



# DTCC Begins Publishing Daily Index Of General Collateral Repo Rates by Jim Conmy

**D**TCC has begun publishing the financial services industry's first index to list average daily interest rates for the multi-billion-dollar daily market in General Collateral Finance (GCF) repurchase agreements (repos).

The new DTCC GCF Repo Index™ lists the average interest rate paid each day for the most-traded general collateral repos involving U.S. Treasury securities, federal agency securities and mortgage-backed securities issued by Fannie Mae and the [continued on page 8]

## DTCC and NYU Stern Volatility Institute Sponsor Risk Forum


*by Stuart Z. Goldstein*

**M**ore than 100 representatives from the financial, academic and regulatory communities participated in a forum sponsored by New York University Stern School of Business' Volatility Institute (NYU Stern) and DTCC that discussed cutting-edge thinking and approaches to achieving the risk mitigation goals under The Dodd-Frank Wall Street Reform and Consumer Protection Act, particularly as it relates to regulation of derivatives.

"Stern faculty have been at the forefront [continued on page 5]

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# DTCC Amplifies Its Operational Risk Program: A Conversation with

**D**TCC recently appointed Andrew Leonard, a long-time financial industry veteran, to the position of managing director and head of Operational Risk, reporting to Donald E. Donahue, DTCC chairman and CEO. Leonard spoke to @dtcc, explaining how operational risk has evolved over the last decade and how DTCC is enhancing its focus on operational risk in the wake of the global financial crisis.

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For a free subscription, send an email with your mailing address to [hunningham@dtcc.com](mailto:hunningham@dtcc.com).

### HOW WOULD YOU CHARACTERIZE OPERATIONAL RISK AS IT RELATES TO THE CURRENT STATE OF THE INDUSTRY?

Operational risk is an extension of your business and a critical element for understanding it. In running a business, it is essential to know and manage your market and credit risk implications. Until the last decade, too many firms were blind to operational risk. Now, as the financial industry begins to better understand the recent financial crisis and looks for ways to strengthen our market infrastructure, it is critical for an organization like DTCC to re-examine the role it plays in mitigating all risks for its customers and the financial system at large.

### DTCC HAS A PROUD TRADITION FOR PRUDENT MANAGEMENT OF OPERATIONAL RISK. IN YOUR EXPERIENCE, HOW HAS OPERATIONAL RISK EVOLVED OVER THE YEARS?

While operational risk has always existed in business, it didn't come to the forefront as a discipline until the early 2000s during the advent of Basel II, which re-configured capital requirements to help manage market and credit risk. At that time, many banks and firms focused solely on capital and the importance of calculating capital requirements to help manage risk. But by mid-decade, an industry dialogue began, setting the stage to better understand operational risk and the role it plays in the capital requirements equation. To that end, the elements of an operational risk framework took shape, outlining the need to initiate an assessment process to determine potential risks, as well as the need to capture and analyze data – both of which are essential for calculating, managing and mitigating risk.

### WHAT ACTIONS HAS DTCC TAKEN TO STRENGTHEN ITS FOCUS ON OPERATIONAL RISK?

Driven and shaped by lessons learned from the recent financial crisis, we are in the midst of a transformation at DTCC that will enhance our approach to operational risk and build on our existing operational risk structure. Working with regulators, partners and employees, we are improving our risk management operations – overhauling how we think about, oversee and manage risk.

To accomplish this, we are working closely with Ernst & Young to formulate a detailed vision of our upgraded operational risk capability. We have vetted this vision with our Management Risk Committee and additional working groups, and it serves as the basis for a detailed action plan that is already underway. The plan builds on our past efforts, and also ensures that we are more systematic and disciplined in carrying out all of DTCC's operational risk activities. The work ahead will enable us to put a new process in place and have a dialogue with the senior management and the business areas. This dialogue will help them better understand the risks and make the most informed business decisions.

### WHAT WILL DTCC'S NEW RISK MODEL LOOK LIKE?

We are bringing more structure to our risk model and sharpening our approach to risk. The model takes a "three-lines-of-defense" structure, which is used by many large financial firms.

### COULD YOU WALK US THROUGH THIS MODEL AND EXPLAIN HOW IT APPLIES TO DTCC?

Our individual business lines are the first line of defense. This includes Product Management, Operations, Information Technology and other business areas that own and manage operational risk. It is their responsibility to identify and measure risks that affect their businesses, and judge

# th Andrew Leonard

by Richard Marulanda

how effectively the risks are being controlled. In order for this first line of defense to be successful, it needs a clear view of the risks and an operating mechanism that measures and assesses those risks. Our strategy aims to put together an operational risk framework that helps the business areas identify, measure, mitigate and ultimately manage their operational risks, which is essential in helping them make the best business decisions. Therefore, we are putting a great deal of emphasis on the first line of defense in the coming months.

Our second line of defense rests with specific risk control areas – the enterprise and operational risk management areas of DTCC. To that end, one of my primary responsibilities since joining the company has been making sure we have an appropriate process in place to identify those risks, and having frank conversations with members of the business areas to determine which risks we can accept and which risks we need to mitigate more effectively.

The third line of defense is internal

audit. We are actively working with the Internal Audit department to help create an environment that is better able to self-identify risk issues, further strengthening our first line of defense and our overall risk management program.

## WHAT WILL BE YOUR PRIMARY FOCUS AS YOU LEAD DTCC'S ENHANCED OPERATIONAL RISK INITIATIVE?

My priority is to oversee myriad enhancements that will help DTCC achieve the highest standard of excellence in operational risk management. A key to having a highly effective operational risk capability requires that we get the right technology and database in place so we can more efficiently capture and centralize all the operational incidents we track and collect. The right technology will enable us to standardize and streamline the data collection and assessment process, making it easier to evaluate the risk profiles of the business units. Another priority is making sure our teams are prepared to execute the framework. It takes a talented group of individuals to assess the data and work

with the business areas to help identify potential risks. I'm also focused on getting policies and processes in place for incidents, issue tracking and assessments.

## WHEN DO YOU EXPECT THE NEW FRAMEWORK TO BE IN PLACE?

DTCC started implementing the framework before I joined the company and I anticipate that the entire framework will be in place by the latter part of 2011. However, that will not signal the finish line; rather, it's the starting point.

I'm very aware that this is a project with no end point. This timeline for implementing the framework just sets the foundation. The real work is yet to come and will begin when we engage the employees of the organization to transform DTCC's operational risk management program. The framework will help us identify the data that we need to collect, and the technology will allow us to efficiently analyze that data, but it is the employees' industry knowledge, expertise, creative thinking and determination that will ultimately lead to our success. @

**'Driven and shaped by lessons learned from the recent financial crisis, we are in the midst of a transformation at DTCC that will enhance our approach to operational risk and build on our existing operational risk structure. Working with regulators, partners and employees, we are improving our risk management operations — overhauling how we think about, oversee and manage risk.'**

– Andrew Leonard, DTCC managing director and head of Operational Risk



YVETTE MEARES

# DTCC Hosts Michel Barnier for Briefing on Financial Reform

by Craig Donner

With debate in Europe on financial reform legislation moving into a critical phase of negotiations in early 2011, DTCC hosted Michel Barnier, commissioner for Internal Market & Services for the European Commission, for a briefing on the company's 37-year history of providing stability and certainty to global financial markets.

"Briefings with key policymakers are an essential part of our external affairs strategy and give us an opportunity to explain the role DTCC can play in a regulatory reform environment," said Donald F. Donahue, DTCC chairman and CEO. "We were delighted to meet with Commissioner Barnier at this critical juncture to showcase DTCC's capabilities in bringing greater transparency and risk mitigation to the market."

## More on Barnier

Barnier is a central figure in the financial reform debate in Brussels. He oversaw the drafting of the European Market Infrastructure Regulation (EMIR) for the Commission and will help shape the final text by leading negotiations (called dialogues) between the Parliament and Council (member states) to resolve conflicts over the legislative language.

Several of Barnier's key advisors joined him at the briefing, including Paulina Dejmek, member of the Barnier cabinet with responsibility for financial services policy; Petrus Kerstens, first counselor, Economics and Finance, U.S. Delegation of the European Union (E.U.); and Chantal Hughes, spokesperson for the Commissioner for Internal Market & Services, European Commission.

## Enhancing transparency

EMIR is one of the key proposals of financial reform that will be considered by the European Union in the coming months. It focuses only on over-the-counter derivatives, clearinghouses and trade repositories. As a result, DTCC focused the majority of its briefing with the Barnier delegation on the key functions and benefits of the Trade Information Warehouse (TIW) and the Equity Derivatives Reporting Repository, including a demonstration of a new regulatory portal that will give regulators direct unfettered access to real-time data on virtually all credit default swaps transactions held in the repository.

"Commissioner Barnier recognized the tremendous value of this data in helping regulators monitor systemic risk for entities in their jurisdictions," said Larry Thompson, DTCC managing director and general counsel. "In our discussions, we emphasized DTCC's firm

and unwavering commitment to providing European regulators access to the data they need to carry out their responsibilities. To reassure regulators of this point, we recently established an E.U.-based repository regulated by the Financial Services Authority that will hold identical aggregate data sets to information in the TIW."

## Harmonizing regulations

The need to harmonize new regulations globally was also a topic of discussion. The issue is particularly important to European legislators and regulators, who are debating EMIR at the same time U.S. regulators are drafting and implementing new rules under the Dodd-Frank Act, which was passed by the U.S. Congress and signed into law in July.



(From left to right): Larry Thompson, DTCC managing director and general counsel; Michel Barnier, commissioner for Internal Market & Services for the European Commission; and Donald F. Donahue, DTCC chairman and CEO at DTCC's headquarters in New York

"We are committed to acting as a bridge between Europe and the United States to ensure that global viewpoints are taken into consideration on financial reform and that the European view is taken into account during rulemakings for Dodd-Frank," Thompson said. "We believe that all jurisdictions must work collaboratively to ensure regulatory arbitrage does not occur and that best practices are implemented."

At the conclusion of the briefing, Barnier and members of his delegation expressed interest in arranging follow-up meetings with DTCC and other Commission staff to illustrate the quality and breadth of data held in the TIW and European repository. Those meetings will dovetail with additional outreach planned for the remainder of 2010 as part of DTCC's government relations and public affairs strategy. DTCC is continuing to meet with key stakeholders in the financial reform debate, including Members of the European Parliament, the Council and regional regulators. @

# DTCC and NYU Stern Sponsor Risk Forum *Continued from cover*

of the dialogue on the financial crisis, examining its causes, proposing solutions that influenced the regulatory response and, now, in assessing the enactment of the most significant financial reforms since the 1930s,” said Peter Henry, Dean of NYU Stern School of Business. “In partnering with DTCC, we have the opportunity to bring together academics, practitioners and policymakers for an important dialogue on how best to implement the new rules of Dodd-Frank, which will shape the future direction of global capital markets.”

The conference was led by three highly regarded industry experts, including

“While in practice there may be more than 10 such firms, counterparties or stress scenarios, regulatory monitoring of exposures along these three dimensions is the bedrock of systemic risk management as it captures both a range of systemically important stress scenarios, as well as interconnectedness of exposures,” he added.

Professor Duffie suggested that stress scenarios and exposure measures would be refined over time as experience is gained, but initial examples of stress scenarios include:

- the default of a single entity;

systemically important firms in the OTC derivatives markets were key creators of systemic risk contributing to the crisis of 2008. Under stress, even very large firms with one-sided positions can fail, as demonstrated by AIG. Such failures may lead to further insolvencies, thus creating system-wide distress,” said Professor Engle. “In a world where most OTC derivative trades were not cleared, the natural



Professor Robert Engle, Nobel Laureate and the Michael Armellino Professor of Finance at NYU Stern; Professor Darrell Duffie, the Dean Witter Distinguished Professor of Finance at Stanford University; and Commissioner and Former Acting Chairman Michael Dunn of the U.S. Commodity Futures Trading Commission (CFTC).

## **Approaching risk 10 by 10 by 10**

Stanford's Professor Duffie challenged the audience to think about managing systemic risk in a dramatically different fashion.

“The key – in headline form – is having a systemic risk regulator that is able to monitor the sizes and directions of flows of risk through the center of the financial system. The top 10 systemically important firms would report their gain or loss with each of their top 10 counterparties, for each of 10 key stress scenarios,” he said.

- a 4% simultaneous change in all credit yield spreads;
- a 50% change in a global equities index;
- a 50% change in the prices of all energy-related commodities, etc.

He also suggested that initial exposure measures should be computed on both a net and (except where legally enforceable close-out netting agreements are in effect) gross basis and should be determined both before and after the use of collateral. Exposure in terms of potential cash flows should also be monitored.

## **Systemic risks posed by CCPs**

NYU Stern's Professor Engle warned conference attendees that some of the new measures under Dodd-Frank, such as requiring the use of central counterparties (CCPs) for over-the-counter (OTC) derivatives transactions, may create new systemic risks while reducing old ones.

“Large one-sided executions by



Robert Engle, Nobel Laureate and the Michael Armellino Professor of Finance at NYU Stern

mitigant of this risk was increasing execution costs as these exposures become better known in the market, but this was always hampered by incomplete information and hence not particularly effective.

“Standardizing OTC derivatives contracts and requiring standardized contracts to be cleared through CCPs will not eliminate this systemic risk, but rather will merely transfer it to the CCPs and, by extension, to those market participants relying on the viability of the CCPs,” he argued. “Further, since the existence of a CCP obviates the need for individual counterparties to

[continued on page 6]

# DTCC and NYU Stern Sponsor Risk Forum *Continued from page 5*

charge more for executions that increase large one-sided positions, the central counterparty itself must institute alternative processes and procedures that effectively mitigate the risks created by large, concentrated positions.”

Professor Engle recommended that these should include concentration and possibly credit-based margins, particularly when the maximum loss is very big relative to natural margins as in credit default swaps. “In any event, regulators, and particularly the Financial Stability Oversight Council, should pay particular attention to these issues as the systemic risks posed by central counterparties will increase with the increased clearing of OTC derivatives. Fortunately, these institutions are easily identified and regulated,” he added.

## **‘A collective challenge’**

Participants at the conference, “Managing Counterparty and Systemic Risk under Dodd-Frank,” included regulatory officials from the CFTC, Securities and Exchange Commission, Federal Reserve Board of New York, academics, senior members at top-tier financial firms and key congressional staffers. The conference was held at the Henry Kaufman Management Center at the NYU Stern School of Business in New York City.

“Our shared aim with NYU Stern is to host a timely forum to explore issues that meet at the intersection of public policy, regulatory interpretation and market experience,” said Donald F. Donahue, DTCC chairman and CEO, during his welcoming remarks. “The rulemaking



DTCC Chairman and CEO Donald F. Donahue (left) and Commissioner and Former Acting Chairman Michael Dunn of the U.S. Commodity Futures Trading Commission

## NYU Professors Offer Recommendations For Financial Reform *by Craig Donner*

One of the first books to provide a comprehensive analysis of the Dodd-Frank bill was recently published by more than 40 professors of the New York University Stern School of Business.

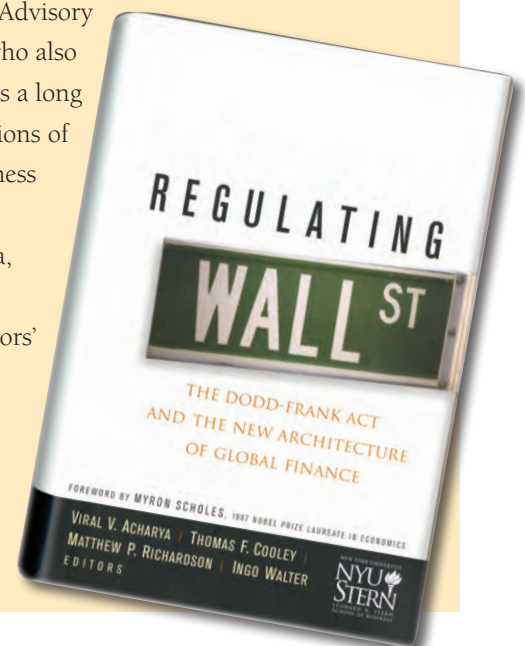
The book, “Regulating Wall Street: The Dodd-Frank Act and the New Architecture of Global Finance” (Wiley, November 2010), offers critical insight into the 2,300 page bill, which will transform market structure in virtually every area of financial services. The book is considered particularly timely as regulators are working to meet the July 2011 deadline set by Congress for implementing the overwhelming majority of new rules to govern the financial markets.

“A fascinating, lively, and thoroughly readable guide to the Dodd-Frank Act.... It is extremely timely and valuable, and should be required reading,” said Gillian Tett, U.S. managing editor, Financial Times, in her endorsement of the book.

Paul Volcker, chairman of the Economic Recovery Advisory Board and former chairman of the Federal Reserve, who also endorsed the book, said, “‘Regulating Wall Street’ goes a long way toward clarifying the intent of the various provisions of the Dodd-Frank Act and evaluating both its effectiveness and limitations.”

The book was edited by Professors Viral V. Acharya, Thomas F. Cooley, Matthew P. Richardson and Ingo Walter. It follows the publication last year of the authors’ previous book, “Restoring Financial Stability” (Wiley, March 2009), which focused on the causes of the financial crisis and offered a series of proposals for market-based solutions.

“Regulating Wall Street” is currently available online at [www.wiley.com](http://www.wiley.com) and in bookstores.



process here in the U.S. is moving at warp speed as regulators look to propose, revise and finalize hundreds of new rules that will literally transform market structure in virtually every area of financial services – and to do it all by the July 2011 legislative deadline mandated by Congress.

“I can tell you from my conversations with our regulators that they understand the magnitude of this responsibility – and we recognize the transformative change their actions will have on global markets and the global economy. Our collective challenge, therefore, is to help regulatory agencies write new rules that effectively meet their goals of greater risk mitigation and transparency while still maintaining the competitiveness, efficiency, liquidity and robustness that have long characterized the U.S. marketplace.”

NYU Stern School of Business has a long history of sponsoring topical and insightful forums that provoke discussion about key issues shaping the financial marketplace. Recently, 40 Stern professors authored a book, “Regulating Wall Street,” which assesses the strengths and weaknesses of Dodd-Frank (see page 6). @

# AVOX and GoldTier Partner on Enhanced ‘Know-Your-Customer’ System

by Steve Letzler

Compliance with know-your-customer (KYC) just became easier and less costly for the financial services industry based on a new strategic partnership between Avox and GoldTier.

Avox, the leading supplier of legal entity data on financial entities globally, has partnered with GoldTier, a leading compliance software provider, to create an enhanced system to help the financial industry comply with increasingly strict regulatory KYC requirements.

GoldTier is a leading provider to financial firms of software for onboarding new clients in compliance with KYC regulatory requirements. Having reliable and up-to-date due diligence on potential clients is necessary to comply with KYC and similar regulatory requirements. The incorporation of Avox data into GoldTier’s onboarding system will provide financial institutions with streamlined access to constantly updated, quality data throughout the client management lifecycle.

## Automating maintenance processes

“The combination of our data offering with GoldTier’s onboarding software enables our mutual clients to realize the benefits of having quality data integrated into their daily processes,” said Ken Price, CEO of Avox, a subsidiary of DTCC. “The data provided by Avox is continually validated by our global client network and by our first-class research team, supported by authoritative information sources. This data is linked back to a verification audit

trail to ensure complete transparency during regulatory audits.”

Price noted that having access to verifiable client data during the onboarding process was essential to making informed decisions on a client’s risk. He also noted that it was equally important to maintain the quality and accuracy of that data as a client’s circumstances change. “By volume, ongoing maintenance of the profiles of the entire base of existing clients is often more laborious than the onboarding of new clients,” Price said. “By pairing technology and quality data feeds to automate these maintenance processes, we can create an opportunity for cost-effective scaling.”

## Rolling reviews

Regular feeds of updated client information from Avox will trigger GoldTier’s automated KYC risk re-calculation and review processes. GoldTier’s system is a global, cross-product platform, and adding Avox’s data will help create a system that provides a data-triggered KYC rolling review across the business.

“This partnership pairs the GoldTier system’s industry-proven client data model with Avox’s industry-proven client data,” noted Matthew Tebaldi, president and COO of GoldTier. “By combining our capabilities, ongoing updates to client data can be processed in a compliant and cost-effective manner. We’re excited to welcome Avox into the growing group of GoldTier clients and partners.” @

## More on GoldTier

GoldTier offers a full-featured application for client onboarding and know-your-customer (KYC) compliance that caters to the complex needs of global financial institutions.

The solution integrates policy, process, document and data management with a proven client data model to deliver a seamless end-to-end onboarding experience for users from the front office through compliance, credit, legal, tax and operations.

For more information, visit [www.goldtier.com](http://www.goldtier.com).

# General Collateral Repo Rate Index *Continued from cover*

Federal Home Loan Mortgage Corporation. The index also records the total par value of these repo transactions each day.

Repos are typically a form of short-term secured loan that involves the sale of a security and the subsequent repurchase of the same security. Trading in GCF repos averaged more than \$690 billion a day in 2009.

## Benefits

“Leveraging our data to make these repo rates public will bring some much-needed transparency to this large and crucial market,” said Murray Pozmanter, DTCC managing director, Fixed Income Clearance and Settlement. “It’s one of a number of initiatives we’re taking at DTCC to meet the needs of our customers for ways to manage risk, and to meet the needs of regulators for more accurate and timely information to supervise markets.”

Daily publication of the GCF Repo rates will help dealers and investors manage their portfolios and calculate the value of the securities they hold in inventory. The

new index will also enable institutional investors and corporations to estimate their short-term funding costs more accurately.

In addition, having the interest rate data publicly available each day will create greater transparency and help regulators conduct risk management oversight in the large and dynamic General Collateral Finance repo market. The index is published daily on DTCC’s public website ([www.dtcc.com](http://www.dtcc.com)) and includes data going back a year, as well as analytical tools that

allow the construction of trend lines and comparison of different asset types.

## Transparency and risk management

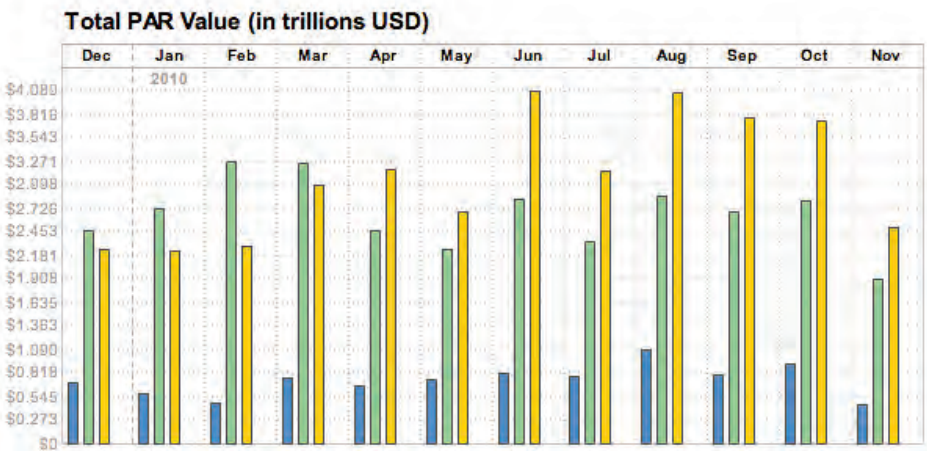
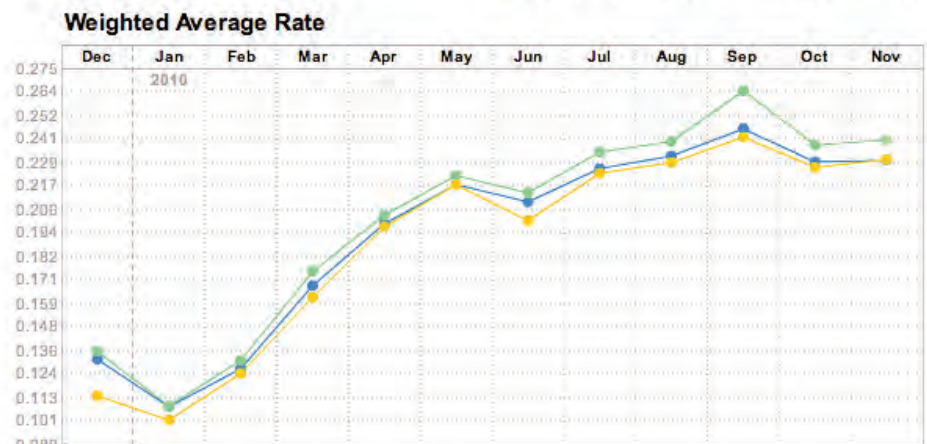
Pozmanter noted that DTCC had worked with the Treasury Markets Practice Group (TMPG), which is sponsored by the Federal Reserve Bank of New York, in developing the new index to expand transparency and risk management protection. The TMPG is made up of senior business managers and legal and compliance professionals from a variety of

## DTCC GCF Repo Index™

Indices: Wed Nov 17 2010

SECURITY	LATEST	1 WEEK	52 WEEK HIGH	52 WEEK LOW	PAR VALUE (BILLIONS USD)
AGENCY	0.237	0.188	0.362	0.006	45.000
MBS	0.252	0.199	0.550	0.005	159.400
TREASURY	0.243	0.198	0.311	-0.193	217.064

Agency
  MBS
  Treasury



## To Learn More

To learn more about processing GCF repo transactions, visit the Government Securities Division (GSD) Learning Center, which provides registered customers with a GCF user guide and other related documentation. It also offers simulations that show brokers and dealers how to navigate DTCC’s GCF system.

To access the center, visit <http://dtcclearning.com/learning/gsd>. First-time visitors must fill out an online registration form before they can use the training materials.

institutions, including securities dealers, banks, buy-side firms, market utilities and others.

“The publication of this index by DTCC is a major step on the critical path to enhanced transparency in the secured funding markets,” said Tom Wipf, head of the TMPG and a managing director at Morgan Stanley. “This collaboration demonstrates the shared commitment of TMPG and DTCC in support of the integrity and efficiency of the Treasury, agency debt and mortgage-backed securities markets.”

DTCC's Fixed Income Clearing Corporation introduced GCF repo processing more than a decade ago so that dealers could trade general collateral repos – based on rate, term and the underlying product – throughout the day without requiring intra-day, trade-for-trade settlement. Unlike standard repos, which require individual trade-for-trade settlement on a delivery-versus-payment basis, GCF repo transactions are netted each day and settled as part of the clearing process for all government securities trades.

### Other transparency initiatives

Publication of the GCF repo rates is the latest in a series of steps DTCC has taken to bring greater transparency to global financial markets.

Working with the New York Fed, DTCC began last year to publish the volume of failures-to-deliver for trading in the U.S. Treasury markets. Through its Trade Information Warehouse in New York and its Derivatives Repository in London, DTCC also publishes data each week critical to the global over-the-counter credit default swap market and to market regulators around the world. @



## Media Coverage of the GCF Repo Index

The Financial Times reported on FICC's GCF Repo Index in its November 4 online edition. The article, which included examples of the interactive charts and graphs that are part of the index, states that the index “brings some much needed transparency to the global repo market.”

It also notes that, “Unlike the rates provided by other data distributors, the [GCF Repo Index] represents a weighted average of all General Collateral Finance Repurchase Agreements in US government securities. It's therefore a much clearer indicator of overall repo financing costs.”

To read the entire article, go to the Financial Times' Alphaville webpage ([ftalphaville.com/blog](http://ftalphaville.com/blog)) and enter “GCF Repo” into the search engine.

# GCA Validation Service Adds Equity Derivatives Coverage

by Steve Letzler

**D**TCC recently expanded its Global Corporate Action Validation Service (GCA VS) coverage to include listed equity derivatives.

Historically, financial services firms had to use manual processes to locate and adjust derivatives contracts to account for the effects of corporate actions (such as stock splits, mergers, special dividends) on the underlying security. Every time a corporate action occurs on an underlying equity, each exchange with a listed derivative on that equity issue publishes a notice to members detailing the required adjustment method, adjustment factor, lot size change, strike price change, etc., for the derivatives contract. Now, GCA VS will aggregate this information and deliver it to any interested customer firm through an electronic central information hub in a standardized format, saving firms time and effort and reducing exposure risk.

## Efficiency and risk reduction

GCA VS will initially publish information from five main global exchanges and infrastructure organizations for equity derivatives – the Options Clearing Corporation, NYSE Euronext, Eurex, Borsa Italiana and the Tokyo Exchange – and will continue to add other exchanges as the service develops.

“As trading in equity derivatives began to grow, customer firms reached out to DTCC last year to see if we could publish through GCA VS details on the impact of corporate actions on listed derivatives,” said Patrick Kirby, DTCC managing director, Asset Services. “We are delighted to be able to respond to our clients with this new addition to our Validation Service, so our client firms no longer have to trawl

through various exchanges’ websites to find these updates and re-key them into their systems themselves.”

## How GCA VS helps customers

Corporate actions involve almost any event that significantly impacts a security. GCA VS provides the largest central source globally of validated or “scrubbed” corporate action announcements on more than 2.5 million securities from more than 173 countries.

The data is used by brokerage firms, banks, hedge funds, investment managers and others in both their front offices for trading decisions, and in back offices to ensure accuracy of their processing of corporate actions.

In 2009, GCA VS handled more than 990,000 corporate actions announcements and issued more than 5.9 million announcements on scheduled payments for fixed income securities.

## Scalable business model

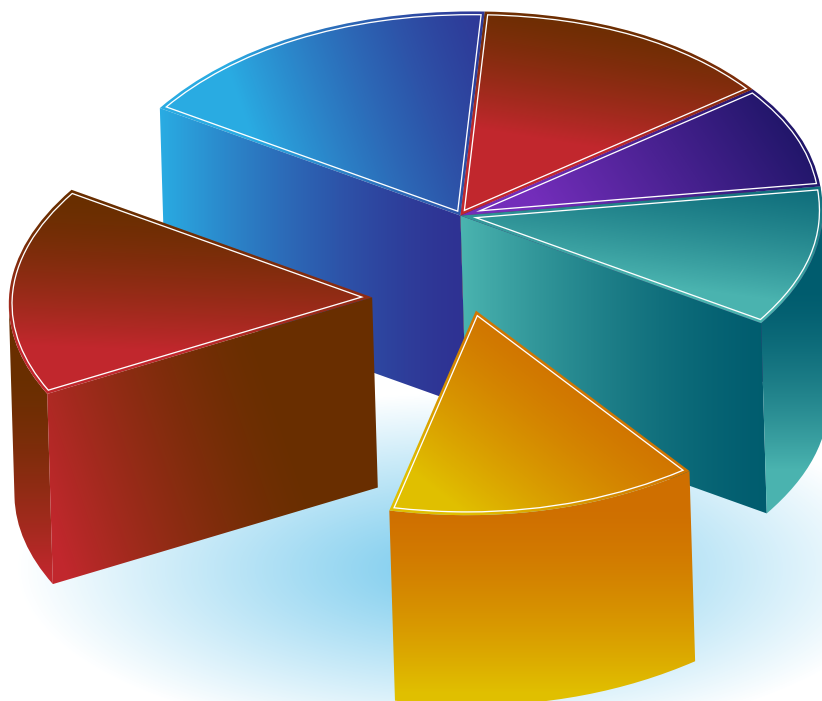
Nicholas Potter, DTCC product manager for GCA VS, noted that DTCC has built an infrastructure “that can support similar

instruments that contain a structured component and an underlying asset.” He noted that it could be used in the future to provide comparable information for other asset types, including such instruments as over-the-counter equity derivatives and indices.

GCA VS is continuing to add new securities and asset classes to its global coverage of corporate actions. Earlier this year, DTCC added coverage of structured securities handled by the U.S. Federal Reserve Bank (mostly securities created by Fannie Mae and Freddie Mac) to GCA VS, along with scheduled payments for global fixed income securities.

DTCC has also been spearheading an effort with XBRL US and SWIFT to promote straight-through processing in corporate actions by electronically capturing data directly from the issuers in a standardized form when a corporate action is first announced.

GCA VS is a service of DTCC Solutions, LLC, a subsidiary of DTCC. @



# AIP Service Processes First Non-Traded REIT Transactions

by Richard Marulanda

Grubb & Ellis has completed system testing and begun processing transactions on DTCC's Alternative Investment Products (AIP) service for its publicly registered, non-traded real estate investment trust (REIT), Grubb & Ellis Healthcare REIT II, Inc. Grubb & Ellis worked closely with DTCC to prepare and test the system, and is the first non-traded REIT sponsor to utilize the AIP service.

The AIP service links global market participants, including broker/dealers, fund managers, administrators and custodians, providing an end-to-end processing solution for alternative investments such as hedge funds, funds of funds, private equity, non-traded REITs and limited partnerships.

## Automation and transparency

Traditionally, alternative investments have been handled through hard copy, fax, email, phone calls and spreadsheets. This lack of automation and centralization prolongs the transaction process, making these methods inefficient and expensive. Leveraging DTCC's infrastructure, the AIP service streamlines, automates and centralizes all the processes related to trade order initiation, money settlement and post-trade reporting, bringing significant operational efficiencies and transparency to the alternative investments community, while facilitating market growth.

"We are very pleased to have Grubb & Ellis on board as our first non-traded REIT sponsor, and we look forward to bringing additional partners onto the platform," said Ann Bergin, DTCC managing director and general manager, Wealth Management Services. "As today's investors continue to look for new ways to diversify their

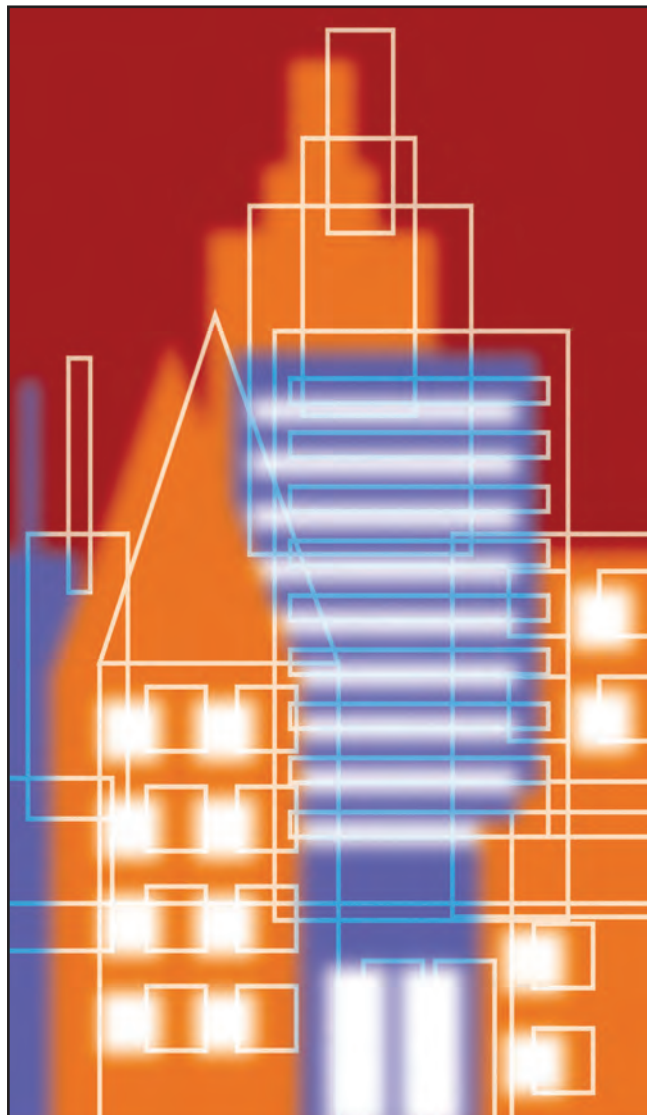
investment portfolios, our AIP service has become an attractive solution for accessing the non-traded REIT market, making it easier for REITs to standardize communication among their financial advisor partners and better serve investors."

## 'Revolutionary'

"As a leader in the non-traded REIT industry, Grubb & Ellis is committed to adopting the best practices and finest available technology to benefit our investors, their advisors and our broker/dealer partners," said Tom D'Arcy, president and CEO of Grubb & Ellis Company. "DTCC's AIP system is a revolutionary step forward for our industry, and we couldn't be more pleased to have assisted in its successful testing and being the first non-traded REIT to be rolled-out."

Currently, close to 35 participants are actively testing DTCC's AIP service; this includes transfer agents, fund administrators, broker/dealers and product sponsors.

The AIP service is offered by National Securities Clearing Corporation, a subsidiary of DTCC. @



## A Closer Look: Non-Traded REITs

Non-traded REITs are common shares offered by a real estate company for investors.

The REIT structure provides a similar structure for investment in real estate as mutual funds provide for investment in stocks. Like other corporations, REITs can be publicly or privately held. Investors are typically drawn to non-traded REITs for their potential for steady income and general lack of volatility compared to publicly traded equities.

According to research from Blue Vault Partners LLC, non-traded REITs are on track to raise \$7 billion in 2010, a 17% increase over 2009.

# DTC Will Launch New Processing Method To Mitigate P&I Payment Risk

by Edward C. Kelleher

The Depository Trust Company (DTC) will begin processing principal and income payments (P&I) on the more than 3.5 million securities it services using a new methodology to reduce systemic risk and enhance accountability in the allocation of several trillion dollars annually.

The new process will modernize the long-standing industry practice of having DTC collect and allocate virtually all payments on their scheduled payable dates, including those payments made to DTC after established intraday cut-off times or received without the detail needed to allow a payment to be paired with its specific CUSIP number. A white paper issued by DTC last year revealed that more than 4% of P&I payments, or approximately \$10 billion per month, were late or misidentified.

Beginning February 7, 2011, DTC will allocate only those P&I payments that have been made on time and identified with the correct CUSIP.

## Unacceptable risk

“We have conducted an extensive internal review and had in-depth discussions with regulators before deciding to move to this new methodology,” said Kurt Holweger, DTCC managing

director, Operations and Customer Service. “While the practice of allocating all entitlements on the payable dates has provided a great deal of certainty for DTC participants and their customers, the exposure to credit and liquidity risk it now entails is no longer appropriate given how sophisticated and efficient the process has become.”

DTC, a subsidiary of DTCC, collects and allocates cash entitlements due on DTC-eligible securities on a daily basis.

## Five million payments

The P&I payments include dividend, interest, periodic principal, redemption and maturity payments. In 2009, DTC collected and allocated more than 5 million payments totaling more than \$2.5 trillion. DTC receives P&I payments from about 7,000 different entities each year, with 16 of the largest agents responsible for 85% to 90% of the payments. The remaining percentage comes from smaller agents and issuers paying on their own behalf – most often, municipalities.

DTC first announced that it would enhance risk mitigation in the payment of P&I in a November 2009 white paper titled “P&I Payment Refinement: A Move to Further Reduce Payment Risk.” Since issuing the white paper, DTC has reported a substantial reduction in the number of late and misidentified payments from paying agents and issuers. As of September 2010, the value of payments made in a manner compliant with the 2011 allocation methodology increased to 98.53%, compared to 96% for all of 2009. The impact of this improvement is more than a 60% decrease in late or unidentified payments – from more than \$10 billion per month in 2009 to less than \$4 billion per month in third-quarter 2010.

“The goal is to ensure that all shareholders and bondholders receive the entitlements due them on the payable date in a manner that does not inject unnecessary risk into the system,” said John Faith, DTCC vice president, Operations. “By working collaboratively with the industry, we believe we have developed an improved system that will provide the same level of efficiency and certainty to market participants while mitigating the risk of late or misidentified payments.” @

[For more information on P&I payment processing, go to [www.dtcc.com](http://www.dtcc.com), Customer Center, Customer Tools, Principal & Income Payments (P&I) Refinement.]

## New Webcast On P&I Payment Processing

A new webcast will help paying agents, issuers and DTC customers understand and prepare for the changes in principal and income (P&I) payment methodology that will take effect February 7. Titled P&I Payment Refinement: A Move to Reduce Payment Risk, the webcast covers:

- Risks and concerns with the current P&I payment methodology;
- The new methodology and its impact on paying agents, issuers and participants;
- Actions each group will need to take to be compliant with the changes.

The webcast also discusses resources and information that help with P&I payment processing. It is available at [www.dtcc.com](http://www.dtcc.com), Customer Center, Customer Tools, Principal & Income Payments (P&I) Refinement.

# DTCC Is Set to Launch Service to Help Customers Comply With New Cost Basis Regulations

by Craig Donner

It's all systems go for the launch of DTCC's enhanced Cost Basis Reporting Service (CBRS) on December 10, 2010.

DTCC will go live with the service that day even though final regulations issued by the Internal Revenue Service (IRS) provide temporary relief from penalties for non-compliance with certain parts of the law.

The final regulations, released in October, require broker/dealers, transfer agents, issuers, mutual funds and custodian banks to begin reporting cost basis information to investors and the federal government beginning on January 1, 2011, but provide a one-year reprieve on penalties for the transfer of cost basis information among financial intermediaries, according to the IRS.

The leeway granted by the IRS came in response to the industry's request to delay implementation of the law for one year to allow firms additional time to resolve the complexities and operational challenges of having to transfer an investor's cost basis on each transaction when securities are sold.

"While there appears to be some uncertainty among financial intermediaries over their interpretation of the final regulations, we want to assure our customers that DTCC is on target to meet the New Year's deadline and that the enhanced CBRS will be operational before the new law takes effect," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities.

## Promoting standardization

DTCC leveraged the existing CBRS technology to help customers meet a provision of The Emergency Economic Stabilization Act of 2008 requiring cost basis information to move between

financial intermediaries during an account transfer. The enhanced CBRS will serve as a central communications hub for market participants to transfer this information in a seamless and secure electronic environment. The service will not calculate or store cost basis information.

"Since customers began approaching us nearly two years ago, our goal has been to work collaboratively with a broad coalition of market participants to help them solve this reporting challenge," said Cosgrove.

"The enhanced CBRS introduces a standardized and centralized service that will effectively mitigate operational risk for the industry while promoting enhanced efficiency and lower cost for our customers. We've already begun development of additional enhancements that will help firms comply with other parts of the law that will take effect in the coming years."

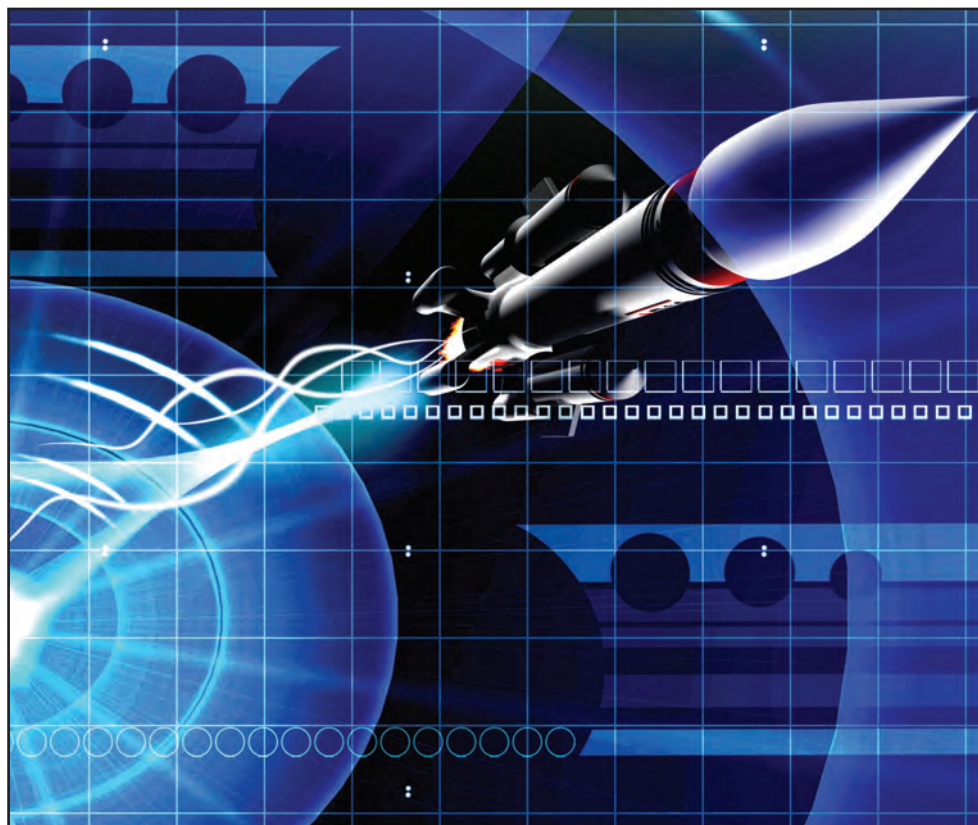
For instance, firms will need to begin

calculating and reporting cost basis information on mutual funds by January 1, 2012, and on debt, options and other securities on January 1, 2013.

## User testing continues

User testing, which began in September, remains ongoing. Firms that expect to be using the enhanced CBRS system on January 1, 2011, must submit their account forms by the first week of December. DTCC will continue to support testing through 2011 as new firms need to be onboarded to the service. Testing allows firms to bring their systems into compatibility with the enhanced service and ensure they can receive and send data and accommodate new fields in the record layout. @

[To learn more about user testing for the enhanced CBRS, contact your relationship manager or the Customer Support Hotline at 888.382.2721, option 6, option 7, then option 2.]



# New Workstation Extends EPIM's Reach Across Europe

by Craig Donner

The Depository Trust Company (DTC), in conjunction with Clearstream and Euroclear, has launched a new web-based workstation for its European Pre-Issuance Messaging (EPIM) service in an effort to bring greater automation, reduced risk and lower costs to the issuance of European money market instruments.

The workstation, which went live this year, is expected to help broaden use of EPIM among dealers and issuing and paying agents (IPAs) who tend to have smaller volumes. The workstation will allow these customers to access the EPIM service via the Internet instead of having to establish a direct connection.

"More than 20 major financial institutions that service the European money markets already use EPIM; now the workstation makes it cost-effective for firms of all sizes to eliminate labor-intensive and error-prone manual processes for their pre-issuance communications," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. "This is an important step in helping the market grow over the long term while mitigating operational risk and the costs associated with the manual processing for issuing international short-term paper."

## How it works

EPIM links dealers, IPAs and Clearstream and Euroclear via a central communications hub that automates the process of requesting and issuing International Securities Identification Numbers (known as ISINs) for European Commercial Paper, European Certificates of Deposit and European Medium-Term Notes.

ISINs are the unique 12-character codes that identify international financial instruments, including commercial paper,

bonds and equities. They are issued by either Clearstream or Euroclear in their capacity as International Central Securities Depositories (ICSDs) for Europe.

The workstation allows dealers and IPAs to send and receive EPIM messages, including those that introduce, update, amend or cancel ISIN requests. Once a message has been submitted, the IPA receives it for processing and can send it back via the EPIM hub to the dealer for further action or to the ICSD to allocate an ISIN. The ICSD processes the message and notifies both the dealer and IPA of the new ISIN.

The workstation also provides functionality to upload data, track the status of messages in real time and access archived records.

"Before EPIM, the process of requesting and obtaining an ISIN was inefficient and involved a series of phone calls, faxes and email," said Javette Laremont, DTCC director, Settlement Product Management. "Today, EPIM completes that circle in near-real time, eliminating the discrepancies, delays and errors that have long characterized the processing of European pre-issuance communication."

Laremont added that the launch of the workstation will not result in any additional charges to users but is priced on the same per-message basis as the EPIM hub model.

## Mandatory service

The International Capital Market Services Association, Clearstream and Euroclear recently announced plans to make the use of EPIM mandatory as of February 1, 2011.

"Working with our partners Clearstream and Euroclear, we have made significant investments in EPIM over the past eight years to bring the industry to this point," Cosgrove said. "The EPIM workstation

represents the final piece of the puzzle to fully automate the pre-issuance trade data communication and the ISIN allocation process." @

**'The EPIM workstation represents the final piece of the puzzle to fully automate the pre-issuance trade data communication and the ISIN allocation process.'**

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

## EPIM Learning

With the recent launch of the European Pre-Issuance Messaging (EPIM) workstation, new customers can consult a large number of help files to learn how to use the web-based service.

Included among the files is a downloadable spreadsheet template that can be populated with data and uploaded to EPIM. Also available are sample spreadsheets, country and currency codes, validation rules, messaging layouts and instructions on how to request an International Securities Identification Number (ISIN) for a security.

The help files, designed and maintained by DTCC Learning, include user-friendly graphics that demonstrate EPIM's functionality.

EPIM users can view the help files by clicking the "help" button near the upper-right-hand corner of the EPIM workstation screen.

# New Omgeo/EuroCCP Service For Hedge Fund Transactions Goes Live

Omgeo and EuroCCP's new pan-European equities matching and central counterparty (CCP) clearing service for hedge-fund transactions went live in October, executing its first live trade with prime broker and executing broker Credit Suisse and hedge fund manager Citadel. Credit Suisse and Citadel intend to continue to partner with Omgeo and EuroCCP to ensure that their interfaces become scalable and ready to be extended to a broader range of counterparties in the future.

The service allows executing brokers and prime brokers to clear hedge fund transactions, and will streamline the processing flow and mitigate the counterparty risks associated with these types of institutional cash equities transactions.

## Breaking new ground

The new processing solution combines Omgeo Central Trade Manager<sup>SM</sup> (Omgeo CTM), which provides a fully automated matching service, and EuroCCP's central counterparty (CCP) service, which clears and settles pan-European cash equity trades. The joint service initially covers 15 European markets, with expectations for expansion to additional markets over time.

Following the successful piloting of the solution and first live trade, the service will be gradually rolled out to hedge funds and their executing and prime brokers. It is also the intention to make the service available to institutional fund managers and their brokers in the future.

Hedge funds will access the service through Omgeo CTM and through their executing and prime brokers that are EuroCCP participants. These brokers will authorize locked-in trades and release them to EuroCCP, where the trades are novated, netted and routed to the relevant European central securities depository (CSD) for settlement on a netted basis.

## Customer views

Neil Martin, managing director, Cash Securities Clearing & Settlement, Credit Suisse, said, "We are pleased to successfully test and execute a first live trade on this trade matching solution. Adding central counterparty netting to the trade processing flow between us and our clients enables us to reduce counterparty risk and improve operational efficiency."

Todd Schroeder, deputy head of Global Operations at Omnium, an affiliate of Citadel, said, "Having access to the benefits of a CCP solution and the trade guarantee it provides is of great value to hedge funds and investment managers. The ability to provide efficient straight-through processing, coupled with a greater degree of risk mitigation for our clients, is of utmost importance to Citadel and having this new service available to us in the marketplace is a major step in effectively meeting those needs."

## Reducing risk

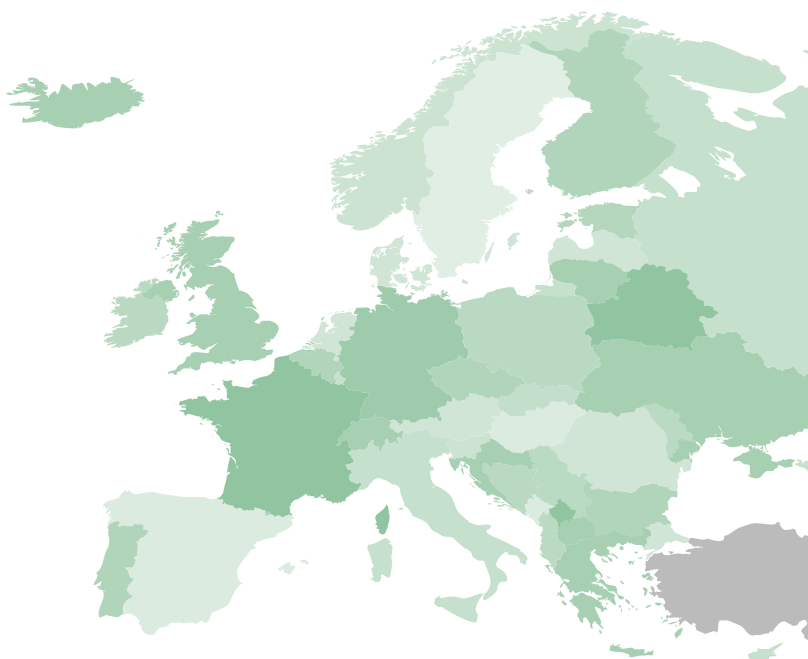
Omgeo and EuroCCP have been working closely with an industry user group to develop the new processing solution.

Now that the links to Omgeo CTM and EuroCCP have been built and the new trade matching and CCP solution has executed its first live trade, the two companies anticipate additional hedge funds

and brokers will come on board in the ensuing months.

"I am thrilled that our trade matching and central counterparty service is now operational with Citadel and Credit Suisse," said Marianne Brown, Omgeo president and CEO. "This revolutionary new service promotes guaranteed settlement and reduced counterparty risk, as well as significant cost savings gained through settlement netting and cross netting, where we've seen obligations net to zero."

Diana Chan, CEO of EuroCCP, said, "In today's environment, settlement of hedge funds' trades between their executing and prime brokers occurs bilaterally without any CCP trade guarantee, exposing these parties to counterparty risk. By introducing a CCP into this settlement chain, our goal is to help substantially reduce this type of risk between trading parties while also providing them with added efficiencies by netting down the number of transactions that need to be settled in a fully automated process. We are pleased to be the first CCP, in partnership with Omgeo, to bring this groundbreaking new service to market." @



# Agent Banks Post \$1.3 Trillion To Loan/SERV

by Edward C. Kelleher

Syndicated loans totaling almost \$1.3 trillion in 11 currencies are being tracked and serviced by eight leading agent banks using Loan/SERV, DTCC's suite of services that is automating the processing of syndicated loans on a global basis.

Loan/SERV currently links eight major agent banks with more than 2,400 investment funds and bank lenders through its Reconciliation Service. The service enables banks and lenders to view and reconcile loans at all levels, from commitment and transaction level down to the individual contracts and fees, with all relevant transaction detail. Six new agent banks are expected to begin processing syndicated loans through Loan/SERV in the next few months.

## Accurate loan data

"Loan/SERV is bringing a whole new level of service and automation to the syndicated loan market," said Atilla Karasapan, managing director of Citi. "The Reconciliation Service is providing lenders with the most accurate and up-to-date information available on their loan positions on a daily basis. At the same time, Reconciliation enables lenders and agent banks to quickly identify position discrepancies before they become problems.

"As more lenders and banks link to Loan/SERV, this will build critical mass, further facilitate market expansion and help boost accuracy on a market-wide basis," Karasapan said.

Currency denominations processed by Loan/SERV include the U.S. dollar, the British pound sterling, the euro, the Danish krone and the Swedish krona. Other currencies are the Swiss franc, the Norwegian krone, the Canadian dollar, the Australian dollar, the Turkish lira and the South Africa rand. Loan/SERV can process more than 50 currencies.

## New agents banks

"We expect continued growth in the coming months as we bring new agent banks online with Loan/SERV and handle additional volume from existing European clients," said Mathew Keshav Lewis, DTCC vice president, European Loans Product Management. Lewis said that the 2,400 lenders now served by Loan/SERV represented more than half the global syndicated loan market located in 39 countries across North America, Europe, Asia and Africa.

The eight global banks linked to Loan/SERV are The Bank of New York Mellon, Barclays Capital, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, J.P. Morgan and The Royal Bank of Scotland.

In early 2011, DTCC will begin piloting a cash settlement service called Cash on Transfer with a number of global loan agents, trading desks and administrators. Cash on Transfer will give the global syndicated loan market its first delivery-versus-payment platform, ensuring that cash settles simultaneously with the change in legal ownership of the asset recorded by agent banks. It will handle cash settlement in more than 50 currencies.

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

[For more information on Loan/SERV in North America, contact Dave Perry, DTCC manager, Product Management, at [dperry1@dtcc.com](mailto:dperry1@dtcc.com) or 212.855.2345; for Europe, the Middle East, Africa and Asia, contact Rita Virdee, DTCC manager, Product Management, at [rvirdee@dtcc.com](mailto:rvirdee@dtcc.com) or 44 (0)207.650.1425.]



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