



DTCC Files with SEC to Operate a CCP For Mortgage-Backed Securities

SEE PAGE 2

Inside

SEC Filing to Operate an MBS CCP	2	OTC Credit Derivatives Data Transparency	11	DTCC Takes On Microcap Fraud	19
MMI Settlement Processing	3	'Uptime' Recognition	11	Executive Forum	20
Innovation at DTCC	4	Obligation Warehouse	15	House Financial Services Committee	22
CFTC Filing to Register Swap Data Repositories ..	8	NYPC Wins 'Innovation' Award	17	ACSDA Leadership Forum	24
Global OTC Interest Rate Trade Repository	9	Attention Issuers: Meet DTCC	18	@DTCC Readers	24

DTCC Files with SEC to Operate a CCP For Mortgage-Backed Securities

by James Conmy

DTCC's Mortgage-Backed Securities Division (MBSD) of its Fixed Income Clearing Corporation (FICC) subsidiary has filed an application with the U.S. Securities and Exchange Commission (SEC) to provide central counterparty (CCP) and pool netting services for trades in U.S. mortgage-backed securities. This initiative is designed to reduce the risks and costs associated with trading in the \$100 trillion-a-year market.

"We anticipate that our central counterparty services will reduce risk by greatly streamlining the settlement of mortgage-backed securities trades," said Murray Pozmanter, DTCC managing director and general manager, Clearing Services.

Once it has regulatory approval and implements the service, MBSD will guarantee settlement on all matched trades, a critical step for the mortgage-backed securities industry where the settlement of a trade often doesn't take place until months after the trade was made. The guarantee will ensure the completion of these long-settling trades if either of the trading parties defaults on its initial trade commitment or pool delivery obligations.

Pool netting

Although MBSD is currently able to net down more than 90% of the MBS trades it handles, in its role as a central

counterparty it will introduce an additional netting process – pool netting – that will further streamline settlement on any remaining obligations.


Mortgage-backed securities are made up of the pools of mortgages that underlie each security. Because pools are frequently allocated and reallocated

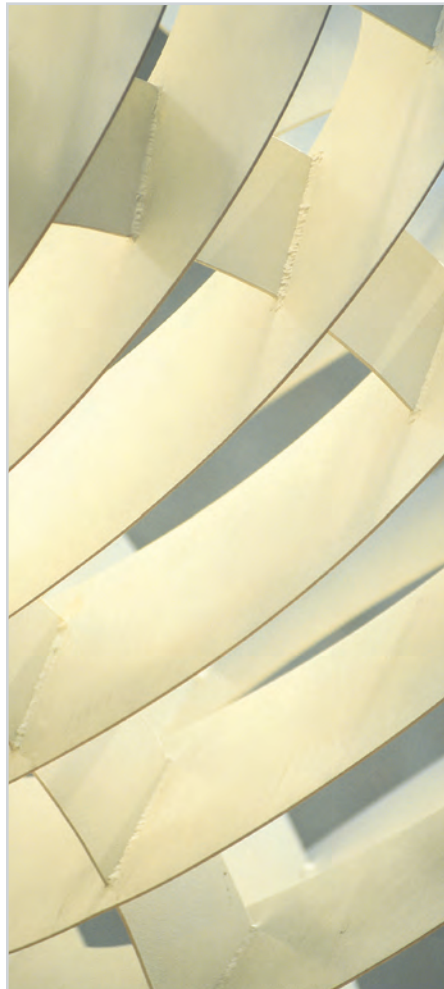
against numerous settlement obligations, these multiple redeliveries are operationally inefficient and potentially error-prone. By netting down redeliveries of allocated pools, MBSD's new pool netting process will substantially reduce the number of settlement deliveries and thus help to lower operational risk, while easing settlement costs.

To cover the risk of default by a member firm, MBSD collects and holds collateral from its members in a clearing fund. With the introduction of a CCP, MBSD's current clearing fund risk management process will be modified to account for two additional components: potential intraday exposure and the results of daily back testing. To show its member firms the impact these new components will have on their daily clearing fund requirement, FICC is running a two-month "parallel" reporting program.

FICC's coverage

FICC offers the MBSD's services to market participants trading mortgages held by various government agencies, including the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA). These mortgages make up the bulk of the U.S. mortgage market.

FICC already provides a CCP service for the U.S. Government securities market. 



DTCC Announces Plans to Reduce MMI Settlement Processing Risk

by Michael Scholl

DTCC has announced plans to enhance the settlement processing of money market instruments (MMI) in ways that will help mitigate credit and systemic risks in this \$363 billion-a-day market.

DTCC is developing the initial round of enhancements, scheduled to take effect in May 2012 subject to Securities and Exchange Commission approval, as part of an industry-wide effort to reduce risks associated with the settlement of these instruments.

“After robust and thorough consultation with market participants, we are now poised to implement the first round of changes to The Depository Trust Company (DTC) MMI processing system,” said Susan Cosgrove, DTCC managing director and general manager, Settlement and Asset Services. “The goal is to strengthen and reduce risk associated with issuance and maturity settlement processing in the MMI market, a market that plays such a vital funding role in the U.S. economy.”

In addition, discussions with the industry on longer-term and more structural enhancements to the MMI settlement process are under way and will continue in 2012.

The daily MMI market accounts for approximately 55% of the gross value of settlement activity at DTCC’s depository

and includes a daily average of \$122 billion in issuances, \$125 billion in maturities and \$116 billion in deliveries.

Gaining consensus

The MMI initiative is being spearheaded by an MMI Blue Sky task force organized by DTCC and the Securities Industry and Financial Markets Association (SIFMA).

The task force released a report in March 2011 proposing a series of short-term changes to the MMI processing system, along with ideas for long-term structural change. In response to feedback from a broad spectrum of MMI market participants, the task force revised the

short-term recommendations, and DTCC now expects to implement them in May 2012.

The task force will further discuss and prioritize the report’s ideas for longer-term enhancements with the goal of finalizing recommended proposals and implementation timelines by the end of 2012.

New cutoff times

The short-term changes include the implementation of new cutoff times (see box) intended to give MMI Issuing and Paying Agents (IPAs) sufficient time to calculate their exposure [continued on page 14]

Short- and Long-Term Plans

The changes scheduled to be implemented in May 2012 will:

- Advance the cutoff time for submitting new valued MMI issuances to The Depository Trust Company (DTC) to 2:00 p.m. from the current 3:20 p.m.
- Advance the cutoff time for receivers of new valued issuances to approve MMI issuance deliveries to 2:45 p.m. from the current 3:30 p.m.
- Require that all MMI transactions, regardless of transaction value, go through the Receiver Authorized Delivery process.

Next up on the MMI agenda is further evaluation of the possible long-term structural changes discussed in the task force’s report. Some proposals under consideration include:

- Creating an MMI matching process that would match an issuer’s new issuance credits to offset its own maturity obligations.
- Separating MMI and non-MMI transactions for settlement purposes.
- Creating multiple MMI settlement processing cycles to further intraday finality.

Innovation Fuels DTCC's Ability to Compete Global

Innovation and the ability to compete on a global basis are not attributes traditionally associated with DTCC, according to Michael Bodson, DTCC's COO. "We've always had a strong reputation for safety, soundness and execution capabilities in our core space but the industry has not always recognized DTCC for breaking new ground," he said.

DTCC's customer survey ratings reflect this view. In 2011, the satisfaction score for innovation was 81%, up 8 points from 73% five years ago, but still trailing scores for other key categories, such as 90% for commitment to quality.

Now, with the steady rollout of innovative services DTCC has delivered since the 2008 economic crisis, industry perceptions of DTCC's ability to innovate are giving way to a new – and more accurate – view.

"The industry has tended to underestimate the innovative spirit that exists at DTCC," said Bodson. "We've been quietly innovating for years, but post-2008, we shifted to high gear in response to the industry's more acute demand for innovative solutions, driven by the new regulatory environment and changing economics in the financial sector."

Three years on, DTCC has established a highly visible track record for innovation and competitiveness. "We have been

out front with creative solutions that are making a big difference in the industry globally, particularly in terms of risk management," Bodson said. The repositories for over-the-counter (OTC) derivatives and the global legal entity identifier (LEI) system are two cases in point.

Foresight and data transparency

DTCC rolled out its Trade Information Warehouse, which houses data on OTC credit default swaps (CDS) globally, in 2006, well before the 2008 collapse of Lehman Brothers.

"It is not widely known that as the fallout from Lehman was rippling across the markets, we used information in the Warehouse to reduce concerns and uncertainty about the level of CDS exposure," said Bodson. "The regulators were quick to appreciate the Warehouse's value for delivering transparency and systemic risk management in this market, and the concept of repositories for other asset classes evolved from that experience."

Since then, DTCC has won mandates to build four additional repositories: for equity, interest rates, foreign exchange and commodities OTC derivatives.

"We are five-for-five with swap data repositories," said Bodson, adding that DTCC won three repository bidding processes by partnering with industry counterparts. (See articles, pages 8-13.)

Ahead of the curve

One of DTCC's competitive strengths is its ability to identify emerging trends in the industry and anticipate their impact on customers, said Bodson. The 2010 acquisition of Avox, an established player in the global reference data industry, is an example of how knowledge of the industry and its needs comes into play.

"The Avox deal was timely and opportunistic," said Bodson. "By talking to people in the data management, regulatory, legislative and academic communities, we saw the LEI initiative coming. We knew the industry and regulators' need for accurate reference data on securities and legal entities to strengthen transparency and systemic risk management would be critical given the coming legislation. To help solve that problem we needed to fill a gap in our own reference data capabilities. So Avox, the best in class for counterparty reference data, was an ideal target."

The acquisition set the stage for DTCC to team with SWIFT and the International Organization for Standardization in 2011 to receive the industry recommendation to develop the global LEI. This system will assign a unique code to each counterparty to financial transactions, and validate basic information about the entity, introducing a standard that will help regulators and market participants better manage risk and exposures on a global scale.

ly
by Helen Cunningham

Formula for success

What are other factors that contribute to DTCC's ability to innovate and compete?

"We have demonstrated our willingness to take a leadership role and we have a Board of Directors that is increasingly supportive of that role," Bodson said. "What's more, the opportunities are greater in number and in scope today, because customers are looking to DTCC more than ever to help them manage risk, deal with increased regulation, contain costs and solve emerging problems."

DTCC is also working more closely with regulators post-2008 because their need for a holistic understanding of risk in the financial system has increased tremendously. "Given our capabilities and track record, the regulators are looking to DTCC on a global basis as providers of information and insights, which strengthens what was already a strong relationship," Bodson said.

He cited a list of other factors that drive innovation, including DTCC's existing capabilities and capacity to envision ways to extend them to new

areas of the business; a proven ability to anticipate where the industry is going, and to identify emerging needs and front-run gaps in services; a record for successful execution; openness to forging partnerships that advance industry goals; and the company's people, who have unique knowledge of the industry and its requirements.

Reputation globally

DTCC's growing global reputation is another plus.

"In Europe, DTCC has established a leadership role for bringing greater competition to equities clearing and for collaborating with customers to drive down costs and tackle challenges such as interoperability," Bodson said.

For example, DTCC's EuroCCP subsidiary worked with BATS Europe, a pan-European trading platform, to launch "preferred clearing" in 2011. The service, which advances interoperability across Europe, received the Editor's Choice award in the 2011 Financial News Awards for Excellence in Trading & Technology, Europe. "Firms can choose different clearing houses via BATS and the respective clearing houses pass trades on to one another in a radical new model often known as interoperability," wrote Financial News.

The preferred clearing service, which is essentially a partial

[continued on page 6]

Five-for-Five

In 2011, DTCC teamed with industry counterparts to win mandates to build two new repositories for over-the-counter (OTC) derivatives products.

A DTCC/SWIFT coalition won a competitive process to develop a global repository for OTC foreign exchange derivatives trades. A strategic alliance with EFETnet secured the mandate to build the Global Trade Repository for Commodities (U.S.) LLC. Both are new asset classes for DTCC.

Their addition brings to five the number of OTC derivatives repositories DTCC has under its umbrella: credit, equities, interest rates, foreign exchange and commodities. The credit, equities and interest rate repositories are already up and running.

In November, DTCC filed two registration applications with the U.S. Commodity Futures Trading Commission (CFTC) to facilitate swaps transaction recordkeeping and regulatory reporting by U.S. market participants as required by CFTC regulations under the Dodd-Frank Act. One registration is to operate a swaps data repository (SDR) for OTC credit, interest rates, equities and foreign exchange derivatives. The other is to operate a commodities SDR (see article, page 8).

Innovation

continued from page 5

implementation of interoperability, has brought a new chapter to European equities clearing, according to Bodson. “For the first time, trading firms in Europe have the option to select their clearing house among several options, which gives them the potential to reduce margin requirements and settlement fees by centralizing their clearing activities. Although preferred clearing is only a partial solution, it is the catalyst needed to open up the market fully to effective competition.”

For its part, EuroCCP was named 2011’s Best Clearing House in Europe for the second year in a row by the Financial News Awards for Excellence in Trading & Technology, Europe. (See article at right.)

‘Virtuous cycle’

DTCC’s growing stature on the innovation and competitiveness scale is based on its record for delivering creative solutions that meet industry requirements to reduce the risk and cost of doing business, while increasing overall operational efficiency, summed up Bodson.

“Today, market participants and regulators around the globe increasingly turn to DTCC for innovative, cost-effective solutions for the many challenges facing the financial industry,” he said. “It creates a virtuous cycle.” 

2011 Honors for Innovation

Five DTCC businesses received industry recognition in 2011 for their success in delivering innovations that strengthen and mitigate risk for the markets in which they operate.

The multiple citations reflect DTCC’s presence in a range of asset classes globally, spanning four areas of the business: global over-the-counter (OTC) derivatives, European equities clearing, fixed income clearing and global corporate action processing.

“Our ability to hit the mark on such a diverse range of innovative services is attributable in large part to our longstanding policy of collaborating with customers, and increasingly regulators, to develop and design new offerings,” said Michael Bodson, DTCC’s COO.

DTCC businesses won the following citations for innovation and risk mitigation in 2011:

- **EuroCCP**, DTCC’s European clearing subsidiary: named Best Clearing House for the second year in a row by the Financial News Awards for Excellence in Trading & Technology, Europe. These awards from the Financial News newspaper and website recognize companies operating in Europe that

have had the “boldest and most innovative initiatives.”

EuroCCP was cited for bringing innovation and greater competition to the clearing of securities in Europe. Its CEO, Diana Chan, was named the Most Influential Woman in Trading and Technology.

A customer of EuroCCP, BATS Europe, received the Editor’s Choice from Financial News for launching “preferred clearing,” a service that advances interoperability in the region and was introduced with the support of EuroCCP.

• OTC Derivatives Data

Repositories: named Best Post-Trade Risk Management Product/Service by the Financial News Awards for Excellence in Trading & Technology, Europe.

DTCC is cited for leading “the market globally as a provider of trade repositories” and specifically for “launching the equity derivatives repository to provide visibility on the OTC market.” DTCC now operates global credit derivatives, equity and interest rate derivatives

repositories and is developing new repositories for commodities and foreign exchange.

Data repositories have gained wide recognition for playing a critical role in the OTC derivatives market by delivering transparency and helping regulators, the industry and the public assess risk exposures and manage systemic risk. (See additional articles, pages 8-13.)

- **MarkitSERV**, DTCC's strategic partnership with Markit that provides post-trade processing and workflow for OTC derivatives transactions across all major asset classes: named Best Innovation by an IT or Software Firm in the Connectivity category for its Client Clearing Connectivity service by Futures and Options World (FOW). These awards recognize innovations that improve the markets.

In the 2011 Asia Risk awards, which recognize "standout performers in Asia's derivatives markets," MarkitSERV was named Technology Development of the Year for Central Counterparty Middleware. The company was recognized for "building and maintaining a connectivity platform for OTC derivatives clearing houses globally" and also for its


"comprehensive product coverage."

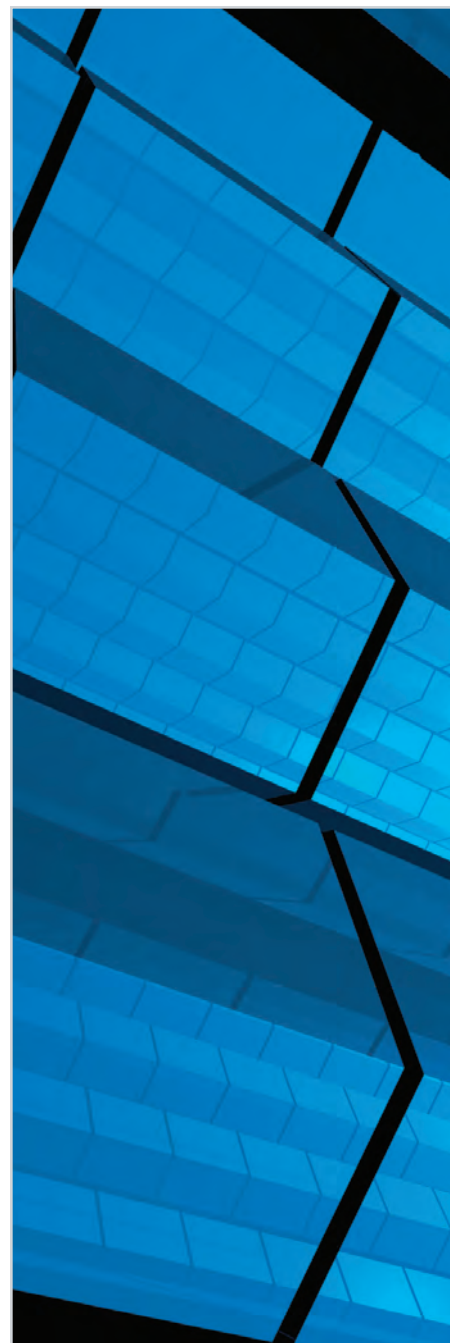
These awards from Asia Risk, a leading magazine for risk and derivatives professionals in the Asia-Pacific region, recognize global financial institutions for excellence in risk management.

- **New York Portfolio Clearing LLC (NYPC)**, the clearing platform for interest rate futures, a 50/50 joint venture with NYSE Euronext: named 2011's Best Innovation by a Clearing House, North America, by Futures and Options World (FOW). (See article, page 17.)

NYPC's market innovation is the one-pot margining of a clearing member's portfolio of cash bonds and derivatives, an innovation described by FOW as a crucial "leap forward in the move towards cross-margining." NYPC is the only derivatives clearinghouse to offer cross-margining.

- **Global Corporate Action Validation Service (GCA VS)**: named Best Corporate Actions Solution Provider by Waters magazine, a financial markets technology publication. The service was cited for making "major strides" in its offerings.

GCA VS tracks, validates and distributes corporate actions information on more than 2.5 million securities globally in 200+ countries in 15 languages. 



DTCC Files with CFTC to Register Swap Data Repositories for Multiple Asset Classes...

DTCC has filed a registration application with the U.S. Commodity Futures Trading Commission (CFTC) to operate a swaps data repository (SDR), DTCC Data Repository (U.S.) LLC, across multiple over-the-counter (OTC) derivatives asset classes.

“DTCC is committed to working with financial authorities and the industry to promote a transparent and sound OTC derivatives market,” said Stewart Macbeth, president and CEO, DTCC Deriv/SERV LLC. “By filing these applications, our goal is to facilitate swaps transaction recordkeeping and regulatory reporting by U.S. market participants as required by CFTC regulations under the Dodd-Frank Wall Street Reform Act.”

DTCC Data Repository (U.S.) LLC will provide trade repository and reporting services for OTC credit, interest rates, equities and foreign exchange derivatives.

SDR For commodities

A separate application is also being filed to operate a commodities SDR through Global Trade Repository for Commodities (U.S.) LLC, a strategic alliance between DTCC's Deriv/SERV subsidiary and Netherlands-based EFETnet.

This joint collaboration, which was announced in June, integrates EFETnet's vast experience in the commodities arena

and its deep network of contacts in the user community with DTCC's proven track record in building global trade repositories. It will bring together EFETnet's secure data communications and post-trade processing capabilities with DTCC's repository and regulatory reporting infrastructure. The combination will provide the commodities industry with an at-cost, industry-owned and -governed cooperative to streamline reporting to multiple regimes.


DTCC already operates global trade repositories for OTC credit and equity derivatives. The company was selected by the industry in competitive bidding processes organized by the International Swaps and Derivatives Association to operate global trade repositories for OTC interest rates and, in partnership with EFETnet, the commodities repository. It was also selected, in collaboration with SWIFT, to build and operate a global FX repository by a group of global foreign exchange organizations, including the Global FX Division of SIFMA, the Association for Financial Markets in Europe (AFME) and the Asia Securities Industry & Financial Markets Association (ASIFMA).

Today, DTCC holds records on more than 98% of the global credit derivatives market. DTCC also launched in February 2011 a portal that provides regulators and financial supervisors around the world with direct, online access to detailed data

and reports on those derivatives in near real-time for the entities they regulate and supervise.

DTCC also publishes, free of charge, comprehensive aggregate data for the top 1,000 corporate and sovereign credit derivatives single reference entities and credit derivatives indices on www.dtcc.com.

EFETnet was established by the European Federation of Energy Traders (EFET), an organization founded in 1999 by Europe's leading energy companies, and is used for EFET and non-EFET energy trading contracts.

EFETnet B.V. is an independent company, 100% owned by the EFET. It was set up in 2004 by EFET to serve those actively involved in energy trading and is intended to deliver the benefits of electronic data exchange standardization. 

‘OUR GOAL IS TO FACILITATE SWAPS TRANSACTION RECORDKEEPING AND REGULATORY REPORTING BY U.S. MARKET PARTICIPANTS AS REQUIRED BY CFTC REGULATIONS UNDER THE DODD-FRANK WALL STREET REFORM ACT.’

– Stewart Macbeth, president and CEO, DTCC Deriv/SERV LLC

...And Launches Global OTC Interest Rate Trade Repository

by Judy Inosanto

DTCC launched its global, over-the-counter (OTC) interest rates derivatives trade repository in early December.

DTCC's Global Trade Repository for Interest Rates for this US\$553.8 trillion market (approximately €414 trillion or £356 trillion) will be based in London. Data from 15 of the largest global dealers is now being submitted to the repository.

This launch represents the latest development in DTCC's drive to bring greater transparency across different OTC derivative asset classes, helping to reduce operational and systemic risk. DTCC already operates global trade repositories for OTC credit derivatives (principally credit default swaps) and for OTC equity derivatives. The company is also planning initiatives in the foreign exchange (FX) and commodities OTC derivatives markets.

'Global solutions'

Commenting on the announcement, Stewart Macbeth, president and CEO of DTCC Deriv/SERV LLC, the DTCC subsidiary responsible for the company's OTC derivatives activities, said, "The launch of this new interest rates trade repository is a significant step forward in ensuring that key information about the OTC derivatives market is transparently available to regulators globally as they

work to ensure that systemic risk is quickly identified and minimized. DTCC is committed to partnering with the OTC derivatives community and supervisory authorities to establish effective global solutions that strengthen the infrastructure for trading OTC derivatives instruments and help protect the safety and stability of the global OTC derivatives market."

DTCC was selected to build the global interest rates trade repository in May 2011, following a competitive Request for Proposal process managed by the International Swaps and Derivatives Association's Rates Steering Committee. Launching such a repository is a central part of the industry's efforts to fulfill its obligations under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, the proposed European Market Infrastructure Regulation legislation in Europe and other financial oversight mandates worldwide.

How the service will work

Initially, all trades by global dealers can be submitted to the Global Trade Repository for Interest Rates directly from the members. Additionally, rates trades of those firms matched and confirmed in the MarkitSERV MarkitWire service will be submitted on behalf of the firms.

Since the vast majority of OTC interest rate derivatives trades are electronically confirmed through MarkitSERV, these trades will flow into the trade repository automatically in near real time. Trade positions not confirmed in MarkitSERV will be submitted directly by firms on a daily basis.

The service currently supports trade submissions for OTC interest rate swaps (basis, fixed-float, cross-currency, etc.), forward rate agreements (FRAs), overnight indexed swaps (OISs), debt options, swaptions, inflation swaps and other complex interest rate contract types. The initial product release focuses primarily on meeting voluntary regulatory reporting commitments of the largest OTC interest rate dealers. In 2012 DTCC's systems will be expanded to support Dodd-Frank trade reporting requirements, as well as to support additional trade reporting by buy-side and other market participants and to support reporting requirements as additional global regulations emerge.

Well-established infrastructure

DTCC already operates a global trade repository for OTC credit derivatives, principally involving credit default swaps, which holds trade data on about US\$28 trillion (€20.8 trillion or £17.7 trillion) of credit

[continued on page 10]

Global OTC Interest Rate Trade Repository *continued from page 9*

derivatives trades. It also operates an OTC equity derivatives repository.

In addition, DTCC provides a global web portal that allows regulators worldwide to obtain confidential information on the CDS and equity derivatives trades

registered in these repositories. The portal was created in collaboration with, and based on the information guidelines of, the OTC Derivatives Regulators Forum, which represents more than 50 regulators from 20 countries around the world. That same portal is expected to


be used to ultimately provide interest rates trade data to regulators globally. Regulators are not charged any fees for this online service.

An at-cost cooperative owned and governed by the financial industry, DTCC also publishes, free of charge, comprehensive aggregate data for the top 1,000 corporate and sovereign credit derivatives and credit derivatives indices on www.dtcc.com every Tuesday. (See article, page 11.)

Ultimately, DTCC will also publish public data on other OTC derivatives on the site.

Next up: FX and commodities

DTCC, in collaboration with SWIFT, an international financial messaging provider for more than 9,700 financial institutions, was selected following a competitive Request for Proposal process managed by the Global FX Division of the Global Financial Markets Association (GFMA), to build and operate a global FX OTC derivatives repository. The GFMA comprises the Securities Industry and Financial Markets Association (SIFMA), the Association for Financial Markets in Europe (AFME) and the Asia Securities Industry & Financial Markets Association (ASIFMA).

DTCC is also collaborating with EFETnet, the European energy trading industry cooperative, to build a global commodity derivatives trade repository. DTCC and EFETnet are working with the industry to finalize the timeline for the rollout of the service. 

Media Coverage of Repository Launch

The official rollout of DTCC's Global Trade Repository for Interest Rates received ample coverage in the global media. Here is a sampling.

The Daily Telegraph, Dec. 8, 2011: London has become home to the world's first trade repository for the £356 trillion interest rate derivatives market...

Interest rate derivatives trading is the world's largest market, but as part of moves to make it more transparent, the new repository will become the store for the hundreds of billions of dollars of trades made every day between major banks, investors and large companies.

Dow Jones News Service/Wall Street Journal, Dec. 7, 2011: The repository, called the Global Trade Repository for Interest Rates, is a central part of the industry's effort to fulfill obligations from the U.S. Dodd-Frank financial reform law and proposed European regulations. It will be based in London and will include data from the 15 largest global dealers.

Waters, Dec. 8, 2011: The DTCC has put itself in a very desirable position to become the OTC trade repository of record. It is working with all the proper partners to set up and run trade repositories for all the prime OTC instruments before the Group of Twenty (G20) regulators finalize local regulations by the end of 2012. If the DTCC can get dealers connected, tested and running voluntary reporting prior to this date, they will be able to offer one-stop shopping for trade reporting.

Financial Times, Dec. 8, 2011: DTCC, the post-trade group, has warned that Europe and the US could lose derivatives business to Asia while they delay finalization of new rules governing the vast off-exchange trading market.

Larry Thompson, general counsel of DTCC, warned on Wednesday that broker-dealers could be attracted to Asia as the continent's regulators were more likely to meet a deadline imposed by the G20 group of nations to introduce far-reaching reforms to the \$6 trillion over-the-counter derivatives market.

DTCC's Warehouse Delivers Data Transparency For OTC Credit Derivatives

by Helen Cunningham

The credit derivatives market has come a very long way: from completely opaque ... to having a good deal of information publicly available, and a lot more besides that's available to regulators," according to a November 21 post on the Financial Times ft.com/alphaville blog.

The November 27 New York Times, writing that "Dodd-Frank sensibly asked that market participants provide trade and position details to regulators so this arena could be monitored better," concluded: "That mission has pretty much been accomplished."

The accomplishment is an industry

milestone, attributable in large part to DTCC's Trade Information Warehouse for over-the-counter (OTC) credit default swaps (CDS), a highly visible, global trillion-dollar market.

Ahead of the curve

"We built the Warehouse to collect and store information on credit derivatives more than five years ago, working closely with regulators and market participants with the goal of bringing transparency to the CDS market," said Stewart Macbeth, president and CEO of DTCC Deriv/SERV LLC.

"The industry had the jump on this objective well before the passage of Dodd-Frank," Macbeth said. "It was actually back in 2006 that DTCC started working with the major dealers to populate the Warehouse with their outstanding books of business." Today, because market participants feed their data into the Warehouse as a matter of course, the Warehouse contains more than 98% of all CDS trades executed in the global markets. "The availability of the data in one centralized location, along with its comprehensiveness, have brought increased transparency and risk mitigation to this important segment of the financial markets," [continued on page 12]


DTCC Receives 'Uptime' Recognition

In 2011, DTCC won Site Uptime Network Awards in recognition of the continuous availability of the company's multiple data centers. DTCC achieved these awards for reliability while implementing systems upgrades and replacements of critical systems at its sites.

"The reliability and resilience of DTCC's data-center operations are

critical for the functioning of the financial markets globally," said Michael Bodson, DTCC's COO. "Our engineering team's success in meeting the highest uptime standards across our data-center complex, while continuously strengthening our systems and implementing protocols that ensure their longevity, is an essential component of our ability to meet the

needs of our customers."

The uptime citations, given for the previous year, are based on criteria identified by The Uptime Institute, a research, education and consulting organization focused on improving data-center performance and efficiency. To learn more, visit www.uptimeinstitute.com. 

CDS Data Transparency *continued from page 11*

supporting regulatory, legislative and industry objectives,” Macbeth said.

For the public and regulators

The Warehouse collects all relevant data on the OTC credit derivatives market and makes major slices of it available to the public at no charge on DTCC’s website. Today, more than 2,500 firms submit information to the Warehouse.

In addition to the public database, DTCC

launched a portal specifically for global regulators in 2011. The portal helps regulators and other governmental entities monitor systemic risk by giving them the ability to view credit derivative exposures from a central vantage point. It provides direct access to the full range of data stored in the Warehouse, including counterparty names, aggregate and trade-level information, plus the ability to query position risk data.

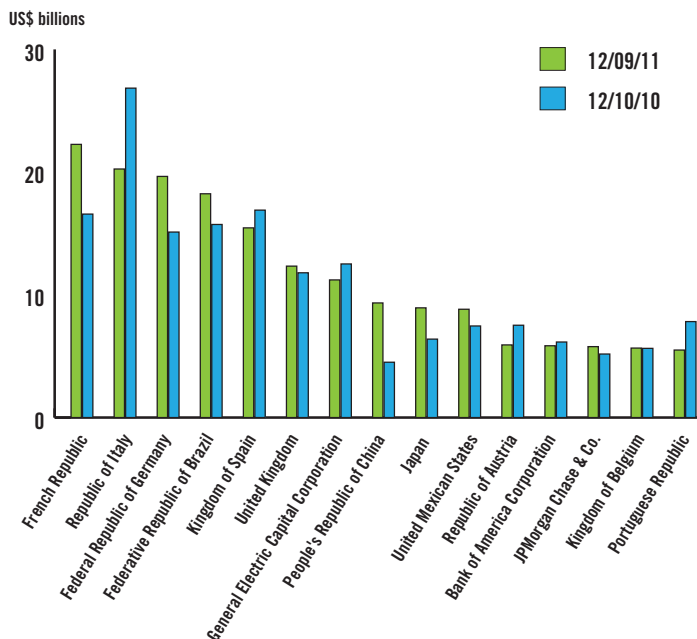
In addition to regulators and other governmental entities that rely on the data to manage systemic risk, the Warehouse’s public data is used by journalists, traders and structurers, economic and research analysts, legislators, academics and the public to gather and analyze information on credit derivatives.

Gross vs. net numbers

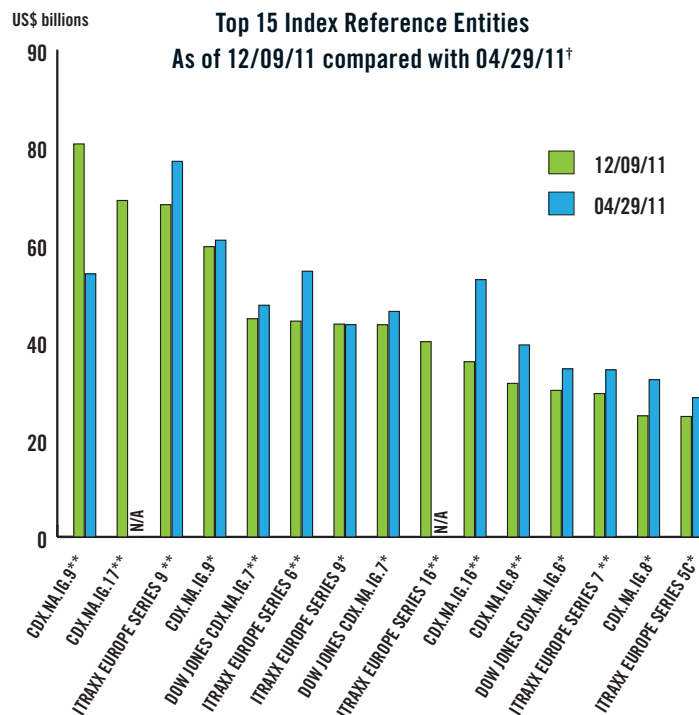
The Warehouse currently holds data on

OTC Credit Default Swaps Data from DTCC’s Trade Information Warehouse Net Notional Values (US\$ Equivalent)

Top 15 Single-Name Reference Entities
As of 12/09/11 compared with 12/10/10



Top 15 Index Reference Entities
As of 12/09/11 compared with 04/29/11†



** Untranchted * Tranchted

† 04/29/11: Date Warehouse began segregating tranchted and untranchted indices

approximately 2.3 million contracts from trading counterparties around the world. The information includes both gross and net notional values, in U.S. dollar equivalents. Media coverage of the CDS markets indicates some confusion about the difference between these two measures, which can result in misleading reporting because the gross numbers are so much larger than the net numbers.

“The net notional numbers are a better indicator for market risk because they represent the maximum amount that would have to be paid if an entity defaults,” said Macbeth, adding that the calculation assumes netting across trade counterparties’ families.

The gross notional numbers are higher because they represent the value of all active CDS contracts, including offsetting contracts. In other words, even contracts that have cancelled each other out.


Take the case of data for the Republic of Italy as of Nov. 18, 2011. The gross notional value of active CDS contracts was \$312.6 billion compared with a net notional value of \$20.1 billion. Similarly, for General Electric Capital Corporation, the gross notional value of active

CDS contracts was \$95.4 billion compared with a net notional value of \$11.2 billion.

Keeping legislators informed

To increase understanding of the OTC credit derivatives market among legislators in the U.S., Europe and Asia, DTCC also distributes a weekly email containing six tables based on data from the Warehouse.

The tables, based on net notional values, rank the top 15 sovereign reference entities and top 15 corporate entities by net notional values, as well as the top 10 sovereign and corporate volume movers in percentage terms for the previous week and previous four weeks.

“These tables are an example of taking key indicators from the Warehouse data and pushing them out to select constituents to promote greater understanding of the OTC derivatives markets,” said Macbeth. “In the case of legislators, we thought it was important to raise awareness of the industry’s success in promoting transparency via the data from the Warehouse that is freely available to the public on DTCC’s website.” 

Warehouse Inventory

The data available from DTCC’s Trade Information Warehouse consists of 25 downloadable tables, divided into four sections.

- **Section I (Tables 1-8):** data on all live positions in the Warehouse as of specified dates. For example, Table 6 lists the top-1,000 reference entities by gross and net notional values, and includes each entity’s sector, region and number of contracts.
- **Section II (Tables 9-16):** the change in gross notional, net notional and contracts outstanding from the prior week. For example, Table 15 tracks weekly activity for Indices/Index Tranches.
- **Section III (Tables 17-23):** information on all transaction activity, such as new trades, assignments and terminations that were confirmed within the specified week reflecting an increase or decrease in overall positions. For example, Table 17 is a summary of weekly activity by transaction type.
- **Section IV (Tables IVa-IVb):** weekly “market risk transfer activity” resulting in a change in the market risk position of market participants. Transaction types include new trades between two parties, a termination of an existing transaction or the assignment of an existing transaction to a third party. Table IVa tracks single-name activity and Table IVb tracks index activity.

The Warehouse operates globally 24 hours a day, 6 days a week. Data is updated every Tuesday after 5:00 p.m. ET (2200 GMT).

MMI Settlement Processing *continued from page 3*

to issuer credit risks and, if a funding shortfall exists, time to resolve the shortfall by 3 p.m., the time by which an IPA must determine whether it will issue a Refusal to Pay (RTP). An RTP reverses all transactions for that day in a given issuer's MMI and can trigger market concerns about the issuer's financial health.

Under the existing MMI processing schedule, IPAs face a degree of credit exposure because issuers are allowed to continue submitting new valued issuances to DTC until 3:20 p.m., 20 minutes after an IPA must decide whether to issue an RTP. IPAs therefore often come up against the RTP deadline with an uncertain picture as to what an issuer's final balance will be, obliging them to make a decision about whether to "push the RTP button" based on incomplete information.

The existing cutoff times often create credit event decisions for the IPAs when in fact they are simply dealing with timing issues around funding, according to Cosgrove. "Right now, if an IPA doesn't have all relevant facts and funding by 3 p.m. it can either execute an RTP, which would generate turmoil in the market, or extend credit to the issuer," she said. "Today, if an IPA does issue an RTP and the issuer ultimately comes up with sufficient funding by 3:20 p.m., the IPA

then has to go through the cumbersome process of reversing the RTP."

The proposed earlier cutoff times are intended to increase transparency and reduce this risk by giving IPAs a complete and timely view of issuers funding requirements before making their RTP decisions at 3 p.m. "The planned changes in cutoff times will synchronize the cutoffs with the RTP process," Cosgrove said.

Using RAD to eliminate reclaims

The other short-term MMI change DTCC plans to implement in May will require all MMI transactions to receive approval through the Receiver Authorized Delivery (RAD) function. Currently, only MMI transactions with a minimum value of \$15 million are routed to RAD.

RAD enables DTCC customers to avoid reclaims by allowing them to review incoming deliveries and to either accept or reject them before they are processed against their settlement accounts. Currently, transactions that are not approved by their receivers in RAD can be reclaimed on the day they are received, effectively overriding the receiver's risk management controls. Having all MMI transactions go through RAD will eliminate these reclaims in the MMI market, thereby reducing credit and liquidity risk. The number of such transactions is expected to double to



Christopher Buechner, executive director for commercial paper IPA services at JPMorgan Chase

about 14,000 per day as a result of RAD becoming mandatory for MMI.

IPA perspective

The planned short-term changes have garnered broad industry support, thanks to the task force's collaborative efforts and its active pursuit of industry input.


"This is part of what we see as a necessary evolution of the money market process in the U.S.," said Christopher Buechner, executive director for commercial paper IPA services at JPMorgan Chase, one of the nation's leading IPAs.

Buechner, a task force member who played a key role in the drafting of its report, said the overall proposed

Obligation Warehouse Changes Landscape for Ex-Clearing Trades

by Bari Trontz

changes to the MMI process would help increase transparency and create more settlement finality in the MMI marketplace.

“We see the revised cutoff times as a necessary first step,” he added. 

[For more information on the MMI Blue Sky Task force, write to mmibluesky@dtcc.com.]

To Learn More About MMI Processing

On DTCC’s website, you can find the MMI Blue Sky Task force report at www.dtcc.com/leadership/reports.

In addition, the Settlement Learning Center (www.dtccllearning.com/learning/settlement) operated by DTCC Learning offers materials related to money market (MMI) processing.

The Settlement Processing web interactive guide can be accessed from the Settlement Learning Center’s main page by clicking the “Settlement Processing” link. The main page also has a link to the DTC Customer Risk Education Handbook, a reference source with information about DTC’s risk management and mitigation activities as they pertain to MMIs.

In 2011, U.S. financial firms finally bid farewell to the highly manual, risk-prone environment they previously worked in while managing the matching of their broker-to-broker ex-clearing trades. The industry also gained, for the first time, a central repository for open broker-to-broker obligations.

The changes stem from the March rollout of Obligation Warehouse (OW), a service that broke new ground in equities clearing. OW automates the matching and confirmation of ex-clearing trades, allowing members to track, manage and resolve their failed obligations in real time, and to view in one central location all their failed trades (for U.S. equities, corporates, municipals and unit investment trusts). Additionally, National Securities Clearing Corporation’s (NSCC) Reconfirmation and Pricing Service (RECAPS), which marks to the market and re-nets open, failed obligations, became a service within OW.

With these tools, members can better manage the risks and costs associated with ex-clearing trades and other open failed obligations. OW also strengthens systemic risk management by giving firms and regulators a complete view of all open obligations in the U.S. marketplace for U.S. equities, corporates, municipals and unit investment trusts.

“Obligation Warehouse has transformed how members manage their ex-clearing

trades,” said Murray Pozmanter, DTCC managing director and general manager, Clearing Services. “It provides a robust platform and innovative tools that enhance transparency for members and regulators in this segment of the market, creating an environment that mitigates risk, increases efficiency and reduces costs.”

Ex-clearing gets automated

OW helps firms track and process ex-clearing trades (which are confirmed outside of DTCC) and communicate a successful match to each side of the obligation. It provides a real-time tool for managing post-trade operations for trade comparison, and also delivers an automated platform for managing fails.

The automation eliminates the manual processes, including phone calls and faxes, which financial firms traditionally used and, therefore, reduces error, risk and costs.

OW is an offering of DTCC’s U.S. equities clearing subsidiary NSCC.

Collaborative effort

To develop the new system, NSCC worked collaboratively with the industry to research and identify the specific needs of market participants surrounding the processing of broker-to-broker ex-clearing trades.

NSCC and its member firms, service bureaus and the

[continued on page 16]

Obligation Warehouse *continued from page 15*

Securities Industry and Financial Markets Association's Securities Operations and Data Management sections served as the key contributors in formulating the business requirements and executing the development of OW.

Steady progress in 2011

OW completed its first RECAPS cycle in June for open, matched failed obligations. RECAPS is now performed on a monthly basis, rather than the previous quarterly cycle, providing even further benefits to members.

In August, NSCC enhanced OW to review



obligations on a daily basis for eligibility with its Continuous Net Settlement (CNS) system and automatically close the obligations and move them to CNS for settlement.

Checking for CNS eligibility on daily basis at 5:00 p.m. ET supports a more efficient and less risky settlement process by making the NSCC guarantee available when the security becomes eligible for CNS.

In November, NSCC further expanded OW to make adjustments for specific mandatory corporate actions events. OW now automatically applies the mandatory corporate action to the open obligations in that security by closing, transforming and opening a new obligation in the new security. Additionally, the cash proceeds from the mandatory corporate action are sent to NSCC settlement.

Today, all full-service NSCC broker/dealer members are users of OW.

Outlook for the new year

In 2012, DTCC is focused on enhancing the customer experience and continuously improving OW to better serve its users. To achieve this, DTCC is encouraging open dialogue with customers via their DTCC relationship management representatives to tailor adjustments that will improve their user experience.

Scheduled for the first quarter are

enhancements to the OW web browser, including:

- Configurable screens;
- Fewer clicks per action;
- Ability to save frequently run queries and schedule queries;
- Ability to download results into an Excel format.

Additional functionality that will roll out in 2012 includes:

- Pair-off of obligations with like trade details;
- Links to the Envelope Settlement System (ESS) for automating the processing of these obligations in the OW;
- Comparison-only submissions for matching specific asset classes;
- Enhanced metrics for improved internal reporting and for customer records.

"We are committed to providing our customers with the most effective tools to manage their broker-to-broker clearing trades and to track, manage and resolve their failed obligations in real time," said Pozmanter. "By continually identifying and implementing improvements to the system, OW's ability to further mitigate risk, advance processing and enhance efficiencies for our clients increasingly grows." ©

[To learn more about Obligation Warehouse, contact Janice DiTore at 212.855.7659 or jditore@dtcc.com.]

NYPC Awarded 'Best Innovation by a Clearinghouse, North America'

New York Portfolio Clearing LLC (NYPC), the clearing platform for interest rate futures, was awarded 2011's "Best Innovation by a Clearing House, North America," by Futures and Options World (FOW).

"This award is further testament to the tremendously positive reception NYPC has experienced since its launch in 2011," said Walter Lukken, CEO of NYPC. "We are honored to be the 2011 recipient, and look forward to building on the innovative 'one-pot' model that has proven its ability to generate capital and operational efficiencies for our clients and the broader market."

A 50/50 joint venture of DTCC and the NYSE Euronext, NYPC's market innovation is the one-pot margining of interest rate futures positions cleared by NYPC with fixed income cash positions cleared by the DTCC's Fixed Income Clearing Corporation. NYPC, which opened for business March 21, 2011, is the first and only derivatives clearinghouse to deliver unique capital efficiencies by netting and reducing risks between a clearing member's portfolio of cash bonds and derivatives. One-pot margining and netting can greatly reduce the amount of capital that firms have to provide to the clearing house, without the clearing house or the industry facing any increased risks. It also increases

transparency of exposures for regulators.

Murray Pozmanter, DTCC managing director and general manager, Clearing Services, and NYPC Board chairman, said, "This is another accomplishment for NYPC and further confirmation of the market's need for innovative solutions and greater choice. At a time when capital and risk are front and center, we are proud to offer solutions that drive market evolution and reinforce the integrity of the financial markets."

Broad consensus

FOW, a leading industry publication, selected a global panel of senior market experts to serve as judges and ensure broad industry representation. The panel sought to identify innovations with the potential to strengthen the derivatives market. The judges considered NYPC's one-pot margining a crucial "leap forward in the move towards cross-margining," a process that will become increasingly important.

"After years of hard work, careful planning and deliberate execution, this acknowledgment serves as industry recognition of our unique model, the partnership that made it possible and the tangible benefits it offers the marketplace in terms of innovation, capital efficiency and effective competition," said Tom Callahan, CEO, NYSE Liffe U.S.


'AT A TIME WHEN CAPITAL AND RISK ARE FRONT AND CENTER, WE ARE PROUD TO OFFER SOLUTIONS THAT DRIVE MARKET EVOLUTION AND REINFORCE THE INTEGRITY OF THE FINANCIAL MARKETS.'

– Murray Pozmanter, DTCC managing director and general manager, Clearing Services, and NYPC Board chairman

"I sincerely thank my colleagues, partners and customers for their commitment to this groundbreaking project."

Volume growth

Since it began operations in March, NYPC has cleared more than 13 million contracts and has over 800,000 contracts in total open interest, equaling nearly 9% of the open interest market share for Eurodollar futures.

NYPC is registered as a U.S. Derivatives Clearing Organization with the Commodity Futures Trading Commission. For more information, visit: www.nypclear.com. 

Attention Issuers: Meet DTCC

by Edward C. Kelleher

For many corporate issuers, DTCC is the unseen partner,” said Susan Cosgrove, DTCC managing director and general manager, Settlement and Asset Services. “They see our work and value our services but don’t necessarily know that we’re the people who process the underwriting of their stocks and bonds, have their securities registered electronically and help ensure that their dividend payments are accurate and made on time.”

“DTCC does that and a lot more for corporate issuers,” continued Cosgrove. “That’s why we’re reaching out to them. We want issuers to know how much more we can do to help them boost efficiencies, reduce costs and risk, and meet the challenges of today’s marketplace.”

Beginning in December 2011, DTCC kicked off an 18-month campaign to contact and educate issuers about the broad range of services the company offers for dealing with shareholder information, proxy services and dividend and reorganization services, as well as taxes and other information services offered by The Depository Trust Company (DTC), a DTCC subsidiary and the U.S.’s central depository.

IPO issuers

“We started with issuers who launched 2011 initial public offerings through our depository,” said Cosgrove. “We want

them to better understand how we handle IPO processing and, in particular, to be sure they know their offering is now eligible for the full range of our depository services. It’s our way of telling them that we’re here whenever there’s a problem, and we’re here to help find better and more efficient ways to manage the administration and ownership of their stock.”

In a direct mail campaign, issuers will be getting a quick look at DTCC and its history, as well as a new brochure outlining the range of services available to the industry. Among the services offered are:

- **Security Position Reports.**

These reports give issuers valuable information they can’t obtain elsewhere, enabling them to contact their shareholders on corporate-related events such as annual meetings.

- **Proxy Solicitation Services.** These services give issuers the ability to contact their shareholders on a variety of proxy-related events, including consent solicitation, legal notices and appraisal or dissenter’s rights.

- **Legal Notice System (LENS).** LENS gives issuers a quick and easy way to disseminate legal notices and additional information affecting their securities.

- **Reorganization Service.** This service alerts customers to important upcoming reorganization events, such as mergers, takeovers or bankruptcies that may affect them. DTCC acts as a centralized hub, collecting investors’ instructions and communicating them to the issuer.

- **Fast Automated Securities Transfer Program (FAST).** FAST is an agreement between DTCC and issuers or their transfer agents that eliminates the movement of physical securities. This service reduces the cost and risks associated with moving and storing physical certificates.

- **Direct Registration System (DRS).** DRS gives investors the option of holding their assets on the books of the issuer’s transfer agent, eliminating the expense of issuing paper certificates, as well as the risk of having those securities lost or stolen. This system also allows investors a quick, easy and efficient way to sell their securities.

- **Tax Services.** DTCC has a range of tax services for both domestic and international investors, including its TaxReliefSM Service, which enables investors in foreign issues to obtain “at-source” tax relief. This means the correct amount of tax is withheld from a dividend or interest payment,

DTCC Takes On Microcap Fraud by Steve Letzler

eliminating the onerous and paper-intensive process of applying for a refund for overwithheld taxes.

Solutions provider

DTCC will be contacting other groups of issuers throughout the year, bringing them up-to-date on its services.

“We want issuers to know we’re working on new and better ways to serve them in the coming months and years with a reengineered corporate actions system, new services for recordkeeping and compliance issues, and new ways to reduce risk and lower costs,” said Cosgrove. “Ultimately, these services benefit both issuers and their investors.” @

[For more information about DTCC’s Issuer Services, contact issuerservices@dtcc.com or visit www.dtcc.com/issuerservices.]

DTCC has been cracking down on potential fraud caused in so-called “microcap” securities and, as a result of its unique perspective on the market, has been able to contribute substantially to efforts focused on shutting down that fraud.

Microcaps are stocks that are thinly traded, at a low price – often for less than a penny a share – and generally outside major market exchanges. The low price and small volume means relatively small numbers of trades can move the price substantially up or down, making them ripe for manipulation. In some cases, unscrupulous issuers leverage certain exemptions from registration of securities with the Securities and Exchange Commission (SEC) to issue large blocks of securities that will dilute the issue.

DTCC began its efforts as a result of expanding its Anti-Money Laundering Program to monitor microcap security transactions, in line with regulatory guidance to financial institutions regarding the risks associated with these securities. DTCC’s depository, The Depository Trust Company (DTC), is a limited purpose trust company, and is regulated under New York State banking rules. It is therefore bound by the same requirements as other banks.

Under the microscope

Through its Office of Corporate and Regulatory Compliance (OCRC), DTCC monitors unusual large share deposits of microcap securities issues at DTC for signs of potential fraudulent behavior such as “pump and dump” schemes. This is when a small company’s stock price is

“pumped up” by false press releases or chatter on the Internet and then insiders “dump” all their stock on unsuspecting investors when the price increases.

When monitoring turns up potential trouble spots, DTC has a number of options. It can refer the activity to the relevant regulatory or law enforcement agency. Or, if DTC develops concerns about the eligibility status of newly issued shares of a security, or if there’s an indication of fraudulent activity, it can place compliance “chills,” or processing restrictions, on the issue in question. It can also deny DTC eligibility to companies applying for DTC membership and services.

In some circumstances, DTCC obtains additional information from the issuer regarding the underlying activity and may choose to not place any restrictions on the issue or remove or change an existing processing restriction. This is typically accomplished in concert with DTC participants’ involvement, depending on the specific facts and circumstances for that issue.

Mihal Nahari, DTCC’s chief compliance officer, noted that DTCC is careful to take action against microcaps only when there is a verifiable reason. In fact, DTC has placed chills on only 500 issues to date for compliance-related concerns, out of 3.6 million issues held at DTC. “Those 500 issues also represent less than 1% of the stocks worth under \$1 in the depository,” Nahari said.

Similarly, DTC has denied eligibility to just five issues out of more than 2,400 that applied in 2011 through October. [continued on page 20]

Microcap Fraud *continued from page 19*

SEC forum

Nahari and Susan DeSantis, DTCC's deputy chief compliance officer, were recently invited by the SEC to participate in a roundtable discussion about microcap fraud in Washington, D.C. About 100 people attended the event and more watched a live webcast (also archived on the SEC website) of the panel discussions.

"The discussions gave DTCC an opportunity to educate the investment and regulatory communities about our role in this area," said Nahari. The roundtable, moderated by SEC officials, consisted of three panels, and included representatives of transfer agents, brokerage firms, law firms, brokers, clearing firms and investors.

SEC Chairman Mary Schapiro, who sat in during the discussions, asked the panelists what the SEC could do to help address issues of microcap fraud.

Nahari noted that most of the problems seemed to occur in stocks that claimed exemption from registration with the SEC. She urged the commission to take steps to tighten the exemption and require more information to be made available by issuers claiming such an exemption.

She also said that while DTCC could place restrictions on clearing and settlement of issues held at its depository, trading could continue at a broker's discretion if a customer held physical certificates either directly or through a Direct Registration position. "It would be much better

if microcap fraud could be stopped before the trade takes place, rather than at the clearance and settlement level," Nahari stated.

AML focus

DeSantis participated in a panel focused on anti-money laundering (AML). She noted that while DTCC has the same obligations as any bank or brokerage to report suspicious activity, unlike those institutions, it does not deal directly with investors and therefore is not in a position to conduct due diligence in the same way the broker/dealer can.

In discussing ways to deter money laundering, DeSantis said the SEC could help either by limiting exemptions for stock registration or by placing more requirements for the disclosure of unregistered share issuances, such as requiring audited financial numbers, and by extending the Know-Your-Customer due-diligence requirements to transfer agents.

Transfer agents, which maintain the books and records for an issuer, are regulated by the SEC and are best positioned to validate that shares are issued in accordance with securities laws, DeSantis noted. However, most stand-alone transfer agents are not currently "covered financial institutions" under the Bank Secrecy Act, and are not required to have an AML program in place.

"If the transfer agents had a transaction monitoring and suspicious activity report filing obligation, they would be much better positioned to prevent and detect securities fraud," DeSantis said. ☒

Industry Le

Risk, regulation and global political and economic uncertainty were the predominant topics at DTCC's 2011 Executive Forum, a day-long conference attended by 125 executives from across the industry. It was the fourth year DTCC sponsored the forum, which brings together customers, industry experts and DTCC executives to share insights about industry issues and trends.

"This annual event allows us to gather for a day to reflect on major developments impacting the industry and its infrastructure," said DTCC's Corporate Chief of Staff Paula Arthus. "It is a valuable forum for customers to connect with their counterparts across the industry, including DTCC's senior team, to share ideas and best practices for managing the ever-evolving roster of challenges and

Leaders Gather for Annual Executive Forum

by Helen Cunningham

opportunities we face. The forum also allows DTCC to put forward its vision for fully leveraging the infrastructure to meet the industry's needs – and to highlight some of DTCC's key accomplishments in doing so."

The theme of this year's event, held October 24 in New York, was "Driving Vital Insight."

Agenda highlights

The panel discussions brought together a cross-section of industry executives and experts who gave their views on topics including how the industry is moving to implement Dodd-Frank legislation; the evolving role of regulators; the imperative of risk management in today's environment; and how DTCC partners with other organizations to create innovative ventures that serve customers.

The day opened with a thought-provoking keynote address on the global political and economic environment by Ian Bremmer, president of the Eurasia Group and author of the acclaimed book "The End of the Free Market: Who Wins the War Between States and Corporations." Noting that the world's architecture is in a state of flux, Bremmer talked about the high level of volatility and the "absence of global governance" – and said it is still too soon to know how it will play out. He also said the massive structural volatility has created new ways of thinking about global risk.

A featured speaker on the Dodd-Frank panel was Rep. Jack Kingston (R-GA), who is the House Agriculture Appropriations Subcommittee Chairman. Kingston talked about the need for an ongoing exchange of ideas and information between the industry and legislators. The luncheon speaker Bethany McClean, a financial journalist and book author, gave her perspective on trends and drivers in global capital markets.

A closing panel, consisting of DTCC Board members and moderated by Robert Druskin, DTCC Executive Chairman, discussed issues such as the potential impact of regulation on innovation, the need for regulatory coordination across jurisdictions and how the concentration of transactions in central counterparties creates both efficiencies and risks.

Regulators, clearing and risk

Working with regulators to strengthen the markets was a theme throughout the day.

Views expressed included the importance of harmonization of regulation across borders for avoiding/managing future crises and a reminder that regulators in different countries are subject to different pressures. The need for good communication with regulators was also emphasized. "An educated regulator is worth his or her weight in gold," according to one speaker who added

that "educating regulators falls on our shoulders."

The panel on market structure cited a shift in the perception of clearing in today's environment. "The value of clearing has been catapulted," in the view of one panelist, who sees clearing as a pro-customer way to reduce risk, bring value and increase transparency in the markets. Another person discussed the need to cut through the "fog of asset classes" with post-trade analysis that gives firms a comprehensive view of who they are doing business with.

The risk panel underscored the need to have the data and related infrastructure for monitoring risk and anticipating plausible future crises. The importance of "lateral thinking, to make connections and step back and assess issues that could have an impact on the organization" was also cited.

The panel on industry innovation discussed the move to encourage more transactions to go through central counterparties (CCPs), noting how it shifts the risk burden to CCPs and puts more pressure on the margining process. As such, increased competition around margining is likely in the future, according to one panelist, who said, "Efficient collateral management without introducing new risk is where the battle will be fought among clearing houses." 

Staff from House Financial Services Committee Pay a

DTCC hosted a full-day briefing for 21 staff members from the House Financial Services Committee in November, as part of its broad effort to increase engagement with policymakers on Capitol Hill.

The goal was to raise awareness of DTCC's role in the U.S. financial markets among Congressional staffers and provide an overview of DTCC's capabilities serving global financial markets across multiple asset classes.

A bipartisan group attended the briefing, including high-ranking committee staffers and legislative assistants, legislative directors and chiefs of staff for members of Congress serving on the committee. The House Financial Services Committee is the primary committee in Congress responsible for oversight of the financial industry and its regulators, including implementation of the Dodd-Frank Act.

Comprehensive agenda

The day began with an overview of DTCC by Larry Thompson, DTCC managing director and general counsel. Noting that the over-the-counter (OTC) derivatives market is generally the focal point of DTCC's dialogue with federal lawmakers, Thompson said the company's core business functions, and its history, ultimately tell the most compelling story.

"It is essential that policymakers know where we came from and how we have evolved as an organization," Thompson said. He emphasized DTCC's unique role at the center of the financial system and its 40 years of experience.

Dan Cohen, DTCC managing director of Government Relations, gave an update on key developments in financial regulatory reform occurring in the U.S., E.U. and Asia.

Presentations on DTCC's core business lines followed, giving the attendees a comprehensive overview of the company's role in the markets for equities, fixed income, wealth management and insurance and retirement services. The group also received

Wrapping Up a Busy Year

In December, DTCC hosted Congressman Spencer Bachus (R-AL), chairman of the House Financial Services Committee, for a demonstration of the Trade Information Warehouse's regulator portal and a briefing on the company's top public policy issues.

Bachus was the second committee chair to visit DTCC in as many months – Sen. Debbie Stabenow (D-MI), chairman of the Senate Committee on Agriculture, Nutrition and Forestry, visited DTCC in October for a briefing on the indemnification provision of Dodd-Frank and the "vertical bundling" of mandated regulatory services.

Bachus reached out to schedule a visit to DTCC after several of his staff members who had attended the New York briefing described how their visit helped their understanding of the role of the infrastructure in global financial markets.

Bachus' visit concluded a busy year of Congressional outreach for DTCC. The steady stream of visitors has given the company the opportunity to share its views and expertise on issues of importance to the industry, most notably those related to Dodd-Frank and international financial regulatory reform.

Regulatory policymakers, Congressional lawmakers and staff who visited DTCC in 2011 are:

- Chairman Gary Gensler, Commodity Futures Trading Commission
- Rep. Spencer Bachus (R-AL)
- Rep. Michael Grimm (R-NY)
- Rep. Jack Kingston (R-GA)
- Rep. Randy Neugebauer (R-TX)
- Rep. Ed Royce (R-CA)
- Rep. Steve Stivers (R-OH)
- Sen. Debbie Stabenow (D-MI)
- Staff from the Office of Senator Richard Shelby (R-AL)

Visit to DTCC

by Roland Kielman

a live demonstration of DTCC's Trade Information Warehouse and regulator portal for OTC derivatives.

Additional speakers included Walter Lukken, CEO of NYPC, DTCC's joint venture with NYSE Euronext, who described the efficiencies provided by NYPC's innovative one-pot margining solution. A session on the global legal entity identifier (LEI) solution was conducted by Karla McKenna of the International Organization for Standardization, Malene McMahon of SWIFT and Ron Jordan, DTCC's chief data officer, representing the three organizations that are collaborating on this initiative.

"I know from the times I've been on Capitol Hill for meetings that these

individuals are extremely busy and often don't have the time for a broader discussion about DTCC's capabilities," said Murray Pozmanter, DTCC managing director and general manager, Clearing Services. "It was a tremendous opportunity to meet with them in a more relaxed setting to talk about our capabilities and answer their questions about the different asset classes."

The day concluded with a trip to the New York Stock Exchange for a briefing on global market structure and a viewing of the closing bell.

Positive response

DTCC conducted a follow-up survey to assess the group's perceptions of the event. Feedback was positive overall, and many attendees touched base in the days following the event to express

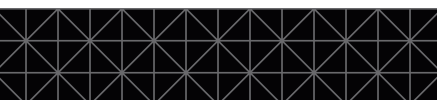
their appreciation.

"Thanks for putting together such a great and informative trip," wrote one Congressional staff member. "I really appreciated the time and attention the staff of DTCC, NYPC and the NYSE gave our group. I look forward to continuing to work with you in the future."

DTCC plans to host briefings for other congressional committees – including the Senate Banking Committee and the House and Senate Agriculture Committees – in 2012. 📧



Walter Lukken, CEO of NYPC, briefs congressional staff on NYPC.



@DTCC is published by DTCC Corporate Communications and available online at www.dtcc.com under News Center. For comments or to subscribe, send an email to hcunningham@dtcc.com.

Editor Helen Cunningham

Design Troy Cavaliere

Printed by DTCC Print Department

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A Publication for Customers

ACSDA Forum Focuses on Leadership by James Conmy

You are working in some of the most exciting markets in some of the most exciting economies in the world,” DTCC Senior Advisor William Aimetti told delegates to a regional leadership forum in Buenos Aires in November. “The reality is that you are moving into positions of leadership all across our industry,” he said.

Presented by the Americas’ Central Securities Depository Association (ACSDA), the organization’s third biennial leadership forum brought together some 100 delegates and speakers from 22 countries for three days of roundtable discussions and workshops aimed at staff development and business planning.

In her remarks to open the conference, Mary Ann Callahan, DTCC managing director, Global Relations and Development, and president of ACSDA, noted how changes in the global landscape are helping to make way for the many growth markets in ACSDA, which in turn are having an increasing impact on the world economy.

Simultaneous English and Spanish translation of the talks and discussions at the conference made for lively exchanges among speakers and delegates, according to Callahan. The conference was hosted by Argentina’s depository, Caja de Valores

S.A., and the country’s clearing house, Mercado de Valores S.A. Both companies are founding members of ACSDA and participants in DTCC’s depository.

Highlights of the conference included an ACSDA regional roundtable, chaired by Cecilia Humphrey, Americas representative for DTCC’s Global Relations and Development, as well as a series of presentations on Argentine capital markets, the results of the World Bank’s global settlement survey, the impact of exchange mergers on post-trade infrastructures, corporate governance and new models for the growing number of securities that are now cross-listed in ACSDA markets.

The forum, Callahan noted, “was richly memorable” for the wealth of experience and mentorship shared with and among ACSDA’s emerging business leaders.

Below are excerpts from Aimetti’s remarks about leadership.

There’s a lot of room for experimentation, a lot of room for growth and a lot of room to reduce costs and risks while expanding the services you offer your members and customers, including all those additional customers you likely will

be serving through expanded networks and expanding infrastructure alignments.

Thinking about your leadership challenge is not something you have the leisure to delay. Challenges originate from changes in regulations, technology advancements, governmental policy changes, customer needs, new investment opportunities and so on and so on. The list of reasons for change will continue to grow in our ever-changing world.

As a result, you’re already facing the challenge of leadership. Rivers of investment capital have been flowing into your markets. Last year alone, Latin America pulled in more capital than all the cross-border flows that went into China, Russia and India combined. That is a startling fact. You work in a global hotspot.

In response, you’ve been building alliances and agreements that not only stitch together parts of your infrastructure, but extend to the global marketplace. We see the expanding web of connections you are building with clearing houses, depositories, exchanges and OTC marketplaces throughout the world. 🌐

[To read a full text of Aimetti’s remarks, go to www.dtcc.com and click Thought Leadership. For more about the conference, visit www.acsda.org.]

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