

New Central Counterparty for Mortgage-Backed Securities Passes Pilot Test with Flying Colors

by James Conmy

Fixed Income Clearing Corporation (FICC) compared more than \$780 million worth of mortgage pools in September as part of the first full pilot test of its soon-to-go-live central counterparty, which will mitigate risk in mortgage-backed securities trading and guarantee completion of the transactions.

During the course of the pilot tests, which FICC limited to two classes of securities and five participating firms, the central

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NYSE Euronext And DTCC Finalize Agreement For NYPC

NYSE Euronext and DTCC have finalized their formal agreement to create an innovative new joint venture, New York Portfolio Clearing (NYPC). A draft application for NYPC to be granted status as a Derivative Clearing Organization with the Commodity Futures Trading Commission (CFTC), and draft amendments to the rules of DTCC's Fixed Income Clearing Corporation (FICC), are expected to be circulated to the CFTC and Securities and Exchange Commission (SEC), respec-

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in this issue



'One-pot' Portfolio Margining



One-Step Processing For Canadian Securities



New Core Business Manager

Dashboard Delivers Timely Updates On Data Outputs

by Helen Cunningham

DTCC customers now have access to a dashboard that will give them timely status updates on the availability of the batch file output they receive from DTCC subsidiaries. This web-based tool gives firms the information faster and more easily than in the past, dispensing with the need to call DTCC hotlines to obtain updates on their file outputs.

The browser-based tool, called the File Output Dashboard, creates a single access point where customers can ascertain the availability of key data from DTCC throughout the day. The dashboard also informs them if and why transmissions will be delayed, and estimates the time those outputs will become available. With this information, firms can better manage their

own downstream processing and make any needed adjustments to their DTCC-related internal processes.

“The dashboard brings a new level of transparency to the exchange of data between DTCC and customers, telling them when their outputs are, or will be, available,” said Mark Vercreyusse, DTCC managing director, Relationship Management. “As soon as we know, they know.”

Vercreyusse noted that the dashboard reflects DTCC’s commitment to improve communications on all fronts. “When customers can simply go online to obtain up-to-date status reports on their files without calling DTCC, everybody wins,” he said.

While this project will allow DTCC to phase out DataTrak, AutoRoute and other

The dashboard brings a new level of transparency to the exchange of data between DTCC and customers.

legacy communications applications, Hin emphasized that DTCC is managing the migration to ensure it does not require customers to change their procedures or systems for interfacing with DTCC for data exchanges.

Accessing the dashboard

The File Output Dashboard, which has been running in pilot since July with seven firms, is now open to all DTCC customers.

To register to use it, customers can contact the DTCC Access Coordinator (AC) within their firm. Customers who do not know their AC or do not have one at their firm can contact DTCC’s Registration Support Group at 888.382.2721 (option 5, option 2 for U.S. and Canada) or 212.855.8099 (option 5, option 2 for International).

Alternatively, visit DTCC’s website at www.dtcc.com and click on Customer Center and look under Customer Tools for service activation. The website also has a quick-training reference guide.

DTCC is offering ongoing webinars on how to use the Output Dashboard. To learn more or schedule a session, email training_administrator@dtcc.com or call 1.888.258.6393. @

[To learn more about the File Output Dashboard, contact John Bautz at jbautz@dtcc.com or 212.855.1330. You may also visit www.dtcc.com/dashboard]

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In one location

The File Output Dashboard builds on a DTCC initiative to consolidate the multiple legacy systems that handle interactions between customer data transmissions and the DTCC applications that process them. In a migration that is transparent to customers, DTCC is bringing all these applications under the umbrella of a single system called Common Data Transfer Services (CDTS).

“By end of 2009, we will have moved to CDTS the legacy systems that account for approximately 90% of the volume in files and messages,” said Bruce Hin, DTCC vice president, Customer Service Group. These include most outputs from National Securities Clearing Corporation’s equity business, Fixed Income Clearing Corporation, Wealth Management Services, Trade Information Warehouse and Insurance & Retirement Services. The remainder of the data, including most of the output from The Depository Trust Company, will transition to CDTS over the next two years.

EuroCCP Launches Clearing and Settlement For Depository Receipts

by Melanie Best

EuroCCP began clearing and settling 120 of the most heavily-traded listed Depository Receipts on October 16. With this new central counterparty service offering, EuroCCP extends to Depository Receipts transactions the efficiency, cost-saving and counterparty risk protection benefits it already provides to clients' equities transactions.

In addition to clearing a wide selection of Depository Receipts in Europe, EuroCCP's service will stand out by providing the most convenient settlement location for customers. Initially all transactions will settle at Euroclear Bank. Some ISINs are eligible both at Euroclear Bank and The Depository Trust Company (DTC) and, for these, after the initial period, the settlement location will be determined at the ISIN level at the one location most convenient to the majority of participants – either Euroclear Bank or DTC. This approach will facilitate customers' position management, limit customers' need for cross-border realignments and help to reduce overall processing costs.

Extending CCP clearing

Commenting on EuroCCP's new Depository Receipts service offering, James Cressy, head of EuroCCP Operations, said, "Diversification of the instruments covered by EuroCCP clearing and settlement offers new levels of safety to the markets by extending our central counterparty clearing to a new category

of securities. There was clear market interest in the EuroCCP Depository Receipts service offering, and we worked in close cooperation with our users to develop it."

Depository Receipts transactions cleared and settled through EuroCCP will be priced at the most competitive levels now available in Europe, with fees starting at 3 euro cents per side (€0.030) and falling to one-fifth of a euro cent (€0.002) per side. (See box below for details on EuroCCP's pricing structure.) And for those transactions subject to voluntary corporate actions, EuroCCP will offer buyer protection by allowing customers to make elections on failing positions.

EuroCCP has appointed Citi's Global Transaction Services (GTS) as EuroCCP's settlement agent for these instruments, extending its existing relationship with GTS.

Turquoise will be the first multilateral trading facility (MTF) to offer trading in Depository Receipts cleared through EuroCCP. Virtually all of these issues are priced in U.S. dollars.

New instruments

According to Tom Isaac, Global Head of Client & Sales Management for Financial Intermediaries, Citi, "Citi is extremely pleased to continue to build its relationship with EuroCCP to include the settlement of Depository Receipts. This appointment reflects Citi's ongoing commitment and ability to support the needs of central counterparties in this region. We look forward to continuing to work with EuroCCP as it expands its clearing capabilities into new instruments and markets."

Depository Receipts are transferable securities that represent ownership of a specified number of shares in a foreign company. Listed and traded independently from the underlying equity, Depository Receipts enable traders to invest directly in high-growth economies in a cost-effective way. They represent a significant segment of the international securities markets business today.

The new service marks the latest addition to EuroCCP's ongoing program of innovation, which includes a significant restructuring of fees and expansion into further financial instruments and market sectors. EuroCCP, which currently clears and settles trades for four multilateral trading facilities (MTFs), in January 2010 will extend its services to the national exchanges owned by NASDAQ OMX in Denmark, Finland and Sweden. @

[To view the listing of Depository Receipts traded on Turquoise, go to www.tradeturquoise.com. To learn more about EuroCCP, visit www.euroccp.co.uk.]

EuroCCP's New Fee Structure

Effective October 1, EuroCCP implemented a new, tiered fee structure that leverages the company's economies of scale to deliver Europe's most competitive pricing. Clearing fees are calculated monthly and based on a participant's average daily volume for that month. Volumes up to and including 100,000 average daily sides are priced at 3 euro cents per side (€0.030); from 100,001 to 500,000 average daily sides, the fee is 1 euro cent per side (€0.010); and volumes above 500,000 average daily sides are priced at one-fifth of one euro cent (€0.002).

Furthermore, volume discounts under the new fee schedule are calculated at the participant level, which provides significant value to high-frequency trading firms now operating across multiple markets.

New Central Counterparty

Continued from cover

counterparty netted out or eliminated more than half of the eligible pools and related payments for the transactions. FICC clears an average of more than \$9.2 trillion in mortgage-backed securities trades in the U.S. market each month.

Designed to reduce post-trade risks and costs for the fixed-income markets, the central counterparty is awaiting final regulatory approval from the Securities and Exchange Commission (SEC), which previously agreed that live “pilot testing” of the system should take place on a limited, controlled basis.

Quantifying the benefits

Currently, mortgage-backed securities trades handled through FICC clear and settle on a bilateral basis. While FICC restricts its mortgage business to “agency paper” – securities issued by government-sponsored agencies – the trades are not guaranteed if one of the counterparties, such as a broker/dealer, goes bankrupt or is otherwise unable to complete settlement.

The new central counterparty will dramatically change this model. “As a result of netting and FICC stepping in as the counterparty to guarantee the trades,

firms will avoid the risks and expense of having to exchange billions of dollars worth of payments and securities when the trades settle,” said Sean Delap, DTCC vice president, Clearance and Settlement/Fixed Income. “The pilot tests represent the culmination of more than three years of work, and it’s rewarding to see how much risk the new system can wring from the current settlement methodology.”

During the test period, firms submitted 1,205 mortgage pool instructions. FICC’s netting system found 884, or 73%, of the instructions eligible for pool netting, and was able to eliminate 456 for a netting factor of 51.6%. “Those are solid numbers given the limited scope of the test,” Delap said. “When we have more participants and securities involved, we expect the netting factor will really start to climb.”

Participating in the pilot test, which began in mid-September for mortgage-backed securities trades scheduled to settle September 17, were Fannie Mae, Credit Suisse, Goldman Sachs, J. P. Morgan Securities and Morgan Stanley & Co.

To prepare for participation in additional upcoming pilot testing, FICC recommends that companies have their

staff go through FICC’s pool netting training and simulation exercises, which are available on the DTCC Web site. In addition, firms have to complete the “end-to-end” tests that FICC runs to determine whether participants or vendors have the communications links and related procedures in place to participate.

Another test scheduled

FICC has scheduled another round of live testing for October involving the same initial pilot firms and eligible securities. Additional firms are expected to join the pilot group for a third round of testing in November.

“We want to make sure the system functions flawlessly,” noted Kate Connelly, DTCC Director, Clearance and Settlement/Fixed Income, “and we want to give additional firms experience dealing with what amounts to a substantial change from long-standing industry procedures.”

The September live pilot test followed FICC’s introduction of new notification-of-settlement technology at the end of July, plus the successful completion in mid-August of end-to-end practice tests for all the firms in the pilot group. @

FICC Offers New Marketing Materials

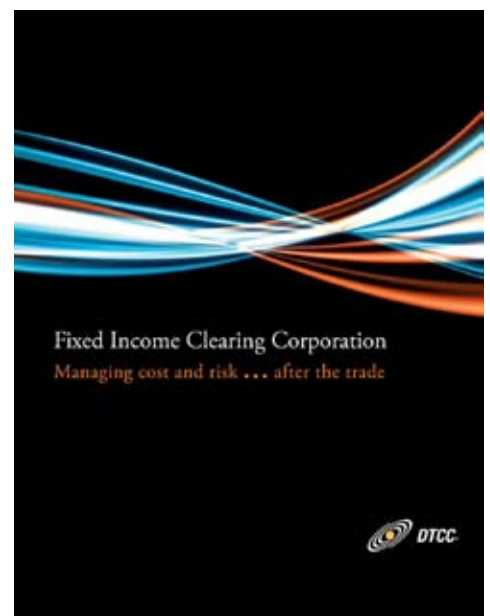
Fixed Income Clearing Corporation (FICC) has produced new marketing materials as part of its drive to broaden its customer base to more hedge funds and non-U.S. firms, while expanding the services it offers existing customers. The brochure and product fact sheets spell out how FICC brings innovation and cost-cutting to the end-to-end processing of fixed-income trades for U.S. Treasuries and mortgage-backed securities.

“We developed our marketing materials to clearly explain to potential new customers and trade groups the value FICC delivers to the industry,” said Gary Chan, DTCC vice president, Product Management. “The materials are also a good tool for existing customers who may want to use more of our services or need to explain FICC’s role to their internal constituents.”

As well as a description of FICC’s growing role in the post-trade world for fixed-income trades, the materials include a

dozen new or revised product and service fact sheets that detail everything from FICC’s membership requirements to how substitute collateral can be submitted for repurchase agreements.

To receive copies of the new materials, contact rmsupport@dtcc.com, or visit www.dtcc.com, then go to Fixed Income. @



DTCC Plans Relocation to New Jersey

The Depository Trust & Clearing Corporation (DTCC) announced plans to relocate a significant portion of the DTCC staff based in the Northeast U.S. to a new location in New Jersey when its current lease expires at the end of 2012.

Under the plan, DTCC will relocate about 1,600 staff members to Newport Office Center in Jersey City, on the Hudson River waterfront across from Manhattan, with employees expected to move in early 2013.

“After lengthy deliberations with officials in New York and New Jersey, we have concluded that a move to New Jersey is the right decision,” said Donald F. Donahue, DTCC Chairman and CEO. “New Jersey offers us a favorable business climate, convenient access to our customers in the greater metropolitan area and also allows us to disperse our staff more widely for business continuity purposes. New Jersey will benefit from an infusion of 1,600 highly skilled professionals who specialize in financial services, information technology and operations. We are also excited to tap into New Jersey’s skilled workforce as our business grows in the future.”

Donahue credited the aggressive outreach and support to Governor Jon Corzine and his economic development team, including Chief of the Office of Economic Growth Jerry Zaro and New Jersey Economic Development Authority (EDA) CEO Caren Franzini as the company evaluated its relocation strategy. He also acknowledged the hard work and support of Jersey City Mayor Jerramiah Healy and Hudson County Executive Thomas A. DeGise.

“Governor Corzine and the New Jersey Economic Development Authority actively pursued DTCC and were very responsive to our needs and concerns throughout this

process,” Donahue said. “The Governor personally called me several times to discuss the economic and business advantages of relocating to New Jersey and made a persuasive case on the benefits of this move. The process, which began last year, considered a wide range of variables. We looked at numerous options, but in the end, we concluded that relocating these operations to New Jersey would allow us to manage our cost structure and position the company for continued business expansion in the years ahead.”

The decision follows more than one year of work with real estate professionals and outside consultants, and involved extensive discussions with New Jersey state officials, New York State officials and officials from the City of New York. DTCC used a broad set of criteria to make the decision, including the competitive costs for a long-term lease, economic incentives, availability of infrastructure support (telecom, transportation), accessibility to DTCC headquarters, the ease of commuting for our employees, ability to retain and recruit highly skilled staff to the

location and other quality-of-life issues for DTCC employees.

While the bulk of DTCC’s Northeast-based staff will make the move to New Jersey, DTCC will retain a headquarters location and approximately 700 employees in lower Manhattan, as part of its ongoing and long-standing commitment to New York City and State.

“DTCC has a long history of working with New York and had productive conversations with the Mayor’s Office about our plans for the end of this lease,” Donahue said. “In recognition of the fact that New York remains the principal financial center for the U.S., we are delighted to be able to maintain a significant presence in lower Manhattan. With support from the City of New York, we are continuing to negotiate for space in lower Manhattan to accommodate our corporate headquarters and a number of new growth businesses. Senator Schumer has been particularly active in these discussions and played an important role in our decision to keep our headquarters and senior management positions in New York.” @

Corporate Actions Initiative Builds Business Case

by Ted Davis

With the goal of reducing risk in the processing of corporate action announcements, DTCC, SWIFT and XBRL US launched the “Issuer to Investor: Corporate Actions” initiative in May 2009. Since then, the three organizations have been building consensus – within the industry and among issuers – on the need to automate corporate action communications in the U.S. and expand the effort on a global basis.

The group is working on a business case that will mark for the first time an end-to-end analysis from the perspective of all parties in the corporate-actions chain. The intent is to demonstrate that a solution to the communications challenge exists in the form of XBRL (eXtensible Business Reporting Language). XBRL is electronic data-tagging technology, already used by public issuers in the U.S., that has the potential to dramatically streamline corporate actions announcement processing.

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A 'One-Pot' Margin for Fixed Income Cash Derivatives Trades: How Will It Work?

by James

Full portfolio margining – or, as many traders refer to it, “single-pot” margining – is the principal concept underlying the new joint venture for clearing listed rates derivative trades, which DTCC and NYSE Euronext announced in June.

It's also a concept that has gained appeal in the securities industry during the last few years, according to Murray Pozmanter, DTCC managing director, Clearance and Settlement/Fixed Income.

The new joint venture, named New York Portfolio Clearing, will clear a firm's trades executed on NYSE Liffe US, which is the futures exchange of NYSE Euronext, and combine the margin for these trades in the same account with the firm's margin for its cash market trades cleared through DTCC's Fixed Income Clearing Corporation (FICC).

Because trades in the two separate markets tend to offset each other, New York Portfolio Clearing expects to be able to create considerable capital efficiency. In addition, this change will give firms a look at their entire trading portfolio across fixed-income asset classes, while offering regulatory authorities a comprehensive view across the industry's fixed-income asset classes – a bird's-eye view that's not available today.

Rising margin costs

Margin is money that member firms deposit with their clearing organizations each day to make sure they have enough collateral or back-up funds available to cover any financial exposure on trades that haven't settled yet.

Margin costs usually consist of two parts. One component comprises the funds clearing corporations require to cover or “cushion against” the risk of the trade. This

piece is often described as “initial margin.” The other component, usually referred to as “variation margin,” is the money clearing corporations collect to cover the mark-to-market price of the securities. If the value

of a security that's been sold rises over the course of a day, for example, it will be marked-to-market at the higher price and the trading firm will have to post the difference in variation margin.

The 'One-Pot' Recipe

How would full portfolio or “one-pot” margining work under the announced DTCC/Euronext joint venture for clearing listed rates derivative trades?

If a trader buys five-year U.S. Treasury notes, for example, his firm may have to add to its initial margin account for this trade. By the end of the day, meanwhile, if the market price has moved down, the value of securities purchased would be worthless. That means the firm also has to add “variation margin” because the mark-to-market price has dropped. This price movement, together with the call for additional collateral to protect the open position, could result in substantial amount of margin (initial margin + variation margin) having to be posted for this trade alone.

To hedge this cash trade, meanwhile, the trader may also sell similar U.S. Treasury contracts in the futures market. His firm may also have to add to its initial margin account for this trade.

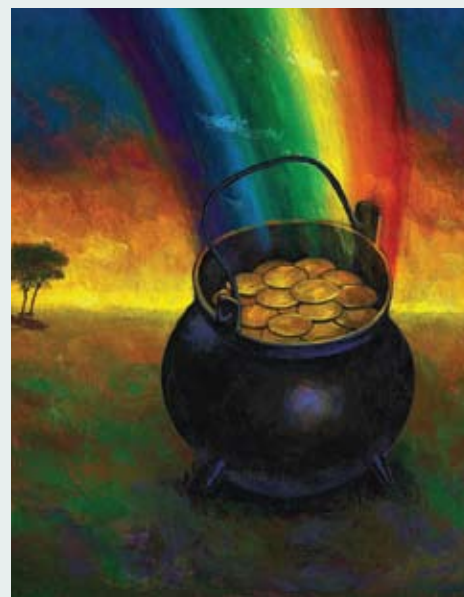
The trading firm has now likely posted thousands of dollars in margin for these two trades, even though the trades were set up to balance or offset each other. Multiply this example by the total trades per day for the same firm and the numbers can quickly move into the millions of dollars.

In one-pot portfolio margining, by contrast, the total margin would be much less.

First, the fall in the cash mark-to-market price can be set off against the rise in the futures market price, because the futures position will be sold. So the total mark-to-market or variation margin is now reduced. (Cash market variation margin minus futures market variation margin.)

In addition, because the futures position is a natural hedge for the cash market trade, the amount of risk or “initial” collateral required can also be reduced.

This significantly reduces the combined risk margin for the two trades.



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Depending on a firm's trading strategy and the size of its portfolio, margin costs can accumulate quickly. Over the last three months, for example, aggregate margin accounts at FICC for both U.S. government and mortgage-backed securities trades have averaged \$31 billion per day.

Cross-asset trading

Contributing to the rise in margin costs these days, Pozmanter said, is that firms trading U.S. government securities now routinely use cross-asset strategies geared to trading across the full spectrum of the fixed-income markets, from cash through derivatives, in order to look for arbitrage opportunities as well as to balance their trading book.

In fact, this type of trading strategy has become so widely accepted that some trading firms now employ algorithms based on the idea that they not only need to trade more than one asset class at the same time, but also need to do it with the speed and precision that algorithms can bring to the task.

"It's much easier for firms if they can trade more than one asset class from a single platform," Pozmanter noted. "But it obviously rankles firms that they have to post margin in every market where they trade, even though the trades tend to offset each other and logically should reduce, not increase, the need for margin." Pressure on margins over the past year has put heightened focus on this usage of capital.

Overcoming this problem of "multiple margin pots" is one of the primary aims of the proposed joint venture which, pending regulatory approval, NYSE Liffe US and FICC expect to have operating by the second quarter of 2010. @

NYSE Euronext and DTCC

Continued from cover

tively, in the coming weeks. NYPC expects to be operational in the second quarter of 2010, pending regulatory approval.

"NYSE Euronext is thrilled to finalize this groundbreaking agreement with DTCC," said Thomas F. Callahan, CEO of NYSE Liffe US. "NYPC is a story of innovation. Because of the strength of our Global Derivatives franchise, NYSE Euronext is singularly positioned to partner with DTCC on this important initiative due to our proprietary technology, strong capital base, broad market connectivity and our industry-leading futures clearing expertise."

'Single pot' for margining

NYPC has the potential to provide substantial capital relief to the industry, while opening the U.S. futures market to new competition. By margining cash and derivatives markets in a "single pot," rather than through existing cross-margining agreements, NYPC will be the first to bring together cash positions and their natural derivatives hedge in an open manner designed to substantially improve both operational and capital efficiency. At the same time, NYPC will significantly increase transparency by giving regulators a more comprehensive tool to manage and mitigate systemic risk across asset classes. FICC handled about \$4.5 trillion in trading each day in the fixed-income market in 2008.

"Through our open-access model, DTCC intends to support competition in the U.S. futures markets. By extending the unique NYPC risk methodology to multiple markets and products, we will offer our unique capital efficiencies to a wide range of customers and market participants," said Murray Pozmanter, DTCC managing director, Clearance and Settlement/ Fixed Income. "DTCC looked at several potential providers of derivatives clearing technology. We decided after

careful review that NYSE Euronext has the robust, proven and ready technology and appropriate safeguards to ensure a successful launch of this initiative. The other providers did not have the technology to meet those criteria."

NYPC's risk and margin methodology will be unique in the industry. The new clearing house will promote competition in the U.S. futures market by accepting and clearing trades from multiple qualifying trading platforms and clearing organizations, after an initial period designed to successfully launch and ensure NYPC's systems and risk management are working optimally and consistently with the requirements of regulators. "A sequential rollout has been endorsed by our Board and our customers as a prudent strategy to minimize implementation risk and to ensure the success of New York Portfolio Clearing," Pozmanter said. @

Snapshot of NYPC

New York Portfolio Clearing (NYPC) will be a joint venture between NYSE Euronext and DTCC.

NYSE Euronext plans to commit a \$50 million financial guarantee as a contribution to reinforce the safety and soundness of the NYPC default fund.

Pending required regulatory approvals, NYPC initially plans to clear interest rate products traded on NYSE Liffe US. NYPC will be powered by NYSE Euronext's market-leading clearing technology, TRS/CPS, which currently facilitates member position management for the NYSE Liffe market in London and ICE Clear Europe.

DTCC will provide FICC's market-leading capabilities in risk management, settlement, banking and reference data systems.

DTC Offers One-Step Processing For Canadian Securities

by Bari Trontz

The Depository Trust Company (DTC) now offers all DTC customers the ability to settle Canadian securities that are not fully eligible for DTC services. This capability, which is offered by DTC's Canadian-Link Services, can potentially reduce cross-border processing costs and inefficiencies that result from dual-currency transactions.

Canadian securities that are not regulated by the U.S. Securities Exchange Commission do not qualify as DTC-eligible and, therefore, are blocked from participating in the dual settlement offered by Canadian-Link Services. Now, customers that register to use "intra-DTC," as this new capability is called, can have these "limited-eligible" securities unblocked for DTC settlement in U.S. dollars, Canadian dollars or free of payment. ("Free of payment" means DTC will handle the transfer of a security from one account to another, but the payment will be settled outside DTC.) Prior to the 2008 rollout of intra-DTC transactions, customers could only settle Canadian securities in Canadian dollars through The Canadian Depository for Securities Limited (CDS), the national central securities depository of Canada.

Expanding services

DTC established a link with CDS in the early 1980s to facilitate cross-border security movements. In 2005, DTC rolled out the Canadian-Link Services to offer a Canadian dollar settlement service that allowed DTC participants to process cross-border Canadian dollar securities transactions with participants of CDS. In 2008, DTC expanded the service to streamline corporate action processing, offering new processing capabilities for income, redemption and corporate actions

payments. Previously, DTC customers had to turn to CDS, or other custodians, to handle corporate actions.

"The intra-DTC transaction capability is a valuable extension of our Canadian-Link Services in that it removes the CDS step and associated fees, and delivers a one-stop clearing process for our

DTC transactions and their growing popularity is the client base it has captured over the last year, including a major U.S. firm and Canaccord Capital Corp., a leading independent, full-service investment dealer in Canada, which was an early adopter of the intra-DTC platform.



customers," said Patrick Kirby, DTCC managing director, Asset Services. Previously, the settlement process required customers to funnel trades through CDS in Canadian dollars, which incurred additional fees and resulted in longer transaction periods.

Canadian-Link Services is designed to address the growing asset servicing needs that customers encounter in processing DTC-eligible Canadian securities and to eliminate the need for firms to maintain separate inventories in Canadian and U.S. securities. Eligible and qualified DTC members, both broker/dealers and banks, can use Canadian-Link Services.

Customer perspective

A testament to the efficiency of intra-

"We have embraced intra-DTC activity because it enables us to settle our balance-order trades more efficiently while also mitigating risk and reducing cost," explained Terry Puls, Canaccord Capital Corp., supervisor, U.S. and International Settlements. "With intra-DTC activity, Canaccord has eliminated transaction delays and additional costs that the traditional multi-layered process requires, and it allows us to complete the settlement process with one quick step. Our experience with this service has been exceptional and we anticipate more firms will sign up for it." @

[To learn more about Canadian-Link Services, contact John Casalino, DTCC Product Manager, Asset Services, at jcasalino@dtcc.com or 212.855.5683.]

UW SOURCE Begins Processing Equity Issues

by Steve Letzler

The underwriting of equities just got streamlined. On October 9, The Depository Trust Company's (DTC) reengineered underwriting platform, called UW SOURCE, began processing equity instruments.

UW SOURCE frees firms from the need to submit paper documents and faxes to DTC for the purposes of equities underwriting, and instead captures all the pertinent information electronically. "This change marks a breakthrough in the eligibility process for these instruments," said Patrick Kirby, DTCC managing director, Asset Services. "It brings greater efficiency and transparency to the eligibility process, which benefits all parties involved in the underwriting chain."

Price incentives

DTC is encouraging customers to transition to UW SOURCE as soon as possible, since the legacy DTC systems for equities underwriting (WUN and PUND) will be decommissioned on January 1, 2010.

While DTC will continue to accept paper questionnaire submissions for underwriting eligibility, it is charging reduced fees for underwriting handled through UW SOURCE. Firms can obtain a further fee cut if they opt to submit additional details, such as information on puts and calls, to the new system. This information will further streamline DTC's downstream processing of the issue after the initial distribution.

"If a firm sends the additional data, we will apply a fee discount, since that information will save time and effort at the time of the underwriting," said Ann Marie Bria, DTCC director, Product Management. A complete fee schedule for UW SOURCE will be available before year-end.

To drive customer adoption of the system next year, effective January 1, 2010, DTC will levy a penalty of \$2,000 per CUSIP submitted on firms that continue submitting information via the paper questionnaire.

Equity types that will be accepted by the new platform include common stock, preferred stock, equity derivatives, limited partnerships, closed-end funds and American Depositary Receipts. Corporate debt and Certificates of Deposit will be added to the system going forward. (UW SOURCE has been processing new municipal bond issues electronically and disseminating that information widely to the industry since 2008.)

Better communications

User testing of UW SOURCE took place from early August until

September 25. Customers encountered few problems and also benefited from better communications with DTC's Underwriting Department.

'UW SOURCE brings greater efficiency and transparency to the eligibility process, which benefits all parties involved in the underwriting chain.'

-Patrick Kirby, DTCC managing director, Asset Services

"The new system gives firms an electronic platform to communicate directly with DTC," Bria said. "It tells customers which DTC specialist is handling their submission, outlines missing information needed for settlement eligibility and provides a real-time update on the status of their transaction."

How to get there

Customers can access UW SOURCE for equities using a secure browser connection or via MQ Series computer-to-computer messaging. Using the browser, firms can either enter data in each field on the screen or upload a formatted spreadsheet to DTC using the system.

Users at each firm need to register to gain browser access, which is through DTCC Web Direct. If a firm already has a designated Access Coordinator for DTCC Web Direct services, then the coordinator can register and open access to individual users at the firm. Firms that do not have an Access Coordinator must send the appropriate request form, available on DTCC.com's website, to Raven Walowitz at rwalowitz@dtcc.com in DTCC Implementation Services to be set up to use the system.

Instructions for accessing the UW SOURCE system for equities, as well as how to use the system, are available on DTCC's website. Go to www.dtcc.com, then Thought Leadership, Issues & Initiatives and select Reengineering. From there, select Underwriting Project Status Updates in one of the blue boxes on the right of the page, and then select UW SOURCE Detailed Implementation Information (.doc) in the bottom blue box of the page. @

[For more information on UW SOURCE for equities, contact Ann Marie Bria, DTCC director, Product Management, at abria@dtcc.com or 212.855.4024.]

DTCC Rolls Out New Solution to Streamline Transactions in the In

DTCC has launched Attachments, a new electronic solution designed to streamline the processing of required paperwork and signatures for pre-sale and post-issuance transactions in the insurance industry. The service allows insurance carriers and distributors to electronically exchange unstructured information, such as digital or imaged documents, signatures and forms that are required in the processing of annuity and life insurance contracts.

Developed by Insurance & Retirement Services (a unit of DTCC's National Securities Clearing Corporation subsidiary), Attachments mitigates operational risk by reducing the number of "not-in-good-order" (NIGO) transactions and prevents delays associated with faxing or mailing paper documents. It also helps to meet increasing regulatory and compliance requirements by introducing an automated process that produces a transparent audit trail.

"The introduction of Attachments will help the insurance industry meet the challenges of a more demanding regulatory environment where mitigating risk and increasing transparency are imperative for growth," said Adam Bryan, DTCC managing



director, Insurance & Retirement Services. "This new solution is also an important step in increasing efficiency, reducing costs and supporting straight-through processing for transactions throughout the lifecycle of an insurance product."

'Touchless' transactions

Attachments provides a secure, web-based, paperless

Customers Get More Fee Relief by Ted Davis

Insurance & Retirement Services (I&RS) has introduced certain price changes designed to further reduce customers' net cost of doing business with DTCC subsidiaries.

"Bundled pricing" provides an incentive for customers to adopt new products offered by Insurance & Retirement Services. "Extraordinary event pricing" gives customers expense relief in navigating the complex mergers and other large corporate events that have accompanied the market upheaval of the past year.

"This latest round of fee reductions is designed to further cut customers' operational costs and drive adoption of our services," said Adam Bryan, DTCC managing director, Insurance & Retirement Services. "The changes also recognize that the economic downturn of the past year

has put unusual budgetary pressures on our clients."

In 2007 and 2008, I&RS delivered millions of dollars in fee reductions to customers, including the elimination of all membership and file fees.

I&RS is a unit of DTCC's National Securities Clearing Corporation (NSCC) subsidiary.

Bundled pricing

Effective October 1, 2009, customers are eligible for a discount on two administrative transactions that allow distributors to make changes in the BIN (Broker Identification Number) and REP (Registered Representative) fields.

The first \$350 worth of these BIN or REP transactions each month will be processed free of charge. On top of that waiver, customers will receive a credit

equal to 30% of the amount of BIN and REP fees paid each month (net of the \$350 discount). This credit will be applied against each customer's fees for I&RS core products (Positions, Commissions, Financial Activity Reporting, Applications, Subsequent Premiums and Asset Pricing).

"The new fees reflect our ongoing dialogue with customers," said Leonard Schmitt, DTCC group director, Relationship Management. "Offering a credit in connection with usage of new products compensates firms for any development costs they may incur to adopt them."

Extraordinary events

Also effective October 1, 2009, customers are eligible for reductions in certain I&RS fees that may result from

[continued on page 12]

environment that reduces processing costs by eliminating the need for manual copies, post mail and faxes. Firms will benefit from reduced mailing and handling costs, immediate “touchless” transactions, heightened security and the production of more in-good-order contracts.

The multi-function support service enables insurance companies and distribution firms to exchange digital documents, signatures and forms during the pre-sale, new business and post-issue processing of annuity and life insurance information.

After a successful testing period, 15 customers are currently using Attachments, and a growing list of distribution firms are in the process of implementing the new solution.

More to come

Attachments will be used to support documentation exchange for other I&RS offerings. In 2010, development plans include adding the Attachments capability to the I&RS Access platform, a web-based front end that allows a no-development, no-cost portal through which customers can provide key information through data entry to transmit attachments to their business counterparties.

Attachments is the second web service developed by Insurance & Retirement Services in XML message format and is based on the ACORD Life and Annuity Standard. Fund Transfers (FTR), introduced in 2008, automates and standardizes the fund reallocation process for variable insurance products. Scheduled for an early 2010 pilot, Replacements (RPL) will automate the process of replacing an annuity or life insurance product from one carrier with a similar product to another carrier. @

Customer Perspective: How One Firm Mines DTCC Data to Build Business Intelligence

Partnerships play a key role in DTCC's strategy for expanding the reach of its services. In the Insurance & Retirement Services (I&RS) business, Lansare Corporation is one solution provider that partners with DTCC to provide core services such as Positions & Valuations and Financial Activity Reporting. Sometimes the partnerships yield unexpected benefits.

Paul Nowak, president of Lansare Corporation, recently wrote an article about the ways his firm, which specializes in hosted business intelligence and servicing solutions for insurers and distributors, uses the data it receives from Insurance & Retirement Services to strengthen its own client relationships.

An excerpt from the article, written for DTCC's Insurance Quarterly (IQ) publication Fall 2009 issue, follows. To see the full text, visit the DTCC website at www.dtcc.com/products/insurance.

The Business Intelligence Value of Your DTCC Data

by Paul Nowak, president of Lansare Corporation. Nowak is a chartered financial analyst and member of the CFA Institute, the global association for investment professionals.

Has your organization thought about the business intelligence (BI) value of your DTCC Insurance & Retirement Services data? If you're not tapping into this data, you're missing opportunities to preserve client relationships, grow your book of business and protect your firm's reputation. By mining your I&RS data, you can deliver actionable BI to internal users in sales and compliance.

Why now?

You're probably weary of hearing about the economy. But the reality is that every day you see it reflected in staffing cuts, tighter budgets and perhaps even greater regulatory scrutiny over your functional area. Despite this, the current business climate provides an excellent opportunity to strengthen your market position and improve operations. A BI program utilizing your I&RS data can help you to take advantage while competitors are scrambling.

First, clients are looking for guidance about financial matters in these turbulent times.



Paul Nowak, president of Lansare Corporation

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Customer Perspective: Mining DTCC Data

Continued from page 11

You can provide guidance while rebuilding their trust through meaningful, personalized communication. Your I&RS data is rife with information about the client, including recent life events, policy events and transaction activity that reflects the unfolding lives. This data should be mined and delivered to advisors



regularly, so they have a reason to reach out to clients. In doing so, you instill confidence in your firm and its products.

Second, you've probably been asked to do more with less these days, which means getting the most out of every asset at your disposal. One of your most important assets is client data. Your I&RS data is an excellent source of client information, and a business intelligence initiative is one way to unlock its value.

Finally, you're likely feeling the burden of increased regulatory scrutiny. You can conduct ongoing surveillance of post-sale activity within your book by putting your I&RS data files to work within a BI initiative. You can monitor your data for potentially risky activity and demonstrate sound business practices that protect your clients' interests.

Why I&RS product data?

The fundamental goal of any BI initiative is to deliver the right information to users so they can make decisions and take action. The "right" information is high-quality data that is accurate, consistent, timely and complete.

Data Accuracy: The BI value of any data set is reduced as errors increase. I&RS data files are subject to rigorous data-

processing and validation standards by your firm and DTCC. Your I&RS product data are a clean, reliable data source and well-suited to a business intelligence effort.

Data Consistency: The BI value of your data is affected by the degree to which various data elements and the business rules surrounding the data are clearly defined and consistently applied. DTCC has outlined data definitions and standards for you to follow. Meanwhile, your organization has probably compiled a data glossary providing additional detail for custom fields specific to your organization. Your I&RS data has well-defined definitions and rules that are readily understood and easily shared among users, making it a perfect source of business intelligence.

Regularity: The BI value of your data is enhanced if users can rely on data updates occurring on a regular basis. Since your I&RS data files are processed on a predictable schedule, they are set up for a BI initiative.

Missing Data: The BI value of your data is diminished when data elements are missing from the file. Chances are your firm is not utilizing every placeholder within each I&RS product file specification. For example, your firm may be foregoing product and rider-specific information because it isn't (or wasn't at the time) pertinent to you or your counterparty. Fortunately, the I&RS product file specifications are designed to accommodate additions and changes. So your primary objective should be to derive as much business intelligence value from the data as it exists today, with the goal of adding new data elements over time. @

[To learn more about Insurance & Retirement Services, visit the DTCC website at www.dtcc.com.]

More Fee Relief

Continued from page 10

extraordinary events, such as mergers or mass account reconciliations that generate unusually high transaction volume for a limited duration. To obtain this discount, customers must receive written approval from a DTCC senior executive. (Customers can contact their relationship manager for details.)

For transaction types where the customer has no history of prior usage, the credit will be for 85% of the

transaction fees chargeable for that type of transaction, with an additional credit of 5% if the customer continues use of the transaction type in its usual processing after the event.

When the customer has a history of prior transaction usage, the credit is an amount sufficient to produce an aggregate fee for the transaction type that is no more than 120% of the average amount charged to the customer for that

transaction in the prior three months.

These fee changes will help customers minimize the costs associated with processing the unusually high number of "extraordinary" events that have occurred over the past year. @

[To learn more about these price changes, contact Leonard Schmitt at lschmitt@dtcc.com or 212.855.2636. To learn more about Insurance & Retirement Services, visit the DTCC website at www.dtcc.com.]

DTCC Renews Call for Public Mandate Supporting Trade Repositories for OTC Derivatives

by Craig Donner

DTCC called for legislative language mandating a trade repository for over-the-counter (OTC) credit derivatives contracts in testimony recently submitted to the House Financial Services Committee.

Larry E. Thompson, DTCC general counsel, said, “As the operator of the only global trade repository, we have a unique perspective on its value in helping regulators mitigate systemic risk during a crisis. We believe that all derivatives traded by U.S. financial institutions should be reported to a single trade repository for each asset class, which would serve regulators as a comprehensive source of information. From a public policy perspective and in the interests of ensuring the stability and transparency of financial markets, there must be a consolidated, comprehensive single entity that collects and maintains the underlying position data and makes it available to regulators in the most efficient, timely and usable manner.”

Concerns about legislative proposals

In the testimony, Thompson expressed concern that current legislative proposals, which require only those trades that are not cleared through a central counterparty (CCP) to be reported to a repository, could undermine the goals of re-regulation and represent a step backward by reducing the level of transparency that now exists in the marketplace.

“We are concerned that the legislative proposals under consideration would have the effect of denying regulators the opportunity to see systemic risk from a central vantage point because it would fragment the existing information on CDS contracts stored in the repository,” Thompson said. “We strongly recommend

that the draft legislation before the House be revised to ensure that all credit default swap trades, regardless of whether they are cleared or not, be reported to a single swap repository, which exists to provide regulators and the public with the consolidated information they need during normal times, and, especially, at times of crisis.”

Protecting the market

DTCC has publicly stated that it will support all efforts to create CCP services planned in the U.S. and overseas on a non-discriminatory basis. Thompson stressed that when both the CCP and repository work in tandem to support each other’s functions, risk can be significantly mitigated – and transparency enhanced in the marketplace.

“We are concerned that some in the OTC derivatives market may assume once a trade guarantee is provided through a central counterparty, there may be less need for a central registry to track the underlying position data,” Thompson said. “We reject this view, based on our long experience managing the risk flowing from the failure of a single member firm. At the critical juncture of a firm failure, knowing the underlying position data of multiple transactions in a timely manner will be significant in providing transparency to regulators – and in protecting confidence in the market itself. We believe the role of having a central repository should be reinforced as a matter of public policy.”

DTCC supports the goal of transparency and believes repository data should be shared with regulators in the U.S. and overseas. DTCC also supports the efforts of the OTC Derivatives Regulators’ Forum, a group of international regulators who recently announced plans to develop

a global framework for regulatory cooperation and to share ideas and information on CCPs and trade repositories serving the OTC derivatives market.

The Trade Information Warehouse not only provides essential information on the underlying position data of CDS transactions, it also mitigates risk by handling the calculation, netting, and central settlement of payment obligations between counterparties, and automates the processing of “credit events” – situations where the protection against default provided by a credit default swap is activated.

Since last year, DTCC has seamlessly processed or is processing, through the Warehouse, more than 40 credit events, including the Lehman Brothers and Washington Mutual bankruptcies as well as the conservatorships for Freddie Mac and Fannie Mae.

Because the industry had in place a robust, centralized infrastructure for the CDS market in the wake of last year’s financial turmoil, market participants were able to manage the multiple processing and operational challenges they faced with a greater degree of certainty and efficiency.

Following the Lehman bankruptcy last year, DTCC played a significant role in unwinding over \$500 billion in open trading positions from trades in equities, mortgage-backed and U.S. government securities, without any loss to the industry – and avoiding additional burden on taxpayers.

The Warehouse connects and services more than 1,400 global dealers, asset managers, and other market participants. @

[To view the entire text of Thompson’s testimony go to DTCC’s website at www.dtcc.com and click Thought Leadership.]

DTCC Names Industry Veteran to Oversee Core Businesses

by Steve Letzler

DTCC recently appointed Andrew Gray, a long-time Merrill Lynch & Co. veteran, to the new position of managing director, Core Product Strategy and Management.

Gray will be responsible for overseeing DTCC's core businesses, including U.S. Clearance and Settlement of equities and fixed income products, Asset Services, Wealth Management Services and Insurance & Retirement Services. He reports to Michael Bodson, DTCC executive managing director for Business Management and Strategy.

"Andrew brings more than 20 years of financial services experience to DTCC, with a substantial background in both U.S. and international activities," said Donald F. Donahue, DTCC chairman and CEO. "He has a proven record in restructuring and growing businesses and has broad management experience in strategy, finance and technology. We're pleased to have him join DTCC in this senior leadership role, as we continue to build and expand our business globally."

Industry experience

Gray spent more than a decade with Merrill Lynch. Most recently, he served as managing director and chief operating officer (COO) for Merrill's Latin America and Canadian businesses, where he was responsible for the development and execution of the strategic plans and business growth initiatives for the region. Gray also was responsible for overseeing all support, control and infrastructure functions for the business. In addition to his COO responsibilities, he also served as country executive for the Central American, Andean and Caribbean region.

Before that, Gray served as a managing director in Strategy and Business



Andrew Gray, managing director, Core Product Strategy and Management

'Andrew brings more than 20 years of financial services experience to DTCC, with a substantial background in both U.S. and international activities. He has a proven record in restructuring and growing businesses and has broad management experience in strategy, finance and technology.'

-Donald F. Donahue, DTCC chairman and CEO

Development for Merrill's Global Markets and Investment Banking businesses and for Global Securities Research & Economics. In that role, he oversaw market analysis, strategic and business planning, and execution and client segmentation analysis for multiple businesses.

Prior to his role on the Strategy and Business Development team, Gray was head of Corporate Planning for Merrill, where he was responsible for firm-wide planning, forecasting and budgeting, analysis and reporting for senior management and the Merrill Lynch Board of Directors. In addition, he served as chief financial officer for major support functions.

Before joining Merrill Lynch in 1998, he was a principal at the management consulting firm Booz-Allen & Hamilton, where he specialized in strategy, technology, organizational redesign and business process redesign for financial services clients around the globe for almost a decade.

At Merrill, Gray was co-leader of Merrill Lynch's Black Professional Network and a trustee of the Winthrop H. Smith Memorial Foundation, which voluntarily raises funds to assist Merrill employees who may be experiencing financial hardship. He also serves on the Leadership Council of MIT's Public Service Center, a program that seeks to motivate and facilitate valuable community service work worldwide.

Gray earned his bachelor's degree in mechanical engineering from the Massachusetts Institute of Technology (MIT), where he was a member of the Phi Beta Kappa academic honors society. Gray also received a master's degree in government administration from the University of Pennsylvania. @

New Managing Director for Legal Joins DTCC

by Steve Letzler

DTCC announced that Lois Radisch has joined DTCC's Legal department in New York as managing director, with primary responsibilities for activities involving the U.S. regulated subsidiaries at DTCC.

Radisch will report directly to Larry Thompson, DTCC's managing director and general counsel. The three regulated subsidiaries are The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), and Fixed Income Clearing Corporation (FICC).

Industry veteran

Radisch joins DTCC from the Royal Bank of Canada (RBC), where since 1998 she was senior counsel for corporate and commercial banking, involved in restructuring auction-rate securities and leading complex financing deals, advising RBC's global businesses on the Uniform Commercial Code (UCC) and providing development and legal oversight of the bank's loan trading activities, among other things.

Prior to 1998, she worked for Brown & Wood LLP as an associate specializing in securities lending and project finance. From 1994 to 1996, she served as a senior consultant in Legal Risk Management for the Participants Trust Company (PTC), analyzing legal risk concerns and constructing a program for clearing, custody, financing and settlement of Federal Reserve book-entry securities held at PTC, as well as conducting an analysis of payment systems risk submitted to the Federal Reserve Bank of New York.

Radisch also worked as vice president and assistant general

counsel for J.P. Morgan & Co. Inc. from 1993 to 1994, specializing in UCC Article 8, and developed products and templates for custody, payments systems, securities lending and cash management. She also managed regulatory projects and submissions to the Fed.

From 1984 to 1993, she represented DTC, NSCC and PTC while working with Milbank, Tweed, Hadley & McCloy LLP as an associate in the banking and corporate department. Among other projects, she helped design and document programs and financing for securities depositories, including same-day-settlement protocols and risk management analyses, rules and procedures. She also managed the regulatory relationships of DTC and PTC with the Federal Reserve, Securities and Exchange Commission and New York State Banking Department.

Also on the résumé

Radisch received her bachelor's degree from Columbia University, master's degrees in economics from both the London School of Economics and Columbia University, and her law degree from New York University School of Law. She was admitted to the New York bar in 1985, and is a member of the American Bar Association, including the ABA Task Force on Deposit Account Control Agreements, Uniform Commercial Code Committee, and Investment Securities Subcommittees; Association of the Bar of the City of New York (Committee on Banking Law); New York Women's Bar Association; New York State Bar Association (Banking Law Committee) and Loan Syndications & Trading Association. @

Corporate Actions Initiative

Building the case

The business case will allow each stakeholder segment to articulate its processes and then investigate improvements that will benefit the entire chain.

As a foundation for the document, the three organizations are collecting industry data and conducting a stakeholder survey. The initiative's so-called Stakeholder Group, representing issuers, agents, intermediaries and the investment community, will serve as a primary source

for the information. This group, whose formation was announced at the September 2009 Sibos conference, will guide the initiative and shape the conclusions of the business case. At its first face-to-face meeting, scheduled for November 5 in New York, the Stakeholder Group will review the survey results and an early draft of the business case for discussion.

"The key to the success of this initiative will be the active participation of all the stakeholders in the corporate actions chain in making the best case for XBRL data

tagging based on existing global standards for corporate actions information," said David Hands, DTCC director, Product Management. "The inaugural meeting will set the tone for this collaborative effort by giving all stakeholders a direct opportunity to participate in the planning and implementation of this process." @

[To learn more about the "Issuer to Investor: Corporate Actions" initiative and DTCC's Global Corporate Actions business, visit the DTCC website. Go to www.dtcc.com/products/gca]

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Donahue Represents DTCC At Global Forums

Because of DTCC's role in global capital markets, Donald F. Donahue, chairman and CEO, is increasingly asked to participate in international forums to talk about DTCC's views on the value of infrastructure and its role in mitigating risk and supporting innovation in financial markets.

In October, Donahue had a busy month. He participated in a Eurofi Forum in Sweden, where he addressed the topic "How to ensure the safety and efficiency of OTC derivatives markets." (See excerpt below.) In addition, he participated in a panel discussion titled "Are changes required in the on-going evolutions of EU securities infrastructures in light of the financial crisis?"

Donahue also attended the Institute of International Finance annual membership meeting in Istanbul. He then headed off to Vietnam for the 13th General Meeting of the Asia-Pacific Central Securities Depository Group in Hanoi, where he made a presentation on "DTCC's Response and Lessons Learned" from the 2008 economic crisis.

How to ensure the safety and efficiency of OTC derivatives markets'

Excerpt from Donald F. Donahue's remarks at the Eurofi Forum

It is critical to have one central repository to store all CDS [credit default swaps] trade details globally. And that's exactly what the world has. Although DTCC is based in the U.S., our customers are increasingly headquartered in Europe and elsewhere. Our repository, for example, holds transaction details on contracts traded worldwide by more than



1,400 global dealers and other market participants in 35 countries, and supplies data to regulators across the world including Australia, Europe and the U.S. The services we offer and the experience we have gained are all global. And the technology we use is readily adaptable. It can be located anywhere and reach anyone around the world.

But as we learned from the Lehman crisis, when markets are in turmoil, it's imperative that regulators have the ability to see, from a central vantage point, the full details on the underlying trading positions of derivatives contracts. This is by far the most effective way to assess and manage systemic risk across the global financial structure and, at the same time, bring greater transparency to the market – and to the end investor.

As we outlined in our response to the EC Consultation Paper, DTCC supports "a global solution with a regional approach versus regional solutions that may lack a global perspective." While it may be more cost-effective operationally to manage a trade repository from a central location, clearly such a repository needs to adjust its operations for multiple regional jurisdictions, both to provide regulatory oversight and data transparency.

For the record, let me say that DTCC is committed to adapting its global repository operation to suit whatever European infrastructure the industry and regulators determine is needed to meet regional requirements for oversight, contingency planning and technology support. We are pleased with the intent expressed by the global regulatory community to cooperate. @



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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