



# DTCC Receives Fed Approval For Warehouse to Be Member Of Federal Reserve System

by Steve Letzler

**D**TCC announced in February that the Federal Reserve Board approved its application to establish a DTCC subsidiary that is a member of the Federal Reserve

System to operate the Trade Information Warehouse for over-the-counter (OTC) credit derivatives.

The new DTCC subsidiary will be called the Warehouse Trust Company LLC (Warehouse Trust). Its regulation is an important step

[continued on page 2]

## DTCC Previews The Year Ahead

by Helen Cunningham

**A**ndrew Gray, DTCC managing director, Core Product Strategy and Management, recently met with @dtcc to talk about some of the ways DTCC is working with customers to meet their needs in today's changing industry environment.

### WHAT ARE THE MAJOR INDUSTRY TRENDS THAT HAVE AN IMPACT ON DTCC'S STRATEGY AND PLANNING?

Many of the trends we see this year are an extension of last year's trends.

Regulatory involvement in financial services is increasing, and the focus on issues such as "too big to fail" will have major implications for the industry. Risk

[continued on page 3]

### in this issue

6



New OTC Equity Derivatives Trade Repository

12



ID Net Delivers Risk and Cost Benefits

14



DTCC Strengthens OFAC Compliance

# Fed Approval for Warehouse *Continued from cover*

forward in furthering regulatory and industry objectives to bring greater transparency and added risk mitigation to the global OTC credit derivatives market. While the Warehouse Trust will be directly regulated by the Federal Reserve and the New York State Banking Department, it is also expected to be subject to a global cooperative oversight framework involving other U.S. and non-U.S. regulators. DTCC fully supports such a cooperative oversight framework and embraces the concept of regulatory harmonization across borders.

## Global oversight framework

“As the operator of the global processing infrastructure and trade repository for the OTC credit derivatives market, DTCC is committed to working with regulators and market participants worldwide to protect the safety and soundness of the OTC derivatives market,” said Peter Axilrod, DTCC managing director, New Business

Development. “In establishing the Warehouse Trust as a regulated entity, our aim is to ensure that regulators, wherever they are located, have unfettered access to the information they need to assess risk exposure in this global market, and that industry participants have the assurance of that regulatory oversight over the critical infrastructure that supports their market activities.”

The Trade Information Warehouse provides a wide array of automated downstream processing services for recorded contracts, including the netting and settlement of credit default swap (CDS) payment obligations in multiple currencies (through a partnership with CLS Bank International), processing of credit events (such as bankruptcies) and so-called “successor” events such as mergers, acquisitions and reorganizations. The Warehouse today contains virtually all OTC credit derivatives traded worldwide.

**‘In establishing the Warehouse Trust as a regulated entity, our aim is to ensure that regulators, wherever they are located, have unfettered access to the information they need to assess risk exposure in this global market, and that industry participants have the assurance of that regulatory oversight over the critical infrastructure that supports their market activities.’**

Peter Axilrod, DTCC managing director,  
New Business Development

## Contents

1. DTCC Receives Fed Approval for Warehouse To Be Member of Federal Reserve System
1. DTCC Previews the Year Ahead
6. New OTC Equity Derivatives Trade Repository Will Launch in 2010
7. Trade Information Warehouse Processes Rising Volume of Succession Events
9. EuroCCP Presents Interoperability White Paper to the Market
10. EuroCCP Begins Clearing Exchange-Traded Currencies
10. United Way Honors Donald F. Donahue
11. SMART/Track for Agency Lending Disclosure Helps Firms Meet FSA Deadline
12. ID Net Delivers Risk and Cost Benefits for Institutional Trades
13. DTCC Hosts Annual Global Tax Forum
14. DTCC Strengthens OFAC Compliance
16. FICC Will Pull the Plug on Green-Screen Terminals

## Data release

DTCC also publicly releases weekly aggregate information on OTC credit derivatives, including open interest and turnover information for the top 1,000 names traded worldwide, available on its website at [www.dtcc.com/products/derivserv/data/index.php](http://www.dtcc.com/products/derivserv/data/index.php). The release of this information has been an important step forward in helping increase transparency in the marketplace. More detailed information on individual firm trading has been made available confidentially to regulators around the world with the consent of market participants.

“Certainly, the Warehouse is a critical component of the global credit derivatives market’s infrastructure,” said Stewart Macbeth, DTCC managing director and head of the Warehouse. “As a regulated

entity, our aim is to work with global groups, such as the OTC Derivatives Regulators’ Forum, in this critical area of global concern.

“The industry, working with DTCC, has provided regulators with voluntary access to OTC credit derivatives trade records for the past year,” said Macbeth. “We look forward to collaborating with members of the OTC derivatives community, lawmakers and regulators to ensure that the global infrastructure that is already in place continues to meet the evolving needs of all relevant parties.”

The Warehouse Trust will begin operations once certain organizational conditions have been met, which are expected shortly. @

[For more on DTCC’s OTC derivatives business, go to page 6.]

# DTCC Previews the Year Ahead *Continued from cover*

management remains a priority, with firms looking for ways to reduce risk and the capital requirements associated with managing it. Our customers' continued drive to cut costs and increase efficiencies is another theme. While some financial institutions had a good year in 2009, in general, firms are concerned about their margins, particularly in light of the new regulations that are likely to come.

## WHAT DO THESE DEVELOPMENTS MEAN FOR DTCC?

The financial crisis has actually contributed to increased awareness of DTCC's role in the industry and the value we add to financial markets. Regulators, along with our clients, are looking to DTCC to help them better understand and mitigate risk, and to increase marketplace transparency. Our Trade Information Warehouse is one example of how we already contribute to these objectives in the over-the-counter [OTC] derivatives market.

In addition, at a time when margins are being squeezed, DTCC's track record for reducing the industry's costs resonates with customers in both the back and front offices.

Given this environment, we are working closely with clients to explore opportunities for further leveraging our systems and information to help them manage risk, address regulatory obligations cost-effectively and efficiently, and improve competitiveness.

We also are being more proactive in communicating with regulators and legislators to inform them about DTCC's capabilities. For instance, to underscore how the Trade Information Warehouse can help mitigate risk and deliver transparency in the OTC derivatives market, DTCC executives have testified before Congress

and conducted briefings with regulators, congressional staff and industry groups. And as we set out to tackle these and other challenges facing the industry, DTCC's reputation as a trusted, at-cost, neutral provider is a tremendous asset.

## COULD YOU CITE SOME EXAMPLES OF HOW DTCC WILL ADDRESS THE INDUSTRY'S NEEDS IN 2010?

In the equities business, we have several initiatives that will reduce cost and risk, address new regulatory requirements, streamline processing and improve overall efficiency.

On the regulatory compliance front, we are creating a new version of our Cost-Basis Reporting Service to help firms meet a mandate to report the movement of cost-basis information between broker/dealers, transfer agents, issuers, mutual funds and custodian banks in a standardized, secure electronic environment. This is an example of DTCC leveraging existing capabilities to help firms meet regulatory requirements quickly and without making large capital investments.

To reduce cost and risk in the U.S. equities market, we are launching the Obligation Warehouse, which will allow broker/dealers to submit ex-clearing fails and other open obligations for real-time matching and confirmation. Now it is done manually. The new system will also give brokers real-time access to their fails data, and perform reconfirmation and repricing on a more frequent basis than at present, which is done



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

**The financial crisis has actually contributed to increased awareness of DTCC's role in the industry and the value we add to financial markets. Regulators, along with our clients, are looking to DTCC to help them better understand and mitigate risk, and to increase marketplace transparency.**

[continued on page 4]

**We plan to launch New York Portfolio Clearing [NYPC], our proposed joint venture with NYSE Euronext for clearing U.S. fixed income derivatives. This new company will bring enormous benefits to the industry and expand DTCC's footprint into a new asset class: futures. NYPC will mitigate systemic market risk by providing a new level of market transparency, and it will reduce capital requirements by allowing firms to use single-pot margining across multiple asset classes, in this case the cash and derivatives markets.**

quarterly. We also expect a growing number of broker/dealers and custodian banks to adopt the ID Net service to reap the financial savings of institutional netting. ID Net allows brokers to combine their affirmed institutional equity trades with their broker-to-broker trades in NSCC's Continuous Net Settlement [CNS] system.

Another important initiative, which is awaiting regulatory approval, is our proposal to move the equity trade guarantee to trade date, compared with the current midnight of T+1 guarantee. This change will reduce our customers' credit exposure, as well as systemic risk across the industry.

We also are developing the Universal Trade Capture system, which will centralize existing equity trade-capture applications in a single validating and reporting engine, giving customers standardized output for all trade data.

In the European equities space, our EuroCCP subsidiary will expand to other markets and instruments. For example, we plan to begin clearing U.S. equities that trade in Europe, including stocks, exchange-traded funds and American Depositary Receipts. In addition, we recently published a white paper on reducing risks among interoperating central counterparties [CCPs] in Europe and continue to participate in industry discussions on this important issue, with the goal of giving customers greater choice of providers.

#### **WHAT ABOUT FIXED INCOME?**

We are waiting for regulatory approval to launch the new CCP for mortgage-backed securities, which is key to reducing risk and cost in this market. We've been working closely with regulators to address their concerns and, in the interim, we continue to operate the CCP service in a

pilot program.

We also plan to launch New York Portfolio Clearing [NYPC], our proposed joint venture with NYSE Euronext for clearing U.S. fixed income derivatives. This new company will bring enormous benefits to the industry and expand DTCC's footprint into a new asset class: futures. NYPC will mitigate systemic market risk by providing a new level of market transparency, and it will reduce capital requirements by allowing firms to use single-pot margining across multiple asset classes, in this case the cash and derivatives markets. The launch of this joint venture is also subject to regulatory approval.

#### **WHAT IS HAPPENING ON THE OTC DERIVATIVES FRONT?**

Our Trade Information Warehouse is solidly established as a key global provider in the OTC derivatives market, serving as a global repository and asset-servicing platform for credit default swaps. We have significantly increased transparency in this market, working with customers and regulators to publish information on contracts stored in the Warehouse. A recent development is that we received approval from the Federal Reserve Board to create a new DTCC subsidiary called the Warehouse Trust Company LLC that will operate the Trade Information Warehouse and be part of the Federal Reserve System. This change will bring even greater transparency and risk mitigation to the global OTC credit derivatives market. [See article, page 1.]

The Warehouse also automates the processing of credit events, which helps ensure orderly payouts to investors in these contracts. Last year, we handled 50 credit events.

In 2009, we won two RFPs [requests for proposals] that will further expand our role in the OTC derivatives market. The first

project entails creating a new global repository to house OTC equity derivatives. This initiative will enable major players in the industry to meet a commitment made to regulators to have their OTC equity derivatives in a repository by July 31, 2010. [See article, page 6.] The second project is the creation of a cash-flow matching service for OTC equity derivatives, which will reduce risk and settlement costs.

#### **WHAT ARE HIGHLIGHTS FROM OTHER AREAS OF THE BUSINESS?**

In Asset Services, we are forging ahead with the corporate actions reengineering, which will replace legacy systems with a single platform to handle these increasingly complex securities, both domestically and globally. Because of this initiative's scope, we are deploying the new platform in phases, and we recently released an implementation timeline to customers so they can begin planning for it.

We are also well into the second phase of the underwriting reengineering, which focuses on corporate equities and debt. [Phase 1, completed in 2008, covered municipal underwriting.] The new underwriting platform began processing equity instruments in 2009, and now we are taking aim at corporate debt issues.

In the syndicated loan space, our Loan/SERV offering developed good traction in the U.S. and Europe last year. Now, we are developing cash settlement capabilities, including Delivery versus Payment, which will address a key counterparty risk by ensuring cash moves simultaneously with the transfer of ownership when loan trades settle.

In Wealth Management Services, an exciting development is the planned expansion of our Mutual Fund Services to Europe, which follows last year's regulatory approval allowing us to admit non-U.S.

members. We are also making strong progress with our Managed Accounts Service and this year plan to increase standardization and processing efficiency. In the alternative investment marketplace, we are working with the industry to introduce much-needed automation to an area of the business in which processing remains highly manual.

In Insurance & Retirement Services, we are rolling out a new service to automate and standardize replacement processing, which will include money settlement. The service will reduce costs and deliver greater efficiency to this process, which entails replacing an annuity or life insurance product from one carrier with a similar product from a different carrier.

Another focus in our insurance business is to expand usage of our core solutions by offering customers online, low-cost connectivity via the Access platform. This year, we plan to develop such a web-based interface for our Attachments service.

#### **WHAT ARE SOME OF THE NEW CUSTOMER SEGMENTS DTCC IS TARGETING?**

We remain focused on bringing more of the buy-side under the DTCC umbrella, which will directly benefit these firms in terms of cost and risk reduction, while helping mitigate counterparty risk for the entire industry.

Another example of expansion into a new customer segment is our insurance business. We are looking beyond our traditional base of carriers and large broker/dealers to reach more independent broker/dealers, primarily through the Access platform.

In our Asset Services business, we're reaching out to issuers to show how we can work with them on a broad range of corporate-related activities. While they are part of our customer base now, they may not be aware of the many other services we

offer the issuer community.

#### **HOW DOES DTCC WORK WITH CUSTOMERS TO DEVELOP ITS STRATEGIES AND PLANS?**

We have a range of mechanisms for maintaining an ongoing dialogue with customers and the industry as a whole.

In addition to engagement with people in various functions and levels at our customer firms, we work with senior advisory boards and user groups that provide feedback on existing products and services. These groups also keep us informed about their business priorities and emerging needs, which enables us to formulate strategies for leveraging the DTCC infrastructure. This year, we have also launched a formal process to develop longer-term strategies for our products that will include input from our key clients.

Our customer survey is another vehicle for obtaining regular feedback from the firms that use our services. In addition, we hold customer forums throughout the year, including an annual meeting for senior executives from customer firms. These events are excellent venues to exchange ideas and information on emerging industry trends, which helps us establish the allocation of resources for future product development.

Finally, we play an active role in industry associations and events globally. @

**We remain focused on bringing more of the buy-side under the DTCC umbrella, which will directly benefit these firms in terms of cost and risk reduction.**

# New OTC Equity Derivatives Trade Repository Will Launch in 2010

by Steve Letzler

**D**TCC and MarkitSERV are creating a global over-the-counter (OTC) Equity Derivatives Trade Reporting Repository that will house these instruments for major trading firms in this market segment. The goal is to complete the repository's buildout by May, conduct industry testing in June and July, and make the first set of reports available to the public and regulators by the end of July.

This new repository will enable the major market participants to meet a commitment made to the New York Federal Reserve and other international regulators to have all OTC equity derivatives in a repository by July 31, 2010.

Currently, DTCC, MarkitSERV and the global OTC equity derivatives industry are awaiting regulatory response to their proposal for the type of information that will be reported from the repository. Although DTCC, MarkitSERV and the industry are moving forward with development, any recommended changes from regulators will be used to revise the system in time for the launch.

## Background on new repository

In October 2009, the industry selected DTCC and MarkitSERV, a trade processing company jointly owned by DTCC and Markit, to create a global repository for OTC equity derivatives trades. Their selection followed a request-for-proposal (RFP) process managed by the International Swaps and Derivatives Association (ISDA®).

DTCC is leveraging the technology and processing knowledge gained from handling OTC credit derivative "gold" (matched, legally binding) and "copper" (one-sided) trade records in building the

new repository, but the first phase of the equity repository will only provide reporting on one-sided positions. Additional capabilities and data may be added as necessary in the future.

repositories for key asset classes, and indicated that they consider holding OTC derivatives data in a central repository as a "best practice" for the industry.

Today, the industry has repositories for



MarkitSERV will feed position data from participants directly into the equity derivatives repository. "The creation of this new repository is a natural extension of the services that MarkitSERV provides for OTC derivatives, including equities," said Jeff Gooch, CEO of MarkitSERV.

In a separate RFP, the industry also selected DTCC to create a cash-flow matching service for OTC equity derivatives, which will reduce risk and settlement costs. This capability is scheduled to go live in the second half of 2010.

## Other repositories

In June 2009, major dealers and trading firms struck a voluntary agreement with global regulators aimed at making the OTC derivatives market more transparent. The signatory firms pledged to create

three OTC derivatives asset classes. DTCC Deriv/SERV's Trade Information Warehouse houses credit default swaps, while also providing asset serving and central settlement capabilities; Tri-Optima's OTC Interest Rate Derivatives Trade Reporting Repository went live in December 2009 and began submitting data reports to regulators on January 15; and the OTC Equity Derivatives Trade Reporting Repository, which is the latest addition.

"The industry has committed to regulators that it will improve the transparency of OTC derivatives trading, and DTCC is helping achieve this objective. We are also helping to improve the processing and servicing of these contracts with capabilities like the cash flow service," said Stewart Macbeth, DTCC managing director and head of the Trade Information Warehouse. @

## Warehouse Background

The Trade Information Warehouse, established in 2006 in collaboration with members of the OTC derivatives industry and regulators, now has a global customer base that includes all the major credit derivatives dealers and more than 1,700 buy-side firms in 52 countries.

Having a central repository for OTC credit derivatives data proved critical a little more than a year ago, when Lehman Brothers declared bankruptcy. When rumors sent serious concern through the market that potential net liabilities on credit default swaps written on Lehman could top \$400 billion, DTCC was able to step in and dispel this misinformation by publicly releasing data from the Warehouse showing that the actual amount would be less than \$6 billion. This had a calming effect on the market.

In November, the New York State Banking Board approved DTCC's application for Warehouse Trust to be regulated as a limited purpose trust company, so the Fed's approval is the final regulatory approval needed for the new subsidiary. (See article, page 1.)

As of January 29, 2010, there were about 2.3 million contracts in the Warehouse with a gross notional value of \$25.5 trillion. The Warehouse also contained non-legally binding trade data on about 145,000 highly customized credit derivatives contracts worth an estimated \$4.5 trillion as of December 31, 2009.

In October 2009, DTCC and MarkitSERV, a joint company created by DTCC and Markit, were selected by the industry, through a proposal process run by the International Swaps and Derivatives Association (ISDA®), to develop and run a global repository for OTC equity derivatives trades. That repository is scheduled to be initially operational in July 2010. (See article, page 6.)

# Trade Information Warehouse Processes Rising Volume Of Succession Events

by Judy Inosanto

While the DTCC Deriv/SERV Trade Information Warehouse's global repository and credit event processing services have gained recognition as a critical component of the over-the-counter (OTC) derivatives market's infrastructure, a lesser-known capability is also gaining momentum: automated succession event processing.

The Warehouse's lifecycle processing functionality supports succession events, which occur when a corporate activity such as a merger, spin-off or reorganization affects the underlying equity, corporate or sovereign debt obligation as well as the credit default swap (CDS) written on that entity. In 2009, the Warehouse processed 129 such succession events, with another 13 events completed through January 2010.

### Reducing uncertainty

"DTCC's goal since launching the Warehouse has been to provide our customers with a robust processing infrastructure that can service an OTC credit derivatives contract throughout its multi-year lifecycle," said Marisol Collazo, vice president, Product Management, DTCC Deriv/SERV. "By having a well-established automated succession processing capability accessible to market participants, the Warehouse is helping reduce the uncertainty on the status of a CDS transaction due to these types of events as well as prevent the potential delays in the settlement of payment obligations that may result."

### Then and now

Prior to DTCC adding automated successor events processing to the Warehouse's functionality, these activities were processed manually.

**The Warehouse's lifecycle processing functionality supports succession events, which occur when a corporate activity such as a merger, spin-off or reorganization affects the underlying equity, corporate or sovereign debt obligation as well as the credit default swap written on that entity.**

[continued on page 8]

Individual market participants needed to sign up for the protocol for each succession event for which they had exposure and then needed to bilaterally amend their transactions.

However, with the April 2008 publication of the International Swaps and Derivatives Association (ISDA®) “Big Bang Protocol,” which was designed to standardize auction payouts on corporate and sovereign CDS, terms for processing lifecycle events such as succession events were defined, allowing the Warehouse to automate the processing of these events for its customers.

Major succession events handled by the Warehouse include the Countrywide Home Loans and Countrywide Financial Corporation acquisition by Bank of America; the Safeco Corp. acquisition by Liberty Mutual Group; the Wachovia Corporation acquisition by Wells Fargo & Company and the nationalization of Anglo Irish Bank.

## **How succession processing works**

Once a succession event is determined by ISDA’s Determinations Committee, DTCC Deriv/SERV works with Markit and the ISDA Credit Operations Working Group to agree on the details related to processing the event. The Warehouse then creates an event master record, which holds the agreed-upon terms, and distributes an Important Notice to inform clients that the event is scheduled for processing.

The Warehouse automatically adheres relevant transactions to the event protocol on behalf of its customers, unless the customer manually opts out, and waits to reach the scheduled processing date to take action. During this time frame, also known as the adherence period, both

trade counterparties and DTCC Deriv/SERV can review and validate their data related to the protocol and their transaction. Upon reaching the processing date, the Warehouse automatically amends the succession event transactions to the terms and name of the new reference entity to which the CDS should be associated.

“One of the benefits of automating the adherence protocol through the Warehouse is that it streamlines and centralizes the processing of these successor events, helping prevent

counterparty transactions from becoming unconfirmed and ensuring these contracts remain eligible for other downstream processes such as credit event processing,” said Andrew Byatt, director, Product Management, DTCC Deriv/SERV. “The Warehouse’s lifecycle event processing delivers to market participants an efficient means to adhere seamlessly and automatically to the protocols of a specific event and eliminates the time-consuming practice of repeatedly adhering multiple contracts held on a given reference entity to a single lifecycle event.”

## **Benefits of a single repository**

In managing the processing of the 129 successor events completed last year, DTCC also collaborated with Markit to analyze the volume of historic events that had taken place throughout the years as well as new events.

Since then DTCC has worked with the industry to prioritize, schedule and execute processing for new and historic events helping to ensure that records on the universe of CDS reference entities in the marketplace reflect the most current status of the underlying securities on which they are written.

## **Up-to-date records**

“With more successor events being processed through the Warehouse, market participants can be assured that DTCC is maintaining the most up-to-date records on the universe of CDS contracts in the marketplace,” said Collazo. “These efforts not only reflect how DTCC is working with the OTC credit derivatives community to strengthen the market’s infrastructure, but they also demonstrate the benefits of operating a single repository where CDS records can be centrally registered and easily accessed.” @

**‘The Warehouse’s lifecycle event processing delivers to market participants an efficient means to adhere seamlessly and automatically to the protocols of a specific event and eliminates the time-consuming practice of repeatedly adhering multiple contracts held on a given reference entity to a single lifecycle event.’**

Andrew Byatt, director,  
Product Management, DTCC Deriv/SERV

# EuroCCP Presents Interoperability White Paper to the Market

by Melanie Best

The opportunity to discuss the challenges of implementing interoperability between equities central counterparties (CCPs) in Europe drew a standing-room-only crowd to a roundtable event organized by EuroCCP on January 14. How to implement multi-CCP interoperability in ways that reduce its risks and complexities has been a central topic for market participants in recent months and prompted European securities regulators to put interoperability arrangements on hold in late 2009 while they studied the issue.

EuroCCP has taken a leading role in the interoperability debate, with the publication of its white paper, “Recommendations for Reducing Risks Among Interoperating CCPs,” followed by the roundtable. The event gave attendees an in-depth presentation of EuroCCP’s views on the risks of interoperability and the measures it recommends for mitigating these risks.



EuroCCP roundtable (left to right): EuroCCP’s COO Trevor Spanner, CEO Diana Chan and Head of Risk Management Bhagwant Singh

## Promoting dialogue

The invited group of EuroCCP participants, prospects and representatives of trading platforms gathered at London’s Andaz Hotel, where they were greeted by EuroCCP’s head of Product Management in London, Andrew Simpson.

“Today’s strong turnout shows the importance all of you put on the issue of interoperability,” Simpson said to the crowd. “Working through the challenges of interoperability is the only way we’ll realize the benefits of competition.”

The white paper grew out of extensive consultation with market participants, Simpson said, and represents EuroCCP’s contribution to a solution that can move the industry forward. “By engaging all of you today, we want to continue that dialogue,” he told the group.

## Fresh ideas

Following Simpson’s opening remarks, Diana Chan, CEO of EuroCCP, walked the audience through a presentation of the key challenges of interoperability and EuroCCP’s white paper

recommendations. (See the January issue of @dtcc for additional information on the white paper.)

With this paper, Chan said, EuroCCP aims to offer some fresh ideas on important risk management issues and on ways to make interoperability safer and easier for market participants throughout Europe.

“What we’re trying to achieve is the market structure for tomorrow,” said Chan. “Competitive trading is here to stay. In the

future, the market structure should allow firms to trade on any platform they wish and to use the CCP of their choice – which can only be achieved if all CCPs interoperate and platforms give their trade feeds to all the CCPs that request them.”

The morning event concluded with an hour-long panel

discussion and audience Q&A. Two EuroCCP executives, COO Trevor Spanner and head of Risk Management Bhagwant Singh, joined Chan on the panel and responded to audience questions. Topics covered included the implementation specifics of EuroCCP’s number-one recommendation – that CCPs augment their existing default funds, rather than employ inter-CCP margining, to cover potential close-out losses in the event of an interoperating CCP’s default. There were also questions about building operational conformity among CCPs that link to a single trading platform.

To gauge audience perception, EuroCCP also conducted a mini-poll midway through the roundtable. One question asked attendees whether they believed an interoperability convention between CCPs would be beneficial. Audience support was unanimous.

For those participants who could not attend the London event, EuroCCP relationship managers have held one-on-one meetings to review the paper and answer questions about it. For further information, please contact EuroCCP Relationship Managers Rob Penn, at [rpenn@euroccp.co.uk](mailto:rpenn@euroccp.co.uk), +44 (0)207 650 1595, or Celine Dehaene, at [cdehaene@euroccp.co.uk](mailto:cdehaene@euroccp.co.uk), +44 (0)207 650 1565.

If you wish to download the EuroCCP white paper, go to <http://euroccp.co.uk>. @

# EuroCCP Begins Clearing Exchange-Traded Currencies by Melanie Best

**E**uroCCP launched clearing services for European-listed Exchange-Traded Currencies (Currency ETCs) in February, as it continues extending to new instruments the efficiency, cost-saving and counterparty risk protection benefits it currently provides to clients' equity and Depository Receipts transactions.

Turquoise is the first multilateral trading facility (MTF) to offer trading in Currency ETCs cleared through EuroCCP.

## Tracking indices

Currency ETCs are liquid securities traded on exchange that track the performance of underlying currency indices. EuroCCP initially will clear 18 Currency ETCs, which provide long or short passive exposure to the currencies of G-10 countries versus the U.S. dollar.

"EuroCCP is pleased to extend our clearing services to support the trading of Currency ETCs. By providing a safe

**EuroCCP initially will clear  
18 Currency ETCs,  
which provide long or short  
passive exposure to the  
currencies of G-10 countries  
versus the U.S. dollar.**

post-trade environment, we believe this service offering will encourage liquidity," said Andrew Simpson, head of EuroCCP Product Management in London. "Our ETC clearing service responds to investor demand for liquid, secure and transparent exchange-traded securities and also reflects increased investor appetite for foreign exchange instruments."

Adrian Farnham, COO at Turquoise, commented, "Currency ETCs are presenting the European market with new trading opportunities. Turquoise is delighted to provide highly efficient access to such an expanding market, along with the competitive pricing schedule and robust technology that the Turquoise MTF already offers for equities and depository receipts."

Listed in both U.S. dollars and British pounds, ETC transactions cleared through EuroCCP will settle in CREST.

## More on ETCs

ETCs trade on a regulated exchange, just as an equity is traded. An issuer creates (and redeems) the ETC security with the assistance of an authorized participant/market maker, and each ETC is assigned an ISIN when listed on exchange.

To view the list of EuroCCP-clearable Currency ETCs, go to [www.euroccp.co.uk](http://www.euroccp.co.uk). @

## United Way Honors Donald F. Donahue

**D**onald F. Donahue, DTCC's chairman and CEO, will be honored as a "Co-Community Quarterback" at United Way of New York City's 2010 Gridiron Gala in May. The evening is one of New York City's premier charity events, attracting some of the city's leading business leaders and philanthropists.

DTCC and United Way have a deep and longstanding partnership that dates back decades. Donahue has served on United Way of New York City's board of directors since 2008.

The Gridiron Gala, which annually raises over \$1 million to fund a variety of United Way-led initiatives serving New York City's children, is a 17-year partnership with the NFL's New York Giants and the New York Jets. In addition to honoring Donahue, the event will pay tribute to David Arena, chairman and CEO of Grubb & Ellis Tri-State, and also honor Justin Tuck of the New York Giants and Alan Faneca of the New York Jets.

The 2010 Gala will take place on May 18 at the Waldorf-Astoria. For information about participating in this fundraising event, please contact Freya Grant in United Way's benefit office, at 212.843.1743 or [fgrant@hgnyc.com](mailto:fgrant@hgnyc.com). @



# SMART/Track for Agency Lending Disclosure Helps Firms Meet FSA Deadline

by Craig Donner

The Depository Trust Company's (DTC) SMART/Track for Agency Lending Disclosure (ALD) service helped European firms meet the U.K. Financial Services Authority's (FSA) January 1, 2010, deadline for agent lenders and borrowers to disclose open loan information on their securities lending transactions.

SMART/Track for ALD, which has been available in the U.S. since 2006, acts as a central communications hub that allows both parties to the loan to transmit key data for credit monitoring and capital requirement purposes.

"The rollout of SMART/Track ALD in Europe was smooth and seamless for our customers," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. "European firms are quickly learning that SMART/Track ALD brings greater transparency to securities lending and helps borrowers more effectively manage their counterparty credit risk and calculate their regulatory capital requirements. It was a natural extension of DTCC's global capabilities that we could quickly leverage the U.S. system to meet the January 2010 implementation deadline set by the FSA."

## A 'post office'

SMART/Track essentially acts as a "post office" for agency lending disclosure, providing a single point of access for all parties. The service allows agent lenders and borrowers to connect directly to SMART/Track ALD or connect via a vendor.

"SMART/Track ALD is the most efficient, cost-effective service available for transmitting open loan data between

borrowers and lenders," said Javette Laremont, DTCC director, Clearance and Settlement/Equities. "It eliminates the need for agent lenders, borrowers or vendors to build bilateral links to their counterparties to communicate loan information."

## Daily and periodic disclosures

SMART/Track transfers daily open loan files as well as periodic data files between agent lenders and borrowers.

The daily files enable borrowers to analyze their capital requirements and make adjustments to any collateral posted for securities borrowed. The periodic files allow borrowers to do a credit pre-qualification of the principal lenders they choose to borrow from.

**SMART/Track for ALD, available in the U.S. since 2006, acts as a central communications hub that allows both parties to the loan to transmit key data for credit monitoring and capital requirement purposes. It was a natural extension of DTCC's global capabilities to quickly leverage the U.S. system to meet the January 2010 implementation deadline set by the FSA.**

Another feature of the service is its web-based management system, which informs the sender that its files have been received and the recipient that its files are available for retrieval. SMART/Track ALD also creates a receipt record for the sender or, if it cannot deliver the file, generates an error code. All notification messages are aggregated on a web screen for agent lenders, borrowers and vendors to browse for updates on the status of files being processed and to request the creation of unique identifiers for principal lenders.

As a central communications hub, SMART/Track ALD does not edit or validate the data contained in the files nor does it have the ability to read the data records contained in the files.

## Industry sponsorship

The International Securities Lending Association (ISLA), a trade association that represents the interests of participants in the securities lending industry, published its model for agency lending disclosure in Europe on July 14, 2008, to meet the FSA's January 2010 mandate, as required under international financial and banking regulations in Basel II.

"ISLA worked closely with DTCC, consultants and member firms to meet the implementation schedule for transmitting open loan data files on securities lending transactions," said Hugh Gibson, an official with ISLA. "SMART/Track for ALD offered a proven system for creating standardized file formats that also enhances efficiencies and mitigates operational risk for firms involved in securities lending. Our industry members report success with the process and the model." @

# ID Net Delivers Risk and Cost Benefits f

With cost containment still a top priority for many firms across the industry, broker/dealers and custodian banks are increasingly turning to the ID Net service to reap the financial savings of institutional netting. ID Net allows brokers to combine their affirmed institutional equity trades with their broker-to-broker trades in NSCC's Continuous Net Settlement

(CNS) system.

The number of new customers for ID Net nearly doubled over the past year and continues to grow. The number of transactions flowing through the service has jumped to as many as 9,200 in a given day, up from about 500 to 700 in early 2009.

“The industry continues to look to the infrastructure to help solve new

challenges – and ID Net is able to deliver on a number of critical fronts,” said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. “It allows firms to net their broker-to-broker trades along with their institutional trades, which helps improve their bottom line. It also offers a streamlined process, risk mitigation and a reduction in the number of fails for institutional trades.”

## Customer Views of ID Net

### Northern Trust

Executives at Northern Trust, a custodian bank, jumped at the opportunity to use ID Net, recognizing that the benefits far outweighed the relatively minor financial investment of modifying its systems. In fact, the system changes ended up costing much less than had been anticipated.

“As you can imagine, our senior management was thrilled that the development work came in under budget,” said Melissa Mueller, senior vice president, head of North American trade processing, Northern Trust. “This allowed us to reallocate resources to other important projects in the company.”

Northern Trust was an early adopter of ID Net because Mueller and her team recognized that the industry would be moving in the direction of institutional netting and, from a financial perspective, it made sense to begin realizing the immediate cost savings. “In today's economic climate, we in Operations & Technology have little control over revenue, but we can certainly control costs as a way to manage our budget,” Mueller said. “We see ID Net as an important part of the solution.”



Northern Trust executives (from left): Arnita Harris, vice president, North American Trade Settlements; Shereef Zedan, second vice president, Asset Servicing Practice Technical Implementation; Melissa Mueller, senior vice president, North American Trade Processing

### Citigroup Global Markets Inc.

“At Citigroup Global Markets Inc., the Global Equity Division viewed this as an opportunity to better serve our clients while reducing overall expenses and exposure,” said Emiliano Rodriguez, vice president, Section Manager, Citigroup Global Markets Inc. “We understand that our clients face the same cost pressures we do, so leveraging ID Net was an easy decision that we knew would yield an immediate financial savings. In addition, because we are able to settle more trades through ID Net, we have the added benefit of reducing the number of fails and reclaims, which allows us to satisfy more customer transactions.”

# or Institutional Trades

by Craig Donner

ID Net, which launched in 2008, is a joint offering of National Securities Clearing Corporation (NSCC) and The Depository Trust Company (DTC), in collaboration with Omgeo, DTCC's global joint-venture company that provides post-trade processing services for the institutional marketplace.

## Lower fees

Unlike exchange trades and most prime broker trades, institutional transactions do not typically flow through CNS's automated book-entry accounting system. Instead, they generally settle on a trade-for-trade basis at DTC.

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

A key benefit of ID Net is that the DTC Institutional Delivery (ID) settlement fee is only 2½ cents for all ID Net-eligible trades (vs. 5 cents for all other institutional trades), with some firms reaping additional savings through reductions in CNS and Inventory Management System (IMS) costs.

"While firms are already enjoying the financial benefits of ID Net, as industry participation continues to rise they will be able to more fully harness the service's potential, including greater certainty that their institutional trades will settle," said Stephen Wasserman, DTCC director, Clearance and Settlement/Equities. @  
[To learn more about ID Net, contact Stephen Wasserman, DTCC director, Clearance and Settlement/Equities, at [swasserman@dtcc.com](mailto:swasserman@dtcc.com) or 212.855.3270.]

## DTCC Hosts Annual Global Tax Forum



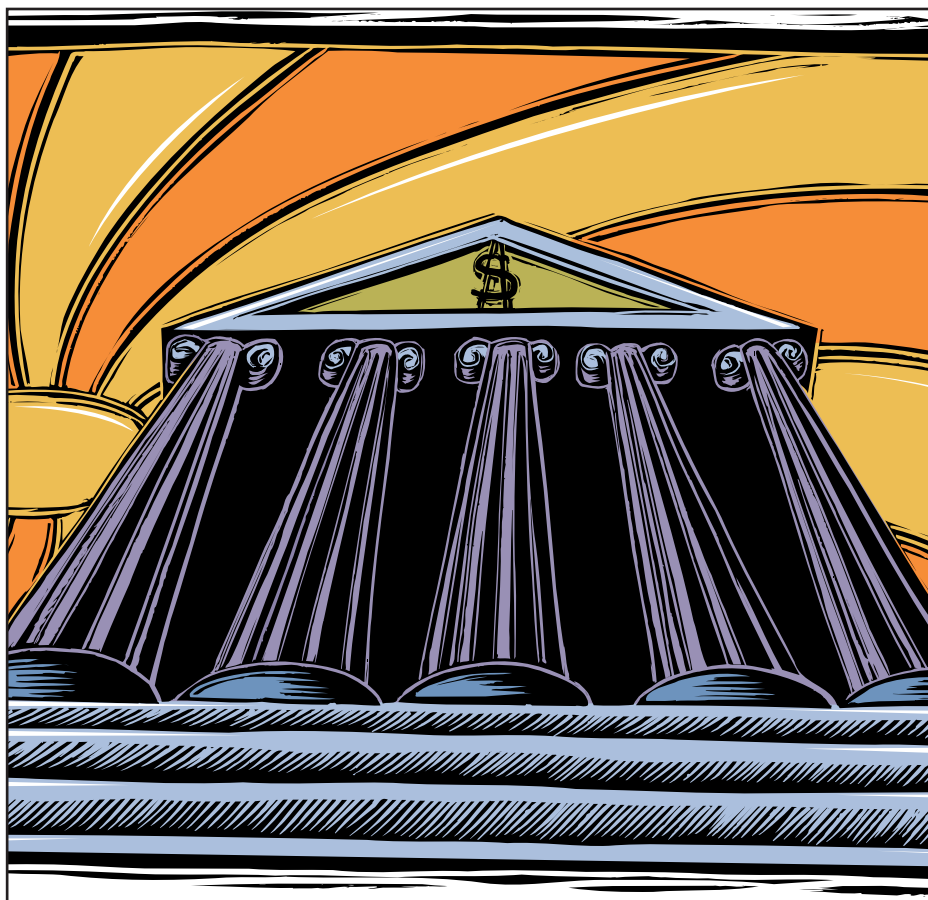
DTCC will host its 11th Annual Global Tax Forum Friday, April 23, in New York. In March, email invitations including an up-to-date agenda will be sent to DTCC tax clients.

The half-day program, to be held at Bayard's at One Hanover Square, New York, NY, 10004, will include:

- Speakers who discuss recent changes in international tax withholding and tax treaties;
- An update on DTCC's foreign and domestic tax services;
- The latest on cost-basis reporting and legislation;
- An update on the Canadian tax relief process.

DTCC offers this annual forum free of charge to customers. Space is limited and attendance is on a first-come, first-served basis.

For more information or to attend the forum, contact Marta Alvarez at [malvarez1@dtcc.com](mailto:malvarez1@dtcc.com) or 212.855.2761 or Ian DeSacia at [ide\\_sacia@dtcc.com](mailto:ide_sacia@dtcc.com) or 212.855.3448. @



# DTCC Strengthens OFAC Compliance

by Michael Scholl

**D**TCC implemented a new procedure to strengthen industry compliance with Office of Foreign Assets Control (OFAC) requirements last October, and now a deadline is nearing for firms that are customers of DTCC clearing subsidiaries.

OFAC is the arm of the U.S. Department of the Treasury responsible for administering federal economic sanctions programs on certain foreign entities (see box, page 15).

By March 31, firms that are members of NSCC, DTC and/or FICC must give DTCC written confirmation that they have procedures in place to ensure none of their customers is engaged in transactions subject to OFAC economic sanctions. Customers that fail to meet this deadline may be fined \$5,000 by DTCC.

“This new requirement, which has been approved by the Securities and Exchange Commission, confirms that our customers have an appropriate risk-based program in place and helps all of us avoid doing business with individuals, businesses and governments subject to sanctions,” said Mihal Nahari, DTCC managing director and chief compliance officer.

## To the letter

To make this new requirement as easy as possible, DTCC has created a standard letter for firms to complete. Known as a “Confirmation of an OFAC Program Letter,” or “OFAC Letter” for short, the document states that the signatory firm screens its customers to determine whether they are subject to sanctions. A downloadable version of the letter is available on DTCC’s website ([www.dtcc.com/legal/compliance](http://www.dtcc.com/legal/compliance)), to be signed by each firm’s “authorized OFAC officer.”



Firms can submit their OFAC Letters to DTCC in either paper or electronic form. However, the letter’s wording must not deviate from that included in the sample letter. “Customers cannot make any changes to the existing text of the letter,” said Peter Le Pian, DTCC director, Office of Corporate and Regulatory Compliance (OCRC), who oversees DTCC’s compliance with OFAC regulations.

Every two years, or sooner in case of a merger or other change in corporate governance, firms must resubmit their OFAC Letter to DTCC to certify that they still have an OFAC screening system in operation.

The letter enhances DTCC’s compliance program by enabling each customer to declare in a single document that it screens

all its transactions and business activities to weed out sanctioned entities or individuals. It supplements an existing procedure under which customers certify that certain transactions, usually deposits, comply with OFAC rules. For that certification, firms typically check a box on a document submitted with each transaction.

## Strengthening the whole

By helping ensure all clearing corporation customers are OFAC-compliant, the OFAC Letters benefit the entire DTCC user community. “Transacting with a sanctioned entity can be costly because OFAC can impose hefty fines for improper financial dealings with any entity or person subject to sanctions,” said Le Pian. In 2009,

OFAC levied nearly \$1 billion in fines, a number that is expected to rise this year and beyond.

What's more, OFAC can fine multiple parties for a single transaction, which means DTCC customers carry exposure from third parties. "The new setup will more easily assure participants they can do business with each other without being hit with such a fine," Le Piane noted.

### OFAC and the industry

Financial services companies are obligated by law to screen their customers against the lists of sanctioned parties maintained by OFAC. This screening is accomplished by using computer software to scan the names of customers and compare them to the names on OFAC's lists.

**OFAC can fine multiple parties for a single transaction, which means DTCC customers carry exposure from third parties. The new setup will more easily assure participants they can do business with each other without being hit with such a fine.**

If there is a match between a customer name and the name on the OFAC list, the company must determine whether the customer and the entity on the list are one and the same, and whether the transaction the customer wants to conduct violates a sanctions rule. If these criteria are confirmed, the company must block the transaction and seize any of the sanctioned

party's assets it has in its possession.

DTCC routinely screens the securities it holds and its roster of customers for links to sanctioned parties. As for the customers of DTCC participants, Le Piane said it made sense for the participants themselves to conduct the screening because they have access to customer information that DTCC does not. @

## OFAC Facts

The U.S. government created the Office of Foreign Assets Control (OFAC) in December 1950 following China's entry into the Korean War. OFAC's primary task then was to block all Chinese and North Korean assets subject to U.S. jurisdiction.

Currently, OFAC administers sanctions programs that target certain geographic regions and governments in an effort to promote U.S. foreign policy goals such as combating terrorism, reducing weapons proliferation and promoting human rights. Among the nations subject to varying degrees of sanctions are Cuba, Iran, Iraq, Sudan, Myanmar (also known as Burma), North Korea, Syria, the Balkans, Belarus, the Ivory Coast, the Democratic Republic of the Congo, Liberia and Zimbabwe.

In addition to its list of sanctioned countries, OFAC maintains lists of individuals, corporations and other entities that are subject to sanctions of one form or another. Many of these entities are suspected of having ties to terrorism or narcotics trafficking.

The use of economic sanctions to promote U.S. policy interests has a long history that is outlined on the OFAC section of the Treasury Department's website ([www.ustreas.gov](http://www.ustreas.gov)). For example, prior to the War of 1812, the U.S. imposed sanctions on Great Britain in response to that nation's harassment of American sailors. During the Civil War, the U.S. prohibited transactions with the Confederacy.

OFAC is the successor agency to the office of Foreign Funds Control (FFC), which was established during World War II following the German invasion of Norway in 1940. The U.S. created FFC to help stop Germany from using assets seized from occupied countries. Once the U.S. entered the conflict, the FFC played a key role in blocking enemy assets and prohibiting transactions with the Axis powers.

# FICC Will Pull the Plug on Green-Screen Terminals by Jim Conmy

**F**ixed Income Clearing Corporation (FICC) recently announced that it is time for customer-members to bid their final goodbyes to the legacy “green-screen” terminal service. FICC expects to pull the plug on the long-running U.S. government securities trade-monitoring interface sometime in May, and will publish a specific date as it gets closer to that time.

“It was almost a year ago when we introduced our Real-Time Trade Matching [RTTM] web front-end system to make it easier for firms to manage their government securities trades once they’ve been submitted to FICC,” said Melanie Sterman, DTCC director, Product Management and Marketing/Fixed Income. “Most firms are already using RTTM’s speedier and more flexible web front-end to keep track of and update their transactions; now it’s time for the remaining firms to make the switch.”

The Delivery-versus-Payment function in RTTM’s web front-end already supports all repo and buy/sell trades, and once the green screens are shut down, Sterman said, the web front-end will be the only way to get screen access to RTTM functions. Over

the past year, FICC took the same steps for GCF repos, moving them onto the web front-end as well.

## **Easier and more flexible**

While all government securities trades submitted to FICC come through RTTM, most firms submit trades through interactive messaging on a computer-to-computer basis. Typically, it is after the initial trade submission that firms find the RTTM web front-end so useful.

What broker/dealers tell FICC is that the web front-end makes it easier for them to monitor their activity because it gives them a real-time view and ability to access various cuts of data to track, modify and cancel their own trades, or affirm or DK (Don’t Know) advisories. They can also query trades in a number of ways, and download query results to Excel spreadsheets.

“Now is the moment for all member firms that haven’t yet done so to begin moving all their terminal-based procedures to the RTTM web front-end,” Sterman said. “We recommend that they get started right away to ensure that their personnel are familiar with how to use the web front-end

functions, and that they have appropriate levels of access to required functions before the shutdown of the old VMS terminal service.”

FICC advises that if people can’t get on to the web front-end or find they don’t have approval for certain functions on the system, they should contact their firm’s Remote Access Coordinator. If they are not sure who their coordinator is, send an email to [ficcimplementation@dtcc.com](mailto:ficcimplementation@dtcc.com) @.

**What broker/dealers tell FICC is that the web front-end makes it easier for them to monitor their activity because it gives them a real-time view and ability to access various cuts of data to track, modify and cancel their own trades, or affirm or DK (Don’t Know) advisories.**



*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.*

*@dtcc is published by Corporate Communications and available online at [www.dtcc.com](http://www.dtcc.com) under News Center. Send email to [editor@dtcc.com](mailto:editor@dtcc.com).*

**Stuart Z. Goldstein**  
*Managing Director*

**Helen Cunningham**  
*Editor*

**Troy Cavaliere, Edwin Ramos**  
*Design*

**Toni Bellise**  
*Production Manager*

**Printed by**  
*DTCC Print Department*

*We may provide you with additional information about our products and services from time to time unless you have indicated that you do not wish to receive such information. This information may be communicated by various means. If at any time you wish to be removed from our distribution list, please send an email to [PrivacyOffice@dtcc.com](mailto:PrivacyOffice@dtcc.com).*