fewer adjustments

“One of the great benefits of Contract Reconciliation is that it will help agents and lenders correct errors in cash accruals and related cash flows before they become problems,” said Marc Romain, managing director, Barclays Capital. “This brings major new efficiencies to the syndicated loan market by helping reduce profit-and-loss adjustments that come with processing errors, and eliminating the time and effort required for manual tracking and correcting of these errors. For example, market participants will be able to see upcoming interest payments so that if they see a problem or an error, they can correct it before the payment comes due.”

Contract Reconciliation will be in full production with leading global banks, including J.P. Morgan, The Bank of New York Mellon, Barclays Capital, Citi, Deutsche Bank and The Royal Bank of Scotland in the next few months. Leading investment firms such as PIMCO, Oak Hill Advisers, Highland Capital Management and

KKR will begin using Contract Reconciliation at the same time.

“This represents a major advance for the global syndicated loan market because participants have never before had this quality and volume of information available at their fingertips on a daily basis,” said Lewis. “It will be especially valuable in Europe, where deals can be more complex with multiple borrowers, multiple currencies and a greater number of individual contracts. It will save countless hours in manual problem-solving and will move the market closer to straight-through processing.”

ClearStructure Links to Loan/SERV

ClearStructure Financial Technology LLC, a leading supplier of software solutions to the financial services industry in the United States and Europe, will link its Sentry loan trading and portfolio management products to DTCC's Loan/SERV Contract Reconciliation Service and Loan/SERV Messaging Service.

“ClearStructure's Sentry offers powerful, flexible loan-management solutions with a broad range of services that meets the needs of both the sellside and buy-side participants,” said Scott Turley, chief executive officer of ClearStructure. “By linking to Loan/SERV, we're giving our customers valuable new tools that will provide them with highly detailed loan information on a daily basis and enable them to communicate via an efficient, industry-standard messaging service.”

Security feature

DTCC's Reconciliation Service has been operating since September 2008 and currently has more than 1,545 investment funds managed by more than 100 fund managers linked to it. Security features ensure users can only see their positions, either as agent or lender, in the system. Loan/SERV customers will be able to choose the level they would like to reconcile loan processing and can continue to use the Reconciliation Service or move up to the Contract Reconciliation Service.

Loan/SERV also will offer cash settlement capabilities, including Delivery versus Payment (DVP), beginning in 2010. “Our multi-currency DVP service, coupled with the Loan/SERV Contract Reconciliation Service, will dramatically reduce risk and provide greater certainty in the syndicated loan market,” said Lewis. “DVP will provide greater certainty to loan traders that cash settles

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New Capabilities Enhance Stock Loan Tracking System

by Edward C. Kelleher

Recent enhancements to The Depository Trust Company's (DTC) Stock Loan and Repurchase Payment Order (SLPO) system have further streamlined stock loan processing. The changes give both lenders and borrowers new capabilities for ensuring the accuracy of information pertaining to corporate actions such as dividends and tax rates.

"These enhancements deliver a new level of control and efficiency to parties on both sides of a stock loan or repurchase payment order," said Patrick Kirby, DTCC managing director, Asset Services. "Now, customers can review the data as soon as they receive it and reject transactions and correct any errors that may have occurred prior to payments being allocated."

What SLPO does

The SLPO system facilitates the exchange of funds between lenders and borrowers involved in stock loans and repurchase payment orders (repos). In these transactions, the borrower must continue to make payments in lieu of dividends and interest to the lender. The SLPO tracking system automatically debits the account of the borrower and credits the lender's account with a pre-determined

payment amount on a regular basis.

Until the enhancements took effect in October, participants in SLPO had no way to reject or decline a payment if it was incorrect, and the mistake would have to be manually corrected after the payment had been allocated. This would result in a second transaction to correct the first one.

"Now SLPO allows borrowers or lenders to reject the transaction, as well as explain why they are rejecting it," said Daniel Thieke, DTCC vice president, Asset Services. "Customers no longer need to let incorrect transactions proceed to payment allocation and then submit additional transactions to correct them." Reasons for rejecting a transaction can include a revised rate, quantity difference, tax-rate difference or "other," a field that allows the participant to explain the reason for rejecting the transaction.

"What's best about the enhancement is that we can check on a transaction before it's booked and make a correction if need be," said Vincent Bonafede, assistant vice president, Morgan Stanley. "The enhancement also prevents aged adjustments from occurring."

No more dupes

Another SLPO enhancement is the elimination of "duplicate" transactions.

"In the past, if you owed your counterparty \$100, for example, you might submit an SLPO transaction to credit that firm \$100 while it submitted a transaction to debit you \$100," said Thieke. "You would end up transferring \$200 to the counterparty and one of you would need to submit a transaction to rectify the duplicate. This will no longer occur because the enhancement prevents counterparties from submitting a transaction where one already exists."

Now, a counterparty must either reject the initial transaction or allow it to proceed to payment allocation before submitting a new SLPO transaction. This prevents duplicate transactions from being submitted by counterparties as well as the additional transactions that would be necessary to correct the duplicate transactions, Thieke explained. @

[For questions about the Stock Loan and Repurchase Payment Order system, contact Robert Epstein, DTCC vice president, Asset Services, at repstein@dtcc.com or 212.855.2965.]

Global Syndicated Loan Market *Continued from page 5*

simultaneously with changes to asset ownership recorded by agent banks."

The Loan/SERV suite

DTCC's Loan/SERV Messaging Service provides a safe and automated network for the transmission, receipt and online storage of industry-standard loan messages. The global standard loan messages were developed by The Loan Syndications and Trading Association (LSTA) in the United States, in cooperation with The Loan Market Association (LMA) in Europe.

The messaging service employs FpML, the industry-standardized e-commerce language that the LSTA and LMA have worked to advance for the benefit of the global market. FpML has already proven itself in the over-the-counter derivative trading market, where it combines speed, accuracy and security to provide an effective communications vehicle. (FpML is a trademark of the International Swaps and Derivatives Association.)

Loan/SERV is a service offering of DTCC Loan/SERV LLC, a subsidiary of DTCC. @

Customer Satisfaction with DTCC: 91% for Fourth Year *Continued from cover*

with increased satisfaction in how DTCC resolves their problems.

“Customers understand that in a challenging industry landscape, DTCC’s steadfast support for the industry is something they can rely on,” said William Aimetti, DTCC president and COO. “We are here to mitigate risk, to deliver quality products backed by high levels of service and reliability, and to continually develop solutions that further cut our customers’ cost of doing business.”

To fulfill its mandate, DTCC leverages the knowledge and experience gained from its deployment of quality programs such as Six Sigma, Capability Maturity Model Integration (CMMI) and Information Technology Infrastructure Library (ITIL). “We have rigorous quality standards across the organization, which benefit the industry by bringing accountability, best practices and metrics to all aspects of our business,” Aimetti said.

From the source

Here are comments from some of the customers who participated in the 2009 survey, describing why they are satisfied with DTCC.

- There aren’t many other vendors where the value goes up and the costs go down – it’s hard to top that.
- DTCC stays on top of industry issues. It has sound programming and is always looking toward the future.
- DTCC has a very responsive team that listens to its user community and is extremely flexible.
- DTCC’s support and services are very accurate, very efficient with respect to cost and quality. It is also good on the follow-up if you have any problems.
- DTCC is responsive to our needs and is forward-looking in terms of opportunities to expand its services.

- DTCC has the reputation of being able to pull a wide range of key participants together to create an industry-wide solution.

Industry benchmarks

DTCC’s ratings compare favorably within the financial services industry.

“Benchmarking DTCC against the

industry average for 14 comparative metrics, DTCC exceeded the industry average for all 14 metrics,” 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 13 out of 14 metrics.

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– William Aimetti, DTCC president and COO

Problems and Resolutions

The 2009 customer satisfaction survey indicates that DTCC made progress in addressing specific concerns raised in previous surveys, including problem incidence and resolution.

The number of customers that experienced problems with DTCC dropped to 23% in 2009 (vs. 29% in 2008). Incidence rates are down for all types of problems, with “significant” problems posting the strongest improvement, down to 20% of all problems cited vs. 24% in 2008.

Approval ratings for problem resolution also increased this year, with 58% of survey respondents expressing satisfaction with DTCC’s ability to resolve their problems (vs. 52% in 2008). Customers who are satisfied with DTCC on this front point to factors including the timeliness of resolution and the overall responsiveness of DTCC’s customer service team. “We always receive attention and consideration for our issues, even if they are minor,” said one customer.

Nonetheless, the overall level of dissatisfaction with problem resolution also increased, reaching 23% on an aggregate level vs. 18% in 2008. For “significant” problems, dissatisfaction climbed sharply to 50% from 24% in 2008. “The more severe the problem, the less satisfied customers are with DTCC’s problem resolution efforts,” according to the Melior Group.

“Customers rightly expect their problems to be resolved quickly and professionally, and this is especially important when the problem is ‘significant,’” said Paula Arthus, DTCC managing director, Relationship Management. “Timely and effective problem resolution, along with proactive communication throughout the process, will continue to be a significant area of focus for DTCC in 2010.”

Customer Satisfaction with DTCC: 91% for Fourth Year *Continued from page 7*

Customer dialogue

The annual survey is one of DTCC's primary tools for obtaining metrics to monitor customer satisfaction. It establishes a baseline for the ongoing dialogue with customers that enables DTCC to anticipate and meet the industry's needs.

"The survey gives us a wealth of data about customer perceptions of DTCC, from the general to the specific, which we use to guide ongoing management, the allocation of resources and future product development," said Andrew Gray, DTCC managing director, Core Product Strategy and Management. "The survey also gives customers a vehicle to raise any concerns they may have with DTCC, articulate their priorities and identify emerging needs."

The fact that an independent third party conducts the survey on behalf of DTCC serves an important purpose, according to Gray. "While we get a lot of information from the day-to-day dialogue we maintain with clients, it is also essential to obtain information that objectively quantifies how we are doing and gives us a view of what else we should be doing," he said.

To ensure appropriate action on the feedback from customers, DTCC's survey process includes a thorough analysis of the scores and customer comments. Then, respective teams develop metrics-driven action plans to address customer concerns in their areas of the business.

Key 'relationship attributes'

For the 12 key "relationship attributes" evaluated in the 2009 survey, customers expressed the highest satisfaction with integrity (93%), a ranking that has been consistent for five consecutive years.

"During a very challenging time for the industry, DTCC's reputation for integrity and reliability was on full display," said Gray. "Our customers trust DTCC not only to deliver cost-effective, reliable solutions that reduce risk and bolster their bottom lines, but also to take a leadership role on industry issues."

Satisfaction ratings for other key relationship attributes were similar to 2008, including:

- Commitment to quality: 90%
- Industry leadership: 86%
- Communications with customers: 84%

Focus on risk

The market turmoil of the past year put a spotlight on DTCC's risk-management capabilities. Overall satisfaction for this category remained strong at 86% (up 1 point from last year). The big change came in the proportion of customers "extremely satisfied" with DTCC's risk management, which nearly doubled in 2009, reaching 34% vs. 19% in 2008.

The survey also underscored that customers expect risk management to be their biggest concern in the coming years – and many look to DTCC to play an important role in managing risk across the

industry. "We would like DTCC to make sure everyone is looking at risk," said one customer. In fact, DTCC is broadening its oversight of risk.

"The commitment to continually review and strengthen our risk management infrastructure is not new at DTCC, but the Lehman Brothers' collapse provoked a fundamental shift in how we think about risk," said Aimetti. "Today, DTCC is expanding its focus beyond the management of risk for individual members to encompass risk at the systemic level, fulfilling our responsibility to support the safe and sound operation of the industry's infrastructure."

Cost concerns persist

In 2009, scores for DTCC's ability to lower customers' processing costs declined to 72% from 77% in 2008. In the related category of helping customers understand its pricing strategies, DTCC received a satisfaction score of 68% vs. 74% last year.

"Cost continues to be at the forefront of every customer's agenda and these scores send a clear message that firms are looking to DTCC for additional cost relief – both in terms of our pricing, as well as taking on initiatives that reduce their cost," said Paula Arthus, DTCC managing director, Relationship Management.

"Another takeaway from this year's survey is that we need to continue to focus on communicating both our general pricing to customers, as well as the customer-

'While we get a lot of information from the day-to-day dialogue we maintain with clients, it is also essential to obtain information that objectively quantifies how we are doing and gives us a view of what else we should be doing.'

– Andrew Gray, DTCC managing director, Core Product Strategy and Management

specific impact,” Arthus added. “Overall it’s a very good story, as DTCC has supported significant volume growth over the last five years, with largely flat cost levels. We are also keenly aware that customers are looking for greater transparency on a regular basis, and we will continue to drive toward that goal. We will be implementing a new billing system in 2010, which will provide the base for improved reporting and MIS for customers.”

More communications

Customers gave DTCC an 84% satisfaction rating for overall communications. “Customers are generally satisfied with various communications vehicles used by DTCC to keep them informed,” according to the Melior Group.

Still, many customers wish to hear more from DTCC, particularly about issues such as problem resolution and costs. “Increase communication regarding cost reduction and efficiencies based on bill/activity,” said one customer. “[More] communication related to outage management – for both infrastructure and applications,” said another. A third suggested DTCC broaden its outreach. “Increase communication with our operations groups beyond the head of operations.”

“Communications that are timely, informative, concise and clear are hallmarks of good customer service,” said Arthus. “In the coming year, we will remain focused on meeting customer

expectations on this front.”

Products and services

In 2009, DTCC received an 86% rating for the breadth of its product/service line (vs. 88% in 2008).

Ratings for specific products vary, with the majority posting gains over last year’s numbers. Scores range from 100% for Insurance & Retirement Services; 100% for Corporate, Municipal and Unit Investment Trust (UIT) Real-Time Trade Matching Services; 98% for Settlement-Related Services; 96% for Equity Clearance; 95% for Securities Processing Services; 93% for Mutual Fund Services; and 92% for Government Securities, to 79% for Tax Services.

One customer summed up satisfaction with DTCC this way: “Without DTCC, it would be nearly impossible to efficiently and effectively run our business. While not perfect, DTCC continues to strive for the highest levels of customer satisfaction.”

Looking forward

In addition to evaluating DTCC’s performance for the past year, the annual satisfaction survey sets the stage for DTCC to look at new ways to add value to customers. Looking forward is particularly important during this time of change for the industry.

“We are focused on how financial reform will impact customers and how we

can help them meet the new requirements in a timely and cost-efficient manner,” Gray said. “We also are acutely aware that customers are looking for ways to increase efficiencies; we will look for opportunities to centralize and automate additional processes, expand into new asset classes and extend our global reach, all of which reduce the industry’s costs while facilitating the growth of volume.” @

More Feedback

The 2009 customer satisfaction survey was conducted at two intervals, in March and again in June. This year, DTCC also expanded the number of overall respondents as well as the questions asked.

In addition to the “traditional” respondents (consisting of daily contacts and senior-level contacts), a new segment – “targeted product users” – was added. In identifying these customers, DTCC first verified that they used specific products.

“The goal was to ensure that customers rate only those products with which they have first-hand knowledge in order to deepen our understanding of product-specific perceptions, attitudes, issues and concerns,” said Andrew Gray, DTCC managing director, Core Product Strategy and Management.

With the change in methodology, the number of 2009 respondents totaled 1,461. Of these, 53% were “traditional” respondents (49% daily contacts and 4% senior-level contacts), with the remaining 47% being the “targeted product users.”

Also new in the 2009 survey, DTCC added a series of questions to assess the value customers derive from their use of products and services.

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– Paula Arthus, DTCC managing director, Relationship Management

Clearing Cost Calculators Increase Tran

How One Customer Uses the NSCC Cost Calculator *by Craig Donner*

The word is out. NSCC's new online clearing cost calculator, which launched in June 2009, is gaining traction among customers as a tool to quantify their net cost of doing business with DTCC quickly and accurately. Customers are also saving time and money by deploying the calculator to generate reports for their senior management and to give their own clients more precise cost projections.

The calculator is the latest resource developed by NSCC to bring greater clarity to its pricing model. NSCC's clearing fees are the lowest in the world at an average of just one-third of a penny per transaction (or about 66-thousandths of one U.S. cent per 100 shares).

Located under the Customer Center section of www.dtcc.com, the calculator allows users to enter a series of variables into fields, including total monthly number of sides, average shares per side and average price for share (in U.S. dollars), and provides an estimate of a firm's gross and net clearance fees as well as its clearing cost per side and per 100 shares.

The customer weighs in

DTCC recently spoke to William Bush, Transaction Desk Manager, LavaFlow ECN, a part of Citi's Global Equities business, about his experiences using the equity clearing cost calculator. LavaFlow provides order and execution management services, smart order routing and other trading technology services.

Q. How does the calculator benefit your business?

A. The improvement in transparency is probably one of the biggest benefits of the calculator. It makes it clear and easy to understand how the fees are calculated. In the past, I usually referred to DTCC's manual to look up the different pricing tiers and other cost information, such as value into and out of the net, to analyze our monthly clearing bill. Now all I have to do is enter basic data, such as our total sides for the month and discount rate, and the information is right there on the screen.

Q. In addition to total clearing costs for the month, the calculator provides the cost per side and per 100 shares for users. How do you use this information?

A. These data are particularly useful for management as it gives them greater insight into how clearing costs will change based on different volume estimations. We weren't able to readily generate this type of granular information

before. Now we can help our internal clients better understand each of the costs of the trading and clearance process.

Q. Was there a big learning curve when you first began using the calculator?

A. No, it was just the opposite. Once you plug in the relevant information, the calculator gives you its estimates immediately. I'd say that what used to take me 30 minutes to calculate I now accomplish in maybe two minutes. And as you can imagine, management is pleased that we now have a tool that quickly and easily estimates clearing costs and shows exactly how fees are calculated.

Q. Have you found other ways to use the calculator to support your business?

A. I've already used the calculator several times to evaluate new business opportunities and their potential for success. In fact, anytime we want to make a business decision related to clearing, we take advantage of the calculator. It's become an integral part of the decision-making process for us internally. And I can tell you that in a tight cost environment, having a resource like this to help inform our business decisions is critical.

Q. Have you found the estimates to be accurate?

A. Yes. In fact, accuracy is the value the calculator brings to our business. I've found it to be extremely accurate each time I've used it – almost to the dollar. At this point, I have a high degree of confidence in the calculator as a trusted and reliable tool – and one I intend to continue using. @

	Units	Gross Clearance Fee	Net Clearance Fees
Clearance Fee			
Tier I (0-35000 Units @ \$0.0175)	35,000	\$613	\$613
Tier II (35001-42000000 Units @ \$0.00096)	41,965,000	\$40,286	\$40,286
Tier III (42000001 and Over Units @ \$0.0005)	8,000,000	\$4,000	\$4,000
Individual Units Total - Billing Units (Sides)	50,000,000	\$44,899	\$44,899
Value Into Net Fee			

EuroCCP Customers Get Their Own Online Fee Calculator *by Melanie Best*

Shortly after it introduced U.S.-level high-volume pricing to Europe in October, EuroCCP added a fee calculator to its website, to enable trading firms to estimate their monthly clearing costs at varying volume levels using the firm's new tiered prices.

The online tool promotes one of EuroCCP's key objectives: to simplify pricing for customers and make costs more transparent.

"Trading firms want to be able to build predictable clearing costs into their models, so we've focused on delivering a pricing schedule that's easy to understand and has no hidden fees," said Andrew Simpson, EuroCCP's head of Product Management/London. "With the launch of our online calculator, we're reinforcing the message that EuroCCP listens to customers and puts a high value on transparency."

Tiered pricing made easy

EuroCCP provides pan-European clearance and settlement services for equities and Depositary Receipts traded on a variety of trading platforms. EuroCCP's three-tier pricing schedule provides an incentive for firms to increase their volumes. This scheme is responsive to current trends in trading, specifically the growth of high-frequency trading strategies and the desire by many firms to concentrate their volumes for clearing purposes in order to reap economies of scale in post-trade processing.

Using the fee calculator, existing customers looking to increase their volume flow through EuroCCP, as well as firms looking to become EuroCCP customers, have a fast and easy way to estimate their clearing costs.

"This interactive tool is aimed at helping firms test different volume scenarios," said Simpson. "We believe it will also support potential customers, letting them discover how much they can save by bringing their business to EuroCCP."

How it works

EuroCCP's fee simulator leverages technology DTCC implemented in June to create a similar calculator for National Securities Clearing Corporation's U.S. equities clearing fees (see article, page 10).

A user inputs the number of business days in a month and the number of trade sides (that is, the buy or sell position of a transaction). The tool responds with estimated daily and monthly EuroCCP clearing costs – denominated in euros – as well as the estimated average fee per side. It also breaks out the volume and cost information by pricing tier.

Under EuroCCP's new fee schedule, the lowest volumes (0 to 100,000 sides) are priced at 3 euro cents (€ 0.030) per side, mid-tier volumes (100,001 to 500,000 sides) are charged 1 euro cent (€ 0.010) per side, and the highest volumes (500,001 sides and above) are priced at one-fifth of a euro cent (€ 0.002) per side.

This third-tier price is Europe's lowest clearing price. Market participants are expected to continue pressing trading platforms to provide them with the competitive advantage of clearing through EuroCCP.

EuroCCP clears trades in 15 European markets in more than 5,000 equity issues in Europe and 120 listed Depositary Receipts. EuroCCP currently provides central counterparty services for equity trades on the Turquoise, SmartPool, NYSE Arca Europe and Pipeline trading platforms.

To access the fee simulator, go to euroccp.co.uk/participant/fee_calculator.php.

To view EuroCCP's fee schedule, go to euroccp.co.uk/docs/EuroCCP_Fee_Schedule.pdf. @

Processing Tiers	Daily Sides	Daily Clearing Fee	Monthly Clearing Fee
Tier I (0-100000 sides @ €0.03)	100,000	€ 3,000	€ 63,000
Tier II (100001-500000 sides @ €0.01)	400,000	€ 4,000	€ 84,000
Tier III (500001+ sides @ €0.002)	728,571	€ 1,457	€ 30,600
ESTIMATED CLEARING TOTALS	1,228,571	€ 8,457	€ 177,600
ESTIMATED AVERAGE FEE PER SIDE		€ 0.0069	

NSCC Will Further Automate 529 Plan Processing

by Karen Gregory

National Securities Clearing Corporation (NSCC), which supports 529 Plan transactions through its Fund/SERV® system, is ready to launch a first wave of enhancements to further automate and streamline the processing of these college savings accounts.

In the drive to bring new efficiencies to this sector of the industry, NSCC has been working with the Investment Company Institute's (ICI) Broker/Dealer and Bank/Trust Advisory Committees.

Look at the numbers

Assets in Section 529 college savings plans took a sharp plunge in 2008 but, according to the Financial Research Corp., that trend is turning around. In the second quarter of 2009, assets increased almost \$13 billion over the first quarter, reaching \$98.6 billion and narrowing the gap from a high of \$112 billion in 2007.

Today, program managers at mutual fund transfer agents process the majority of 529 Plan investment transactions directly for customers. As 529 Plan assets have grown, broker/dealer intermediaries have solicited fund program sponsors to allow them to process and hold 529 Plan customer accounts directly on their platforms. "This will streamline processing for all parties involved and ease compliance burdens for intermediaries holding these types of accounts," states Kathy Joaquin, director of Operations and Distribution for the ICI.

Preview of enhancements

Changes will affect both Fund/SERV and Networking, the latter used by funds and intermediaries for recordkeeping and customer account reconciliation.

Fund/SERV enhancements will allow 529 Plan transactions, such as purchases and liquidations, to be more easily identified and to specify whether they apply to a qualified or non-qualified redemption.

Other changes will include the ability to capture the beneficiary's Social Security number and address, cost-basis dollar amount and earnings-to-date dollar amount; and to indicate whether a purchase was a contribution from the previous year or a rollover.

Similar modifications have been made to Networking to provide firms with more details on their clients' transaction history with a fund company and help them better track and post fund-generated activity related to 529 Plan processing. These enhancements will also allow 529 Plan client accounts to be supported in a broker-controlled environment. In Networking, this translates to Level 3, or omnibus reporting, where intermediary firms maintain full control of a customer's account, handling all orders, customer statements and tax reporting.

"A 529 Plan is a particularly challenging type of account for a broker/dealer, and these changes will enable the industry to move forward," explained Steve Cutka, vice president and operations relations manager, American Funds. "This is an



important step in automating this business for both broker/dealers and program sponsors. NSCC's automated clearance and settlement system has greatly reduced operational risk and cost over the years for 1940 Act mutual funds and other pooled investments, and we expect that it will do the same for 529 Plans."

A state-by-state analysis

To make matters even more complicated, 529 Plans are considered municipal securities, with individual states involved in their oversight. Each state has its own program requirements and a different way of administering its plans. As a result, fund groups may need to consult with state agencies in order for intermediaries to hold 529 Plan accounts in a brokerage environment, thus allowing firms to fully utilize the new NSCC enhancements for these investments.

Joaquin said that some fund groups and intermediaries are making good progress on these discussions as the industry moves toward a more efficient processing environment. @

GCF Repos: Goodbye to Green Screens

by Jim Conmy

The old Green Hornet lives on in a Hollywood movie scheduled for release next year, but the old VMS green screen is dead as far as GCF Repo trade processing is concerned.

In order to simplify and speed up how interdealer brokers enter and monitor their GCF Repo transactions, DTCC's Fixed Income Clearing Corporation (FICC) has moved the reporting process away from its longstanding Virtual Memory System (VMS) green-screen-based system and onto the Internet via its Real-Time Trade Matching (RTTM) system. The migration to RTTM follows FICC steps in recent years to drive trade entry for other products onto the Internet through its RTTM web front-end system.

The official switch-over to the RTTM system, which lets brokers use interactive messaging to enter and monitor GCF Repo transactions, is set for the end of November, although many firms began making the change sooner.

Preparing for the transition

The transition to RTTM by the first users occurred smoothly, according to Richard Betts, DTCC product manager, Clearance and Settlement/Fixed Income. "We monitored the systems the weekend preceding the Monday change-over to make sure everything was on track," Betts said. "Trades made on Friday, which would settle on Monday, were entered via the old green screens and we wanted

to be sure the trade information could be mapped accurately to the new web screen layouts, which our customers would begin looking at Monday morning. We didn't encounter any trouble making the transition to the RTTM system."

Over the past few months, FICC has been sending out a steady stream of information to GCF Repo service customers to keep them up to speed on the RTTM transition and timeline.

To prepare its interdealer broker members for the new reporting system, FICC published a user guide for the new system in August, and simultaneously introduced a series of simulations showing firms how to enter trade data and affirm trades via RTTM's web frontend. Then FICC followed up with a test setting so that users could work directly on the new screens and familiarize themselves with the new functions the system offers. At the same time, this exercise gave brokers an opportunity to review the interactive messaging capabilities.

Despite all the preparation, in some cases, word that the system was changing didn't filter through to the people who actually enter the trade data, according to Betts. "We received calls Monday morning from a number of people wondering where the old green-screen system had gone," he said. To ensure these customers could get the day's transactions entered and updated, the FICC team walked them through the data entry steps on the RTTM system.

Broader trade view

Using the new RTTM system, interdealer brokers can now enter, track, modify, affirm or cancel trades. They can also query trades as well as monitor their trades either by CUSIP, by viewing the Home Page Statistics screen, or by checking the Broker Position Monitor. "The feedback we've received from broker/dealers has been favorable," said Elke Jakubowski, DTCC vice president, Clearance and Settlement/Fixed Income. "They find it much easier to monitor and review their positions."

Meanwhile, the green screens live on for the reporting of some other FICC products, including DVP repos. "Although brokers can report these transactions to us through RTTM, some still rely on the green-screen system," Betts said. FICC's plan is to phase out the last of the green screens in the first part of 2010.

[To learn more about the new reporting screens, contact Richard Betts at rbetts@dtcc.com or 212.855.7461.] @



DTCC Hosts Second Annual Customer Forum for Senior Executives

DTCC hosted its second annual forum for senior executives of customer firms on October 28 in New York. DTCC organized the all-day meeting, attended by approximately 100 executives, to enhance its outreach and communication at the senior level of customer firms.

Under the day's theme, "Leveraging DTCC to Support Industry Transformation," DTCC managing directors, industry executives and Washington experts weighed in on the role infrastructure can – and should – play in the re-regulation that is taking place in the financial services industry globally. Panelists and guest speakers also addressed the issue of changing market structures, and the impact of those changes on customers and the industry.

Donald F. Donahue, DTCC chairman and CEO, gave the opening remarks. (See speech excerpt, page 16). "We are poised on the precipice of a major push for re-regulation of the financial services industry in the U.S. and overseas. We all know that the regulatory and legislative winds that are blowing will be transformative for the industry, driving change through both domestic and global markets. Not surprisingly, there is legitimate concern in the industry over what re-regulation will bring, and the adverse consequences that over-regulation could have on the capital markets," he said.

"Last year's events brought into sharp relief how robust the industry's infrastructure risk-management capabilities need to be. We are working with our regulators on a broad range of projects to further build up those capabilities, deepening our standby liquidity support for settlement in the depository and the clearing corporations; improving the margining of more illiquid instruments

or positions; and improving stress-testing capabilities as examples."

On the agenda

A key goal of the meeting was to give customers and DTCC's senior management team the opportunity to engage in open dialogue on issues that will affect the industry in the coming year.

Agenda topics included:

- An analysis of what's on the horizon for 2010 and beyond with the shifting industry landscape, by Robert Hegarty, DTCC managing director, Market Structure;
- A panel on market structure, and the challenges and possibilities for customers and DTCC in this changing environment;



Panel on Challenges and Possibilities in a Changing Environment: (left to right): Jeff Gooch, CEO, MarkitSERV; William Hartnett, managing director, Citibank, N.A.; Joe Mecane, executive vice president and chief administrative officer, U.S. Markets, NYSE Euronext; Marshall Millsap, managing director, JPMorgan Chase & Company; and James Wallin, senior administrative officer – Fixed Income, AllianceBernstein Holding L.P.

Customer Feedback on the Forum

Following the executive forum, DTCC conducted an online poll to obtain attendees' views on the meeting's content and structure, especially what they found most valuable from the day's events, and what changes they might suggest for future events.

The feedback received from the executives who attended the forum will be used to plan next year's forum. Comments included:

- Good to hear from thought leaders within our industry. They paint a broad landscape of understanding that helps put the individual changes in a meaningful context.
- The speakers brought up issues that are seldom, if ever, discussed by the media.
- [I have a] greater appreciation of the strength of DTCC's management, and a better appreciation for the day-to-day role of DTCC's Board.
- Hit the mark on current issues.
- Timely panels on current industry issues germane to DTCC.
- Risk-based awareness and goals for future processing were front and center.
- [I have a] greater understanding of DTCC's value to the health and stability of the markets.

by Crystal Bueno

- A discussion about risk management and regulation;
- Insights on the impact to financial services of what's happening "inside the beltway," given by Michael Boland, founder of Dome Advisors. Dome Advisors is a policy and political risk advisory firm that provides information and analysis of economic, political and policy developments for institutional investors;
- An interactive panel featuring DTCC managing directors discussing their business initiatives, and new products and services in the pipeline;
- A panel of DTCC Board members who gave "A View from the DTCC Board," with insights on how the Board governs DTCC and helps set strategic priorities for the company.



Norman Eaker, chief administrative officer, Edward Jones



Michael Boland, founder, Dome Advisors (left) and George Swindasz, senior vice president, National Financial Services



Donald F. Donahue, DTCC chairman and CEO (left), and former Michigan Senator Donald W. Riegler, Jr.



Lorraine Oler, DTCC director, Relationship Management, and Robert Prigge, senior vice president, Wells Fargo Bank N.A.

Listening to customers

"The forum is an opportunity to hear directly from our customers on what their issues and concerns are – especially in light of the impending changes taking place in our industry – as well as discussing the value of DTCC's infrastructure and our business strategies, priorities, products and services," said Paula Arthus, DTCC managing director, Relationship Management.

"This was our second forum, and we aim to make next year a 'three-peat'," she said. @

[To see highlights from the 2009 Executive Forum, visit www.dtcc.com and go to Thought Leadership, then Issues and Initiatives.]



A View from the DTCC Board (left to right): Gerard LaRocca, managing director and chief administrative officer – Americas, Barclays Capital; Michele Trogni, group chief information officer, UBS Investment Bank; Robin Vince, managing director and global head of operations, Goldman Sachs; and David Weisbrod, managing director, JPMorgan Chase & Company

PHOTOGRAPHY BY TERI SLOTKIN

'Leveraging DTCC to Support Industry Transformation'

Donald F. Donahue, DTCC chairman and CEO, gave the keynote address at DTCC's annual forum for senior executives of customer firms, held October 28 in New York. Below is an excerpt from Donahue's remarks about re-regulation and risk management. To read the entire speech, visit www.dtcc.com, go to Thought Leadership, then Speeches & Presentations. For more on the forum, see article on page 14.

We are poised on the precipice of a major push for re-regulation of the financial services industry in the U.S. and overseas. We all know that the regulatory and legislative winds that are blowing will be transformative for the industry, driving change through both domestic and global markets. Not surprisingly, there is legitimate concern in the industry over what re-regulation will bring, and the adverse consequences over-regulation could have on the capital markets.

Over the past year, DTCC has been demonstrating that the infrastructure can play an important role in mitigating potentially more draconian regulatory measures. For instance, we have been able to leverage systemic risk tools, like our Trade Information Warehouse, to create transparency and demystify concerns that may exist about the over-the-counter derivatives markets.

That may serve as a model for other similar measures that can mitigate the impact of new regulations on the industry. We have no illusions that by ourselves we can head off what may be over-reactions from the regulatory and policymaking communities; but we hope that by working collaboratively with you, our customers, we can leverage our resources and credibility to find a middle ground.

New look at risk management

Last year's events brought into sharp relief how robust the infrastructure's risk-management capabilities need to be. We are working with our regulators on a broad range of projects to further build up those capabilities, deepening our standby liquidity support for settlement in the depository and the

clearing corporations; improving the margining of more illiquid instruments or positions; and improving stress-testing capabilities, as examples. But we also have to look at higher-level issues.

The experience of the last two years underscored vividly that structural changes in the way the industry does business – the growth of the “originate to distribute” model, for example – can drive fundamental changes in the nature and the extent of risks the

industry is exposed to, requiring that the industry's infrastructure think about risk issues more strategically, as well.

Much as the aftermath of September 11, 2001, fundamentally changed how we think about business continuity, the aftermath of September 15, 2008, changed how we need to think about risk, insisting that DTCC move beyond an essentially bilateral focus on how we're managing the risk of an individual member to encompass risk at the systemic level, ensuring that we can address system-level risks as well, fulfilling our responsibility to support safe and sound operation of the industry's infrastructure.

That's a fundamental expansion of focus. To take that challenge on, we have established a separate risk position with a mandate to think about and address systemic risks. DTCC's new chief systemic risk officer will be responsible for considering those broader issues.

How do our day-to-day risk-management activities impact the overall

stability of the financial system? How could our response in a crisis impact overall stability? What risks do we assume from the potential failure of those we are interconnected with, or rely heavily upon? How do we need to modify existing procedures to deal with risks that may no longer be appropriate for us to accept? What kinds of risks to stability could new services that we are offering create? And how can we act to mitigate them?

As you can tell, it's a very challenging responsibility, but also one that will contribute substantially to expanding DTCC's ability to deliver even more effectively on our risk-management mission. @

Last year's events brought into sharp relief how robust the infrastructure's risk-management capabilities need to be. We are working with our regulators on a broad range of projects to further build up those capabilities, deepening our standby liquidity support for settlement in the depository and the clearing corporations; improving the margining of more illiquid instruments or positions; and improving stress-testing capabilities, as examples.

But we also have to look at higher-level issues.

Lawmakers in U.S. and Europe Work Toward a Safer OTC Derivatives Market

by Judy Inosanto

In the aftermath of a financial crisis that threatened to dismantle the world's capital markets, regulation of the over-the-counter (OTC) derivatives market has been at the top of lawmakers and regulators' agendas on both sides of the Atlantic. In the past several months, the U.S. Congress and the European Commission have set forth policy proposals that reflect a common theme – greater oversight of the market to foster better risk mitigation and promote a safer marketplace.

Provisions in legislation making its way through the corridors of Capitol Hill and impending European Commission directives call for establishing central counterparties (CCPs) to guarantee that open OTC derivative transactions are completed if a trading party or financial firm fails and is unable to meet its contractual obligations. Reporting contract details into OTC derivative trades repositories to enhance market transparency is another important requirement appearing in these proposed policies.

OTC derivatives in the House

Following the release of the U.S. Administration's proposal for regulatory reform earlier this year, the Financial Services and Agriculture Committees in the U.S. House of Representatives approved different pieces of legislation that would require greater regulatory oversight of the OTC derivatives marketplace. The Committees are now working to reconcile the two bills and have said they hope to have a final bill ready for a vote by the full House before the end of the year. In the U.S. Senate, the Banking Committee recently released a discussion draft of its legislative proposal, with a markup of the bill expected to begin the first week in December.

While the House bills are different, they both would, for the first time, mandate that all standardized swap transactions between

dealers and "major swap participants" be cleared and traded on an exchange or electronic platform. Major swap participants are identified by the Committees as any person who is not a swap dealer and either maintains a substantial net position in swaps, excluding those held for hedging commercial risk, or any person whose outstanding swaps create a substantial net counterparty exposure that could lead to a material adverse effect.

The Financial Services Committee bill calls for more robust oversight with an emphasis on minimizing systemic risk by requiring the timely reporting of trade information to a central repository. The legislation also provides for public disclosure of aggregate data on swap trading volumes and positions,

as well as direct reporting of large swaps positions to regulators. In addition, the bill stipulates that rulemaking authority fall jointly under the Commodity Futures Trading Commission (CFTC) or the Securities and Exchange Commission (SEC) and requires

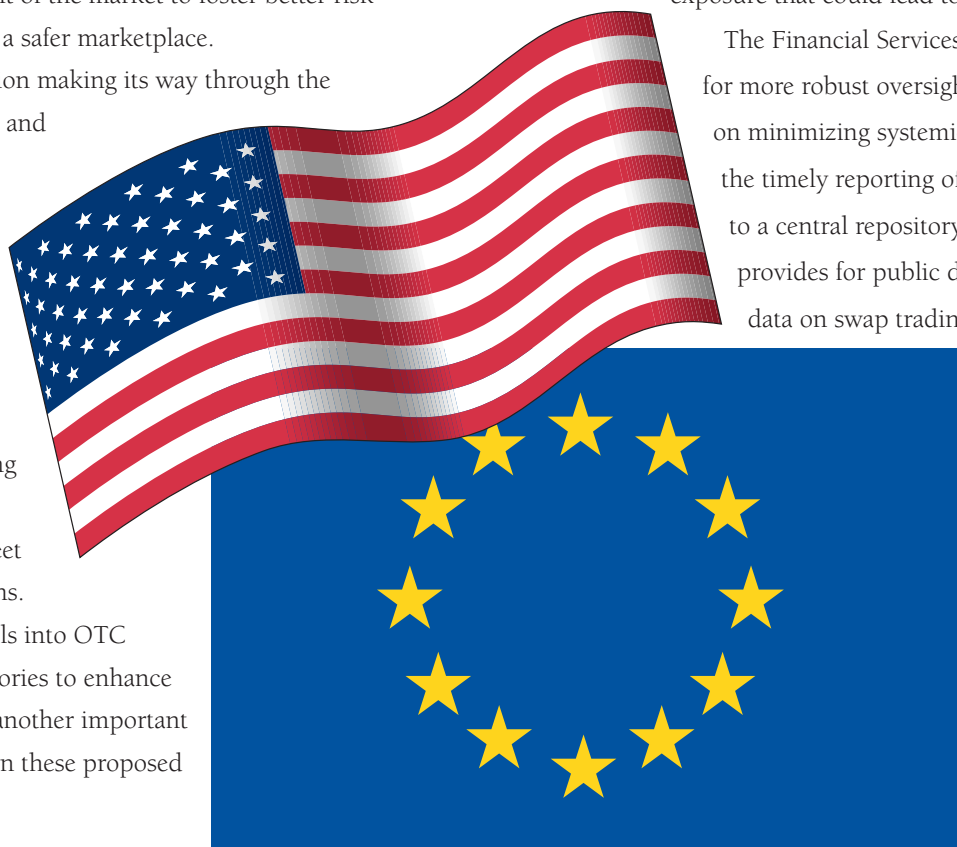
major swap participants to register with the appropriate Commission and, in applicable cases, dual registration.

The Agricultural Committee bill only requires reporting of data to the CFTC or the SEC, but does not mandate reporting to a trade repository. The bill requires consultation between the two agencies and does not have any registration requirements.

...And in Europe

On October 20, the European Commission released its Communication document, which defines future policy actions in Europe to increase transparency, reduce counterparty and operational risk, and enhance market integrity and oversight for the OTC derivatives market. The Commission anticipates drafting legislative proposals in 2010.

[continued on page 18]



A Safer OTC Derivatives Market *Continued from page 17*

The Commission's Internal Market and Services Commissioner Charlie McCreevy said, "This Communication marks a paradigm shift away from the traditional view that derivatives are financial instruments for professional use and thus require only light-handed regulation. The Commission proposes a comprehensive approach that will ultimately enable markets to price risks properly."

DTCC's Single Central Global Trade Repository

DTCC operates the world's only central trade repository and post-trade processing infrastructure for the over-the-counter (OTC) credit derivatives market. Its global customer base includes all major dealers and approximately 1,600 buy-side firms and other market participants based in more than 50 countries. To date, approximately 2.2 million credit default swap (CDS) contracts with a gross notional value of \$26.3 trillion are registered in DTCC's global repository.

DTCC believes that the market for OTC derivatives, regulators and the public are best served when both cleared and uncleared trade data across the globe are reported to a single, central repository for each asset class. By maintaining the most up-to-date position records in a single location, regulators are able to assess risk from a central vantage point, which is critical, particularly in times of crisis.

To view DTCC's positions on global OTC derivatives regulation and the value of trade repositories, go to the *The Case for a Trade Repository* under Issues and Initiatives in the Thought Leadership section of www.dtcc.com.

For information on congressional legislation, go to the House Committee on Financial Services webpage at www.financialservices.house.gov and the House Committee on Agriculture webpage at www.agriculture.house.gov.

For the European Commission's October 20 communication, go to the Commission's website at www.ec.europa.eu. Information on the OTC Derivatives Regulators' Forum is available in the news and events section of the Federal Reserve Bank of New York website at www.newyorkfed.org.

This Communication outlines the Commission's future policy actions. Similar to the proposed U.S. legislation, the Commission seeks to:

- Reduce counterparty risk by mandating CCP clearing for standardized contracts, establishing common safety, regulatory and operational standards for CCPs, improving collateralization of bilaterally cleared contracts and raising capital charges for bilaterally cleared as compared with CCP-cleared transactions;
- Reduce operational risk by promoting standardization of the legal terms of contracts and of contract processing;
- Increase transparency by requiring market participants to record positions and all non-cleared transactions into trade repositories; regulating and supervising trade repositories; mandating the trading of standardized derivatives onto exchanges and other organized trading venues; and increasing the transparency of trading, particularly in post-trade, as part of the review of the Markets in Financial Instruments Directive (MiFID) for all derivatives markets;
- Enhance market integrity and oversight by clarifying and extending the scope of market manipulation as set out in the Market Abuse Directive (MAD) to derivatives and by giving regulators the possibility to set position limits.

Global marketplace

Given the global nature of the market, regulators around the world have recognized the need for collaboration to ensure that implementation of policies meets their collective objectives of a safe marketplace for OTC derivatives.

To this end, major regulators including Deutsche Bundesbank, the European Central Bank, Committee of European Banking Supervisors, the European Commission, the Bank of France, the Bank of Japan, the UK Financial Services Authority, the CFTC, the Federal Reserve and the SEC, among others, have formed the OTC Derivatives Regulators' Forum to promote cooperation, the exchange of views and the sharing of information related to OTC derivatives, CCPs and trade repositories.

The Forum aims to provide mutual assistance in mandating regulators' respective authorities and responsibilities to promote consistent public policy objectives and oversight approaches. The group also stated plans to develop an international cooperative oversight arrangement that may be applied to individual systems. @

DTCC Marks 10th Anniversary by Ringing NYSE Closing Bell



Senior officials of DTCC rang the closing bell at the New York Stock Exchange on November 19, marking the 10th anniversary of DTCC's creation as the central infrastructure supporting the financial markets in the U.S. and overseas. Clearing and settling more than \$1.88 quadrillion in securities transactions last year, DTCC plays a central role in bringing safety, soundness and transparency to the financial industry.

"Since it was established, DTCC has delivered services that have helped the U.S. capital markets remain the most competitive, robust and liquid in the world, which has been instrumental in attracting the flow of investment capital," said Donald F. Donahue, DTCC chairman and CEO. "DTCC has provided the risk mitigation and processing efficiencies that have allowed its customers to drive down post-trade costs to record lows for a wide

variety of financial instruments. However, our most important role is to bring the certainty, stability and reliability that protect the integrity of the financial system during times of crisis and adversity.

"The past decade has seen dramatic changes across the industry and, since our customers are just as likely to be headquartered in

Europe as in the U.S., we have transformed ourselves into a global organization that is delivering the benefits of innovative, post-trade processing solutions to a more diverse range of market participants and a broader range of asset classes."

DTCC has grown in the last 10 years to encompass seven subsidiaries, including four clearing corporations, which underpin the global financial marketplace. The company serves virtually the entire financial industry, from broker/dealers and banks to insurance carriers, mutual funds and hedge funds around the world. @

'DTCC has delivered services that have helped the U.S. capital markets remain the most competitive, robust and liquid in the world, which has been instrumental in attracting the flow of investment capital.'

— Donald F. Donahue,
DTCC chairman and CEO

DTCC Celebrates 10 Years *by Helen Cunningham*

Ten years ago, on November 8, 1999, DTCC announced completion of the final step in the integration of The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC). The deal closed when all shares in DTC and NSCC were exchanged for shares in the new entity, a holding company called The Depository Trust & Clearing Corporation, under which DTC and NSCC would operate as subsidiaries.

In 1999, the vision for the integration of the two companies was to leverage their respective strengths to create a single organization that would support the changing U.S. financial services industry. DTCC was expected to increase synergies, drive down costs, strengthen the industry's technology platform and advance an international strategy for the U.S. industry infrastructure.

At that time, it was impossible to anticipate the blistering pace of change in

the industry, the volatility, the exponential growth of volumes, the proliferation of trading platforms, the expansion of new asset classes, the new business continuity requirements and the new types of risk – not to mention that two of the top five broker/dealers in the industry would not exist 10 years later.

“All these changes put tremendous demands on the infrastructure in spheres of activity that were not on the drawing board when DTCC was created,” said Donald F. Donahue, DTCC chairman and CEO. “As a result, we have seen an order-of-magnitude shift in the level at which DTCC must perform.”

Power of one

In announcing the official launch of DTCC in 1999, then-chairman and CEO Jill Considine said, “We are looking forward to beginning the new millennium as one company with a unified strategy, purpose and mission: to be the provider of

choice worldwide for investment servicing solutions through leadership, innovation and technology.” The inaugural annual report, whose theme was “The Power of One,” captured the spirit of the new company.

DTCC delivered on the initial drivers for the integration while continuing to give the industry the efficiency and reliability it had come to expect from DTC and NSCC. The new organization also proved agile in an ever-changing environment, taking a leadership role on a range of industry issues. And, as DTCC expanded into new asset classes, geographies and client segments, it created new subsidiaries and joint ventures under the holding company umbrella. (See timeline below for milestones since 1999.)

The organization also confronted events no one could have predicted, including 9/11, the largest blackout in U.S. history in 2003 and the collapse of Lehman Brothers in 2008. During those and other

A Snapshot of DTCC's First Decade

1999 DTC and NSCC are integrated under a new holding company, The Depository Trust & Clearing Corporation (DTCC), to create a unified strategy that meets future industry needs for efficiency, lower cost and enhanced risk management. ♦ NSCC revs up the insurance industry by automating annuity application processing, premium payment and financial reporting.

2000 Years of DTCC's Y2K preparations pay off as customers smoothly transition post-trade processing operations to 2000. ♦ GSCC introduces real-time trade matching (RTTM), significantly reducing intra-day market and operational risk in government securities markets, aimed at ultimately providing STP. ♦ GSCC inaugurates the first cross-margining arrangement for cash markets, linking them to futures markets for U.S. Treasury securities through an agreement with the New York Clearing Corporation.

2001 On 9/11, DTCC depository and clearing corporation systems help to maintain vital liquidity and restore confidence in financial markets by remaining up and functional 100% of the time. ♦ They complete settlement of \$280 billion in trades that day, and \$1.8 trillion by the end of the week and pave the way for the reopening of the markets on September 17. ♦ DTCC combines its TradeSuite business with Thomson Financial to create Omgeo, a global joint venture with 6,000 customers worldwide and the technology to handle institutional trades on an STP basis. ♦ DTC and NSCC are awarded S&P's top credit/debt rating (AAA/A-1+). ♦ DTC Asset Servicing, fed by record underwriting volume, logs its busiest year ever, handling \$4 trillion worth of business. ♦ DTCC completes final testing and assists the securities industry in its historic switchover to decimal pricing in April. ♦ DTCC launches European Pre-Issuance Messaging Service (EPIM) in conjunction with Euroclear and Clearstream.

volatile times, DTCC rose to the challenge to support the industry, and then applied lessons learned from the experiences to further fortify the infrastructure for the future.

“We certainly moved the ball much further than we had anticipated in 1999,” said Donahue in looking back on the expansion of DTCC’s risk responsibilities and capabilities. “Initially, the DTCC value proposition was heavily weighted on cost reduction, but the experience of this decade has made clear that it’s not just about cutting costs, it’s also about reducing risk.”

During the first part of the decade, DTCC focused on aligning its risk infrastructure with mainstream industry practices. Since then, the mandate has become far broader. “Today, when it comes to risk management, the industry recognizes that DTCC needs to be ahead of the curve, rather than in the mainstream,” Donahue said. **[continued on page 22]**

In 1999, it was impossible to anticipate the blistering pace of change in the industry, the volatility, the exponential growth of volumes, the proliferation of trading platforms, the expansion of new asset classes, the new business continuity requirements and the new types of risk — not to mention that two of the top five broker/dealers in the industry would not exist 10 years later.

2002 DTCC implements new strategies to safeguard the nation’s post-trade processing system with broad business continuity and disaster recovery plans, including expanding the number of decentralized and remote data facilities and enhanced telecommunications systems. ♦ NSCC launches real-time trade interface with the New York Stock Exchange. ♦ MBSCC launches real-time trade matching to reduce industry cost and risk. ♦ GSCC and MBSCC are consolidated under the DTCC holding company umbrella. ♦ NSCC achieves a record low cost of 4.7 cents per side to clear a trade. ♦ Omgeo launches the financial services industry’s first cross-border central matching service, bringing straight-through processing to institutional securities transactions. ♦ DTC and NSCC are again awarded S&P’s top credit/debt rating (AAA/A-1+).

2003 GSCC and MBSCC merge to become the Fixed Income Clearing Corporation (FICC), DTCC’s newest clearing corporation, to capitalize on synergies for the fixed income market. ♦ NSCC launches real-time trade interface with Nasdaq. ♦ DTCC launches the Global Corporate Actions Validation Service, providing outsourced announcement scrubbing services for global markets. ♦ DTC and NSCC receive S&P’s top credit/debt rating (AAA/A-1+) for the third consecutive year.

2004 DTCC achieves a historic milestone by settling more than \$1 quadrillion in securities transactions — an amount considered unimaginable just three years prior. ♦ DTCC scores overall customer satisfaction rating of 90% in its annual industry-wide survey. ♦ Deriv/SERV experiences a break-out first year in providing an automated post-trade processing solution for the OTC derivatives market by quadrupling its customer base and breaking even financially. ♦ FICC attains the highest credit/debt rating of AAA/A-1+ from Standard and Poor’s to join two other DTCC subsidiaries, DTC and NSCC. ♦ DTCC implements a nationally recognized, award-winning initiative to ensure full data recovery in the event of a catastrophic act as part of its aggressive business continuity efforts following the attacks of 9/11. ♦ DTCC opens a service center in Shanghai to accommodate demand for its rapidly growing Global Corporate Actions (GCA) Validation Service.

DTCC Celebrates 10 Years *Continued from page 21*

“The fact that we began preparing for the potential failure of a major member in 2005 illustrates that we have moved to the forward edge of risk management.”

Now DTCC is taking steps to increase its focus on systemic risk, including the recent hiring of a new chief systemic risk officer. (See article, page 3.)

Intersection of cost/volume curves

DTCC's achievements over the past 10 years include its success in driving fees to their lowest levels ever, while seamlessly processing volumes that surged to dizzying new heights. In fact, its fees represent just a sliver of the cost of overall trading.

For instance, DTCC charges the lowest equity clearance fees in the world. Back in 1999, its NSCC subsidiary charged 8.2 cents per equity side. Now, 10 years later, the company charges about one-third of a penny. Said another way, for each 100 equity shares in a trade, customers today pay an average of just 66-thousandths of a

penny. DTCC's ability to continually lower fees across all its subsidiaries over the past 10 years has allowed it to return billions of dollars to the industry in fee cuts and rebates.

Meanwhile, the decade also saw equity volume catapult to astonishing levels. Between 1999 and 2008, annual volume processed grew twenty-fold to 21.9 billion transactions with a value of \$315 trillion. In 1999, DTCC processed total equity volume of 1.6 billion transactions with a value of \$70 trillion.

A quantum leap

In addition to processing surging volumes, DTCC's technology organization faced challenges including: reinforce and disperse the industry's infrastructure to strengthen business continuity post-9/11; create new products on time and within budget; roll out enhancements to existing products; reengineer the legacy systems that had served the industry for decades; insource applications and systems from

SIAC; strengthen risk systems; implement global messaging standards.

DTCC succeeded in these and other initiatives thanks to a behind-the-scenes transformation of its technology organization.

Today, DTCC is the only U.S.-headquartered financial services organization to achieve the Capability Maturity Model Integration (CMMI) Level 3 rating across its entire applications development group, with progress beyond this level well under way. And last year, DTCC became one of the first companies in the industry to install the IBM z10, considered the first commercially available super-computer on the market.

Indeed, the company has moved quality and process management to center stage across the entire organization. Today, employees apply the skills and experience gained from quality programs including Six Sigma, CMMI and the Information Technology Infrastructure Library (ITIL),

2005 DTCC's operational efficiencies and economies of scale yield the highest-ever rebate in the company history – \$528 million is returned to customers, a 141% increase over 2004. ♦ DTCC intensifies its risk management practices by implementing quarterly stress and back testing for all its clearing corporations. ♦ DTC demonstrates its global reach by enhancing its two-decade-old relationship with the Canadian Depository for Securities (CDS) to settle transactions in Canadian dollars. ♦ FICC, DTC and NSCC all receive S&P's top credit/debt rating (AAA/A-1+).

2006 DTCC sets a new record by settling more than \$1.5 quadrillion in transactions. ♦ DTCC attains its highest-ever customer satisfaction score of 91%. ♦ DTCC builds on the success of its Deriv/SERV confirmation service with the launch of its Trade Information Warehouse to automate reconciliation and processing of OTC derivatives. ♦ DTCC unveils its Managed Accounts Service to eliminate inefficiencies and risk associated with opening and maintaining managed accounts. ♦ DTCC expands its global reach as it begins to sign a series of information-sharing and collaboration agreements with clearing and depository organizations in Brazil, China, India and Pakistan. ♦ DTCC increases its capacity for processing equity transactions to more than three times peak volume, or 160 million sides per day. ♦ DTC, NSCC and FICC are again awarded S&P's top credit/debt rating (AAA/A-1+).

2007 DTCC's tight management controls and enhanced efficiency produce the largest-ever fee reduction of \$198 million for 2008. ♦ EuroCCP wins bid to provide clearance and settlement for the new pan-European trading platform, Turquoise. ♦ Deriv/SERV continues remarkable growth and becomes electronic matching and confirmation platform serving the OTC derivatives market. ♦ DTCC signs five Memorandums of Understanding (MOU) to enhance new opportunities with clearing and depository organizations in China, India and Pakistan. ♦ DTC, NSCC and FICC receive S&P's top credit/debt rating (AAA/A-1+).

2008 DTCC closes out more than \$500 billion in market participants' exposure from the Lehman bankruptcy – the largest and most complex in its history – with no impact on the clearing fund deposits of customers or DTCC's funds. ♦ Trade Information Warehouse manages the centralized and automated processing of 11 credit events, including Lehman Brothers Holdings Inc., Fannie Mae, Freddie Mac and Washington Mutual, completing settlement of \$12 billion in net funds transfers from net sellers to net buyers of protection on approximately \$285 billion (aggregate gross notional value) of CDS contracts written on these entities. ♦ To enhance transparency in the CDS market, DTCC works with regulators and market participants to disclose summary data on the outstanding notional values (gross and net) on the top 1,000 underlying CDS single-name reference entities and CDS indices registered in the Trade Information Warehouse.

to continually gain new efficiencies, cut customer costs, innovate, ensure reliability and improve customer service.

And customer survey scores indicate a high level of satisfaction with DTCC. For the past four years, it has received an overall satisfaction rating of 91% (see article, page 1).

Global footprint

Globalization also marks DTCC's first decade, with the organization extending its products and infrastructure to support firms whose businesses are increasingly global.

In 2001, DTCC created Omgeo, a joint venture with Thomson Financial to serve the institutional market globally. And 2003 saw the launch of Deriv/SERV LLC, a new subsidiary that took DTCC into a new and booming global asset class: over-the-counter derivatives. The same year, DTCC rolled out the Global Corporate Actions Validation Service. In 2007, DTCC established its European subsidiary,

EuroCCP, to provide clearance, settlement and risk management services on that continent. And in 2008, the company entered the global syndicated loan space with its Loan/SERV product offering.

Today, DTCC serves customers out of offices in New York, London, Shanghai, Tampa and elsewhere, bringing the automation, resilience and trust that have long served the U.S. industry to new regions. What's more, DTCC has a growing roster of non-U.S. clients. Approximately 160 customers operate directly from offices outside the U.S., a number that rises to 600 when including the firms served by MarkitSERV, DTCC's joint venture with Markit for the over-the-counter derivatives market.

In addition, DTCC's clearing houses have opened their doors to direct membership by non-U.S. firms. FICC's membership, for example, now includes sovereign wealth funds from Asia and the Middle East, as well as the World Bank.

DTCC also has signed memoranda of understanding with 11 infrastructure partners from Brazil, China, India, Japan, Korea, Pakistan and Taiwan.

Then, now and into the future

"It is difficult to imagine that just in the last decade we had numerous clearing corporations and depositories, all operating separately in the United States," said Donahue. "Today, the infrastructure functions as a cohesive organization that offers customers a robust platform and an integrated package of services they can rely on."

Forward thinking also characterizes DTCC, according to Donahue. "Our board members and our staff are always focused on the issues that will be facing the industry in the coming years," he said. "And this ability to stay ahead of the curve is part of the richness of the organization." @

◆ DTCC and OCC implement changes to the Accord governing the sharing of resources in the event of a participant default that eliminates duplicative margining requirements for dual members on expiration Fridays. ◆ EuroCCP successfully launches and achieves a peak daily record of more than 500,000 transactions in just its second month of operations. ◆ NSCC reduces the cost per transaction to clear a trade to about one-third of a U.S. penny – the lowest ever in the company's history. ◆ DTCC boosts its equity clearing processing capacity to an unprecedented 500 million transactions per day. ◆ DTCC and Markit announce plans to form a new company that will provide a single gateway for confirming OTC derivative transactions globally. ◆ DTCC enacts its deepest fee cuts ever, totaling more than \$260 million. ◆ DTCC successfully receives permission from the SEC to admit non-U.S. members to DTC and NSCC. ◆ DTCC becomes the only U.S.-based financial services organization to obtain an enterprise-wide CMMI Level 3 certification for Applications Development and Maintenance processes. ◆ DTC, NSCC and FICC are again awarded S&P's top credit/debt rating (AAA/A-1+). ◆ DTCC launches Loan/SERV to help automate and streamline the processing of syndicated commercial loans. ◆ DTCC receives SEC approval to launch the Alternative Investment Product (AIP) suite of services to provide end-to-end processing of investor-level transactions for hedge funds, funds of funds, private equity and other investments.

2009 DTCC announces it will support all CCP solutions for credit default swaps to bring greater certainty and safety to the market. ◆ DTCC announces plan to implement a real-time trade date guarantee for all Continuous Net Settlement (CNS) eligible trades, including equity, corporate bond and municipal bond transactions, pending regulatory approval. ◆ EuroCCP begins clearing for the NYSE Arca Europe multilateral trading platform, NYSE Euronext's SmartPool platform and for trades in Spain. ◆ FICC conducts successful end-to-end testing for the MBS CCP. ◆ FICC's Government Securities Division receives approval to extend membership and risk management services to include direct participation by non-U.S. broker/dealers and banks. ◆ DTCC seeks SEC approval to expand central counterparty clearing and risk management services for tri-party repurchase agreements (repos). ◆ DTCC and NYSE Euronext finalize an agreement to create a joint venture, New York Portfolio Clearing, that will offer risk management, clearing and settlement efficiencies for U.S. fixed income securities and derivatives, margining cash and derivatives in a "single pot" to improve operational and capital efficiency. ◆ DTCC receives overall customer satisfaction rating of 91% for fourth consecutive year in survey conducted by independent research firm.

New Book Describes Clearance And Settlement – in Plain English

by Crystal Bueno

A new book is now available that describes clearance and settlement in a way that is accessible, readable and user-friendly – the “plain English” explanation of what happens after the trade.

Published by Lightbulb Press and co-authored by DTCC, this new publication, “Guide to Clearance and Settlement: An Introduction to DTCC,” is the first book of its kind produced from an industry infrastructure organization.

Plain-English challenge

“This project was originally born from the need to have something to help educate our diverse constituencies –

including public policymakers, regulators and the investing public – about the role DTCC plays in the industry, especially to broaden awareness during this intense period of financial re-regulation,” said Stuart Z. Goldstein, DTCC managing director, Corporate Communications. “The challenge in writing it, however, was not just in trying to distill our arcane business language into ‘plain English,’ but the fact that week-by-week, our business and our industry are changing.”

Following the financial crisis last year, and especially after the fallout from the Lehman Brothers’ bankruptcy, infrastructure organizations were credited as a source of stability and reliability for the industry. “This created a good deal more interest in DTCC and the functions it performs managing risk and supporting capital markets,” Goldstein said. “To the average person outside of financial services, DTCC’s stats are eye-popping: last year the company settled \$1.88 quadrillion in securities transactions, across multiple asset classes, essentially turning over the equivalent of the U.S. gross domestic product every three days.”

With a clear explanation of how post-trade infrastructure works, this book is also of interest and value to the general public, academics and the media.

The Wall Street Journal cited the publication in its “Overheard” column on November 18:

“The ‘Guide to Clearance and Settlement’ explains an unglamorous but vital financial pillar, with such page-turning chapters as ‘Matching and Netting.’ Overheard welcomes the

‘plain English’ approach and the DTCC’s modesty: ‘We don’t expect our book to be a wild runaway New York Times bestseller.’” @

[The “Guide to Clearance and Settlement: An Introduction to DTCC” is available from Amazon.com and from DTCC’s website at www.dtcc.com. DTCC welcomes your comments and questions.]



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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