



New Service Automates Collateral Messaging and Reduces Risk In OTC Derivative Markets

DTCC, MarkitSERV and AcadiaSoft are working to deliver a joint solution for improving communication related to setting and maintaining the collateral required between counterparties to over-the-counter (OTC) derivative transactions. The solution is the first step taken by the three companies to develop a multi-functional collateral processing platform for the OTC derivative market.

Through this collaboration, the three organizations [continued on page 2]

NSCC Receives SEC Approval For Universal Trade Capture

by Craig Donner

The Securities and Exchange Commission (SEC) has approved National Securities Clearing Corporation's (NSCC) rule filing to create a new system that will standardize, streamline, consolidate and modernize how equity trade data is captured for clearance and settlement.

The new system, called Universal Trade Capture (UTC), will mitigate risk and enhance efficiencies by consolidating the four legacy trade capture systems currently

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New Service for OTC Derivative Market

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are helping the industry fulfill commitments to bring greater transparency and reduce operational risk associated with processing bilateral collateral agreements.

Portal for integrated access

Launching later in the first quarter of 2011, the MarkitSERV portal will provide clients with integrated access to the AcadiaSoft Messaging Platform, an online service that facilitates and manages communications required for collateral calls. The new service will enable buy-side and sell-side counterparties to manage information electronically on exposures, commitments and adjustments to collateral

and create an audit trail of all communication about margining.

AcadiaSoft's tools are more efficient and reliable than existing processes for communicating about collateral, which take place primarily over telephone and email.

To the extent messages about collateral are used to satisfy collateral and related reporting requirements under the Dodd-Frank Act, they can be processed through DTCC's Trade Information Warehouse facilities and regulatory reporting interface.

Jeff Gooch, CEO of MarkitSERV, said, "Clients are searching for ways to streamline the multiple post-trade requirements relating to derivatives transactions and by linking AcadiaSoft's technology and DTCC's capabilities to MarkitSERV, we provide our clients with a single comprehensive platform to manage collateral alongside trade processing workflow, portfolio reconciliation and valuations."

Craig Welch, co-founder of AcadiaSoft, said, "Making our innovative service available to the buy-side via MarkitSERV is a great milestone for AcadiaSoft. We anticipate that requirements for central clearing will make effective collateral management an even more critical function and we are pleased to offer our solution in conjunction with MarkitSERV and DTCC."

Peter Axilrod, DTCC managing director,

Derivatives Services and Product Development, said, "This alliance leverages our organizations' expertise in providing market participants with the first component required for straight-through-processing for collateral. DTCC remains committed to partnering with complementary service providers to bring to market a host of automated solutions that continue to increase transparency and successively take more risk out of bilateral collateral processing and the OTC derivatives market as a whole."

US \$3.2 trillion

The total value of collateral circulated in the OTC derivative market was estimated at US\$3.2 trillion at the end of 2009 versus US\$200 billion in 1999, according to the International Swaps and Derivatives Association. Despite the significant growth in these arrangements over the past decade, processing of OTC derivative collateral has remained predominantly manual and fragmented, raising industry and regulator concerns about the operational risks involved in these types of transactions. @

See page 8 to read about an article written by Stewart Macbeth, DTCC managing director and general manager of the Trade Information Warehouse. See page 20 to read about industry recognition DTCC received for its work in the OTC derivatives markets.

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The new service will enable buy-side and sell-side counterparties to manage information electronically on exposures, commitments and adjustments to collateral and create an audit trail of all communication about margining.

DTCC Announces William Aimetti's Retirement

DTCC has announced that William Aimetti, DTCC president and Board member, will retire effective February 28. Aimetti, who joined DTCC in July 2000, has been a pivotal member of the executive management team over the past decade. He was DTCC's president and COO from 2007, head of Operations and Technology from 2003 and head of Operations and Customer Service when he joined the organization.

"Bill has done so much to shape our company into the world-class, global organization it is today," said Donald F. Donahue, DTCC CEO. "His efforts over the years have helped DTCC substantially reduce risk, manage our expenses, increase revenue and improve our operating effectiveness, efficiency and overall service delivery."

World-class quality

When Aimetti joined DTCC, he brought more than three decades of operations and technology experience in the industry with such well-known firms as Nomura Securities International, Citibank and Chase Manhattan. In addition, he had chaired the operations committees of both the Securities Industry Association and the New York Clearing House and served as a Board member of Cedel (now Clearstream).

Throughout his career at DTCC, Aimetti has been instrumental in ensuring that DTCC's systems and operations function at world-class quality levels.

Aimetti spearheaded the adoption of technology-industry standards that brought a new level of discipline to how DTCC develops applications and manages its infrastructure. He championed best-practices methodologies like ITIL (the Information Technology Infrastructure Library of best practices for IT Infrastructure) and CMMI (the Capability Maturity Model Integration standards for software development processes).

"When DTCC became the only U.S.-based financial services firm to earn a coveted CMMI Level 3 rating across the

enterprise in 2008, it was a milestone for Bill and the entire organization," said Donahue.

For customers, the benefits of this cultural shift in DTCC's technology organization have included increased efficiencies, fewer defects and improved speed to market.

Aimetti's accomplishments also include overseeing the consolidation of DTCC's technology infrastructure. This initiative strengthened business continuity and significantly cut DTCC's overall operating expenses for its traditional products over most of the past decade.

Customer focus

Through his commitment to quality and excellence, Aimetti has played a significant role in making DTCC much more customer-centric.

His focus on "process excellence" extended across the organization. He was a catalyst in moving DTCC to adopt the rigorous use of metrics to identify performance gaps, reduce risks and drive continuous improvement. The use of such performance management tools as Six Sigma and the Balanced Business Scorecard are now ingrained in the DTCC culture.

"Bill deserves much credit for helping restructure customer service programs to improve how we serve our customers, including better service delivery and quicker, more effective problem-solving," said Donahue. "Our ability to achieve world-class 91% overall customer satisfaction scores for five years running on the annual customer survey is testament to Bill's commitment to excellence in service delivery," said Donahue. (See article on the customer survey, page 10.)

DTCC salute

"Bill's pride, enthusiasm and just plain dogged determination to make DTCC the best it can be will be his lasting legacy," said Donahue. "We salute him and thank him for his leadership, dedication and substantial contributions to DTCC and the industry." @



FICC Expands Its Risk Management Arsenal with Three Major Ini

As DTCC's Fixed Income Clearing Corporation (FICC) continues discussions with regulators on a string of major initiatives, @dtcc asked Murray Pozmanter, DTCC managing director, Fixed Income Clearance and Settlement, to provide an update on FICC's plans for 2011. Customers in both FICC's Government Securities Division (GSD) and its Mortgage-Backed Securities Division (MBSD) can expect to see the rollout of some long-awaited new services coupled with broader risk management practices.

FICC HAS SOME BIG PROJECTS IN THE PIPELINE THAT TARGET RISK REDUCTION. CAN YOU DESCRIBE THEM?

We've been working on three main initiatives with our customers and regulators – all of which have risk reduction as a major focus. The first one is New York Portfolio Clearing, our joint venture with NYSE Euronext to create a new futures clearing organization that will allow customers to margin their cash-market trades in U.S. government securities together with their futures trades on NYSE Liffe U.S. Second up, we anticipate moving mortgage-backed-securities trades to a central counterparty, the MBS CCP. Third is the admission of the buy-side to the Government Securities Division.

COULD YOU GIVE US AN UPDATE ON NEW YORK PORTFOLIO CLEARING, OR NYPC?

NYPC is a groundbreaking initiative that will reduce risk and deliver capital efficiencies to its members by providing a single margin calculation across U.S. government securities trades cleared at FICC and futures positions traded on

NYSE Liffe U.S. We call this capability "one-pot margining."

NYPC filed with the Commodity Futures Trading Commission [CFTC] for registration as a derivatives clearing organization [DCO] and to engage in one-pot margining with FICC. FICC filed with the Securities and Exchange Commission [SEC] to engage in one-pot margining with NYPC.

NYPC has already received CFTC approval for registration as a DCO and we hope to receive the other approvals by February 28. We expect to launch the new company in late March.

[Note: Look for a Q&A with Walter Lukken, CEO of NYPC in the next issue of @dtcc.]

THE LAUNCH OF NYPC WILL INTRODUCE AN INTRADAY MARGIN CALL FOR BOTH NYPC AND FICC, SOMETHING FICC HAS NEVER DONE BEFORE. ARE YOUR GSD CUSTOMERS PREPARED FOR THIS CHANGE?

Many of our customers have to meet intraday calls from other venues, so this is not new territory for them. We began preparing firms last year through a series of live workshops and in-depth training materials. We've also put a video and a lengthy Q&A on DTCC's website to help customers understand the process. In addition, we've conducted live tests for intraday margining, and we'll do more testing going forward. So all in all, our customers are prepared for the transition.

COULD YOU UPDATE US ON THE CENTRAL COUNTERPARTY INITIATIVE, OR THE MBS CCP, TO REDUCE RISK IN THE MORTGAGE-BACKED SECURITIES BUSINESS?

We hope to transfer our mortgage-backed securities division into a central counterparty structure in the second quarter, subject to SEC approval. We're confident – and our customers concur – that creating an MBS central counterparty

will bring a tremendous reduction in systemic and operational risk. The central counterparty will lower risk by offering guaranteed settlement, and pool netting will lower risk by reducing settlement activity.

YOU HAVE ANNOUNCED THAT AN ORIGINAL PART OF THE PLAN FOR THE MBS CCP – PORTFOLIO MARGINING – WILL NOT BE INCLUDED INITIALLY. WHY IS THAT?

When we began planning the MBS CCP, our intention was to launch it with cross-portfolio margining against GSD – and our initial rule filing with the SEC included this concept.

However, given the multiple changes we are making to our margining process, we are taking a cautious approach to margining across FICC's two divisions. First we want to observe single-pot margining between GSD and NYPC. We also want to see the MBS CCP running as a standalone central counterparty. We expect to observe both organizations for six months and, if we are confident operations are functioning smoothly, then we will move towards the inclusion of MBS trades as part of a single pot linked to other clearing mechanisms.

We're now working on a revised MBS CCP rule filing to the SEC to reflect this change. Once we've had sufficient time to observe NYPC and MBS CCP operations, and assuming everything goes smoothly, we expect to submit the revised filing before the end of 2011.

COULD YOU DESCRIBE OTHER RISK CONTROLS YOU ARE IMPLEMENTING SPECIFICALLY FOR THE MBS CCP?

Yes. Since the MBS CCP will guarantee trades, we've added two significant layers of risk control to protect both customers and FICC. First, we will conduct hourly portfolio risk reviews and require more margin intraday, if necessary, even though

we will not set a routine intraday margin call for participants in the MBS CCP. Second, we've created a Capped Contingency Liquidity Facility.

LET'S START WITH THE CAPPED CONTINGENCY LIQUIDITY FACILITY, OR CCLF. WHAT IS IT AND HOW WILL IT MITIGATE RISK?

We created the CCLF in response to a request from our regulatory supervisors, who asked us to find a way to have more liquidity available in case of a market crisis. The CCLF achieves this by creating overnight repos between FICC and each of our solvent firms so that, if a firm fails, the funding to offset its portfolio would be sourced across FICC's membership rather than being dependent on an expensive, long-term line of credit.

We reviewed this idea with our members, and it will be part of our revised MBS CCP rule filing. We plan to have the CCLF in place when we go live with the CCP.

WHAT ABOUT HOURLY PORTFOLIO RISK REVIEWS – THAT'S NEW, ISN'T IT?

Absolutely! Even though our MBS customers will not have to meet an intraday margin call, we now have the technology to take hourly risk snapshots of members' positions – and we will seek the authority, as part of our rules, to call for additional margin based on any hourly slice during the day. We plan to submit a rule filing later this year that will codify our authorization, based on these hourly reviews, to call for additional margin during periods of market stress.

BACK AND STRESS TESTS ARE ANOTHER ASPECT OF RISK MANAGEMENT. HOW DOES DTCC PLAN TO MAKE BROADER USE OF THESE TEST RESULTS FOR THE PARTICIPANTS OF ALL ITS CLEARING CORPORATIONS?

We perform these tests on a regular basis and we want to create a more formal policy for utilizing the results for margin

adjustments. If deficiencies noted in the back and stress tests hit a certain threshold, we want to have a formal "escalation policy" for bringing the information to product management, to our Chief Risk Officer and, potentially, to the appropriate DTCC Board committee so they can see why we want to collect additional margin.

different assumptions about how long it will take to liquidate the position.

So we're proposing to look at the three-day liquidation limit both ways – at what might take longer than three days to liquidate, and what might take fewer than three days. Then we would apply a charge or credit based on our intelligence about



Murray Pozmanter, DTCC managing director, Fixed Income Clearance and Settlement

This change will be included in rule filings we plan to submit later this year.

YOU HAVE SAID FICC MAY REDUCE ITS CLEARING FUND REQUIREMENTS FOR SOME MEMBERS BY MODIFYING ITS ASSUMPTIONS ABOUT HOW LONG IT TAKES TO LIQUIDATE A PORTFOLIO. WHAT WILL CHANGE?

We currently use a three-day liquidity horizon as the assumption behind our VaR [Value at Risk] calculations – and that's across an entire portfolio. The current calculation doesn't take into account that, based on either the market depth or liquidity of a specific CUSIP, or based on the concentration of a specific CUSIP in a single firm's portfolio, we can safely use

particular CUSIPs as opposed to looking at liquidation with blanket coverage across three days. In essence, based on either the market concentration or the market liquidity, we can decide if we need more than three days – or fewer – in calculating the liquidity of the position.

HOW WILL THE NEW LIQUIDATION FORMULA IMPACT CAPITAL REQUIREMENTS?

Based on the test data so far, it appears that looking at the data two ways will result in a virtual offset in terms of firms' Clearing Fund requirements. Across FICC, some firms had reductions, some firms were flat and some firms had increases.

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FICC Expands Risk Management Arsenal *Continued from page 5*

The charges incurred by firms with concentrated or illiquid positions were pretty much offset by credits for firms with highly liquid assets. In any case, no firm appears to be facing a material increase, and some firms will see a decrease.

COULD YOU TALK ABOUT THE ADMISSION OF BUYSIDE MEMBERS TO FICC'S GOVERNMENT SECURITIES DIVISION AND HOW IT WILL MITIGATE RISK?

We believe our buy-side membership plan has tremendous potential to reduce systemic risk. It will bring more of the overall portfolio of our existing members into the central counterparty, and it will bring more firms into the central counterparty process, which means we'll be netting and settling more trades under the central counterparty guaranty.

However, after talking with our regulators and in view of some changes taking place in the industry, we are now working on a revised rule filing on buy-side membership.

WHAT WILL CHANGE IN THE RULE FILING?

Under the revised filing, we will not allow buy-side members to participate in the GCF Repo™ business, at least for now. Regulators have long been concerned about the intraday extension of credit in the tri-party repo process, and they were particularly concerned that buy-side participation would transfer much of that credit risk to FICC. The industry, by the way, is working out a way to begin eliminating that credit risk, but until that's complete, GCF Repos will remain off limits to buy-side firms.

We are also ensuring the revised filing presents an in-depth risk analysis, including a review against the international CPSS-IOSCO standards [Committee on Payment and Settlement Systems/International Organization of Securities Commissions]. @

We're confident — and our customers concur — that creating an MBS central counterparty will bring a tremendous reduction in systemic and operational risk.

The central counterparty will lower risk by offering guaranteed settlement, and pool netting will lower risk by reducing settlement activity....

Since the MBS CCP will guarantee trades, we've added two significant layers of risk control to protect both customers and FICC. First, we will conduct hourly portfolio risk reviews and require more margin intraday, if necessary, even though we will not set a routine intraday margin call for participants in the MBS CCP. Second, we've created a Capped Contingency Liquidity Facility.

CFTC Grants NYPC Registration As U.S. Derivatives Clearing Organization

On February 1, NYPC announced that the Commodity Futures Trading Commission (CFTC) had granted it registration as a U.S. Derivatives Clearing Organization (DCO) pursuant to the Commodity Exchange Act. The CFTC's approval represents a significant step towards bringing the unique capital and operational efficiencies of NYPC to global fixed income traders.

"NYPC's DCO registration is an important milestone in the transformation of the U.S. derivatives market towards a more open and competitive structure," said Walter Lukken, CEO of NYPC. "The innovative operational and capital efficiencies of NYPC's cross-margining system will be a powerful catalyst for new competition in our industry while increasing transparency and mitigating systemic risk. We appreciate the significant time and consideration that the Commission has taken in granting this groundbreaking DCO registration."

NYPC's cross-margining arrangement with FICC is currently under review with the CFTC and the Securities and Exchange Commission. Pending regulatory approvals, NYPC expects to begin operations in late first quarter of 2011.

DTCC Launches Corporate Actions Pilot For New Messaging and Browser Interface

by Edward C. Kelleher

DTCC will launch a pilot program in April for its corporate actions reengineering initiative for both the new ISO 20022 corporate actions announcement messages and its new browser-based user interface.

The pilot, scheduled to commence April 25, will involve leading corporate actions users, including The Bank of New York Mellon and Brown Brothers Harriman, testing the new ISO 20022 announcement messages. The pilot will cover all event types for corporate actions announcements such as cash dividends, tender offers, rights distributions and optional dividends.

“This is a major step forward in DTCC’s reengineering initiative and will literally change the way corporate actions are processed in the United States,” said Patrick Kirby, DTCC managing director, Asset Services. “The pilot marks the beginning of ISO 20022 messaging and lays the groundwork for the eventual transition to ISO 20022 for all firms using DTCC corporate actions.”

Transition period

DTCC is providing a long transition period because of the size and complexity of the reengineering initiative, according to Kirby. “Our goal is to retire all legacy file formats on or before 2015,” he said.

DTCC developed the new messaging documentation in collaboration with SWIFT, a global provider of secure financial messaging services and the ISO 20022 (International Organization for Standardization) Registration Authority.

ISO 20022 provides the financial services industry with a common platform for the development of messages in a standardized syntax and defines a number of key elements used in messaging. Supplementary data that does not fit into

the current standard message format, or is specific to a particular country or market, can be added by extending the messages with an additional component. DTCC determined the supplemental information needed in these extensions for corporate actions processing in the U.S.

Browser testing

DTCC’s new browser-based user interface for corporate actions also will begin testing on April 25 as part of the same pilot. The pilot will cover announcements for all event types across distributions, redemptions and reorganizations. Going forward, the browser eventually will incorporate the entire corporate action lifecycle, including elections,

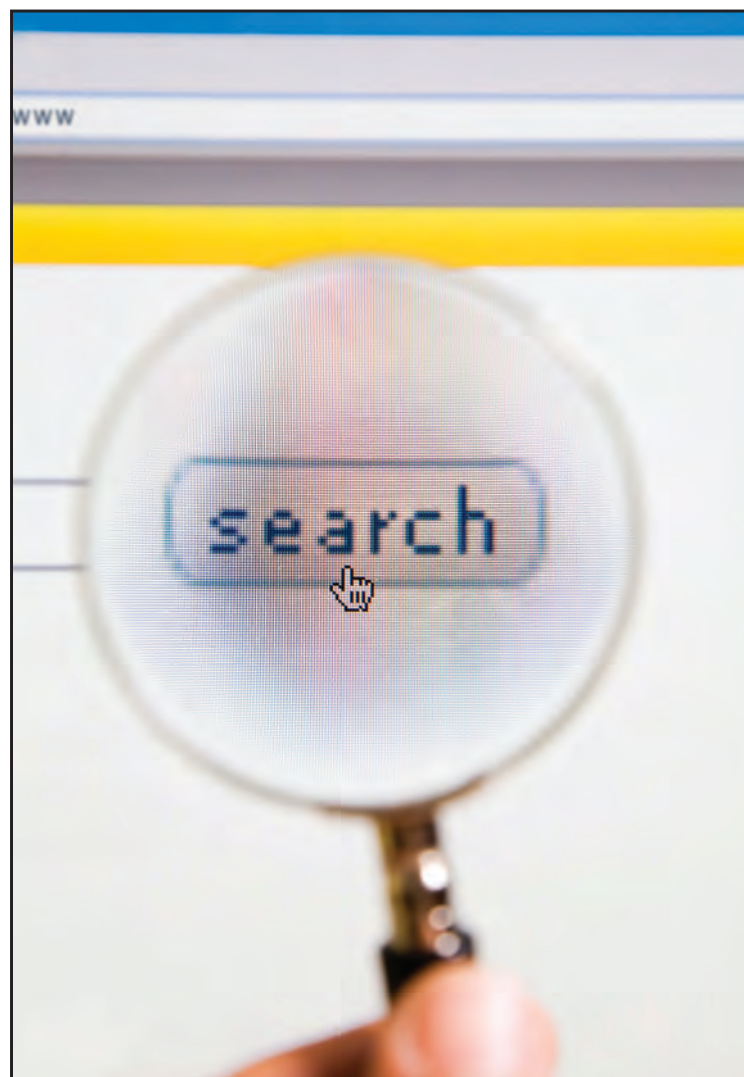
instructions and payments. This unified corporate action platform will replace the varied corporate actions functionality in the legacy systems that customers use today.

“The browser’s enhanced functionality will dramatically boost firms’ operational efficiencies,” said Robert Epstein, DTCC vice president, Asset Services. “It will incorporate all event types in one system and encompass the

entire corporate actions lifecycle, from announcements through instructions to allocations. This will replace dozens of platforms that our customers use today and allow them to centrally manage all corporate action events through the entire lifecycle in one platform.”

Implementation

DTCC demonstrated a prototype of the browser to hundreds of DTCC customers over the past year and it has received a thumb’s up across the board. The interface will be implemented in phases during 2012 and 2013, with a dashboard for distributions, redemptions and reorgs. @



DTCC Opens Washington, D.C., Office and Names Capitol Hill Veteran as Managing Director for Government Relations

by Stuart Z. Goldstein

DTCC has appointed Daniel L. Cohen to the new position of managing director and head of government relations. Cohen will be responsible for leading DTCC's government relations function, including formulating the overall government relations strategy, representing DTCC before Congress and federal and state regulatory bodies, and conducting outreach to relevant national trade groups. Cohen will report to Larry E. Thompson, DTCC managing director and general counsel.

"We are delighted to have someone with Dan's extensive knowledge of the legislative and regulatory process join us at this critical moment in the re-regulation of global financial markets," said Thompson. "Dan's broad experience working with Congress and regulatory agencies in Washington will help DTCC effectively communicate how our infrastructure can be leveraged to help bring greater transparency and risk mitigation to the markets."

Extensive experience

Cohen has more than three decades' experience working in various senior-level government relations positions. Most recently, he served as a senior executive with several medical device and healthcare corporations, including EnteroMedics Inc., an early-stage medical device company, US Oncology, the largest national oncology physician provider network, and Inamed, a medical device/aesthetics company recently acquired by Allergan. In those positions, he established Washington, D.C., and global government relations functions, led the companies' legislative policy and governmental regulatory relations programs and was also responsible for managing public policy, investor relations and political functions at the state, national and global levels.

Prior to that, Cohen was a principal at Loeffler, Jonas & Tuggey, LLP, where he managed several clients in financial services. Earlier in his career, Cohen was the senior legislative liaison for the



ROLAND KIELMAN

Daniel L. Cohen, DTCC managing director and head of government relations

American Israel Public Affairs Committee (AIPAC) and, before that, served as legislative director for two congressmen on Capitol Hill.

Cohen earned a bachelor's degree in sociology in 1978 from Willamette University and received a master's degree in international affairs from Georgetown University in 1985. @

'Lighting the Lamp'

by Roland Kielman

Regulators in the U.S. and European Union "can help themselves monitor global over-the-counter (OTC) derivative markets" by requiring trades in these instruments to be reported to global, centralized repositories. This is according to an article in the January issue of Focus, the World Federation of Exchange's (WFE) newsletter, written by Stewart Macbeth, DTCC managing director and general manager of the Trade Information Warehouse.

The article, entitled Lighting the Lamp, provides a brief synopsis of the ongoing financial regulatory reform efforts in the U.S. and in Europe, particularly in relation to the OTC derivative market, and the need for new rules to ensure transparency and reduce systemic risk.

Macbeth highlights DTCC's extensive experience in the OTC derivative space and explores the value of a "global solution" that would require all OTC derivative trades to be reported to a central repository per asset class. He also explains the impact such a rule, or its absence, would have on the ability of regulators, investors and the general public to view the market as a whole. Maintaining OTC derivative data in a central location "can provide the lamp regulators need to shine light on these markets," according to Macbeth.

'Unified repository'

"In order to protect the safety and soundness of markets, it is necessary for regulators to have timely information about the market-wide exposure of the major market participants," Macbeth

DTCC Names Chief Data Officer by Stuart Z. Goldstein

DTCC has named Ronald Jordan, a 26-year industry veteran, to the new position of chief data officer. Jordan will be responsible for guiding DTCC's strategy on matters related to DTCC's commercial and regulatory data business activities.

In the current re-regulatory environment, financial firms will be required to provide new levels of data to regulators so they can ensure transparency and help mitigate and manage systemic risk. Given DTCC's unique position in the cash equity and fixed income markets, as well as the over-the-counter derivatives data DTCC keeps in its Trade Information Warehouse, DTCC expects to have a role to play in aggregating data for regulators to support their oversight of the industry and achieve this goal in a cost-effective manner for DTCC's customers. Jordan will be responsible for overseeing this activity in conjunction with the business line managers to ensure coordination across the enterprise.

Jordan will also focus on the needs of the U.S. Treasury Department's new Office of Financial Research, created under the Dodd-Frank Act. Jordan will report to Andrew Gray, DTCC managing director, Core Product Strategy and Management.

"We are delighted to have a person with Ron's broad experience in developing data businesses join DTCC," said Gray. "One of the key things that DTCC is looking to do in the near future is take the huge amount of data that DTCC collects as part of its business and help make it useful to our customers to interpret and understand trends in the marketplace, as well as help reduce potential customer costs required by new regulations by serving as a centralized provider and conduit of data from the industry to regulators."

Industry veteran

Jordan is joining DTCC after spending the past 26 years at NYSE

Euronext, where he held a number of key roles. Most recently, he was executive vice president, Global Market Data Administration, managing a division of more than 50 people in five countries. His responsibilities included global market data

administration for the NYSE, Arca, Amex, Euronext, NYSE Liffe and NYSE Liffe U.S. markets. Prior to his service with NYSE Euronext, he held positions with the American Stock Exchange and the Philadelphia Stock Exchange.

Throughout his career, Jordan has been an active participant in various industry forums and associations where he has held leadership roles, including the Executive Board of the Financial Information Services Division of the Securities & Industry Information Association, the Executive Board of the Financial Information Forum and administrator of the Consolidated Tape Association.

Jordan is a graduate of Union College, where he earned a bachelor's degree in economics; he has also attended several management programs at Harvard Business School. @



Ronald Jordan, DTCC chief data officer

ROLAND KIELMAN

writes. "Without a place where data on global trades can be centrally sourced, in other words, without a unified repository, it will be very difficult for regulators to glean all the information they need to make a knowledgeable assessment of market conditions and risk exposure in a reasonable amount of time."

The piece also articulates the risks associated with other proposed scenarios regarding the reporting of OTC derivatives. Macbeth notes that alternatives to centralized data storage, such as the model that promotes multiple repositories on a regional basis, could result in "information so fragmented that no single entity will have an overview of the entire market. As a result, regulators, investors and the general public will not be able to see the market

picture as a whole, a situation that could prove dangerous at a time of market stress."

Background on the Federation

The WFE is a trade association composed of 52 publicly regulated stock, futures and options exchanges. It gives members guidance related to their business strategies and management practices.

Focus is the Federation's monthly review that centralizes business news from individual exchanges while providing a statistical component with key data on members' markets. It has total circulation of approximately 4,500 readers, including its online and hard-copy editions. To see Focus, including Macbeth's article, visit world-exchanges.org/news-views/focus. @

Overall Satisfaction with DTCC? Customers Say 91% by Helen Cunningham

Customers gave DTCC a 91% overall satisfaction rating in 2010, the fifth consecutive year the company received this score. Satisfaction on all key attributes remained stable or increased, with the largest gains achieved for DTCC's customer-centric focus, speed to market and industry leadership.

The strong levels of satisfaction are attributable to factors including the quality of the overall relationship, DTCC's continued focus on customer service and relationship management, and the products and services offered. The company also received high satisfaction scores for integrity, commitment to quality and transaction-processing capabilities.

Customer suggestions for improvement most often focused on technology. Survey respondents also indicated they would like DTCC to better understand their businesses; build more consultative relationships; offer advice on how to best leverage DTCC's services; and provide more training. Some customers also believe DTCC needs to be less bureaucratic, with greater emphasis on partnering.

DTCC has been analyzing the data and

verbatim, and developing action plans for improvement based on the information obtained from the survey. Implementation of the plans has begun and will continue in the coming months.

Casting a wide net

The customer survey is designed to measure not only satisfaction with DTCC, but also perceptions of the value received from DTCC and loyalty to the DTCC brand. In addition, the survey gives customers the opportunity to describe emerging needs and desired improvements.

DTCC customized a separate survey for its European subsidiary, EuroCCP, to address the needs of its client base. Respondents gave EuroCCP a 100% overall satisfaction rating, a considerable improvement over 2009.

By taking this broad approach to customer research, DTCC obtains data on where it currently stands in the eyes of firms that use its services, along with guidance on future direction by identifying top-of-mind issues and emerging customer needs and concerns.

The survey also benchmarks DTCC's performance against The Melior Group's industry database of 11,500+ respondents. (The Melior Group conducts DTCC's customer survey and analyzes the results.) In 2010, DTCC received ratings above the industry average for overall satisfaction, customer service, product/service array and technology, as well as other key attributes.

Top of mind: risk mitigation

"We at DTCC understand that the bar of market and regulatory expectations on risk has been raised and what used to be normal or standard operating procedure is fast becoming history," Donald F. Donahue, DTCC's CEO, has said. "As a result, we're now initiating a top-to-bottom transformation in how DTCC thinks about risk, how we oversee risk, how we manage risk and how we plan to address risk – and I mean all aspects of risk – both within DTCC and within the financial system we are a key part of." Donahue has also stated that DTCC plans to make a quantum leap in the level and scope of risk mitigation it provides across the industry.

DTCC's heightened focus on risk aligns with customers' areas of focus. In the survey's interviews with senior contacts, regulatory reforms and risk management topped the list for issues of emerging concern. In the 2010 survey, customers' perception of DTCC's effectiveness in reducing risk came in at 83% (vs. 86% in 2009).

Integrity and other attributes

The survey includes a list of 22 "key attributes" that play an important role in DTCC's relationship with customers. Satisfaction for all these attributes remained stable or increased in 2010.

Integrity was the attribute that received the highest rating of 93% satisfaction, the

How the Survey Works

DTCC retains The Melior Group to conduct its annual customer survey and to analyze the results.

The 2010 survey was conducted at two intervals during the year, in April and September, which gave DTCC an initial reading on customer perceptions in the first half, allowing it to address emerging concerns sooner in the year.

The EuroCCP survey was conducted only in September to allow sufficient time for customers to judge the effectiveness of EuroCCP's business restructuring, which took place at the beginning of 2010.

The DTCC survey polled daily customer contacts as well as senior/executive-level customer contacts. The majority of respondents (96%) were daily contacts, who completed an online survey. Senior contacts were interviewed by telephone.

The overall response rate was 26%, with EuroCCP achieving 58%. Both rates are well above industry norms according to The Melior Group. The total number of respondents was 1,094.

Problem with That?

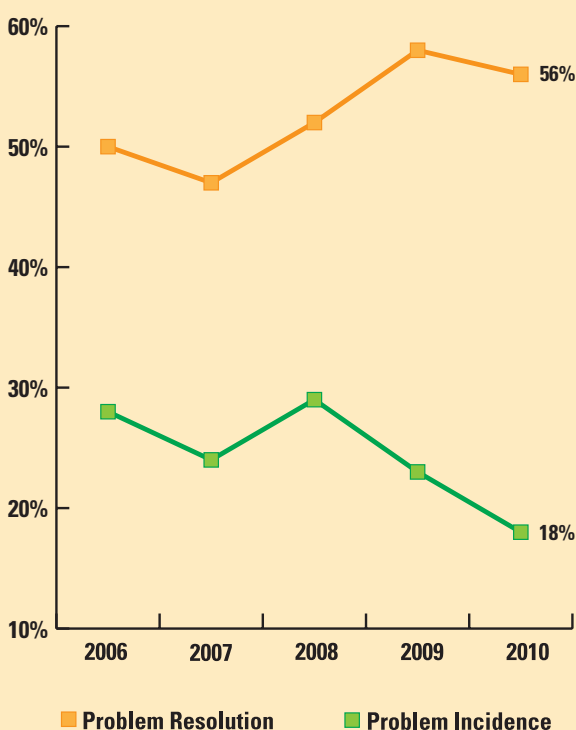
Problem incidence continued to trend downward in 2010, dropping to 18%, its lowest level in 8 years and down 5 percentage points from the previous year. What's more, the proportion of "significant" problems (as defined by the customer) reached an all-time low of 18%, meaning the more severe the problem, the less frequent the incidence. Conversely, problems considered "minor" accounted for 50% of the total problems experienced by customers in 2010 (vs. 44% in 2009).

The survey results also indicate that significant and moderate problems were primarily technology-related; other concerns involved the quality of customer service.

Customer satisfaction with overall problem resolution experienced a small decrease, to 56% (vs. 58% in 2009). Satisfaction with the resolution of significant problems posted a 5-point improvement, to 44%. However, customers were less satisfied with the handling of minor problems, for which satisfaction declined to 65% (vs. 73% in 2009).

"It's true for every business: the customer's perception of overall problem resolution drives satisfaction with virtually every aspect of the relationship," said Paula Arthus, DTCC managing director, Relationship Management. "We will remain focused on problem resolution as a leading indicator for overall customer satisfaction with DTCC."

Problem Incidence & Resolution



same as last year. EuroCCP increased its integrity rating to 100%, from 86% in 2009.

"For DTCC to serve the industry effectively, it is critical that customers have full confidence in the organization's integrity and ability to act as a trusted, objective advisor," said Andrew Gray, DTCC managing director, Core Product Strategy and Management.

"DTCC's commitment to serve the industry with integrity is paramount, and more important than ever in this era of sweeping regulatory reform."

One of the largest improvements among the attributes was for customer-centricity, defined primarily by survey respondents as putting the customer first with open and honest communications. Satisfaction with this attribute reached 83%, up 6 points from 2009. "Our commitment to improve customer centricity is a key focus of the DTCC Customer Service Council, which we

established in late 2009, and its agenda," said Paula Arthus, DTCC managing director, Relationship Management. "The improved ratings for this attribute signal that we are on the right track."

EuroCCP received a 96% satisfaction rating for being customer-centric, a significant increase over the previous year. "In 2010, we created a dedicated relationship management team to strengthen our focus on the clients," said Diana Chan, EuroCCP's CEO. "We also hold monthly customer roundtables that feature updates on EuroCCP services and procedures, and that foster dialogue about the ongoing evolution of the European market."

Satisfaction with speed to market also rose 6 points over last year, though it remains on the low end of the scale at 71%. "We recognize the need to further focus on speed to market, bearing in mind that in today's fast-moving environment, DTCC always needs to strike the proper balance between speed and the necessity to deliver products that are stringently risk-managed," said Gray.

Product overview

The majority of customers (90%) expressed satisfaction with DTCC's overall product array in 2010, on par with 2009's rating. Scores for specific products ranged from 81% to 95%.

Of the 16 products and services rated, 6 maintained stable satisfaction ratings and 7 experienced declines in satisfaction; 3 achieved double-digit gains.

The survey also asked customers to assess the "value" that specific products bring to their organizations and on this metric, 15 of the 16 products rated achieved gains (13 of which were double digits). Value scores ranged from 57% to 100%.

Of the 5 products rated for EuroCCP, satisfaction [continued on page 12]

Customer Satisfaction

Continued from page 11

ranged from 87% to 100%. Value scores ranged from 75% to 88%. “EuroCCP views the client survey as an important tool in ensuring that our products and services meet our customers’ business needs,” said Chan. “We have integrated the survey results into our business goals for 2011.”

Caring about customers

Customers’ satisfaction with the ability of their particular relationship manager to meet their needs increased to 93% (from 90% in 2009). The gain reflects growth in the number of “extremely satisfied” customers, which reached 58% (vs. 54% in 2009).

For many customers, satisfaction with relationship managers is attributable to the high level of responsiveness, the ability to communicate effectively, their helpful attitude and knowledge of both the industry and individual customer needs. Areas for improvement are grounded in proliferating these same behaviors across the entire customer base.

In the 2010 survey, customers indicated that relationship managers strengthened their role as trusted advisors who understand customer needs and possess the skills and knowledge to resolve important issues. Ratings for the “trusted advisor” attribute rose to 90%, up 6 points over 2009.

“We consider it essential to establish and maintain a high level of trust with our customers, and our Relationship Management team has made it a priority to strengthen the ‘trusted advisor’ role over the past couple of years,” said Arthus, “so we are pleased that customers have seen an improvement.”

Nonetheless, firms are looking for still more on this front. According to Melior, “Customers would like their relationship managers to take a more proactive stance in proposing solutions to meet their business needs,” a sentiment that was expressed across all lines of DTCC’s business.

“Increasing the scope and usage of DTCC’s services provides scale benefit for all our customers,” said Arthus. “We are completely aligned with being even more proactive in this area, and continuing to drive that thought leadership role with our customers.” @

Universal Trade Capture *Continued from cover*

used by NSCC into a single, near-real-time validation and reporting engine. NSCC has already migrated two of the four legacy applications and expects to have UTC fully operational by February 2011.

“UTC represents a complete transformation of the trade capture process,” said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. “We’re moving to a real-time system that will deliver normalized, or standardized, data in a common output format to firms moments after a trade is executed. UTC’s new functionality and features will also help our customers strengthen their internal risk management operations while reducing the cost and enhancing the efficiency of the post-trade process, which is critical to helping mitigate the risks associated with today’s fragmented equity market structure and high-frequency trading.”

The FIX is in

Trade capture is considered the first step on the road to clearing a trade. It involves receiving transaction data from virtually all equity trading venues, including the major U.S. exchanges, and producing contract reports that are transmitted to the firms for reporting and reconciliation needs.

Under the legacy applications, each marketplace used its own unique format for submitting input data to NSCC, which produced four different contract reports in a machine-readable output (MRO) data file format in batches throughout the day.

UTC leverages the FIX format to create a near-real-time system that will offer a standardized input record from all marketplaces and standardized real-time output messages to participants. The messages will be delivered to customers via MQ or a new universal intra-day MRO file starting in February and via the FIX engine starting in 2Q2011. To ensure maximum flexibility, UTC will also continue to support existing interfaces with markets and members, allowing them to transition to UTC at their own pace. @

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



DTCC Will Launch Service to Automate Matching Of Broker-to-Broker Ex-Clearing Trades

by Craig Donner

DTCC has announced plans to launch the Obligation Warehouse (OW) to automate the matching and confirmation of broker-to-broker trades that are currently confirmed and settled directly between the trading parties rather than through DTCC (known as ex-clearing trades), and to give member firms real-time access to track, manage and resolve their failed obligations.

The service, an offering of DTCC's clearing agency subsidiary, National Securities Clearing Corporation (NSCC), will be fully functional by June 2011, with implementation beginning in March 2011 following the Securities and Exchange Commission's (SEC) recent approval of NSCC's related rule filing.

"The OW represents a giant leap forward in helping financial firms better manage and address the operational risks and costs associated with processing broker-to-broker ex-clearing trades, as well as failed obligations," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. "It will create a more efficient and cost-effective system that will transform the processing of these transactions, while also delivering real-time capabilities to view virtually all failed trading activity in the U.S. marketplace for equities, corporates, municipals and unit investment trust securities."

While most equity, bond and UIT trades are fed directly to NSCC for clearing from the various U.S. marketplaces and trading platforms, currently amounting to an average of more than 80 million daily transactions, there are an unknown number of trades that brokerage firms confirm and settle directly with their counterparties. Fails in those trades were never tracked in a central location prior to the development of OW.

Real-time automated service

OW leverages NSCC's existing systems and enhances its current fail clearance system, known as the Reconfirmation and Pricing Service (RECAPS), to automate the matching and confirmation of broker-to-broker ex-clearing trades, replacing the highly manual and error-prone processes, including phone calls and faxes, currently used by financial firms to manage these transactions.

In addition, OW will track, store and maintain certain unsettled obligations in a central location, and make these obligations available for RECAPS processing until they are settled, cancelled or otherwise closed in the system. Transactions eligible to be tracked, stored and maintained in OW include failed or unsettled broker-to-broker obligations that are compared through OW and obligations forwarded to OW from other NSCC

'The OW represents a giant leap forward in helping financial firms better manage and address the operational risks and costs associated with processing broker-to-broker ex-clearing trades, as well as failed obligations.'

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

services, including securities exited from NSCC's Continuous Net Settlement (CNS), non-CNS Automated Customer Account Transfer Service (ACATS) items and NSCC Balance Order transactions.

RECAPS processing of these transactions, which includes re-pricing, re-netting and allotting, will take place initially on a monthly basis instead of the current quarterly schedule. A new daily maintenance function will check the obligations stored in OW for CNS eligibility and will make adjustments for certain corporate actions. In addition, member firms will no longer have to resubmit certain open obligations to RECAPS because OW will process RECAPS on all matched fails in OW aged greater than two days. As part of the service, firms will also receive real-time updates, as well as an end-of-day report, that reflect their positions in OW.

Collaborative approach

NSCC worked closely with member firms, service bureaus as well as the Securities Industry and Financial Markets Association's (SIFMA) Securities Operations and Data Management Sections to help formulate the business requirements and development of OW.

"This collaborative approach allowed us to drill down to learn the unique needs of the industry and develop an enhanced service that closes the chapter on the manual processing of broker-to-broker trades and the management of open obligations," Cosgrove said. "We added new functionality and features to further mitigate risk from the system, enhance transparency for financial firms and provide a comprehensive view to better understand these obligations in their totality." @

Inside the Settlement Advisory Board

The DTCC Settlement Advisory Board (SAB) is a forum that is sponsored and hosted by DTCC for DTCC and its customers to discuss the current, planned and future settlement-related capabilities of DTC and NSCC. The board, which consists of representatives from firms and from multiple areas of DTCC, meets three times a year. It is one of many advisory bodies created by DTCC to ensure a good working relationship with the firms that use its subsidiaries' services.

"We rely on SAB members for guidance, expertise and feedback on settlement issues and as a sounding board for potential DTC/NSCC solutions," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. "We also use the advisory board as a vehicle to brainstorm new ideas and to inform and engage participants about settlement-related initiatives and topics."

Customers use the SAB to advise DTCC on project prioritization, provide input on business requirements and address operational, processing and risk management issues.

Who's on the SAB

The firms represented on the SAB include The Bank of New York Mellon, Goldman Sachs, Citigroup, Merrill Lynch, JPMorgan Chase, Morgan Stanley, State Street Bank and Trust Co. and Wells Fargo. The SAB has co-chairs, one representing a broker/dealer and the other representing a custody bank.

Questions for the co-chairs

@dtcc recently spoke with current SAB co-chairs Gregory Hogan, vice president of Asset Servicing at The Bank of New York Mellon, and Trevor Williams, head of Settlements and Securities Lending Operations for the Americas at Goldman Sachs.

HOW DOES THE SAB'S WORK STRENGTHEN THE INDUSTRY?

Hogan: The advisory board is effective in this respect because it is a representation of experienced and knowledgeable professionals from both member firms and DTCC. Many of the representatives have a considerable amount of influence in the industry and within their organizations.

Usually, there is no shortage of debate at

board meetings and our discussions have influenced many initiatives, such as settlement rollover, chilled securities, ID Net, the Obligation Warehouse, Receiver Authorized Delivery processing and liquidity management. (See box for a glossary of terms.)

HAS THE SAB FOSTERED A STRONGER RELATIONSHIP BETWEEN BROKER/DEALERS AND BANKS TO WORK COLLABORATIVELY TO ENHANCE THE SETTLEMENT PROCESS?

Williams: In any partnership where there is the potential for

SAB Glossary

Here is a description of some of the terms mentioned by the co-chairs of the Settlement Advisory Board.

CHILLED SECURITY: A security that has a transaction restriction placed on it by DTC. The reason for the restriction could be related to operational, risk management and/or regulatory and compliance concerns.

FROZEN LETTER: A letter submitted by a DTC participant asking that the delivery of a chilled security be made from one DTC participant account to another.

ID NET: A service that streamlines clearance and settlement, cuts customer costs and reduces fails associated with affirmed institutional equity trades.

OBLIGATION WAREHOUSE: An enhanced fail reconfirmation and pricing service from NSCC that will provide automation for the processing of ex-clearing trades and other open obligations and for the management of fails. It will be replacing NSCC's Reconfirmation and Pricing Service (RECAPS).

SETTLEMENT WEB REENGINEERING: A new settlement interface that is being developed to produce a simpler and more customer-friendly Settlement Web. This new Settlement Web, the first phase of which is currently undergoing pilot testing, is scheduled to be rolled out to all customers in late February 2011. It will include expanded spreadsheet download and upload capabilities, improved navigation and a customizable settlement dashboard.

PRINCIPAL & INCOME (P&I) AND SETTLEMENT PROGRESS PAYMENT (SPP) WITHDRAWALS: Services that give customers intraday access to available SPP funds and to P&I payments that DTC has received from paying agents and has allocated to participants' settlement accounts. P&I payments include dividend, interest and other periodic payments, as well as reorganization and redemption payments.

RECEIVER AUTHORIZED DELIVERY (RAD): An approval mechanism that allows a receiving participant to review a transaction prior to it being sent on for processing. The service limits customers' exposures from misdirected or erroneously entered deliver orders, payment orders and pledges.

SETTLEMENT PROGRESS PAYMENT (SPP): An intraday funds transfer sent via Fedwire to a DTC participant account to allow a participant to continue to receive deliveries and avoid having its transactions recycle. Participants employ SPPs when they have reached their net debit cap or have insufficient collateral.

divergent views, it's imperative to understand each negotiating partner's concerns as we attempt to maximize value for all involved. The SAB creates a forum that is crucial for vetting and fully appreciating strategic changes to the settlement process, from all vantage points.

WHAT IS THE ROLE OF A CO-CHAIR OF THE SETTLEMENT ADVISORY BOARD?

Hogan: As the custody bank co-chair, I view my role to be a partner to the broker/dealer co-chair and the DTCC board representatives. As a team, we decide which topics will be presented in the board agenda. We also lead discussions and debates, and raise important topics and initiatives that we feel are challenging the industry.

WHAT ARE SOME OF THE SAB'S MOST IMPORTANT INITIATIVES?

Hogan: The development of ID Net and the Obligation Warehouse have been on our agenda for each meeting held over the last two years. DTCC intraday liquidity is another topic that surfaces through a variety of initiatives, such as Settlement Progress Payments (SPP) and Principal and Income withdrawals.

CAN YOU GIVE OUR READERS EXAMPLES OF ISSUES THAT BROKER/DEALERS HAVE RAISED OVER THE PAST FEW YEARS THAT THE SAB HELPED TO SUCCESSFULLY ADDRESS?

Williams: The most notable are efforts to drive customer uptake of ID Net and recent progress in frozen letter processing. Both of those are good examples of SAB members partnering to reduce settlement friction while concurrently addressing systemic and counterparty risk.

COULD YOU TAKE THE EXAMPLE OF ID NET TO EXPLAIN THE SAB'S CONTRIBUTION IN DEVELOPING AND MARKETING DTCC PRODUCTS?

Hogan: We have seen steady progress in expanding usage of ID Net with some major firms signing on. Board members that are ID Net customers use SAB meetings to share their experiences and help explain ID Net's benefits to the other members. Since the SAB is made up of senior representatives



Trevor Williams, head of Settlements and Securities Lending Operations for the Americas, Goldman Sachs

who are in positions to influence decisions within their companies, I feel that the discussions, updates and information shared within the board on these types of topics help build momentum towards a greater critical mass within the industry.

RISK MITIGATION HAS BECOME AN INDUSTRY PRIORITY. CAN YOU EXPLAIN HOW BROKER/DEALERS AND BANKS WORK TOGETHER THROUGH THE SAB TO ADDRESS ISSUES OF RISK?

Williams: I expect counterparty and systemic risk, juxtaposed with liquidity concerns, to be a focus in 2011. As we reevaluate our stance on systemic and

counterparty risk in today's shifting landscape, we have to challenge all assumptions. The SAB has created a positive forum where we can challenge conventional wisdom through debate and discourse.

WHAT ELSE IS THE BOARD FOCUSING ON NOW?

Hogan: Recent discussions have focused on chilled securities and Settlement Web reengineering, along with preliminary conversations around what the effort would be to compress the settlement cycle from T+3 to T+2. We will also continue to pursue liquidity issues along with ID Net and the Obligation Warehouse.

HAS YOUR PARTICIPATION ON THE BOARD BENEFITTED YOU AND YOUR FIRM?

Hogan: Yes. Participating on boards such as this not only helps Bank of New York Mellon stay close to important industry developments, it also allows our firm to get out in front of certain initiatives that may affect us more than others.

In addition, participation on the board allows me to network with other SAB members. Such networking is valuable because I can leverage these relationships to

address mutual customer concerns that arise among our firms.

Williams: We appreciate the connectivity the SAB gives us to DTCC initiatives, in addition to the opportunity to partner on symbiotic solutions with our colleagues. @



Gregory Hogan, vice president, Asset Servicing, The Bank of New York Mellon

DTC Enhancements Promote Intraday Liquidity by Craig Donner

The Depository Trust Company (DTC) has implemented a new comprehensive liquidity efficiency enhancement plan that has helped to move billions of dollars back into the financial system earlier in each trading day.

The plan centers on maximizing customer access to intraday liquidity at DTC. It gives firms new tools and resources to automate the withdrawal of their excess Settlement Progress Payments (SPP) and Principal and Interest (P&I) allocations before the end-of-day settlement and enhances transparency around the amount of funds they have available.

SPPs are payments customers send to DTC when they have insufficient collateral or have reached their net debit cap. The SPP, which reduces a member's net debit by creating a credit in its settlement account, allows the firm to continue receiving deliveries. P&I allocations include dividends for equities, bond interest and redemptions.

"These steps will help firms more efficiently manage their intraday liquidity and also simplifies the process for accessing their excess capital earlier in the day," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. "While customers already had the opportunity to withdraw this money, we leveraged our technology to enhance transparency and

automate the process for firms to receive their funds without the need for manual intervention. These enhancements will help reduce the cost of funding for brokers and banks and also mitigate risk by putting liquidity back into the Fed system earlier in the day."

Automating withdrawals

The first step of the multi-part plan involved extending the window to request excess SPP and P&I funds from 3:00 p.m. to 3:20 p.m. ET. The additional 20 minutes allows firms to take advantage of provisional credits that are released after the Largest Provisional Net Credits (LPNC) cutoff is taken by DTC at 3:05 p.m., which is essential for maximizing the amount of capital available for withdrawal.

DTC next leveraged the RMCI screen to display for firms their available SPP and P&I funds, doing away with the need for them to manually calculate these numbers. The goal is to keep customers informed of their excess liquidity and make the information easily accessible to facilitate earlier withdrawals.

A critical part of the plan was establishing the new Push Profile service to automate the withdrawal of excess funds, eliminating the need for firms to request these monies each day or wait until the end-of-day settlement process is completed.

As part of this service, customers can choose to input a profile into the system to establish a standing withdrawal request to "push"

available SPP/P&I credits to them at 3:15 p.m. ET. They also have the flexibility to set a "minimum credit amount" to leave a balance in their

account to pay for transactions that may be received until 3:30 p.m., as well as a "minimum wire amount" to avoid receiving smaller payments. However, to ensure maximum flexibility, firms still have the option to use the legacy system to manually request their funds.

Enhancing transparency

To help customers make informed decisions about whether to elect the Push Profile, DTC created a new Cash Payment Report Card that shows each firm's daily total of SPP payments and P&I allocations, total excess SPP and P&I allocations available for withdrawal to a zero balance, total amount of SPP and P&I withdrawn, and remaining excess SPP and P&I available for withdrawal.

"We understood that enhancing transparency to make it easy for our customers to access their information would ultimately be the key to the success of this initiative," said Cosgrove. "Many of the new tools we created are designed to keep customers apprised of their excess liquidity and help guide their decision-making."

Building on past efforts

This initiative builds on DTC's efforts over the past two years to simplify the SPP return/P&I withdrawal process and promote intraday liquidity management best practices.

In 2009, DTC implemented a process that allowed members to request and receive a portion of their SPP intraday and then merged it with the P&I withdrawal process to create a single simplified and automated function.

"These initiatives have generated positive feedback from our customers, and we'll continue to explore new opportunities to help firms enhance their liquidity," Cosgrove said. @

[To learn more about the Push Profile service and the other liquidity efficiency enhancements, contact Jack Manuel at jmanuel@dtcc.com or 212.855.5921 or your DTCC Relationship Manager.]



Wealth Management Services Holds Senior Advisory Board Meeting by Richard Marulanda

The mutual fund industry faces several environmental challenges, including changing distribution models, new regulation and increased demands from regulators and investors to better manage risk and provide transparency.

Recently, executives from 11 major distributors met at DTCC's headquarters to discuss these and other strategic business issues during the Wealth Management Services Broker/Dealer Senior Advisory Board meeting. This semi-annual forum aims to identify areas in which DTCC can expand and enhance its services to better serve the needs of its customers and the industry at large.

Focus on risk

DTCC CEO Donald F. Donahue kicked off the meeting, highlighting DTCC's plans to strengthen its risk management operations.

"At DTCC, as well as across the industry, we all recognize that the bar of expectations on risk has been raised. Our Board of Directors demands a heightened focus on risk, our participants question how we are improving risk management on their behalf, and our regulators expect an intensified awareness and proactive control of risk issues," he said. "We are firm in our understanding of, and commitment to, this new responsibility and I am confident that we can move expeditiously forward with the associated agenda. We look forward to working with you as we further support the mutual funds industry and mitigate your risk exposure."

Staying ahead of the curve

The half-day strategy session, led by Ann Bergin, DTCC managing director and general manager, Wealth Management Services, included business updates and overviews of new initiatives planned for Mutual Fund Services, Alternative Investment Products (AIP) and Managed Accounts Services (MAS). Robert Grohowski, senior counsel, Investment Companies, from the Investment Company Institute (ICI), closed the meeting with a regulatory update, discussing SEC Rule 12b-1 developments. Commonly referred to as a fund's distribution costs, 12b-1 fees are charged by some mutual funds to cover promotion, distributions, marketing expenses, and sometimes commissions to brokers. The proposed SEC rule would replace rule 12b-1 under the Investment Company Act, requiring

more disclosure to help investors make better-informed choices when selecting a fund that imposes sales charges.

"As we strive to stay ahead of the curve, providing the funds industry with tools for operational efficiency and transparency, it is critical to keep in close touch with our clients and abreast of new developments in the market," said Bergin. "The ongoing dialogue with our senior advisory boards and other industry partners ensures that our strategic development agenda closely aligns with our customers' business and risk management strategies."

One issue that the Broker/Dealer Senior Advisory Board is monitoring is omnibus processing. As more firms continue to migrate to an omnibus environment, there's an inherent need for greater transparency and reconciliation services. DTCC's work with the advisory board and other industry partners has been instrumental in developing new services that will support omnibus accounting and provide funds with critical information on positions and activity.

The power of two

To help DTCC respond to the dynamic and competitive mutual fund market, Wealth Management Services calls upon two senior advisory boards for insight and collaboration – one with representatives from the broker/dealer community and the other with representatives from the fund companies. While each meets separately to discuss unique challenges and opportunities, the two groups hold a joint meeting in the fall.

"Incorporating the senior advisory boards into our strategic planning has been invaluable," said Bergin. "Coupled with our other industry partnerships, the advisory boards give us an enriching perspective on the marketplace so we can offer the right solutions and better anticipate the needs that are coming around the corner." @

WMS Senior Advisory Board

Merrill Lynch: William Bridy, *managing director, Operations*

Pershing LLC: Lisa Dolly, *managing director, Operations*

Wachovia: Tom Duame, *senior vice president, Operations*

MidAtlantic: Tim Friday, *president*

Morgan Stanley: Tom Gooley, *head of operations*

National Financial Services: Mark Katzelnick, *executive vice president, Operations*

Edward Jones: David Long, *principal*

Charles Schwab: Fred Potts, *senior vice president, Operations*

LPL Financial: Tom Seeburger, *senior vice president, Operations*

Reliance Bank: Chris Teevan, *executive vice president, Reliance Trust; president, Reliance Operations*

UBS Financial Services, Inc.: Chuck Winters, *director of Operations*

DTCC Connectivity with SWIFT Expands Customer Options

by Michael Scholl

DTCC's long-standing relationship with SWIFT has expanded over the years to give customers of both companies more options for cost-effective connectivity and access to their respective services. SWIFT is the Belgium-based, member-owned cooperative that operates a worldwide financial messaging network for its clients. (SWIFT stands for Society for Worldwide Interbank Financial Telecommunication.)

DTCC's connectivity with the SWIFT network, called SWIFTNet, underscores its commitment to serve the global financial industry, both in the U.S. and overseas, according to George Perretti, DTCC managing director, Corporate Business Continuity. Connectivity between the two organizations also helps DTCC offer its services to new international customers, given the global reach of SWIFT's network.

Serving customers globally

"We listen to our customers and many of them, especially those outside the U.S., want to use SWIFTNet to access certain DTCC settlement-type products and services," said Perretti. "It is a cost-effective option for connecting to DTCC for firms that already use SWIFTNet for the bulk of their file and message transmission."

The link also makes DTCC services available to new firms within SWIFT's global client base. "We have clients around the world who want to use DTCC services," said Brett Lancaster, managing director, Securities Initiatives, SWIFT Americas. "If they are not connected to the DTCC network, we can offer them access via their existing SWIFTNet connection, which serves their needs and promotes traffic on our network. It also allows SWIFT to offer clients a single gateway for their connectivity needs, which saves them the cost of establishing a dedicated link to

DTCC – so it is a win all around."

The types of applications that DTCC is making available via SWIFTNet have been chosen based on the customer preferences, according to Perretti. (See chart, page 19.)

And demand for these services is robust. "We closely monitor all traffic on SWIFTNet," said Lancaster, "and growth for DTCC in terms of traffic is running at about 30% a year, compared with an estimated 4-5% across all our Americas' clients."

SMART and SWIFT

DTCC's network, called SMART (Securely Managed and Reliable Technology), is a fully managed, encrypted and dedicated connection to DTCC. It gives customers end-to-end connectivity support for all DTCC clearance, settlement and information-based services. SMART supports the entire settlement infrastructure of the U.S. capital markets

by connecting a nationwide complex of networks, processing centers and control facilities. It is highly secure with multiple, independent levels of redundancy.

Like SMART, SWIFTNet is a highly secure, redundant, members-only network. Through SWIFTNet, member institutions can exchange messages and files with any other SWIFTNet member worldwide, without establishing an individual connection. Different from telecommunications companies that offer connectivity options, SWIFT also offers a range of value-add services, such as validating messages, standardizing message types, and storing and forwarding messages.

The SWIFT community consists of 9,500 banking organizations, securities institutions and corporate customers in 209 countries.

Choosing an option

The choice between SWIFTNet and SMART often comes down to how much messaging volume an institution has with DTCC, according to Louis Colombo, DTCC vice president, Information Services. In fact, many of the institutions that connect to DTCC through SWIFTNet rely on that network for the bulk of their message traffic.

Another factor that may influence the connectivity decision is that firms with global businesses sometimes look to have one infrastructure for all of their connectivity.

"For certain firms, SWIFTNet presents a good connectivity alternative from a cost and efficiency perspective, and we at DTCC are committed to helping our customers cut their costs while simultaneously providing them with superior service and risk management," said Colombo. @

Connectivity between
the two organizations
helps DTCC offer its services
to new international
customers, given the
global reach of SWIFT's
network.

DTCC Application

Available SWIFTNet Services

Multi-Currency Settlement: Provides straight-through processing of offshore mutual fund transactions by settling transactions in euros and U.K. pounds sterling. (Offered by DTCC Solutions Worldwide Ltd.)

FIN: SWIFT's core message transfer service, enabling more than 9,500 financial institutions in more than 209 countries to exchange financial data in a secure, cost-effective and reliable way. FIN's value-added processing includes message validation to ensure messages are formatted according to SWIFT message standards; delivery monitoring and prioritization; message storage and retrieval. It uses the ISO 15022 standard and is based on a distributed processing architecture with full, built-in redundancy to ensure maximum availability.

European Pre-Issuance Messaging (EPIM): A central messaging hub that links the various parties involved in numbering and issuing European money market instruments. (Offered by DTC, Clearstream Banking and Euroclear)

InterAct: A message transfer protocol that takes advantage of the ISO 20022 standard and an XML format to facilitate message exchange in an automated and interactive manner.

Deriv/SERV: Provides automated repository and asset servicing for over-the counter (OTC) credit derivatives trades. It also provides related matching of payment flows and bilateral netting services. (Offered by DTCC Deriv/SERV LLC)

InterAct

Global Corporate Actions (GCA) Validation Service: A seamless corporate action announcement solution that delivers comprehensive, accurate and timely information for equities and fixed income instruments traded in Europe, Asia-Pacific and the Americas. (Offered by DTCC Solutions LLC)

FileAct: Allows secure and reliable transfer of files and is typically used to exchange batches of structured financial messages and large reports. It supports tailored solutions for market infrastructure communities, closed user groups and financial institutions.

Browse: A messaging service based on the https internet standard protocol. Designed to complement FileAct and InterAct, Browse offers customers the capability to browse remote web servers.

FIN, InterAct

Canadian-Link Services: Supports the processing and settlement of transactions in Canadian dollars at DTC; has processing capabilities for income, redemption and corporate actions payments. Additional services include dividends, redemptions and reorganizations. (Offered by DTC)

FIN

Loan/SERV Reconciliation Service: Allows for the reconciliation of more than 174,000 global lender positions daily between agents and lenders around the globe. (Offered by DTCC Loan/SERV LLC)

FileAct

Euro CCP: The European subsidiary of DTCC that provides pan-European, low-cost clearing services.

FIN, FileAct, Browse

Omgeo Central Trade Manager (Omgeo CTM): A platform for the central matching of cross-border and non-U.S. equity and fixed income transactions. (Offered by Omgeo, a joint venture between DTCC and Thomson Reuters)

FIN

Omgeo TradeSuite: A service that automates messaging and settlement for equity and fixed income securities. It provides seamless connectivity from execution to settlement on domestic and cross-border trades of U.S. securities. (Offered by Omgeo)

FIN

DTCC Wins Award for Excellence In OTC Derivatives Processing

by Roland Kielman

DTCC was named the Most Innovative Solutions Provider for derivatives processing by the U.K.-based Financial-i magazine. DTCC received the award for the role it has played in strengthening the operational infrastructure of the over-the-counter (OTC) derivatives market.

Financial-i featured the winners in its Q4 2010 issue. The Leaders in Innovation Awards recognize global transaction banks and financial hardware and software vendors that demonstrate an ongoing commitment to innovation throughout 2010 and that excelled in delivering business solutions across wholesale transaction banking.

“The selection process involved research by Financial-i and input from a panel including industry analysts, consultants, practitioners and journalists who selected the 2010 winners based on their ability to offer new or enhanced, innovative solutions to common business problems,” said Anita Hawser, managing editor, Financial-i.

‘Promoting transparency’

“The panel was impressed by DTCC’s continued leadership in the area of derivatives processing, particularly in relation to the role that DTCC’s global derivatives repositories play in the promotion of greater transparency throughout the OTC derivatives market,” said Hawser.

Other companies named on the short list for their accomplishments in derivatives processing included Markit and Calypso Technology. Markit, DTCC’s partner in its jointly-owned company MarkitSERV, is a leading global financial information and services company. Calypso Technology is a financial software and services company that provides an integrated trading, risk and processing

platform for derivatives and Treasury products.

“We are honored to receive Financial-i’s award for innovation in derivatives processing and congratulate the other recipients and nominees,” said Stewart Macbeth, DTCC managing director and general manager of the Trade Information Warehouse. “This award reflects DTCC’s efforts, in collaboration with the global OTC derivatives community, to address industry and regulators’ needs for greater transparency and risk mitigation in the trading of these instruments.”

The independent panel of judges included firms such as Aite Group, Lustratus Research, Celent, Chartis Research and TowerGroup. These companies provide research, analysis and strategic advice to the global financial services industry in areas such as information technology, risk management technology, and general business and regulatory issues.

Financial-i magazine is a quarterly publication that covers the latest trends and issues in cash-management, securities services, trade and supply chain finance, and the business solutions and market infrastructures that support the global transaction banking industry. Financial-i’s readers include more than 10,000 senior executives within global transaction banks, corporate treasurers, money and investment managers, financial software vendors and market infrastructure providers. @

DTCC’s OTC Derivatives Repositories

DTCC operates two global repositories for OTC credit and equity derivatives. Its New York-based subsidiary, Warehouse Trust Company LLC, serves as the central, automated repository and post-trade processing infrastructure for the global OTC credit derivatives market. Today, virtually all credit default swap (CDS) contracts in the US\$26.3 trillion market are registered in the Warehouse.

In 2010, DTCC established a new European subsidiary, DTCC Derivatives Repository Ltd, which operates the global equity derivatives reporting repository and maintains global CDS data identical to that in the New York-based Warehouse. This repository is located in London and regulated by the U.K. Financial Services Authority. In maintaining identical CDS data sets in two locations, DTCC is working to ensure that regulators have secure and unfettered access to global CDS data.



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