



NSCC Completes Build of New Equity Trade Capture System

by Craig Donner

National Securities Clearing Corporation (NSCC) recently completed development of its new equity trade capture system and has begun internal testing in preparation for the launch early next year.

Trade capture is considered the first step on the road to clearing a trade. The process takes in data from the major U.S. exchanges and virtually all other equity trading venues, edits the information and produces contract reports that are transmitted to the [continued on page 2]

DTCC and EuroCCP Are Profiled In Infrastructure Governance Study

by Melanie Best

The global financial turmoil of 2008 and subsequent aftershocks raised the profile of the financial industry's infrastructure organizations – exchanges, central counterparties (CCPs) and central securities depositories (CSDs). Because the infrastructures continued to perform their critical functions despite the turmoil, and many served to contain the spread of financial damages, public policymakers now promote their use to cover more types of transactions, especially in the over-the-counter market segment. With the

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firms for reporting and reconciliation needs. The new system, called Universal Trade Capture (UTC), will replace the multiple applications currently used by NSCC with a single system that introduces a standardized input record from all marketplaces and standardized real-time output messages to participants.

Normalizes data

UTC's ability to normalize, or standardize, data into a common output format is one of the system's main features and is generating a great deal of interest among financial firms, many of which are forced to run their own internal conversion programs or outsource the function to third parties – increasing the cost of the post-trade process.

"UTC will deliver an immediate cost savings to our members by providing a single, standardized real-time record for every equity trade, regardless of the market

of execution," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. "Under our legacy systems, the lack of standardization across execution platforms forces us to produce and send four different types of reports to our members, depending on where the execution occurred, as batch files. By providing normalized, real-time data, we'll help firms enhance their own internal operations, mitigate operational risk and reduce processing costs."

UTC will support maximum flexibility by providing a new standardized input record while continuing to support trade submission using proprietary formats. UTC will translate existing market inputs into the common format via DTCC's Common Data Transfer System (CDTS) and provide real-time message output as a FIX standard message using MQ or the FIX engine. Firms will also have the option of receiving a new universal intra-day machine readable output (MRO) file or the legacy MRO files.

Dovetails with accelerated guarantee

The move to a real-time messaging system is significant because it dovetails with NSCC's proposal to accelerate its trade guarantee for all Continuous Net Settlement (CNS) eligible trades, including equity, corporate bond and municipal bond transactions. UTC is also designed to support changes in market structure, especially the growth of high-frequency trading, by delivering real-time output to members.

"As the markets have evolved, firms want data immediately in hand to begin reconciliation and also to streamline their purchase and sales processes," said William Kapogiannis, DTCC director, Equities Clearance and Settlement Product Management. "And in an environment where financial firms are concerned about

the solvency of their trading partners, real-time output will let our members know that their trades have been novated and guaranteed by NSCC within minutes of execution. As a result, we'll be mitigating counterparty risk and providing stability and certainty to the financial system – not to mention giving our customers the greater peace of mind they're looking for during these difficult economic times."

User specs published

NSCC recently published the record formats for UTC as well as the new messaging specifications document so firms could begin their own internal development. The information is available online through DTCC Learning at <http://dtcclearning.com/learning/clearance>. NSCC members will need to register for a username and password to access the site, which also contains other learning content and resources on UTC.

In the weeks ahead, NSCC will continue integration testing of UTC, including performing a front-to-back functional review to ensure the service is fully integrated. Customer testing is expected to begin in 4Q 2010 and continue indefinitely as firms transition at their own pace to UTC.

"The key word I'd use to describe our launch of UTC is flexibility," said Cosgrove. "Our plan is to avoid a 'Big Bang' implementation by transitioning the exchanges to the new format one at a time. We're also giving our customers the flexibility to receive output in the format that best meets their needs – without hard mandates that would place unnecessary burdens on our members in the midst of an economic downturn." @

[To learn more about the Universal Trade Capture (UTC) system, contact William Kapogiannis at bkapogiannis@dtcc.com or 212.855.5667.]

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Trade Information Warehouse Posts Record Year Processing OTC Credit Derivatives

by Steve Letzler

DTCC's Trade Information Warehouse, a global repository that records the details of OTC credit default swap trades, ended 2009 supporting the processing and recordkeeping of more than 2.2 million contracts, worth more than US\$25.1 trillion (€17.5 trillion), helping to reduce risk in the market. In addition, the Warehouse managed 50 credit events with a gross value of US\$386 billion, 129 successor events caused by restructurings, and processed 11 million gross payments in nine currencies through its central settlement service.

Once in the Warehouse, the trades can be fully serviced, including automatic netting and calculation of all payments obligations as well as central settlement of these payments in multiple currencies; restructuring or other organizational changes; full or partial terminations of contracts; novation (the assignment of contracts to other trading firms prior to the contract's end); and portfolio compression.

Supporting the industry

The total number of contracts in the Warehouse remained relatively flat year over year, despite fluctuations in the weekly activity trading volumes reported during the year. Industry-supported portfolio compression efforts helped reduce the gross notional value of the contracts in the Warehouse.

Portfolio compression is a process that reduces the overall size and the number of line items in credit portfolios, without changing the risk parameters of the portfolio. At the end of 2008, the Warehouse held 2.2 million contracts with a gross notional value of about US\$29.2

trillion (€21 trillion).

In 2009, DTCC also began tracking trades that were not recorded as official legal records in the Warehouse, working with the OTC derivatives community to meet its commitments to global regulators to increase regulatory transparency by reporting all trades to a single, central global repository per asset class. These are usually the more highly customized credit derivatives contracts, which until 2009 were not held in the Warehouse's

'Last year's activity clearly demonstrated the value of the Trade Information Warehouse as a single global repository both in providing needed transparency for the global OTC credit derivatives market to regulators and the general public, and in managing the necessary lifecycle processing and settlement capabilities that bring greater safety and soundness to the market.'

— Stewart Macbeth, DTCC managing director and general manager of the Trade Information Warehouse

repository because of their specialized nature.

When figures on these contracts were first publicly released in August 2009, there were 216,765 contracts worth an estimated \$US5.7 trillion (€4 trillion). As of the end of 2009, the number of contracts recorded fell to 145,000, worth an estimated \$4.7 trillion (€3.3 trillion). In part, this reduction was due to the loading of additional trades that could be held in the Warehouse as full legal records. Reductions were also made due to further processes to eliminate duplicate submissions, which increased the number of trades that were identified in August. These occurred when each counterparty to the trade submitted the same details and both submissions were counted as separate trades.

Record-breaking processing

DTCC seamlessly processed a record-breaking 50 credit events during the year globally, including the General Motors bankruptcy in April, the largest in U.S. industrial history. This figure rose dramatically from the 10 credit events processed in 2008. The total gross value of those credit events in 2009 totaled US\$386 billion (€270 billion), up from the US\$285 billion (€205 billion) in gross value from 2008. Net settlement amount for credit events in 2009 was \$17.7 billion (€12.4 billion), compared to about \$12 billion (€8.6 billion) in 2008.

DTCC handled 129 "successor" events during the year. Successor events occur when a reorganization or restructuring causes changes in existing credit default swap contracts. Use of successor event processing

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allows contracts to be appropriately updated and reduces any confusion and risk about affected contracts.

In 2009, the Warehouse processed 10.9 million gross payments netted down to 557,000 bilateral nets, yielding a 95% netting ratio. By netting payments, the value of payments that need to be made is greatly reduced, thus reducing the financial stress on each participant firm and more important, reducing potential systemic risk to the entire market. In partnership with CLS Bank International, 7.3 million of these gross payments were netted and settled through the Warehouse's central settlement service.

The number of participants that signed up for the central settlement service increased to 34, compared with 14 participants in 2008. This was predominately due to the expansion of central settlement services to buy-side clients. As a result of this increase, as of December 2009, the industry achieved nearly 80% of all payments being settled through the central settlement service. Total gross payment obligations, whether processed by the Warehouse through CLS Bank or not, were \$2.1 trillion, which netted down to \$780 billion, down from \$2.4 trillion gross and \$1 trillion net, respectively, in 2008.

"Last year's activity clearly demonstrated the value of the Trade Information Warehouse as a single global repository both in providing needed transparency for the global OTC credit derivatives market to regulators and the general public, and in managing the necessary lifecycle processing and settlement capabilities that bring greater safety and soundness to the market," said Stewart Macbeth, DTCC managing director and general manager of

the Trade Information Warehouse. "We supported settlement throughout the year seamlessly and without interruption, despite handling an average of one credit event a week all year."

Working with CCPs

As part of its functions, DTCC's Trade Information Warehouse provided support to four clearing organizations in Europe and the U.S. that began offering central counterparty services to the industry in 2009 for OTC credit derivatives, namely ICE Trust, ICE Clear Europe, Eurex and LCH.Clearnet SA, and is working with additional CCPs as they gear up to launch their services.

"Because virtually all CDS contracts are already registered in a central location through the Warehouse's global repository, CDS clearing organizations were able to connect to our trade data to begin clearing," Macbeth said. "In addition, since the Warehouse is already a well-established infrastructure for maintaining transactions throughout their life, CCPs are able to

connect and benefit from these services, and then themselves directly manage their primary functions such as risk management and credit intermediation."

OTC Equity Derivatives Repository

Also in 2009, DTCC was selected by the industry, along with MarkitSERV, a DTCC joint company with Markit formed in 2009, to create a global trade repository for OTC equity derivatives. That selection was made in October following a request for proposals issued by the International Swaps and Derivatives Association (ISDA®). Work on developing that repository is currently under way; it is expected to be ready for testing and full operation in the second quarter.

"The industry has made commitments to regulators to have equity derivatives trades in a trade repository no later than July 2010," Macbeth noted. "Our task is to create a trade reporting repository that will help increase transparency for this market segment." @

Wall Street Journal Editorial Cites Trade Information Warehouse

DTCC and its Trade Information Warehouse were cited in a Wall Street Journal editorial on March 12 as part of the solution in bringing greater transparency and systemic risk reduction to the credit default swaps (CDS) market.

"Proponents talk of the need for transparency in the credit-default swap market so that regulators can monitor risks," stated the editorial. "But today regulators can already see essentially the entire market in the Trade Information Warehouse maintained by The Depository Trust & Clearing Corporation."

The Journal published the editorial, titled "A Financial Reform Reprieve," following news that the Senate's bipartisan talks on financial reform had broken down. "Financial reform is still necessary... but the point should be to build a sturdier system that is more likely to avoid, and survive without a taxpayer rescue, the next mania and system panic." The article cautioned against "regulation crafted in haste."

'Inside Track'

In an article published in the February 8 issue of Parliament magazine, Stewart Macbeth, DTCC managing director and general manager of the Trade Information Warehouse, provides an overview of the issues facing policymakers in Europe and the U.S. as they look to fast-track supervisory legislation on over-the-counter derivatives trading. The article is titled "On the inside track."

"A central repository for cleared and non-cleared trades per asset class could ensure that regulators have common access to underlying position data quickly, and that the correct aggregation of data including netting is possible, and contagion impacts and exposure concentrations can be identified," Macbeth writes. "The benefit of a central trade repository per asset class is gaining recognition."

Parliament magazine, with an estimated readership of 12,000, is published twice monthly. The publication encourages debate and discussion on topical issues, with the goal of informing policymaking in the European Union. Its distribution includes members of the European Parliament, the EU Presidency, the European Commission, the European Court of Justice and the European Investment Bank.

To read the entire article, go to www.theparliament.com and click Parliament magazine. @



FICC Begins Publishing Daily Treasury 'Fails' Data

At the request of the Treasury Market Practices Group (TMPG), an industry committee sponsored by the Federal Reserve Bank of New York, Fixed Income Clearing Corporation (FICC) now publishes fails data for all Treasury securities trades submitted to FICC for settlement.

The move was made in an effort to bring

greater transparency to the trading of U.S. Treasury securities. Fails result when either sellers fail to deliver or buyers fail to receive securities in time to settle a trade.

According to Thomas Wipf, managing director, Morgan Stanley, and chair of the TMPG, "FICC's publication of aggregate settlement fails data represents an important improvement in Treasury market

transparency. We thank FICC for this effort and believe these data will enhance the public's insight into the health and functioning of the Treasury market."

The fails data can be viewed in daily, weekly, monthly or annual formats. Visit www.dtcc.com, click Fixed Income on the dashboard, then click Treasury Fails Data. @

heightened interest in these entities has come a new scrutiny of their governance. Who owns them? How are they governed? How should they be governed? Such questions are now asked routinely.

A detailed, wide-ranging study produced by U.K.-based consulting firm Oxford Finance Group contributes to the discussion of infrastructure governance and features 10 case studies, including one for DTCC and its depository and clearing subsidiaries, DTC, NSCC, FICC and EuroCCP.

Learning from experience

The Governance of Financial Market Infrastructure, published in January, draws on the experience of infrastructure organizations around the world to advance a number of suggestions and conclusions about optimal governance and regulatory models for the entities responsible for operating the securities markets. The DTCC case study uses the establishment of EuroCCP to illustrate how the organization's governance structure works in practice.

The study is timely in that market participants, regulators and legislators across the globe are re-examining the nature and role of market infrastructures. Some of the issues under discussion include the merits of infrastructure consolidation versus competition, the degree to which trading and post-trade processing should be centralized in infrastructure entities, and how best to manage risk to ensure infrastructure organizations can withstand market crises.

"Market practitioners now realize that the manner in which these [infrastructure] institutions are governed may affect both the fees they pay, and more generally the viability of their business models," the study notes in its Executive Summary.

The case of DTCC

In its DTCC case study, the report recounts the organization's history, dating back to the early 1970s, from the perspective of its ownership structure. "Ownership of DTCC common shares is not generally considered by its participants to be a financial investment but rather a vehicle for supporting each registered clearing agency, and influencing its policies and operations through the election of directors," the study states.

DTCC's corporate governance arrangements and board structure are explained, and the establishment of its several subsidiaries described in detail. The report also describes the legal and regulatory framework under which DTCC and its subsidiaries operate – the Securities Exchange Act and Securities and Exchange Commission in the U.S., and the Financial Services Authority in the U.K.

Learning from history

Oxford Finance Group focuses on EuroCCP's first incarnation – as a clearing provider for NASDAQ Europe in 2000 and 2001 – and European banks' single-CCP campaign that paved the way for the creation of EuroCCP.

The DTCC/EuroCCP case study revisits the European Securities Forum's (ESF) industry blueprint formulated in 2000. The report states that the 26 banks that composed the ESF in 2000 called for the creation of a single European CCP to replace the multiple clearing and netting organizations that existed or were in construction across the region. The new entity would be equipped to handle all products, be open to all providers of trading systems and have separate ownership from that of the trading platforms it served.

But the ESF's calls for Europe's incumbent clearers to merge came to

naught, and its request for proposals to build a new pan-European CCP attracted no responses. "The ESF's efforts to build a European CCP were undermined by a range of factors, including politics, disconnects between different constituencies' strategies, vested interests, and lack of commercial drive and funding," says the Oxford Finance Group report.

It continues, "The ESF was also stymied by the demutualization of the major EU exchanges whose shareholders stood to gain more from owning their own clearing and settlement facilities, than from subcontracting out clearing to an independent provider."

Despite the failed efforts, the ESF said it still favored "a horizontal structure which separates governance of clearing and settlement from trading platforms," and some member banks discussed with DTCC, informally, the possibility of establishing a pan-European CCP.

DTCC did indeed proceed to create such an entity in late 2001, after being selected by NASDAQ as the clearing provider for its new NASDAQ Europe trading operation: NASDAQ could not generate interest from any incumbent European CCP to clear for it. EuroCCP was created as a wholly owned subsidiary of DTCC, although registered in England and governed by its own board of directors.

EuroCCP's initial focus was to provide clearing for transactions executed on NASDAQ Europe in European and U.S. securities, but NASDAQ held no interest or control in the clearer and EuroCCP was free to bid for the clearing business of other exchanges. But the endeavor – occurring amidst the severe decline in the technology sector, general post-9/11 malaise and quite a few years before the Markets in Financial Instruments Directive (MiFID) was introduced to make it feasible



for such multilateral trading facilities to compete with incumbent national exchanges – proved untimely and NASDAQ Europe shut down in November 2002. By then, EuroCCP had already withdrawn as the entity's CCP in the absence of transactions to process.

The experience gained with this initiative facilitated EuroCCP's return to the pan-European market in 2007, when it won the mandate to provide central counterparty services to the new Turquoise multilateral trading facility. EuroCCP subsequently was selected by three additional platforms to provide clearing services, has entered into a Memorandum of Understanding to provide clearing services for the NASDAQ OMX exchanges in the Nordic markets, and has continued to expand the national markets it covers and number and variety of instruments and types of transactions it clears.

More on the report

The other organizations profiled in Oxford Finance Group's study are the Canadian Depository for Securities; Deutsche Börse; Euroclear; Hong Kong Exchanges & Clearing; LCH.Clearnet; the London Stock Exchange; NASDAQ OMX; NYSE Euronext; and Osaka Securities Exchange.

French regulator Autorité des Marchés Financiers (AMF), BNP Paribas, the Canadian Depository for Securities, Clearstream International, Euroclear, the International Capital Market Association, SIX Swiss Exchange, and some other undisclosed entities sponsored the report, which was authored by Ruben Lee.

The Governance of Financial Market Infrastructure is available for download at www.oxfordfinancegroup.com. @

EuroCCP and Turquoise Launch Clearing and Trading Services For Hungarian and Czech Securities

by *Melanie Best*

EuroCCP and Turquoise recently expanded their respective clearing and trading services into two additional markets, Hungary and the Czech Republic. The move makes EuroCCP the first pan-European central counterparty (CCP) to offer clearing services in the 25 components of the main Hungarian and Czech indices – the BUX and PX indices, respectively.

EuroCCP's clearing services for Hungary and Czech Republic securities are open to any trading venue to which it is linked that offers trading in these securities, and Turquoise is the first multilateral trading facility (MTF) linked to EuroCCP to do so.

Turquoise launched trading in the Hungarian and Czech securities cleared through EuroCCP on February 26. The service further extends Turquoise's pan-European equities, exchange-traded-fund and exchange-traded-currency coverage.

Ongoing expansion

This service extension marks the latest in an ongoing series of enhancements EuroCCP is bringing to Europe's clearing space. Earlier this year, EuroCCP launched clearing services for listed exchange-traded currencies. EuroCCP's expansion delivers the efficiency and risk-mitigation benefits of central-counterparty clearing to a widening array of investors' transactions.

With the addition of Czech and Hungarian securities, EuroCCP's market coverage grows to encompass securities issued in 17 national markets and traded in nine different currencies.

EuroCCP has further extended its relationship with Citi's Global Transaction Services by appointing Citi as EuroCCP's settlement agent for these securities.

Investor demand

Commenting on EuroCCP's expanded service offering, Andrew Simpson, head of EuroCCP Product Management in London, said, "EuroCCP is continually diversifying the markets and instruments we cover in response to investor demand. With the addition of Czech and Hungarian equity issues, we're offering European market players the opportunity to invest in a larger variety of securities in a safe environment, where counterparty risk protection is available on all trades."

David Lester, CEO of Turquoise, commented, "We are delighted to be the first pan-European trading platform to launch trading in Hungarian and Czech equities, further extending the choice of securities for our clients. Through these clearing arrangements, clients will benefit from the same differentiated value and risk-managed clearing and settlement solution offered currently for our existing European markets."

The securities newly eligible for clearing through EuroCCP include 12 Hungarian ISINs and 13 Czech ISINs. To view the list of eligible ISINs, please go to www.euroccp.co.uk. @

How DTCC's New Fund-to-Firm Transfer Capability Is Enhancing

National Securities Clearing Corporation launched a new capability to transfer mutual fund shares between fund companies and distribution firms through its ACATS-Fund/SERV product in May 2009, drawing yet another industry process into an automated, standardized environment.

The first phase of the rollout automates firm-initiated transfers. In 2010, phase two will streamline transfers activated by funds, followed by a third phase addressing liquidations.

Joseph Zaets, vice president and department manager, Morgan Stanley's Account Transfer Services, recently talked about how his organization (one of the first to employ ACATS-Fund/SERV for these transfers) is using the new capability, and how he believes it is helping his company's business model.

WHY IS THE INDUSTRY ADDRESSING THE ISSUE OF TRANSFERS RIGHT NOW?

Zaets: Transfers of positions between funds and firms take an incredible amount of time; it is an extremely manual process, and so many people touch it. A front office will send a transfer request to another front

office, and, in some cases, that front office will send it to a closing unit. So, from the time a customer signs a form stating that they want to transfer their assets, that request could be shifted through five, six or seven different areas. That frequently could add up to weeks. With the new process, transfers can be completed in two days.

We've cut down significantly on the cost of rework and the inefficiency of not knowing, sometimes for weeks at a time, what the status of the transfer is.

HOW HAS THE NEW TRANSFER PROCESS IMPACTED YOUR DAY-TO-DAY OPERATIONS?

Zaets: We would have to print the transfer form and send it overnight to the transfer agent. At the same time, we needed to set up a shell account – an open account at a fund company – through

Networking and wait for the shares to come in. The fund company would receive our transfer request and, in turn, go through their internal process of transferring the shares from their account to our account.

The new process is simple. My area will receive a request from a branch; the request goes out to the fund via ACATS-Fund/SERV; and if everything is in good order, we receive the assets the next day. If not, we'll receive a rejection from NSCC, and we will know the reason why it was rejected in minutes.

Right there, we've cut down significantly on the cost of rework and the inefficiency of not knowing, sometimes for weeks at a time, what the status of the transfer is.

WHY IS MORGAN STANLEY TAKING A PROACTIVE ROLE IN CHAMPIONING THE ENHANCEMENT?

Zaets: Mandated cost-basis reporting kicks in for the funds industry in January 2012; that's not very far off. As a broker and a custodian that conducts significant business with fund companies, we realized early on that we needed an effective



Joseph Zaets, vice president and department manager, Morgan Stanley's Account Transfer Services

Morgan Stanley's Operations *by Karen Gregory*

solution because of the tax implications; so we began working with committees of the Investment Company Institute and SIFMA [the Securities Industry and Financial Markets Association] and with folks from DTCC to determine what systems we needed to support the new IRS regulations. It was a priority for Morgan Stanley, certainly, but also we could see the beneficial impact it could have on the entire industry.

HOW MUCH OF YOUR FUND TRANSACTION PROCESSING WORK IS NOW AUTOMATED?

Zaets: We've automated approximately 20 to 25% of our transactions. By the end of 2010, we expect it to reach around 90%.

HAS THE NEW PROCESS LOWERED RISK AND OPERATIONAL COSTS FOR YOUR CLIENTS?

Zaets: Yes, it has. With the process being so manual, there was room for errors – typos and entering wrong assets and account numbers, for example. Requests were sent to the delivering party for interpretation and, ultimately, the movement of assets.

Through ACATS-Fund/SERV, transfer data is passed electronically, and core information is systematically brought in through the ACATS record. The transfer agent receives it and checks to see if it matches. If it doesn't, the request is routed to an operations team that works on exceptions, and they can correct it immediately.

From a cost standpoint, the new process will allow our front office to submit its own requests, further reducing touch points in the process and making the process much more scalable. Additionally, our staff members no longer have to place multiple calls to find out the status of pending items. It allows us to focus our

attention on delivering better service to our customers.

WOULD YOU SHARE YOUR EXPERIENCE BRINGING THIS NEW FUNCTION INTO YOUR OPERATIONS?

Zaets: Because this was a new capability, we wanted to ensure that Morgan Stanley and our fund partners were using it correctly. We tracked every reject and followed them up with calls to the funds to find out if the information they gave us matched the reject reasons. Based on this analysis, we made changes to our processing and worked with funds on data review to increase the acknowledgment rate.

We discovered that it was vital to (a) ensure that the fund had activated the broker for the service, and (b) obtain the most up-to-date statements from clients before submitting a transfer request. We found that many clients use outdated statements to make transfers, which will lead to rejects.

WOULD YOU COMMENT ON PHASES TWO AND THREE OF THE ROLLOUT, THEIR IMPORTANCE

AND THEIR BENEFITS TO THE INDUSTRY?

Zaets: Because funds are recognizing how easy it is to complete a firm-initiated transfer, they're anxious to pull the same efficient process into their operations.

In addition, I think it's becoming more apparent to all of us that while the upcoming cost-basis requirement clearly shows the need for automated fund/firm transfers, we also need a solution for moving cash. It's important that we work on bridging the gap on settling assets between ACATS and Fund/SERV. Phase three – liquidations – will give a fund/firm the ability to request a liquidation of an asset. This process poses many challenges which are regulatory in nature and will require ongoing analysis by the industry.

ANY FINAL COMMENTS?

Zaets: This is a huge step in the direction of straight-through processing, in reducing costs and in delivering more service-oriented value to our customers. DTCC has been a real partner to the fund industry by bringing this solution to the market. @

See the 2010 Development Agenda

DTCC's 2010 Development Agenda is now available online. DTCC publishes the agenda to give the industry a comprehensive list of the major initiatives it plans to advance over the course of the year.

Organized by area of the business, the agenda informs clients about the timing and status of key projects, including actions they must take to ensure readiness for enhancements and new services. The description of each initiative also explains how it will benefit the industry, and includes a list of reference materials and the relevant DTCC contact person.

DTCC updates the agenda each quarter to reflect changes in the industry's priorities and plans that may result in acceleration, deceleration or cancellation of specific initiatives.

To access the 2010 Development Agenda, visit the DTCC website at www.dtcc.com, click Thought Leadership, then Development Agenda. @

Infrastructure Leaders Gather to Discuss Ways to Strengthen the

The Americas' Central Securities Depositories Association (ACSDA), which recently held its 2010 General Assembly in Tampa, Florida, endorsed continuing and deeper collaboration among market infrastructure organizations as a way to mitigate systemic risk and provide certainty across global financial markets.

The ACSDA General Assembly brought together more than 100 executives from the North, Central and South American, Caribbean, Bermuda, and South African member financial markets as well as depository associations from Asia, Europe and Africa. DTCC, an active member of ACSDA since its creation in 1999, hosted the bilingual Spanish-English program.

"Eighteen months after the meltdown in the markets, the financial industry is facing heightened regulation on a global basis as well as challenges involving systemic risk and transparency," said DTCC Chairman and CEO Donald F. Donahue during his keynote address. "As an industry, we need to find new ways to promote innovation in response to these challenges. Working with our ACSDA partners, we are keenly positioned to help our respective members and their investors compete in an industry that is rapidly changing right before our eyes while ensuring reliability, stability and risk mitigation for the industry."

Forum to share strategies

ACSDA's three-day assembly covered an agenda of key issues related to global regulatory reform, risk management, regional market links and strategies for strengthening the global financial system.

"ACSDA provides a valuable forum where members can share strategies to develop new initiatives for our regional markets. By the end of the year, the stock exchanges of Chile, Peru and Colombia plan to integrate into a single operating

unit, supporting trading across our three countries, just one example of ACSDA's collaborative efforts," said ACSDA Vice President Jorge Hernán Jaramillo Ossa, CEO of Deceval, S.A., the Central Depository of Colombia.

Regional highlights

Noting the performance and health of the Latin American financial markets, Donahue said, "Latin American economies and markets are major factors on the

international economic scene. In equities last year, two of the top four performing markets in the world were the Buenos Aires Stock Exchange and the Lima Stock Exchange. In bonds, the Bogotá and the Santiago stock exchanges were in the top ten worldwide, and Brazil's success in securities, options, futures and derivatives has been impressive as well.

"This is a region with record-high international reserves, manageable external



ACSDA's global partners in Tampa (left to right) include: Duong Ngoc Tuan, Vietnam Securities Depository and Asia-Pacific CSD Group; Mathias Papenfuss, Clearstream Banking AG and Europe's ECSDA; Mary Ann Callahan, DTCC and ACSDA; Urs Stahli, who along Peter Gnepf (far right), manage the International Securities Services Association Secretariat; Monica Singer, Strate, representing Africa & Middle East Depositories Association (AMEDA) – and also a joint member of ACSDA; and Bakhtiyar Azizov of NDC Azerbaijan and Association of Eurasian CSDs (AECSD).

About ACSDA

Headquartered in Lima, Peru, with a secretariat in Bogotá, Colombia, Americas' Central Securities Depositories Association (ACSDA) is a non-profit organization whose membership comprises 25 depositories and clearing organizations from 30 countries: Argentina, Bermuda, Barbados, Bolivia, Brazil, Canada, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Mexico, Nicaragua, Panama, Peru, South Africa, Trinidad and Tobago, United States, Uruguay, Venezuela and eight countries of the Eastern Caribbean.

ACSDA regularly liaises with other industry organizations worldwide, including its counterpart depository associations in Asia, Europe, Africa and the Middle East and Eurasia, the International Securities Services Association, the Association of Global Custodians, Thomas Murray, Ibero-American Stock Exchange Federation, the World Bank, Inter-American Development Bank and legal forums such as UNIDROIT. To learn more, visit www.acsda.org.

Global Financial System by Rich Marulanda

accounts, modest government debt burdens and comparatively healthy financial systems that were not exposed to ‘toxic’ assets nor highly dependent on external funding,” added Donahue. “These are impressive accomplishments and DTCC looks forward to working with our fellow ACSDA members to further depository links in this region.”

“This year marks ACSDA’s 12th annual General Assembly and I am honored to join my ACSDA colleagues as we continue to push the association’s strategic imperatives for the new decade,” said Mary Ann Callahan, DTCC managing director, Global Relations and Development, who serves as ACSDA’s president. “Together, our efforts will strengthen the safety, soundness and efficiency of the ACSDA regional markets and the global post-trade infrastructure.”

Senior Leadership Summit

The three-day conference concluded on Friday, March 12, with ACSDA’s first Senior Leadership Summit. The summit, which focused on depositories developing operational and service partnership with customers, strategies for innovation, and potential collaboration in capabilities, was held at DTCC’s Southern Business Center (SBC).

DTCC opened its SBC as an operations center in 2005 – a key component of a larger business continuity strategy undertaken to safeguard the certainty and resiliency of the world’s financial services system.

With more than 500 employees in Tampa, SBC

is equipped to carry out all core processes and functions of DTCC and its subsidiaries.

“Welcoming our international counterparts to our world-class facility in Tampa gives us an opportunity to underscore the role



Bruce Butterill, ACSDA Executive Secretary



Fernando Yáñez, DCV, Chile



Ernesto Allaria, Merval, Argentina; Horacio Fabian Torres, Caja de Valores S.A., Argentina



Helen Zhang, China Securities Depository and Clearing Corporation



Luiz Felipe Paiva, BM&FBOVESPA, Brazil

DTCC plays in mitigating risk and supporting innovation in financial markets,” said Eric Miller, DTCC managing director and head of operations in Tampa. @

'Transformation Through Innovation: Gearing Up for What's Ahead'

Donald F. Donahue, DTCC chairman and CEO, gave the keynote address at the recent General Assembly meeting of the Americas' Central Securities Depositories Association in Tampa, Florida, hosted by DTCC. (See article, page 10.) An excerpt from Donahue's remarks follows. To see the entire speech, visit www.dtcc.com and click Thought Leadership.

The true test of the resilience of a market infrastructure is shown in how effectively it supports its members in precisely the most extreme market events. In the moments when the market is verging on crisis, success in ensuring our members that their risks with us are still very well controlled and effectively managed has been and will be absolutely critical to preventing total market panic.

With the experience of the last two years, we have no higher responsibility than to respond to that challenge of risk. How do we need to think about innovating to dramatically reduce the risks inherent in the operations of our organizations?

However successful we were in 2008, we need to intensify our focus on meeting that challenge. How can we make our risk models even more resilient? How can we strengthen our financial resources to ensure settlement even in very severe default scenarios? How can we improve our warning systems for setting off an alarm when unusual transactions that create major exposures are in the pipeline? The common wisdom says – correctly – that one of the few systems that consistently worked right in the recent crisis was the clearing and settlement infrastructure. But we must

understand that that means, among other things, that the pressures on the infrastructure next time will be even more severe. And we have to prepare for that now.

Another space demanding innovation, we believe, is the role of the market infrastructures in thinking about and addressing systemic risks. Again, a hallmark of the recent crisis was its systemic nature. Risks that might have been completely tolerable within the confines of one financial institution became far more dangerous when they spread throughout the financial system as a whole. Exposures that seemed manageable in one firm's portfolio became deadly when it became clear they were buried in many firms' portfolios, with the potential that horrendous losses would ensue if all of those firms tried to liquidate the positions at the same time.

So we now see that understanding risk from the perspective of the system as a whole is critical, and who can contribute better to that understanding than the market infrastructures that essentially embody that system? In future, we clearly will need to take on much more of a role in helping to assess the health of the whole system, and in working with market authorities to understand where vulnerabilities are building up and where risks may be lurking that need to be brought under control.

DTCC recently brought on board a Chief Systemic Risk Officer to take on precisely that task, and it is an area where all of us need to become much more creative in our thinking and more innovative in our planning. . . .

A third area in which the market infrastructures need to be much more innovative in the coming years is planning and actually practicing for the most extreme events as a way of understanding the new challenges we face. We will have to become much more practiced at stress testing our systems, particularly our risk systems; at scenario planning to identify stress tests we should be trying; at "reverse stress testing" – assuming that we've experienced a shock that has caused us to fail, and then working backwards to figure out what vulnerabilities could have produced that result. Expanding those efforts to include our members would make for even more robust exercises. Sharing our scenarios with our members, and asking them to share theirs with us, would also help prepare all of us even more effectively. @



DTC Extends Its Global Reach for TaxRelief And Foreign Dividends

by Edward C. Kelleher

With the start of the foreign dividend season in April, DTCC has begun alerting participants to new tax-saving opportunities available via its TaxRelief® Service, as well as changes and updates that may affect tax reclaims in 2010.

The TaxRelief Service, offered by DTCC's Global Tax Services through The Depository Trust Company (DTC), a DTCC subsidiary, enables participants and their clients to obtain tax relief on foreign-sourced income payments. This comes either up front when a non-U.S. income payment is made – called “relief at source” – or post-payment through accelerated refunds. In 2009, the service delivered more than \$1.7 billion worth of tax relief benefits to participants.

New TaxRelief countries

Two countries – Italy and New Zealand – have joined 15 other countries and territories that offer tax relief via DTC.

In Italy, DTC worked with the depository banks and their agent, Globe Tax Services, to make all Italian securities eligible for TaxRelief for all qualified U.S. and non-U.S. beneficial owners. In New Zealand, selected American Depositary Receipts (ADRs) are now eligible for TaxRelief. ADRs are receipts for shares of a foreign-based company traded on a U.S. stock exchange and held in custody by a depository bank in the U.S.

“Our TaxRelief Service is based on DTC's individual negotiations with tax authorities and depository banks in each country we serve,” said Nardeo Ganesh, director, DTCC Tax Services. “In New Zealand and elsewhere, we will continue to work to cover additional securities so that, going forward, we can provide greater tax relief for participants holding securities in these countries.”

Other countries where there have been new tax developments include:

- Ireland, where ordinary shares (common stock) are now eligible for relief-at-source for both U.S. and non-U.S. qualified beneficial owners. Non-U.S. beneficial owners, however, will be required to submit documentation to the Irish issuer's agent in the U.S. ADRs in Ireland were already eligible for tax relief for U.S. beneficial owners.
- The Netherlands, where DTC liaised with the depository banks and their agent, Globe Tax Services, to add all Dutch issues to DTC's TaxRelief Service.
- Canada, where changes were implemented as a result of the signing of the Fifth Protocol of the U.S.–Canada Tax Treaty. Also, the requirement for a DTC participant to maintain a separate DTC sub-account when holding securities for indirect Canadian participants has been eliminated.
- Spain, where the statutory rate of withholding for non-Spanish residents increased from 18% to 19% as of January 1, 2010.

Updated tax information

“In response to changes in Canada and Spain, we've recently updated the TaxInfo® content for both countries,” said Ganesh. “We urge customers to review TaxInfo for all markets and to read all relevant Important Notices for each issue prior to making Elective Dividend Service [EDS] elections. This will help ensure they are aware of the latest information and applicable issue guidelines.”

TaxInfo is a service of DTC that provides succinct international tax withholding and relief information to help participants make the appropriate tax relief elections on income payments from foreign securities.

Each country has requirements that must be met to ensure that tax relief is granted. To claim benefits covered under U.S. tax treaties, proof of U.S. residency is generally a requirement. Proof of residency comes in a form from the U.S. Internal Revenue Service (IRS) – IRS Form 6166. Form 6166 has multiple uses when it comes to tax relief:

- Some countries require that a new Form 6166 be filed each year before a dividend is issued and tax relief is granted.
- Some countries ask that Form 6166 be issued within a certain time period from when the income payment was made.
- The form may also be required if a taxpayer is filing for a tax refund via the standard long-form reclaim process.

Eligible securities

DTC TaxRelief Service is used by more than 400 participants, including many of the largest investment banks and broker/dealers, which obtain tax relief for themselves [continued on page 14]

Where to Go for TaxRelief

DTCC's TaxRelief provides at-source or accelerated tax relief for depository-eligible securities in the following 17 countries and territories:

- Canada
- Israel
- Norway
- Finland
- Italy
- Puerto Rico
- France
- Japan
- Spain
- Germany
- Korea
- Sweden
- Indonesia
- Netherlands
- Switzerland
- Ireland
- New Zealand

Saying Goodbye to Worthless Certificates

The Depository Trust Company's (DTC) effort to destroy worthless, non-transferable paper certificates held in its vaults will reach a milestone in April when the number of certificates scheduled for shredding tops the one million mark.

DTC has been destroying non-transferable certificates since August 2004 as part of an initiative to reduce the certificates held in its vaults. When the shredding program began, DTC's vault inventory totaled 4,213,278. At the end of January 2010, this number was down to 1,686,517, thanks in part to the one million-plus certificates DTC has destroyed since 2004. The ongoing reduction is part of DTC's overall dematerialization plan aimed at eliminating all paper certificates in the securities industry.

Non-transferable certificates are those for which the service of a transfer agent is no longer available. Although they make up about one-third of the current inventory in DTC's vaults, the vast majority of them are worthless because they were issued by companies that are out of business.

A voluntary program

DTC destroys certificates only after obtaining permission from the participant that holds a position in that security. "Destruction is voluntary on the part of the participant," said Joseph Clemente, DTCC product manager, Asset Services.

DTC has regularly moved to destroy certificates that have been non-transferable for at least six years. Clemente added that six years was deemed an appropriate waiting period by the industry to make sure the issuer of a non-transferable security does not become active again.

Once six years have passed and the positions have been moved to DTC via its "position removal" or PREM function, the security is automatically placed on a list of issues that are eligible for destruction. This list is then distributed via an Important Notice to DTC participants, who have three months to review and determine if there is any reason for not destroying the listed certificates.

Benefits of destruction

Destroying certificates benefits customers by allowing them to avoid the \$11 per security, per month surcharge DTC assesses firms having a position in a security that's been non-transferable for more than six years. It also allows firms to remove the position from their books and records as well as eliminate the security from the statements they send to their customers.

While \$11 may not seem like a lot, those surcharges can accumulate quickly. Clemente said one major brokerage firm was assessed more than \$1 million in surcharges in 2008 because it failed to authorize destruction of its non-transferables. "Cost-saving is a great incentive to get rid of these worthless certificates," said Clemente.

After the three-month review period passes, all of the certificates with a PREM designation are removed from the vaults' shelves, placed in boxes and scheduled for destruction.

The shredder awaits

The certificates are eventually shredded by a huge machine inside a tractor-trailer by an outside firm hired by DTC. The company brings its truck to DTCC headquarters to conduct the shredding, which is overseen by DTCC Operations and Security staff. The truck visits DTCC about three times a year, depending on when a sufficient inventory of shredder-ready certificates builds up.

DTC destroyed approximately 22,000 certificates during the most recent shredding last December, according to Thomas Joyce, DTCC director, Securities Processing. The resulting shredded paper was then recycled.

Here's an illustration of how the shredding process works. In January, DTC released a list of a new batch of 107 issues that have been non-transferable for six years. By the end of January, a total of 11,123 certificates belonging to those issues had been authorized for destruction. These certificates will be removed from the vaults'

TaxRelief *Continued from page 13*

and their clients in 17 countries and territories (see box, page 13). The service applies to various depository-eligible international security types, including ordinary equities and fixed income securities, as well as American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs).

The TaxRelief Service is accessible via the Elective Dividend Service (EDS) function on DTC's Participant Browser Services

(PBS) and Participant Terminal System (PTS) networks.

To request a Form 6166, a taxpayer or an authorized representative must submit Form 8802 to the IRS. The form is available at www.irs.gov/pub/irs-pdf/f8802.pdf. @

[For more information on the TaxRelief® Service, contact Marta Alvarez at malvarez1@dtcc.com or 212.855.2761.]

tes by Michael Scholl

shelves in April and will be shredded some time after that. Before they are destroyed, electronic records of destroyed certificates are created and stored in case the securities they represent become active again.

With this new batch of 11,123 certificates, the total number of certificates that have either been shredded or removed for shredding will reach 1,006,352. @

The Incredible Shrinking Vaults

At the end of January 2010, DTCC's vault inventory totaled 1,686,517 certificates, down from the 2,039,654 the vault held in January 2009 and the 4,213,278 held when the shredding program began in August 2004.

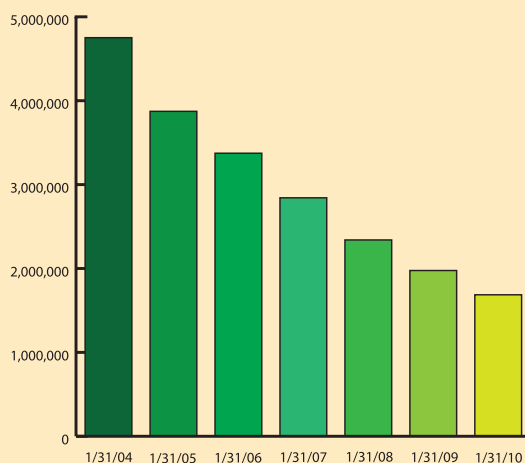
DTC's vault count reached a high of about 32 million certificates in 1990. Of those, 22 million were bearer bonds. The supply of bearer bonds in the vaults has dwindled thanks to the maturation of old bearer bonds (which were usually returned to their transfer agents when they matured) and to a 1982 ban on the issuance of new bearer bonds. Despite those factors, there were still 5.4 million total certificates in the DTC vaults in January 2003, when DTC announced it would begin destroying non-transferable certificates.

In addition to the destruction program, the reduction of DTC vault inventory can be attributed to other DTC dematerialization initiatives, including its FAST (Fast Automated Securities Transfer) program, a service in which securities

registered in the name of DTC's nominee, Cede & Co., are held by transfer agents rather than by DTC itself.

Another initiative is the Direct Registration System (DRS), a service that allows investors to register the ownership of their shares electronically with either an issuing company or transfer agent. As of Jan. 1, 2008, all equities listed on U.S. exchanges must meet the requirements for using a DRS. There are about 7,000 such issues, and nearly 90 percent of them actually use a DRS, Clemente said. (DTC, a DTCC subsidiary, is the only registered clearing agency currently administering a direct registration system.)

Certificates in DTCC's Vaults



DTCC Gives Law Firm A Primer on Settlement

by Michael Scholl

Our lawyers are part of many closing calls on IPOs and hear discussions between The Depository Trust Company and the back office of the investment banks, but they don't necessarily understand the steps in the settlement process. Who could fill us in?"

The question, posed by a senior attorney at a leading law firm, was answered recently when a trio of DTCC Asset Services executives visited the New York offices of Clifford Chance, an international law firm with an extensive corporate finance practice.

The DTCC team, led by Cheryl Lambert, managing director, Asset Services, with Joseph Graziano and Joseph Brennan, DTCC vice presidents, provided an hour-long overview of DTCC and its underwriting and settlement services to more than 50 attorneys at the Clifford Chance New York office. Attorneys at the firm's offices in London, Frankfurt, Milan and São Paulo participated via videoconference.

Worldwide viewing

In addition to being videoconferenced, the presentation was filmed and placed on a digital video disk. Copies of the disk were distributed to the firm's 29 worldwide offices, including Asia and the Mideast, so that all of its 3,600 attorneys would be able to view the session.

Clifford Chance requested the presentation because it wanted its attorneys to have a stronger grasp of DTCC's operations, including the procedures for facilitating the underwriting of new securities. As part of its corporate practice, Clifford Chance represents parties involved in the underwriting of securities and, as a result, often interacts with DTCC when such deals are made.

Behind the scenes

Andrew Epstein, a partner with Clifford Chance who specializes in corporate finance, said the presentation benefited the firm by giving its attorneys a behind-the- [continued on page 16]

A Primer on Settlement *Continued from page 15*

scenes look at DTCC and its role in the closing of underwriting deals.

“The people who attended were very appreciative and felt they came away with a much better understanding of how everything works,” he said. “It makes our job easier by helping us understand why things are happening the way they are,” added Epstein, who said he would recommend that other law firms schedule similar presentations.

Multi-part presentation

Lambert, who oversees the more than 400 employees working in the Asset Services area, began the presentation by outlining the corporate structure and history of DTCC and providing an overview of the company’s products and services.

She explained that DTC, a DTCC subsidiary, was founded in 1973 to reduce securities processing costs and increase efficiencies for its participants, which include broker/dealers, banks, investment managers, central security depositories and other third parties who market financial products and services.

Graziano, who heads DTC’s underwriting operations area, explained that an underwriter generally submits offering documents and other information about a newly created security to DTC as part of an application to make the security eligible for DTC’s asset services. His team reviews the information to make sure the new security qualifies for such services. This examination includes determining whether the security offering complies with anti-money laundering regulations and with the economic sanctions the U.S. government has imposed on certain foreign entities.

After the review is completed, a recorded conference call known as a

“closing call” is held in which representatives from DTC, the underwriter and the entity issuing the security are all included. If all the parties on the call agree, the new security is declared eligible for DTC services and is released from a DTC holding account into the underwriter’s account, from which it can be traded on the open market.

Next came a discussion of DTC’s procedures for processing the settlement of trades led by Brennan, who heads the settlement services section of DTC’s Asset Services area. Brennan’s department is responsible for facilitating the electronic transfer of securities ownership as well as the end-of-day net settlement of DTC participants.

Brennan discussed DTC’s collateral requirements and explained the “net debit cap,” which is the highest amount a DTC participant can owe DTC during a business day and is equivalent to a consumer’s credit card limit. This cap ensures that DTC always has enough liquidity to ensure completion of a day’s worth of settlement processing.

The Q&A

The presentation concluded with a question-and-answer session that lasted more than 15 minutes as several attorneys asked follow-up questions about the material Lambert, Brennan and Graziano presented.

“Everyone in that room really wanted to hear what we had to say,” said Lambert. “We imparted knowledge and information to the attorneys so that when they’re using our underwriting services, when they’re actually on the phone closing a deal, they now have a more thorough understanding of what we do, what we’re looking for and the kinds of details that are needed to close the deal. This information will help them

carry out future underwriting deals more efficiently,” she added.

Lambert said she hopes other law firms involved in the underwriting of securities reach out to DTCC to schedule presentations similar to the one given at Clifford Chance because, “when it comes to DTCC operations, the more law firms know, the better.” @

[To request a presentation on DTC’s Asset Services, contact Cheryl Lambert, DTCC managing director, Asset Services, at clambert@dtcc.com or 212.855.3600.]



DTCC’s purpose is to help grow the world economy by furthering the development of low-cost, efficient capital.

DTCC’s mission: By 2010, to be the acknowledged world-class provider of servicing solutions to financial markets through leadership, innovation, technology, risk management and strategic alliances.

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Proofreader

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