



# New EuroCCP White Paper Offers Proposals to Reduce Risks Of Interoperability

*by Melanie Best*

In a white paper published in January, EuroCCP presents a series of recommendations to address regulatory concerns about potential systemic risk problems that may result when multiple equities central counterparties (CCPs) in Europe interoperate.

Regulators have put on hold interoperability arrangements in Europe pending a full review of the systemic risks attached to multi-CCP interoperability. The paper provides EuroCCP's perspective and outlines possible approaches to mitigating these risks. [continued on page 2]

## DTCC Subsidiaries Obtain Highest Credit Rating for 9th Year

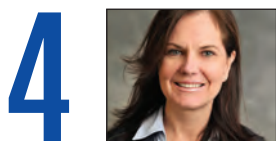
Once again, the financial strength of the U.S. capital markets infrastructure has been reaffirmed by a major credit rating agency. In a report released last month, DTCC's major subsidiaries received Standard & Poor's (S&P) highest credit rating, AAA/ Stable/A-1+, for the ninth consecutive year.

The report cited the strong financial safeguards and robust risk management controls employed by National Securities Clearing Corporation (NSCC) and The Depository Trust Company (DTC) in awarding the recognition. A third DTCC subsidiary, Fixed Income Clearing Corporation (FICC), also received S&P's highest rating for [continued on page 10]

### in this issue



**3** Timetable for New Corporate Actions Platform



**4** Obligation Warehouse Opens For Testing



**8** Expansion of Global Corporate Actions Service

# New EuroCCP White Paper *Continued from cover*

“We share the regulators’ concerns. Arrangements between multiple, competing CCPs, where each CCP becomes a counterparty to the other interoperating CCPs, require a new framework for managing the liquidity and credit risks such arrangements may create,” said Diana Chan, CEO of EuroCCP. “EuroCCP wishes to work with others in the industry to craft an approach that manages these risks properly, in both normal and extreme market conditions. Proposals have to be scalable and allow competition to flourish in Europe’s equity markets.”

## Four recommendations

The paper, Recommendations for Reducing Risks Among Interoperating CCPs, discusses several options and offers four primary recommendations:

1. CCPs should augment their existing default funds to cover potential close-out losses in the event of an interoperating CCP’s default.

2. An Interoperability Convention, to provide transparency of arrangements between interoperating CCPs, should replace confidential bilateral agreements.

3. Commercial barriers to interoperability should be removed. Each market participant should be able to choose which CCP they use.

4. Longer term, further consideration should be given to inter-CCP netting, whereby a netting agent would be established to determine each CCP’s net securities and cash position against the other CCPs.

“EuroCCP aims to make interoperability safer and easier,” Chan said. “Collective action among CCPs and engagement with market participants and regulators is essential to delivering the benefits of interoperability.”

The paper is part of EuroCCP’s drive to build a stronger European equities market through promoting

competition, reducing frictional costs and strengthening risk standards.

The paper is available on the EuroCCP website, at [www.euroccp.co.uk](http://www.euroccp.co.uk). @

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## Contents

1. New EuroCCP White Paper Offers Proposals to Reduce Risks of Interoperability
1. DTCC Subsidiaries Obtain Highest Credit Rating for 9th Year
3. DTC Issues Timetable and Plans for New Corporate Actions Platform
4. Obligation Warehouse Opens for Participant Testing
4. ‘Transforming the Processing of Fails & Other Open Obligations’
6. Industry Gears Up to Roll Out New Options Symbology
7. DTCC, SWIFT and XBRL US Named Most Innovative Solution Provider in Corporate Actions
8. DTCC Enhances and Expands Global Corporate Actions Service
12. Reporting Muni Bond Trades Gets Easier



# DTC Issues Timetable and Plans For New Corporate Actions Platform

by Edward C. Kelleher

The Depository Trust Company (DTC) has released a timetable for the implementation of its corporate actions reengineering project. It details a phased-in approach over the next several years and itemizes key deliverables and the schedule for the release of reengineering documentation for 2010.

The corporate actions reengineering will upgrade and replace many of the 60 legacy systems that currently support corporate actions and will create a single new platform capable of handling increasingly sophisticated types of securities, both domestic and international. Any system changes for new products or enhancements remain optional for DTC customers through 2010.

“Because of the size and complexity of the reengineering initiative, it will be deployed in several phases,” said Patrick Kirby, DTCC managing director, Asset Services. “Corporate action announcements will come first, followed by elections and payments for distribution events, redemption events, and finally reorganization events.”

The first phase of the project, already completed, added new data elements to the Global Corporate Action (GCA) Validation Service. The following are the remaining implementation dates and a snapshot of the planned changes:

- **April 2011:** new ISO 20022 corporate action announcement messages with a unique DTC ID and an inbound XBRL interface will be introduced.
- **June 2011:** full connectivity to issuer-based XBRL tools.
- **March 2012:** a new customer user

interface and ISO 20022 messaging will be introduced for the entire lifecycle of distribution events.

- **September 2012:** a new customer user interface and ISO 20022 messaging will be introduced for the entire lifecycle of redemption events.
- **March 2013:** a new customer user interface and ISO 20022 messaging will be introduced for the entire lifecycle of reorg events.
- **2015 or before:** all DTC legacy CCF files will be retired, as well as the GCA proprietary file and ISO 15022 message.

“We are committed to working with our customers and the vendor community to prepare for these changes and the transition to the new platform,” said Kirby, “and we will be seeking client feedback as we move forward on the implementation and finalization of the new standards.

“In January, we are releasing documentation describing the new event types and data elements and how they relate to DTC legacy formats, as well as GCA Validation Service legacy and ISO message formats. Client input will help shape these documents as well as the finalization of the ISO 20022 standards,” he added.

## Budgetary impact

To assist the industry in budgeting for the associated development work required for the new platform, DTC will:

- Conduct a series of webinars demonstrating the new user interface and dashboard prototype for the platform during the first half of 2010.
- Publish detailed message layouts for ISO



20022 announcements, including the use of “extensions” and data-element mapping to existing CCF announcement files, in March 2010.

- Publish detailed message layouts for all message types covering the full corporate actions lifecycle in June 2010.
- Provide an outline of key event scenarios and the mapping between legacy and ISO 20022 in June 2010.

Kirby said the goals of the reengineering initiative are to enforce ISO standards and provide the highest quality corporate actions data, while improving the identification and representation of events. He also said that DTC will offer customers a number of service options, including near real-time delivery and access to scrubbed non-North American data. DTC will continue to support the DTCC SMART network but will also offer delivery of data to clients over the SWIFT network. @

[For a detailed look at the goals, phases and dates of the multiyear reengineering project, go to [www.dtcc.com](http://www.dtcc.com), click Thought Leadership and Reengineering.]

# Obligation Warehouse Opens for Partic

The industry achieved a milestone in January as several firms took steps to begin internal testing of the Obligation Warehouse (OW), an enhanced service that will automate the processing of ex-clearing trades and other open obligations as well as the management of fails. The OW, expected to go live in 3Q 2010 pending regulatory approval, is an offering of National Securities Clearing Corporation (NSCC).

“Because ex-clearing trades are currently processed outside NSCC’s systems, they are highly manual, time-consuming and risk-prone,” said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. “By bringing these transactions into the OW, we will give the

industry a standardized and cost-effective process for managing ex-clearing processes and any resulting fails. The OW will also serve as a repository of this information, providing a complete view of the equities markets to enhance transparency and mitigate systemic risk.”

Customers that successfully complete testing will have the opportunity to participate in a limited pilot production of the OW starting in February.

## Replacing RECAPS

The OW is an enhancement to NSCC’s Reconfirmation and Pricing Service (RECAPS) and will offer the following enhanced features and functionality:

- Allow broker/dealers to submit ex-clearing trades and other obligations for

- automated real-time matching and confirmation;
- Eliminate the burdens of manually managing ex-clearing and non-Continuous Net Settlement (CNS) fails by automating the process and consolidating and storing the transactions in a central location;

**The Obligation Warehouse will automate the processing of ex-clearing trades and other open obligations as well as the management of fails.**

## ‘Transforming the Processing of Fails & Other

With NSCC preparing to launch its Obligation Warehouse (OW) by mid-year, Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities, recently published an article explaining how the service will work. Cosgrove discusses how the OW will provide transparency for the industry and regulators while delivering operational efficiencies, cost savings and risk mitigation to financial firms.

The article appears in the most recent issue of *SOD News & Views*, a quarterly publication of the Securities Operations Division of the Securities Industry and Financial Markets Association (SIFMA). The Securities Operations Division provides a forum for educational and development support to operations professionals and other members of broker/dealers, banks and investment management firms.

Below is an excerpt of the article. To read the entire article, visit [www.sifma.org](http://www.sifma.org).

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In the U.S. capital markets, the industry is well-served by an automated post-trade process that seamlessly clears, guarantees

and settles trades that on a peak day can top 19 billion shares, or average about \$2 trillion. However, regulators, policymakers and financial firms are justifiably concerned about ex-clearing trades, which are managed broker-to-broker using highly manual and error-prone processes, including phone calls and faxes to exchange information to ensure final settlement. The process is inefficient and expensive – and, more significantly, fraught with operational and counterparty risk.

When it comes to comparing ex-clearing trades, ops professionals have had limited tools to manage trades bilaterally. This has created needless operational risk for firms, as well as increased costs and diverted resources from other back-office responsibilities. The OW will close the chapter on the manual processing of ex-clearing trades by empowering ops professionals with a real-time automated service that will electronically manage these transactions and communicate a successful match to each side of the obligation....

The OW goes one step further by also automating the

# Participant Testing

by Craig Donner

- Provide the industry and regulators with a central vantage point to monitor and mitigate systemic risk by capturing all trading activity in NSCC-eligible securities in a central location from trade date until settlement.

## Ensuring a smooth transition

The launch of customer testing follows the completion of several months of internal testing by NSCC, which included a front-to-back functional review to ensure the service is fully integrated. With that phase completed, NSCC launched the OW in its Participant Services Environment (PSE) in January so firms could begin testing their own coding to ensure it can properly interface with the OW.

“Participant testing allows firms to fix any bugs or kinks in their coding before the system goes live,” said Thomas Sakaris, DTCC vice president, Clearance and Settlement/Equities. “When customers make changes and modifications in a test environment, it helps ensure a seamless and hassle-free transition when the service goes live.”

During participant testing, firms will run a series of tests on different business events and types of transactions to see if their systems are communicating correctly with the OW. The scripted test will include submitting requests for comparison, notification of delivery, the opening or closing of obligations due to mandatory reorganizations, RECAPS and participant

swings, to name a few.

“Once the firms input the information into the OW, we process it as if the service were live and give them output, which they reconcile with their own records to see if the data correspond,” said Janice DiTore, DTCC director, Clearance and Settlement/Equities. “Once firms complete the script they have the flexibility to perform additional testing or move into pilot production, where they will have access to many of the OW’s functionalities. @

*[For more information on the Obligation Warehouse, contact Janice DiTore, DTCC director, Clearance and Settlement/Equities, at 212.855.7659 or JDiTore@dtcc.com.]*

## Open Obligations’

management of ex-clearing and non-CNS fails. Because these trades exist outside CNS, the back office faces an accounting nightmare in handling these transactions – not to mention bearing the added costs for maintaining comprehensive records and dedicating personnel to keep track of their status. The OW will help mitigate this risk by consolidating all ex-clearing and non-CNS fails in a central location and storing them until settlement. This is good news for brokers, who will gain real-time access to their fails data, and an efficiency booster for the back office, which will be freed from having to manually log and update the status of these obligations....

The OW enhances transparency by fully capturing, for the first time ever, all trading activity in NSCC-eligible securities in a



Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities

central location from trade date until settlement. As a result, ex-clearing trades will no longer be invisible to all but the parties to that particular transaction. Instead, the industry and regulators will have a complete view of all open obligations traded in the U.S. marketplace for equities, corporates, municipals and unit investment trust securities – and importantly, have a central vantage point to monitor and mitigate systemic risk....

The OW is not a solution in search of a problem – it is the solution to a problem that has plagued the industry for years. For ops professionals, the OW represents an important step forward in bringing

greater efficiency, cost savings and risk mitigation to the back office.

# Industry Gears Up to Roll Out New Options Symbology

by Crystal Bueno

The February 12 mandatory deadline is fast approaching for the industry-wide initiative that will streamline and clarify how options are represented and reported in the financial marketplace. The Options Symbology Initiative (OSI), being spearheaded by the Options Clearing Corporation (OCC), will replace the confusing and antiquated method of identifying options contracts with a new symbology key.

The OSI covers equity options, index options, yield-based options, short-date options and flex options.

“We have been working closely with customers and industry participants for the past three years to ensure a seamless transition to the new formats,” said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities, who noted that DTCC has completed a series of system and product enhancements to accommodate this initiative. “We are urging customers to actively test the final round of enhancements to DTC and NSCC services that process transactions related to option contracts.”

The services impacted by the initiative include the Automated Customer Account Transfer Service (ACATS), the Cost-Basis Reporting Service (CBRS), Collateral Loans (OCC Pledges and Releases) and Premium Payment Orders (PPOs).

## Making modifications

To support a smooth transition for OSI modifications, The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC) have been working to ensure the relevant systems and products will be fully compliant and thoroughly tested.

For pledges and release requests, DTC completed most OSI modifications in October 2008. PPO changes for manual

users were implemented in October 2009. Automated PPO users are encouraged to utilize DTC's User System (U Region), which will continue to be available through the implementation date to test the new formats.

For both ACATS and CBRS, NSCC's Participant Services Environment (PSE) has been available for customers to test the programming changes since August 2009. In addition, the OCC supported end-to-end testing of ACATS option asset transfers in PSE from November 30 through December 11. DTCC will keep NSCC's PSE region open and available for further ACATS option testing and CBRS testing until the new formats are rolled out in production. Changes for both ACATS and CBRS will be implemented in production on February 8, 2010, four days ahead of the industry-wide mandate.

Louis Lepore, DTCC product manager, Clearance and Settlement/Equities, noted that all current users of the CBRS are affected by this initiative, regardless of whether a firm processes option assets through ACATS. “This required change is due to a shift of field positions in the record layouts to accommodate the new and expanded fields to represent options,” said Lepore. “We recommend that customers test internally, or locate other test partners to prepare for the switch-over to the new formats.”

## Status of PPOs

DTC used the OSI initiative as an opportunity to transition all PPO processing for manual users to the Participant Browser Service (PBS) from the Participant Terminal Service (PTS). Last October, DTC converted 81 participants to PBS for



manual inputs of PPOs and PPO reclaims, effectively eliminating any PPO transactions from being processed through PTS.

“We sunset PTS functionality and the migration was smooth,” said John Manuel, DTCC product manager, Clearance and Settlement/Equities. “All participants met the deadline and continued manual processing of PPOs without incident.”

## Next steps

Once the new option formats are implemented into production, the industry will then be in a position to begin consolidating option symbols as outlined in the OSI consolidation plan on the OCC's website (<http://www.optionsclearing.com>). This process will occur on specific Fridays beginning on February 26 and running through May 14, 2010, according to the plan.

Although no code changes are required for ACATS and CBRS processing, members will be required to submit options with their new underlying symbol based on the dates in the plan. NSCC will run a conversion process on weekends to update the option symbols in any in-progress ACATS transfer and any previously settled ACATS transfer. @

# DTCC, SWIFT and XBRL US Named Most Innovative Solution Provider in Corporate Actions by Bari Trontz

Financial-i magazine selected DTCC, along with SWIFT and XBRL US, as the “Most Innovative Solution Provider” for corporate actions for its Leaders in Innovation Awards. Financial-i features the winners in the Q4 2009 issue of the magazine.

Financial-i’s fourth annual Leaders in Innovation Awards recognize global transaction banks and financial hardware and software vendors that have demonstrated an ongoing commitment to innovation throughout 2009 and have excelled, in terms of business solutions, across wholesale transaction banking. The award categories include payments and foreign exchange; securities services; data management; risk management, and network services.

The U.K.-based financial-i magazine focuses on how technology is being leveraged to provide business solutions in wholesale transaction banking.

## **Standing out from the competition**

Anita Hawser, managing editor of financial-i, noted in a press release, “In selecting winners in each category we have tried to focus on those companies we and our advisory panel believe have that little something extra that makes their solutions stand out from their competitors in terms of depth and breadth of functionality, ease of implementation and support and solutions that are not looking for a problem to solve but actually address real business needs.”

“We are honored to stand alongside SWIFT and XBRL US as the recipient of

financial-i’s award for innovation in corporate actions,” said David Hands, DTCC director, DTCC Solutions LLC, a wholly-owned subsidiary of DTCC. “2009 represented an important year for us as we continued to build consensus on how to create a seamless corporate action announcement solution that electronically connects, through the use of global standards, all the parties in the communication chain from the issuer to financial intermediaries and finally the investor. The launch of our global initiative, ‘Issuer to Investor: Corporate Actions’ (I2I), has, for the first time, brought together representatives from all the parties involved to address an area of high risk and cost within the financial services industry.”

The I2I initiative builds on the work undertaken by DTCC, SWIFT and XBRL US to promote existing International Organization for Standardization (ISO) standards for corporate actions and integrates the benefits of XBRL (eXtensible Business Reporting Language) electronic data tagging technology. (For more information on I2I, go to <http://xbrl.us/i2i>.) @

**‘2009 represented an important year for us as we continued to build consensus on how to create a seamless corporate action announcement solution that electronically connects, through the use of global standards, all the parties in the communication chain from the issuer to financial intermediaries and finally the investor. The launch of our global initiative, ‘Issuer to Investor: Corporate Actions’ (I2I), has, for the first time, brought together representatives from all the parties involved to address an area of high risk and cost within the financial services industry.’**

– David Hands, DTCC director, DTCC Solutions LLC

financial



# DTCC Enhances and Expands Global Corporate Actions Service by Ted Davis

**D**TCC is expanding its Global Corporate Actions (GCA) service based on feedback from its growing global client base. This year, GCA is adding new data streams, subscription options, tax information and connectivity options.

“We recognize that clients have different information needs and that, in an area as complex as corporate actions, one size cannot fit all,” said Patrick Kirby, DTCC managing director, Asset Services. “As a result, we will continue to enhance our core corporate actions data package, while also creating tools that give firms greater flexibility for managing how they receive and share data.”

The articles that follow summarize how GCA is enhancing its offerings. GCA services are offered by DTCC Solutions LLC, a DTCC subsidiary.

## Increased Securities Coverage

In early 2010, GCA will further expand coverage on U.S. and international DTC-ineligible securities with a three-part extension.

**1. Fannie and Freddie securities:** GCA will source scheduled payment announcements from the Federal Reserve Board for U.S. structured and non-structured securities, specifically Fannie Mae and Freddie Mac securities, which are not DTC-eligible.

The Fed will provide GCA with a weekly security master file that includes interest and principal payment and maturity event information on these securities. (Similar to existing scheduled payment announcements, these will not be validated manually by GCA.)

**2. International securities that are DTC-ineligible:** GCA is adding scheduled payment coverage to include international securities that are not DTC-eligible, beginning with a handful of markets and gradually expanding as individual market differences are defined and rules validated. Interest and maturity announcements for these securities will be provided by Six Telekurs (which does not offer principal payment data on these securities).

**3. Unit Trusts:** GCA will provide distribution information on Unit Trusts (UT), a security type concentrated in the U.K., by expanding its use of data provided by Interactive Data and Six Telekurs. UT events covered are Cash Dividend (CD), Special Dividend (SD) or Dividend Reinvestment (DR), as well as Return of Capital (ROC).

## Scheduled Payment Volume Management

Scheduled payment information (interest and principal payments along with maturity events) are part of the core content of GCA services, which handled nearly six million scheduled payment events in 2009 (approximately 86% of total volume).

The expanded security coverage will increase the volume of this type of information GCA makes available to customers. To help firms manage the potential surge in volume, and the processing and billing issues associated with it, GCA is giving firms the ability to subscribe to all or part of its data.

Previously, GCA offered a subscription option for DTC-eligible scheduled payments only. Now, a second subscription option is available: DTC-ineligible scheduled payments. The subscription options give firms the flexibility to limit their scheduled payment data to their existing DTC-eligible scheduled payment events, to non-eligible data only, or to receive both.

Clients can select one or both of these data deliveries at no additional charge other than the cost associated with expanding their client Securities of Interest (SOI) file. This decision will affect the volume of data received and thereby have an impact on the ultimate cost of the service. Firms will have to instruct GCA to “turn on” the option they select to avoid an unexpected increase in data volume.

DTCC recommends that GCA customers discuss the potential data volume increase with their technical staffs as it may affect in-house processing times.

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## New Tax Data

GCA has created a new fee-based subscription option, the Qualified Dividend Tax Indicator, which allows clients to receive qualified dividend tax status information for dividend events on securities that trade in the U.S. and Canada. This information can help firms determine the amount of dividend income that is qualified for the preferential tax treatment of 15% based on the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003.

The JGTRRA sets the maximum individual federal tax rate applicable to dividends paid by most domestic and many foreign corporations at a preferential 15% for dividends paid after December 31, 2002. The GCA Qualified Dividend Tax Indicator provides an indication whether the payments qualify for the preferential rate based on meeting the applicable holding period for the securities.

As of January 2010, GCA VS will publish the qualified/non-qualified indicator values to clients that subscribe to this information with the understanding that firms will perform their own tax calculations on dividend payouts affected by the qualified indicator.

The fees for the new subscription will be based on the volume of securities in a client's SOI defined as equities that trade in the U.S. and Canada.

## New Global Connectivity

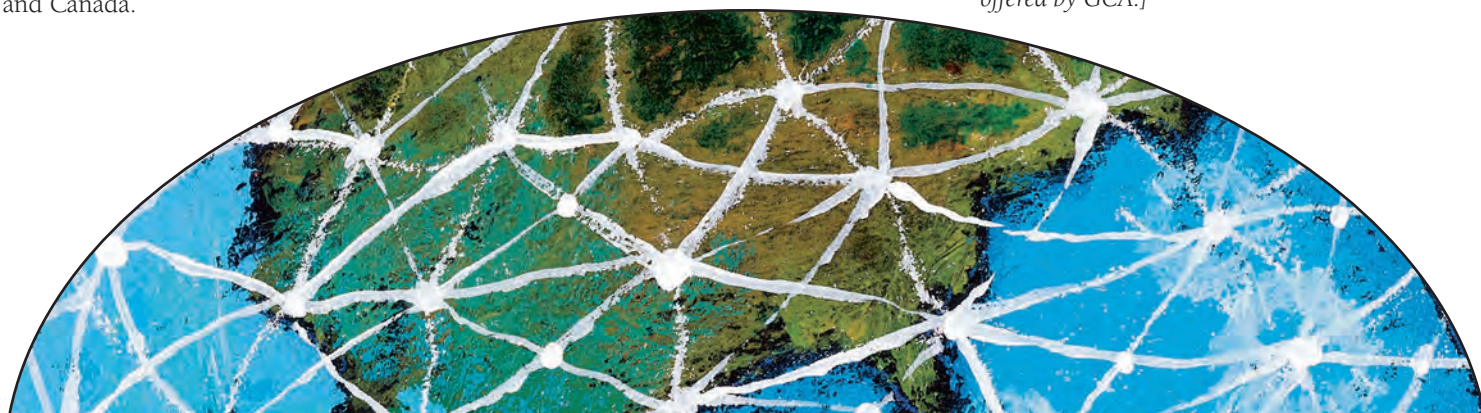
GCA customers can connect to the full Validation Service via DTCC's Securely Managed and Reliable Technology (SMART) network to receive data. An alternative connection option for customers that only wish to view the database rather than access the full service is the standalone Browser Service, which offers wider, low-cost desktop access to the data.

A third connectivity option, available since November 2009, gives firms the opportunity to receive and send corporate actions data over the SWIFT network (SWIFTNet).

"As our multi-year corporate actions reengineering project moves forward to bring all corporate actions information onto a single platform, we are working with organizations such as SWIFT to connect more data users and offer more connectivity choices," said Brett Lancaster, DTCC vice president, DTCC Solutions LLC. "The SWIFT connectivity option gives GCA clients a cost-effective way to transfer data in different formats while leveraging the security and reliability inherent in the SWIFTNet platform."

Firms will be able to exchange certain ISO messages individually by using the SWIFT FIN service and transmit data files through the SWIFT FILEACT service over the SWIFT network. To subscribe to these SWIFT services, clients are encouraged to contact their GCA relationship manager. @

*[Firms may contact their DTCC relationship managers to learn more about any of the subscription options and other new services offered by GCA.]*



## Snapshot of the GCA Service

The GCA service has delivered corporate actions information from the world's largest securities database at The Depository Trust Company (DTC), a subsidiary of DTCC, since 2003. The service offers data on standard corporate action events for equity and fixed income securities ranging from simple dividend announcements to complex merger events, as well as for other domestic and global securities, including instruments that are DTC-ineligible.

The GCA Validation Service, which operates around the clock in three locations (New York, London and Shanghai), scrubs corporate announcement data from more than 200 sources to deliver a single "golden copy" of high-quality, reliable data in a timely manner to intermediary and investment firms all along the announcement chain.

In addition to DTC-eligible securities in the U.S., GCA validates corporate action information from 117 countries and territories.

# DTCC Subsidiaries Obtain Highest Credit Rating *Continued from cover*

the sixth consecutive year in May 2009.

“We are pleased that S&P has again recognized NSCC, DTC and, earlier last year, FICC, for their financial stability and creditworthiness,” said Donald F. Donahue, DTCC chairman and CEO. “Attaining the highest ratings reinforces for our customers and regulators the certainty, safety and soundness we are able to provide the marketplace. The consistency of our credit rating is a testament to our tight fiscal and management controls as well as the risk management programs we have in place to protect the stability of the financial system.”

“AAA” is S&P’s highest long-term debt rating and means a company has extremely strong financial security characteristics. “A-1+” is the highest short-term counterparty credit rating and means an organization has an extremely strong ability to meet its financial commitments on short-term obligations.

## Snapshot of NSCC

NSCC provides clearing, settlement, risk management and a central counterparty guarantee of trade completion for virtually all broker-to-broker equity, corporate and municipal bond and unit investment trust (UIT) trading in the U.S. market, taking feeds from more than 50 exchanges and trading platforms. In 2009 through November, NSCC cleared over 30 billion transactions valued at more than \$193 trillion.

Through its Continuous Net Settlement system, NSCC netted or reduced the total number of trade obligations requiring financial settlement by 98% during that same period.

In rating NSCC, S&P wrote:

- “We consider NSCC’s risk-management controls, processes and procedures to be excellent. Our opinion is underpinned

by the maintenance of strong financial and operational safeguards, which minimize NSCC’s exposure to member default.”

- “NSCC employs multiple layers of protection to shield itself from member default, including stringent membership admission procedures and a variety of controls and systems to track member positions.”
- “In our opinion, NSCC maintains very robust procedures to protect against operational risk.”

## Snapshot of DTC

DTC serves as the central securities depository for the U.S., providing clearing and settlement efficiencies by immobilizing securities and making “book-entry” changes to ownership of the securities. DTC also provides settlement for

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institutional trades, money market instruments and other financial obligations.

In 2009 through November, DTC processed almost 274 million book-entry deliveries valued at more than \$112 trillion. In that same 11-month period, DTC settled money market instruments valued at almost \$88 trillion. It also retains custody of more than 3.5 million securities issues worth about \$33 trillion, including securities issued in the U.S. and more than 117 other countries.

In rating DTC, S&P wrote:

- “Standard & Poor’s Ratings Services’ ratings on DTC are based on the firm’s ability and willingness to satisfy its financial obligations in a timely manner.”
- “In our opinion, DTC’s contribution in supporting the infrastructure of U.S.

securities markets is crucial. The low-risk nature of DTC’s core operations, which include safekeeping, record keeping, servicing securities held in custody and settling off-exchange securities transactions among institutional participants, underpins the ratings.”

- “In our opinion, DTC’s risk-management framework is excellent, underpinned by robust policies, procedures and systems. We believe the maintenance of strong financial and operational safeguards minimizes DTC’s exposure to member default.”
- “In this context, DTC has substantial resources to ensure the smooth settlement of transactions for the benefit of its member participants and the broader securities market. In our opinion, DTC maintains and adheres to robust risk-management policies and procedures that ensure its limited exposure to counterparty credit risk. The firm requires full collateralization of all unsettled positions at all times, as well as net debit caps that effectively limit the size of unsettled intraday positions.”

#### Signal to marketplace

“Over the course of nine years, NSCC and DTC have been able to maintain the highest rating even as the economic climate has shifted from periods of prosperity to unprecedented crisis,” said Ellen Fine Levine, DTCC’s CFO. “The AAA rating signals to lenders that they can have confidence in our subsidiaries’ ability to meet their financial obligations. On a more practical level, the AAA credit rating is an important asset in the marketplace, demonstrating that DTCC is recognized as a reliable and high-quality borrower.”

Copies of the full reports on the ratings of NSCC and DTC are available at S&P’s website at [www.standardandpoors.com/ratingsdirect](http://www.standardandpoors.com/ratingsdirect) following free registration. @

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# Reporting Bond Trades Gets Easier

by Jim Conmy

Fixed Income Clearing Corporation (FICC) has added some flexibility to how corporate and municipal bond trades get matched and reported through the Real-Time Trade Matching (RTTM) engine. And according to one operations manager, having the ability to modify trades after they're submitted makes it a lot easier for his firm to comply with stringent regulatory reporting requirements.

The new RTTM capabilities allow trader firms to modify data elements on unmatched trades after the date of the trade – something not previously possible. In addition, RTTM now makes a dealer's correspondent broker's symbol a basic part of the matching process for muni bond trades. RTTM reports all firm-designated muni bond trade data to the Municipal Securities Rulemaking Board (MSRB).

Both changes in RTTM reporting functions come at an opportune time. With interest rates hovering near historic lows, state and local government agencies sold more than \$409 billion worth of bonds in 2009, according to Thomson Reuters. This year, volume is expected to climb even higher, aided in part by the federal government's Build America Bonds program, which offers higher interest rates and is likely to expand the market for

municipal bonds. Corporations, hoping to expand as the economy regains footing and looking to take advantage of low interest rates, are also expected to issue more debt.

## Listening to customers

"We made these changes in RTTM at the request of our customers," said Edmund Fanning, DTCC director, Clearance and Settlement/Fixed Income. "Many were frustrated that they couldn't modify their trades to correct erroneous information after the trade date. As a result, if there was an error, they had to cancel the trade and resubmit it after trade date, resulting in late trades, possible fines and further processing delays."

Another side effect was that the trading firms had to dedicate staff time to research and document municipal bond trades that matched in RTTM despite differences in the correspondent broker symbols that the MSRB requires.

FICC began developing the necessary systems changes in the second quarter of 2009, undertook user acceptance and connectivity testing later in the year, and launched the revised RTTM functions in the last quarter of the year.

"These changes have removed the regulatory exceptions for mismatched contra symbols," said David Moore, vice president, Roosevelt & Cross, Inc., a firm

that specializes in municipal bond underwriting and trading. "We used to have to cancel and correct trades after the fact to remedy the compliance problem. Now RTTM's enhanced matching requirement forces both counterparties to take action sooner in order to attain a successful matched report," Moore added. "This is much better." @



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