



DTCC Launches New OTC Equity Derivatives Cash Flow Matching And Netting Service by Judy Inosanto

DTCC has launched a new automated, global over-the-counter (OTC) equity derivatives cash flow matching and netting service (CFM), with all of the 14 major dealers (G14) live on the platform.

“In an environment where risk mitigation is paramount, the OTC derivatives community has placed great priority in promoting improved certainty in the market,” said Lawrence Waller, managing director, J.P. Morgan. “The new automated cash flow [continued on page 8]

DTCC Makes GCF Repo Index Downloadable To the Public

by Jim Conmy

DTCC announced in December that, as part of its ongoing effort to bring greater transparency to the multi-billion-dollar market for General Collateral Finance (GCF) repurchase agreements (repos), it is now making the full data pack underlying its daily GCF Repo® Index downloadable to the public.

“We see this as an important opportunity to make the GCF Repo Index a more powerful resource to provide insight into the market and to allow for more efficient and effective charting of

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**New DTCC Publication:
'Life Cycle of a Security'**

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financing rate movements and trends,” said Murray Pozmanter, DTCC managing director, Fixed Income Clearance and Settlement. “In addition, we believe making all the data underlying the index over the past year available for download will enhance the ability of market participants to analyze correlations between the rates on these instruments and other securities in other markets.”

The DTCC GCF Repo Index™, which DTCC began publishing at the beginning of November, lists the average interest rate paid each day for the most-traded general collateral repos involving U.S. Treasury securities, federal agency securities and mortgage-backed securities issued by Fannie Mae and the Federal Home Loan Mortgage Corporation.

The index also records the total par

value of these repo transactions each day.

Free of charge

Both the index itself and the underlying data for the previous year are now available free of charge each day at DTCC’s website, www.dtcc.com.

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

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

Calculating ‘cost of carry’

“Publication of GCF Repo rates on a daily basis helps dealers and investors manage their portfolios and calculate the potential cost of carry of the securities they

hold in inventory,” Pozmanter said. “It also enables institutional investors and corporations to estimate their short-term funding costs more accurately. The industry quickly recognized the enormous benefits of this data in enhancing transparency and indicated that having it available in a downloadable format would allow firms to glean additional insights into and understanding of the GCF repo market.”

After the publication of the index itself, some analysts speculated that the published rates, because they are an aggregate, could be used as the basis for futures contracts that broker/dealers might use to hedge or offset purchases in the cash markets.

Publication of the GCF repo rates is the latest in a series of steps DTCC has taken to bring greater transparency to global financial markets. Working with the New York Fed, DTCC began in 2009 to publish the volume of failures-to-deliver for trading in the U.S. Treasury markets. Through its Trade Information Warehouse in New York and its Derivatives Repository in London, DTCC also publishes data each week critical to the global OTC credit default swap market and to market regulators around the world. @

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For a free subscription, send an email with your mailing address to hcunningham@dtcc.com.



NSCC Begins Migration to New Trade Capture System by Craig Donner

National Securities Clearing Corporation (NSCC) has begun migrating its four legacy trade capture systems to a single, real-time validation and reporting engine that will deliver a host of risk mitigation and operational benefits to customers.

The phased launch of the Universal Trade Capture (UTC) system began on November 19 when NSCC sunset the Correspondent Clearing (CORR) application. Over the course of the next several months, NSCC will migrate the remaining three trade capture applications that interface with the exchanges and the over-the-counter (OTC) market, with the system expected to be fully operational by the end of January 2011.

“We successfully completed the first migration late last year and gained valuable insight that will help us as we continue the transition to UTC throughout January and February,” said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. “We are working closely with our customers and the exchanges throughout this process to ensure we make the migration as smooth as possible. We’ll also continue to support the legacy formats as promised so firms have the flexibility to transition to UTC on their own schedule.”

Standardized messages

Trade capture is considered the first step on the road to clearing a trade. After a trade is executed at virtually any of the equity trading venues in the U.S., including the major exchanges, transaction data is sent to NSCC for processing. NSCC edits the data and produces and transmits contract reports to the firms for reporting and reconciliation.

UTC is designed to modernize and transform this process by eliminating the four legacy systems that serve each

of the markets, replacing them with a single real-time system that features a standardized input record from all marketplaces and standardized real-time output messages to participants. (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.)

Another benefit of the new system is that it will increase NSCC throughput and reduce storage costs, which will boost efficiencies and accommodate future growth in trading volume.

Real-time capabilities

The UTC’s real-time reporting mechanism has been widely applauded by the industry because it will enhance risk management capabilities, which is particularly important in today’s fast-paced markets. It will also accelerate reconciliation and streamline the purchase and sales process for firms.

In addition, UTC will help reduce the cost of the post-trade process by giving firms normalized, or standardized, data in a common output format. This will eliminate the need for customers to run their own internal conversion programs or outsource the function to a third party.

The new standardized input and output formats will be available as a FIX message that can be communicated via MQ or the FIX engine. NSCC will also produce a new universal intra-day MRO file. In addition, UTC will continue to support existing interfaces with markets and customers. @

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

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Mutual Fund Services: Out of the Gate

DTCC Wealth Management Services enters 2011 with a series of enhancements to its Mutual Fund Services that will help customers further mitigate risk, reduce costs and expand their businesses.

“The business model of the funds industry is changing, so our emphasis during the past year has been to build on the strengths of our Mutual Fund Services to address these new market dynamics,” said Ann Bergin, DTCC managing director and general manager, Wealth Management Services.

DTCC’s innovative solutions provide tools for transparency and operational efficiency, as well as access to high-quality data – all of which support the organization’s commitment to safeguard the financial system. DTCC develops these solutions in collaboration with committee members of the Investment Company Institute (ICI) and other industry partners.

Following is an overview of the key enhancements of 2010.

Fund/SERV

Celebrating its 25th anniversary in 2011, Fund/SERV® continues to support the enormous transactional processing volumes created by funds and broker/dealers.

Last year, DTCC’s National Securities Clearing Corporation (NSCC) subsidiary introduced two important enhancements to the service, one of which extends its global footprint into the European markets and its user base: multi-currency settlement. It will be available by the end of January.

The capability to offer settlement in euros and British pounds sterling will give customers access to the tremendous efficiencies that Fund/SERV provides the U.S. market, and give the nearly 10,000 European investment funds an opportunity to expand their distribution networks across borders, Bergin explained.

Offered through a U.K.-based DTCC subsidiary called DTCC Solutions Worldwide Ltd., the cross-border service fills a long-standing void in global funds processing, reducing processing fees and handling costs for market participants.

The second enhancement to Fund/SERV is a new third-party membership category that allows financial intermediaries in the U.S. and globally to access Mutual Fund Services on behalf of their clients via a single connection, eliminating the need for multiple NSCC memberships and technology interfaces. Third-party membership will also be available in late January.

“Together, these innovations create a win-win situation for new and current customers,” said Annemarie Gilly, DTCC vice president, Wealth Management Services Product Management. “Fund companies participating in our services gain a broader distribution channel while the third-party provider’s clients gain access to funds participating on Fund/SERV – all with increased efficiency and lowered risk.”

Processing 529 Plans

529 plans, named for Section 529 of the Internal Revenue Code, are used to pay expenses at any qualified college in the



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U.S. They are popular investment vehicles that allow contributions to grow tax-deferred. The plans are municipal securities, so each state has its own program requirements and administrative methods. According to the Financial Research Corp. (FRC), the total assets in all 529 savings plans stood at \$127 billion as of the end of the third quarter of 2010. That's up 8.5% from the second quarter, when the value of 529 plans totaled \$117 billion. As these assets continue to grow, the need for operational efficiencies in processing them increases.

DTCC took steps to decrease 529 plan processing complexities by expanding the functionality of Fund/SERV and Networking (a core service that reconciles account-level information between funds and distributors).

"The modifications allow parties to capture information such as the beneficiary's Social Security number and address, and calculate cost basis and earnings-to-date dollar amounts," commented Josephine Torelli, DTCC vice president, Wealth Management Services Product Management. "By standardizing and centralizing this information, we are able to increase the accuracy of the data while providing greater transparency required for state and IRS reporting."

In addition, to assist customers in monitoring 529 accounts that may be reaching the limits set forth for 529 contributions, distributions and strategy changes, DTCC is creating a standardized process to communicate data elements for omnibus, networked and non-networked account information to comply with IRS

and state 529 regulations. Today, firms and funds fax or email information to each other or an aggregator to comply with these rules. DTCC is targeting the second quarter of 2011 for completion.

Omnibus processing

"In the mutual funds community there's a growing trend toward omnibus accounting, which means that broker/dealers take on more shareholder accounting," said Torelli. "As a result, there's a need for greater transparency and increased demand for our reconciliation and communication services."

Throughout 2010, DTCC worked with its industry partners to develop solutions that will provide omnibus transparency and reconciliation, and additional support services for the delivery and settlement of invoices.

"We're making great progress," said Torelli. "We are looking to leverage NSCC-standardized file formats to pass trade and position information, and we plan to enhance the existing Networking architecture and files to support our customers' need to reconcile their house account activity occurring at the fund company. In addition, we are reviewing enhancements that will support the delivery and settlement of invoices between broker/dealers and their omnibus fund partners, further expanding functionality within NSCC's standardized and secure environment."

DTCC completed phase one of this initiative in June 2010 and intends to

finalize reconciliation requirements in early 2011.

Mutual Fund Profile Service

DTCC's Mutual Fund Profile Service (Profile) is a comprehensive repository that allows fund companies to make available – in one secure location – all the information their distributors need to remain in compliance with each fund's prospectus requirements.

"It's critical for the industry to have a centralized warehouse for this data," said Torelli, noting that Profile is the fund industry's only automated, centralized data repository.

Enhancements to Profile's security issue database and web interface increased the overall data quality by enabling users to more easily enter and maintain fund information. The improved functionality provides front-end edits to data entry via upgraded web pages that feature new tools such as a data dictionary function, which gives definitions and examples for the approximately 250 data points in the database.

"Profile has reached a point of data excellence, thanks in large part to the vast majority of fund companies that ensured their information was accurate and up to date," commented Rita Gribben, DTCC director, Wealth Management Services Product Management. "We now have a robust service that will help all members of the fund industry."

Currently, more than 135 fund companies have populated Profile with pertinent data, supporting over 19,600 CUSIPs. In addition, more than 105 distributors now have access to the data. @

DTCC Launches Enhanced Service to Help Customers Comply With New Cost Basis Reporting Mandate

by Craig Donner

DTCC has launched an enhanced service that will help financial firms and other market participants comply with the new January 2011 regulatory mandate requiring the reporting of cost basis information to investors and the federal government.

The enhanced Cost Basis Reporting Service (CBRS) solves the technology and reporting challenges faced by the industry in meeting a key element of The Emergency Economic Stabilization Act of 2008, which called for financial intermediaries to pass cost basis information among one another when assets move among firms.

Hub for cost basis information

The service acts as a central communications hub that transmits cost basis information among broker/dealers, transfer agents, issuers, mutual funds and custodian banks in a secure electronic environment. It eliminates the need for market participants to undertake the expensive and time-consuming task of establishing potentially hundreds of new connections to transmit this information.

“The CBRS platform promotes standardization and centralization while also mitigating operational risk for our customers, reducing the cost of compliance and improving overall processing efficiencies,” said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. “As financial firms face heightened regulatory reporting requirements, we’re continuing to work closely with our customers to identify and develop solutions that will allow them to meet these new responsibilities in the most

efficient and cost-effective manner possible.”

Collaborating with the industry

DTCC Solutions LLC, a wholly-owned subsidiary of DTCC, leveraged the existing CBRS technology to build the enhanced service in less time – and at a lower cost – than it would have taken if the service had to be developed from scratch. The service also offers enhanced web access to give firms the flexibility to log on via the Internet.

DTCC began development of the service in 2009 after the industry approached the company to seek its help in complying with the new reporting requirement called for in the law. DTCC participated in the Cost Basis Steering Committee, which included a broad coalition of market participants, to begin scoping out a solution and establish best practices for basis reporting. The Committee included broker/dealers, transfer agents, mutual fund companies and industry organizations such as the Investment

Company Institute, the Securities Transfer Association and the Shareholder Services Association.

“Financial intermediaries recognized early on that they would need to overcome significant operational challenges in a relatively short timeframe to be in compliance with the law by January 2011,” Cosgrove said. “We worked closely with industry representatives for more than a year to ensure the service would achieve that goal while still meeting the unique needs of financial intermediaries. We’ve already begun work on enhancements to the service to allow firms to comply with future regulatory mandates.”

The law includes requirements for financial intermediaries to transfer cost basis information on mutual funds by January 1, 2012, and debt, options and other securities by January 1, 2013. @



DTCC Submits Comment Letters to Shape CFTC and SEC Dodd-Frank Rulemaking

by Craig Donner

DTCC has submitted several comment letters to the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) in response to proposed rulemakings to implement the Dodd-Frank Act.

The comment letters build on DTCC's government relations and public affairs program, which is focused on increasing knowledge about the company's capabilities through extensive in-person briefings with key stakeholders, including lawmakers, regulators and the media. These meetings also allow DTCC to share insights gained from its nearly 40 years of experience providing safety, soundness and stability to global financial markets.

"The comment letters give us an opportunity to formally communicate our policy positions to the agencies," said Larry Thompson, DTCC managing director and general counsel. "They allow us to provide detailed comments on the more technical parts of the proposed rules as well as outline alternate options that may prove more effective at achieving the goals of regulators without imposing undue and costly mandates on the industry."

Rulemaking process

The SEC and the CFTC are primarily responsible for implementing the 2,300-page Dodd-Frank Act, which calls for at least 243 separate rulemakings, 67 one-time studies/reports and 22 periodic reports. Under the Dodd-Frank Act, the majority of these rules and reports are required to be completed by July 2011. For this reason, the regulators have moved quickly to issue proposed rules for public comment.

Once the comment period closes, typically 30 to 60 days after a proposed

rule has been published in the Federal Register, the agencies spend four to six months reviewing the input and making revisions, if necessary, before voting on final approval.

Below is an overview of several rules proposed by the SEC and CFTC as well as highlights of DTCC's responses. The comment periods for these rules have closed.

DTCC plans to submit additional comment letters on proposed rules throughout the rulemaking process.

Agencies: CFTC and SEC

Interim Final Rule: Reporting Pre-Enactment Swap Transactions.

The interim final rule requires counterparties of swap transactions entered into, but not expired before enactment of Dodd-Frank on July 21, 2010, to report certain information to a registered data repository or to the appropriate agency. The interim final rule also requires counterparties to retain information relating to the terms of these pre-enactment swaps. **[continued on page 15]**



Definition of 'Rules'

As U.S. regulatory agencies implement the Dodd-Frank Act, they will issue interim final rules and proposed rules. What is the difference between the two?

An interim final rule is adopted as final by the regulatory agency and, concurrently, is published for public comment. All entities regulated by that agency must comply with the rule upon its publication, although the rule may be revised following the submission of public comments.

A proposed rule is published in the Federal Register and subject to public comment and revision by the regulatory agency. After the public comment period, the rule may be modified and is then submitted for approval by the commissioners in the form of a final rule.

New OTC Equity Derivatives Service *Continu*

matching and netting process for OTC equity derivatives facilitates seamless and timely settlement. J.P. Morgan is pleased to be working with the DTCC and our peers to bring such global solutions to market.”

The creation and use of the CFM system was part of a commitment the G14 made to global regulators in its March 1, 2010, letter to the Federal Reserve to strengthen the operational infrastructure of the OTC derivatives market. DTCC's Deriv/SERV subsidiary launched the service in collaboration with major market participants after being selected by the industry following an RFP (request for proposal) process managed by the International Swaps and Derivatives Association (ISDA®).

The CFM system is the first of its kind in the OTC equity derivatives space. The initial service supports various equity derivative products, such as vanilla options and swaps traded between the G14 dealers.

Transparency and risk mitigation

“As a member of the OTC derivatives community, Deutsche Bank – together with our industry colleagues – has made a pledge to regulators and customers to enhance the integrity of the OTC derivatives market,” said Martin Gould, director of Market Initiatives at Deutsche Bank. “CFM is an important step in furthering regulatory and industry objectives to bring greater transparency and risk mitigation to the global OTC equity derivatives market.”

“DTCC is focused on partnering with users of OTC derivatives markets, service providers, lawmakers and regulators to achieve our collective goal of reducing risk and protecting the soundness of the financial system,” said Stewart Macbeth, DTCC managing director and general manager of the Trade Information Warehouse. “In launching this new service, DTCC is working to help the industry

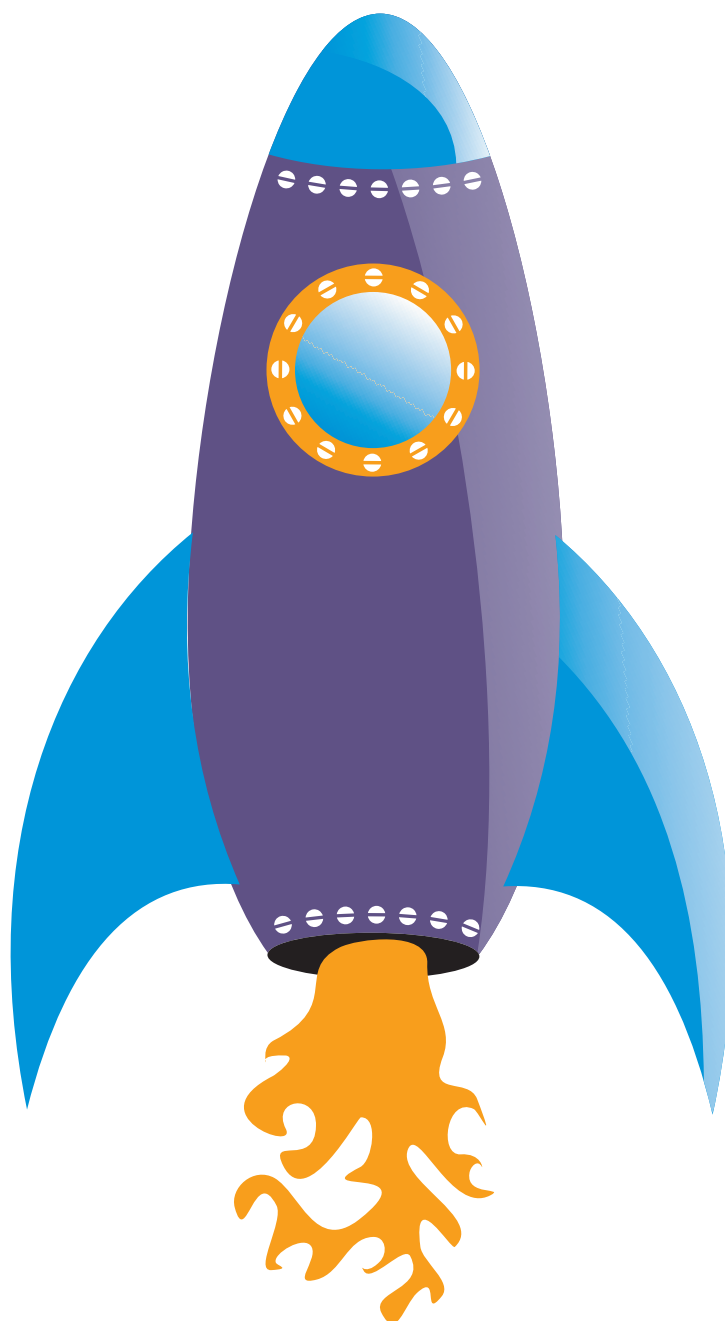
attain a greater degree of accuracy, certainty and operational efficiency in the processing of OTC equity derivatives payment obligations. We've seen the value that our Trade Information Warehouse's automated netting and settlement functionality has brought to the OTC credit derivatives market and we believe the Equities Cash Flow Matching service can now deliver similar benefits to another OTC derivatives asset class.”

How the service works

Payments must be made between counterparties of an OTC equity derivatives trade either at the time of the

transaction, or periodically for equity swap trades, or at the maturity of an option or variance swap.

Market participants can use Deriv/SERV's cash flow matching system to reconcile their payments ahead of the payment date. Upon calculating the amounts due to their counterparty, a market participant can submit cash flow information to the platform either through an MQ computer-to-computer link or via the web. Cash flow information includes payment details (payer, payment amount, payment type, payment date) and selected



trade confirmation details.

The CFM system provides many tools for reconciling and resolving payment discrepancies. It also provides participants with automated messaging and online web reporting of the matching status and progress.

“It has never been more important to ensure that market participants have in place operational tools that improve the processing of OTC derivatives transactions across the major asset classes, including equities,” said Charles Monnot, co-head of OTC Global Equities & Commodity

Derivatives Back-Office, BNP Paribas. “BNP Paribas is dedicated to working with the OTC derivatives community and service providers such as DTCC to bring to market applications that preserve the viability of the marketplace and its infrastructure.” @

DTCC's Global Repository Services

DTCC operates the global Equity Derivatives Reporting Repository (EDRR) for the over-the-counter (OTC) equity derivatives market through its European-based DTCC Derivatives Repository Ltd subsidiary.

DTCC built EDRR to bring greater transparency into the trading of these instruments and all of the 14 global market dealers are live on the service. EDRR generates reports that keep market participants and regulators up to date on the industry's outstanding OTC equity derivatives notional and open positions, as well as other position-related information through a single, secure easy-to-access portal.

DTCC Derivatives Repository also houses global credit default swap (CDS) data that mirrors the data registered in DTCC's New York-based Warehouse Trust Company LLC. This helps ensure regulators globally have secure and unfettered access to CDS information by establishing identical data sets on two continents. DTCC Derivatives Repository is a U.K. Financial Services Authority (FSA)-regulated service company.

Warehouse Trust Company LLC is DTCC's U.S.-based global trade repository and centralized lifecycle event processing, netting and settlement service for the approximately US\$26.6 trillion CDS market. Virtually all CDS contracts are registered in the Warehouse, whose customer base includes all global derivatives dealers and more than 1,800 buy-side customers in 50 countries.

Published data

To help bring greater transparency to the market, DTCC publishes weekly on its website (www.dtcc.com) current and historical aggregate data on CDS trades maintained in the Warehouse.

DTCC also provides global regulators with specific counterparty information based on guidelines provided by the OTC Derivatives Regulators' Forum (ODRF). Comprising more than 40 international financial regulators, central banks and banking supervisors, the ODRF was formed to provide regulators with a means to cooperate, exchange views and share information related to OTC derivatives, central counterparties and trade repositories.

Matching and confirmation

DTCC, along with Markit, also provides OTC equity, credit and interest rates matching and confirmation through its jointly-owned company, MarkitSERV.

'In launching this new service, DTCC is working to help the industry attain a greater degree of accuracy, certainty and operational efficiency in the processing of OTC equity derivatives payment obligations. We've seen the value that our Trade Information Warehouse's automated netting and settlement functionality has brought to the OTC credit derivatives market and we believe the Equities Cash Flow Matching service can now deliver similar benefits to another OTC derivatives asset class.'

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

DTCC Moves Ahead on Corporate Acti

Patrick Kirby, DTCC managing director of Asset Services, recently met with @dtcc to discuss DTCC's corporate actions reengineering initiative, provide a progress report on its implementation and talk about the benefits the reengineering will bring to the industry.

CAN YOU GIVE US SOME BACKGROUND ON WHY THE REENGINEERING INITIATIVE IS SUCH AN IMPORTANT DEVELOPMENT FOR THE INDUSTRY AND CORPORATE ACTIONS PROCESSING?

DTCC plays a critical role in processing virtually all corporate actions affecting equities and corporate and municipal bonds in the United States. Each year, we handle millions of corporate actions ranging from cash dividend and interest payments to corporate mergers and reorganizations. In 2010, we processed corporate actions involving more than \$3 trillion.

We developed our current corporate actions processing platform over many years with different systems created to meet specific needs. In that time, the processing of corporate actions has become increasingly challenging. Today, the nature of events is more complex and the needs of our clients have changed. We needed a new system that would dramatically boost efficiencies and reduce cost and risk. The reengineered corporate actions platform will achieve these objectives by upgrading and replacing many of the existing 60 legacy systems. It will automate and streamline the process with a single new platform that will handle increasingly sophisticated types of securities, both domestic and international.

CAN YOU TELL US WHERE WE STAND IN IMPLEMENTING THE NEW SYSTEM?

Because of the size and complexity of the initiative, we are implementing it in several phases over the next four years. You have to realize this involves work not only on the part of DTCC, but on the part of our customers and vendors as well. They will need time and resources to meet the new requirements that come with the reengineering. For DTCC's part, we are looking at a total overhaul. We're introducing a whole new system for corporate actions with ISO 20022 messages, a new browser-based user interface and the XBRL tools needed for issuers to communicate with us.

[Note: XBRL is a technology that allows issuers to electronically tag financial information in a standard format, which then permits recipients of the information – DTCC and financial firms – to re-transmit that information to investors without having to re-key it into their systems.

In the U.S., the Securities and Exchange Commission (SEC) has mandated the use of XBRL for the largest public companies' financial statements.]

WHAT KIND OF HEADWAY DID YOU MAKE IN THE PAST YEAR?

We made substantial progress in 2010 on several fronts. We posted on our website a corporate actions RoadMap and Timeline, along with a detailed list of technical documents and specifications covering legacy files, ISO 20022 messages, corporate action scenarios and related items. Working with SWIFT, we also released for public comment ISO 20022-compatible corporate actions announcement messages that will help

support the entire lifecycle of a corporate action.

We subsequently posted revised drafts of the announcement messages after incorporating industry feedback we gathered from several workshops with SWIFT and custodian banks. We also vetted the messages with The International Securities Association for Institutional Trade Communication [ISITC], an industry



PHOTOGRAPHY BY ROLAND KIELMAN

group that promotes straight-through processing.

Sibos, an international financial services forum sponsored by SWIFT and held in Amsterdam last September, gave us the opportunity to address the global corporate actions audience. Dan Thieke, a vice president in Asset Services, participated in a panel discussion outlining our work with and our expectations for ISO 20022 messaging, and I took part in a panel discussion on XBRL and its use in the U.S. and Europe. We received lots of good, constructive feedback from both sessions.

WHAT WERE OTHER MILESTONES IN 2010?

We demonstrated our new browser-based user interface to more than 1,000

ons Reengineering

by Edward C. Kelleher

customers in 50 webinars and it got the thumbs up across the board. Customers were particularly enthused that the browser incorporates all event types – distributions, redemptions and reorganization – into one system with a dashboard for each event type. This, in effect, gives users a unified corporate actions platform. One customer described it as “the most developed prototype of its

on corporate actions processing which we’re now implementing. The business case recommended adopting a single set of global information and technology standards, tagging corporate actions documents in the XBRL format and disseminating corporate action information electronically, as close to real time as possible. The business case pointed out the major benefits these recommendations

over the next several years, with the goal of retiring all legacy file formats on or before 2015.

The second pilot involves the browser-based user interface for corporate action announcements, which we will implement in phases. We will commence distributions for dividend and interest payments and redemptions in 2012, and reorg in 2013.

We expect to be able to offer

connectivity to issuer-based XBRL tools at the end of 2011.

WHAT ARE THE NEXT STEPS FOR THE ISO 20022 MESSAGES FOR ENTITLEMENTS, ELECTIONS AND PAYMENTS?

We’ll continue working with SWIFT and the industry in the coming months to define the messages that will complete the lifecycle of a

security, and we’ll phase them into the reengineering initiative during the next three years. [See article page 12.]

WHAT ARE YOUR PLANS FOR HELPING CUSTOMERS TRANSITION TO THE NEW SYSTEM?

Throughout the year, we’ll continue working with customers to help them transition to the reengineered system, encouraging them to participate in corporate action webinars and to watch the latest webcasts. We’ll also visit our customers throughout the year to listen to their concerns, answer questions and talk about the benefits the new system will bring to them and to the industry. @



kind that we’ve seen” – and that’s a direct quote.

Our Global Corporate Action Validation Service (GCA VS) significantly increased the number of securities it covers. In addition to corporate action announcement information from 160 countries worldwide, customers can now obtain scheduled payments information on all structured securities held by the Federal Reserve Bank, as well as scheduled interest payment and maturity data on a large number of fixed income securities that are not currently DTC-eligible from around the globe.

We also completed a detailed business case on corporate actions with SWIFT and XBRL US that made key recommendations

would bring, including a saving of more than \$172 million annually to investors and investment managers.

CAN YOU TELL US WHAT DTCC PLANS FOR CORPORATE ACTIONS IN 2011?

We will be launching two test pilots in April, starting with a pilot of the ISO 20022 announcement messages. At the conclusion of that pilot, corporate action customers can begin using the ISO 20022 announcement messages at any time. Eventually, all firms using our corporate actions files will have to switch to the ISO 20022 system to receive corporate action information, but we are providing a long transition period. As I’ve said, DTCC will phase in its corporate action reengineering

DTCC Publishes Updated ISO 20022 Specifications for Corporate Actions Processing

by Edward C. Kelleher

DTCC has published updated drafts of new ISO 20022 corporate action announcement specifications which will be used in a pilot test with custodian banks, broker/dealers and other corporate actions users beginning this April.

While the pilot of the DTCC system using ISO 20022 announcement messages will involve a limited number of financial services providers, all firms using DTCC corporate actions will ultimately have to switch to ISO 20022 messages to receive corporate action information.

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

Standardized messages

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 what supplemental information was needed in these extensions for corporate actions processing in the U.S.

“It was important that DTCC, SWIFT and the industry thoroughly examine these messages, since they will be the principal way we announce corporate actions and will be the basis for the corporate actions messaging pilot program that DTCC will launch this spring,” said Patrick Kirby, DTCC managing director, Asset Services.

“DTCC and SWIFT conducted several workshops in the past five months with custodian banks and broker/dealers to review the new message specifications proposed for the announcement phase of the corporate actions reengineering initiative,” said Kirby. “The workshops were held to make sure that the message specifications accommodate the wide range of industry needs.” DTCC also reviewed the supplementary data with The International Securities Association for Institutional Trade Communication (ISITC), an industry association, which acts in part as the U.S. National Market Practice Group for ISO messaging standards.

Browser pilot

A new browser-based user interface for corporate actions also will begin pilot testing in April to coincide with the ISO 20022

messaging pilot. This initial version of the browser will consist of announcements for all event types across distributions, redemptions and reorganizations, and later will incorporate the entire corporate actions lifecycle, including elections, instructions and payments. This unified corporate actions platform will eventually replace the varied corporate actions functionality in the legacy systems that customers use today.

“The browser’s enhanced functionality will boost firms’ operational efficiencies and allow them to manage all corporate action events through the entire lifecycle in one platform,” said Robert Epstein, DTCC vice president, Asset Services.

Updated documents

Earlier this year, DTCC released the original draft messages for public comment on corporate actions including announcements, entitlements, elections and payments using the new ISO 20022 standard. Revisions have been made in several technical documents posted on DTCC’s Corporate Actions web pages, including:

- The Documentation Guide
- ISO 20022 Messages Specifications for Announcements
- The Corporate Actions Scenario Documents
- Corporate Actions Events Dictionary and Data Elements Dictionary.

DTCC plays a critical role in processing virtually all corporate actions affecting equities and corporate and municipal bonds in the U.S. and processes more than \$3 trillion in corporate actions annually. DTCC’s reengineering initiative will upgrade and replace many of the 60 legacy systems that currently support corporate actions, creating a platform capable of handling increasingly sophisticated types of securities, both domestic and international. DTCC will phase in its corporate action reengineering over several years, with the goal of retiring all legacy file formats on or before 2015.

The ISO 20022 message specifications are part of DTCC’s corporate actions reengineering initiative that will help mitigate risk and automate and transform the way corporate actions are announced and processed in the United States. @

[To review the latest DTCC documents and technical specifications go to www.dtcc.com/carengineering.

To review the ISO standards and messages, registered users may go to www.iso20022.org/catalogue_of_unifi_messages.page.]

'Life Cycle of a Security'

by Steve Letzler

DTCC has published a new book called "Life Cycle of a Security" that provides a high-level look at the activities that underpin securities and ensure safety, soundness and risk mitigation in the global financial marketplace.

The booklet focuses principally on the activities of The Depository Trust Company (DTC), the depository subsidiary of DTCC and the world's largest central securities depository. It provides a concise, plain-English explanation of how DTC supports the launch of initial public offerings (IPOs), completes settlement of securities transactions, holds custody and services the assets on behalf of the industry.

Second in a series

The new book is a companion piece to "A Guide to Clearance and Settlement - An Introduction to DTCC," which DTCC published in 2009. Policymakers have recognized that book's value. Over the past year, during discussions on U.S. financial market reform, the book played a critical role in helping to educate members of the U.S. Congress, their staffs, regulators, media, academics and other parties about DTCC and how DTCC protects the integrity of the financial markets.

The "Guide to Clearance and Settlement" has been recognized for providing an excellent overview of clearing and settlement of securities and defining the role of DTCC in the process by customers, infrastructure organizations and exchanges around the world. In China, for instance, according to comments received by DTCC, the book has provided new understanding about how the U.S. markets function.

One senior executive at a Wall Street firm said in an email to DTCC: "Great job! This is just what the Street needs." Another executive in London noted, "The book has proven popular with our Operations Teams in Dublin and Canary Wharf. Can you send a dozen more?"

The book also won praise in the media in both the U.K. and the U.S. The Wall

Street Journal cited the publication in its Overheard column on November 18, 2009: "The 'Guide to Clearance and Settlement' explains an unglamorous but vital financial pillar, with such page-turning chapters as 'Matching and Netting.'" Overheard welcomed the "plain-English" approach. According to Global Custodian, "The book succeeds triumphantly in its aim of conveying the core concepts of clearing and settlement, while keeping the narrative at a level Everyman (and Woman) can understand."

Copies of both books are now part of the collection at the Museum of American Finance and the Securities and Exchange Historical Society, which will help to codify DTCC's rich history and role in the financial services industry.

Explaining DTCC's 'vital role'

"These publications are important because as policymakers and others begin to understand our role as a market-neutral, at-cost utility, we gain their trust and their willingness to listen to our expertise and input," said Donald F. Donahue, DTCC CEO. "Together, we believe these two booklets provide a broad overview of how capital markets work behind the scenes, and the vital role DTCC plays in bringing safety, reliability and transparency to the financial markets."

To obtain a copy

The new book is available free of charge to DTCC member firms through DTCC's Relationship Services at +1 800.422.0582 or emailing rmsupport@dtcc.com. Regulators may contact Courtney Hill in DTCC's General Counsel's Office to obtain a complimentary copy by calling +1 212.855.3224 or emailing chill@dtcc.com.

Both books are also available for sale at Amazon.com at \$9.95 each. @



DTCC Learning Offers Courses on Asset Services

DTCC Learning offers an extensive set of learning resources on Asset Services provided by The Depository Trust Company subsidiary, including the new Corporate Actions Reengineering dashboard.

These resources are a blend of self-paced tools and instructor-led webinars available free via DTCC Learning's Asset Services Learning Center at <http://dtcclearning.com/learning/assetservices>. Firms can also request consultative learning services or participate in periodic sessions held regionally by DTCC. For more information, contact DTCC Learning's Training Administrator at +1 888.258.6393 or email training_administrator@dtcc.com.

DTCC Upgrades Email Security by Karen Gregory

As part of DTCC's drive to mitigate risk by protecting the information it handles on behalf of the industry, the organization has further strengthened its email security.

The latest enhancements add new levels of encryption to protect the integrity of non-public information (NPI) that is exchanged with customers. Examples of NPI are names, birth dates, ABA routing numbers, Social Security and credit card numbers.

The new capabilities build on a protocol DTCC implemented in 2006 called Transport Layer Security (TLS). Mark Clancy, DTCC managing director and chief information security officer, explained that TLS protects information by encrypting email messages between servers without any user intervention.

Now, DTCC has expanded its TLS protocol to include NPI. In addition, for those customers that cannot or do not use TLS when sending NPI or other sensitive information, DTCC has developed a new secure email gateway.

"Together, these capabilities allow us to continue using the tools our customers are familiar with and, at the same time, ensure that our communications are securely and consistently protected as they flow between our network and our customers' networks," Clancy said.

In January, customers began testing the new protocol, which will go live March 15. After that date, customers will be required to use one of the encryption methods for exchanging NPI data with DTCC via email.

Ensuring regulatory compliance

When the state of Massachusetts announced a new compliance regulation in March 2010 requiring the protection of personal information contained in both paper and electronic records, DTCC implemented a temporary measure whereby its system returned to senders any email deemed to be potentially in conflict with the handling requirements of the regulation.

"The Massachusetts regulation gave us an opportunity to look at our full customer base outside of the TLS environment," Clancy explained. "That, in turn, led us to create a more robust technology solution to enforce protection of a wider array of content based upon automated detection."

The new capability also protects messages that users specify they want encrypted when an automated rule might not otherwise kick in. "An automated rule is an application within the system that looks at the content of the message," explained Clancy. "If the NPI content matches, for example, a Social Security number, the system automatically redirects the message to the secure mail delivery gateway."

How the protocols work

Here's the difference between the two types of encryption.

TLS Encryption: Customers already utilizing TLS will receive NPI in the same way they now receive other restricted emails. As TLS automatically encrypts the transmission of the message at the sender's gateway and deciphers it at the recipient's gateway, documents can be opened immediately in readable form without any further steps being taken.

TLS also allows customers to leverage their existing compliance monitoring and records retention systems without modification.

Non-TLS Encryption: This capability will ensure DTCC email is securely delivered to customers that do not use TLS.

DTCC will encrypt outgoing email content, wrap it inside an envelope and send it with a message to the recipient directing the individual to a secure email gateway. After going through an initial registration process, the recipient will be able to download the document – now decrypted – to his or her computer. To eliminate any possibility of spamming or spoofing, DTCC will disable the "Reply" and "Forward" functions from the secure email gateway.

DTCC is advising customer firms that have a policy blocking access to encrypted messages to work with their information technology support teams to enable the TLS protocol on their existing mail gateways. @

[For more information, customers can contact Parthiv Shah, DTCC vice president, Information Security Technology, at pshah1@dtcc.com.]



Industry Encryption Standard

BITS is a division of the Financial Services Roundtable, and the Financial Services Information Sharing and Analysis Center (FS-ISAC), both Washington, D.C.-based organizations representing the banking, securities, investment and insurance communities. BITS is urging its members to use the TLS protocol for sending email traffic wherever possible and especially between financial institutions.

"Implementing email security protocols, such as TLS, will help to improve the confidentiality and integrity of information exchange among financial institutions and their customers and clients," said Bill Nelson, president of the FS-ISAC. "We applaud DTCC for being in the forefront of this movement."

Dodd-Frank Rulemaking *Continued from page 7*

Overview of DTCC's Response: DTCC's comment letter expresses support for preserving data on pre-enactment unexpired swap transactions and notes that the reporting of a binding, legal electronic record agreed to by the two counterparties to such a transaction should satisfy the rule's reporting and document retention requirements. DTCC also raises awareness that the rule's single counterparty reporting obligation could result in the fragmentation of swap market data, which would decrease the utility of the information collected.

Agencies: CFTC and SEC

Proposed Rule: Mitigation of conflicts of interest in the ownership and governance of derivatives and security-based swap clearing organizations, designated contract markets, national securities exchanges that post or make available for trading security-based swaps, and swap and security-based swap execution facilities (referred to as "registered entities").

The SEC and CFTC each issued separate rules to mitigate potential conflicts of interest in the ownership and governance of these entities, and the proposed rules conform in many aspects. In general, each set of rules imposes certain composition and governance requirements on the boards and specified committees registered entities, as well as certain limits on the ownership and voting power of affiliates and members.

Overview of DTCC's Response: For both the SEC and CFTC rules, DTCC recommends eliminating the ownership and voting limitations in their entirety because of their potential negative impact on capital, liquidity and systemic risk. DTCC believes the

structural governance requirements outlined in each of the proposed rules offer the best solution to meet the goals of regulators. DTCC also expresses its support for ensuring an independent perspective is represented on the board of directors and committees. DTCC recommends, however, that the indirect application of the rules to affiliates and members be eliminated or refined and, in any case, that DTCC as a user-owned financial market utility should not be subject to certain of these rules.

Agencies: CFTC and SEC

Proposed Rule: Proposed rules on swap data repositories (SDRs), reporting and recordkeeping.

Overview of DTCC's Response: In advance of the release of the proposed rules, DTCC reinforced its policy positions in a comment letter that focused on the value of SDRs as a single source of information that can help regulators effectively monitor and mitigate systemic risk. The letter also notes that Dodd-Frank authorizes regulators to designate one repository to act as an aggregator of multiple repositories in order to have a consolidated and complete view of market activity. In addition, DTCC explains the need for SDRs to maintain a legally binding electronic record and perform asset servicing to support market oversight, and also highlights the necessity for appropriate indemnification provisions to ensure regulators have access to comprehensive data from repositories. @

[To view the letters, visit www.dtcc.com and go to Thought Leadership, then Issues & Initiatives, then click the first link.]

Calendar Reminder: Feb. 7 Marks Change to P&I Processing

The Depository Trust Company (DTC) will begin processing principal and income (P&I) payments using a new methodology on February 7, 2011, and will allocate only those P&I payments that have been made on time and identified with the correct CUSIP.

The new methodology, first announced in November 2009, will mitigate risk in P&I payments on the more than 3.5 million securities that DTC services. The new process changes the longstanding industry practice of having DTC collect and allocate virtually all payments on their

scheduled payable dates, including those payments made to DTC after established intraday cut-off times or received without the detail needed to allow a payment to be paired with its CUSIP number.

P&I webcast

DTC customers can get the latest information on P&I payment processing by accessing DTCC's P&I Cash Processing website and viewing the new P&I webcast, which DTCC designed to help customers understand and prepare for the

changes. The webcast outlines the new methodology and its impact on paying agents, issuers and participants, as well as the actions each group needs to take to be compliant with the changes.

To view the webcast, go to www.dtcc.com, Customer Center, Customer Tools, Principal & Income Payments Refinement. @



Sometimes It's Better to Leave 'Small Change' on the Table

DTCC's Fixed Income Clearing Corporation (FICC) has received approval from the Securities and Exchange Commission (SEC) to let it do away with the requirement that trading parties pay each other any "small change" that may be left over after mortgage-backed securities trades are completed.

"Sometimes," noted Sean Delap, DTCC vice president, Fixed Income Product Management, "there can be a slight difference in value between the mortgage-backed securities that are traded and the pools of mortgages that are delivered to cover the securities. When that happens," he said, "FICC calculates a cash adjustment to bridge any difference between the value of the trade and the value of the

underlying securities."

Now, however, FICC has obtained SEC approval to do away with the need to have the parties pay any small differences to each other. "In effect," Delap said, "the variances are now so small in comparison to the size of the trades that it often costs more to process the exchange of cash than the amount of cash involved."

Round numbers

FICC reviews the securities delivered at clearance time to see whether they're in precise \$1,000,000 par amounts. Under FICC's longstanding guidelines, the value of securities can vary – they can be over or under – by up to \$100 per each million-dollar increment. Any amount over the \$100 permitted variance had to be

returned, and any amount below the \$100 variance had to be paid.

"Years ago, when mortgage-backed securities trades were physically settled, it was hard to organize physical pools into exact \$1,000,000 par amounts for delivery. In those days, there were sometimes sizeable variances," Delap said "Now, however, delivery and settlement are computerized, and the variances are small or non-existent."

Consequently, FICC asked the SEC to allow it to eliminate the cash adjustments. The result is the equivalent, according to Delap, of the little bowl with extra pennies in it that merchants keep on the counter next to the cash register so that customers can pay an odd amount without having to hand over another dollar bill. @

'The New World of Risk Mitigation'

Donald F. Donahue, DTCC's CEO, published an opinion piece in the December 2010/January 2011 issue of FTSE Global Markets that discusses changes taking place in the global financial markets and the heightened focus on risk management, along with DTCC's response to the new environment and the implications of the changes for customers of the organization.

"At DTCC, we understand that the bar of regulatory expectations on risk has been raised and what used to be normal or standard operating procedure is fast becoming history," Donahue writes. "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 – all aspects of risk – both within DTCC and within the financial system we are a key part of."

FTSE Global Markets is a bi-monthly publication, with 20,000 readers globally. It provides commentary and analysis on the world's equity and debt markets. The publication's circulation represents a broad cross-section of market professionals from financial institutions, pension funds, mutual funds, stock exchanges, hedge funds, investment firms, brokerages and trading floors as well as specialist data providers.

To read Donahue's entire article, go to www.berlinguer.com and click the most recent issue of the magazine. @



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