



# DTCC Launches Portal To Give Global Regulators Access to CDS Data

by Judy Inosanto

**D**TCC has launched an automated portal to provide regulators worldwide with direct, online access to global credit default swap (CDS) data registered in DTCC's Warehouse Trust Company LLC global repository. Currently, 20 regulators around the world are live on the portal.

This is the first such global regulatory service of its kind in the financial marketplace and was designed based on guidance provided by the OTC Derivatives Regulators Forum (ODRF) [continued on page 9]

## NYPC Prepares For March 21 Launch

**A**fter receiving final approval from the Commodity Futures Trading Commission (CFTC) to engage in "one-pot" margining with DTCC's Fixed Income Clearing Corporation (FICC) subsidiary, New York Portfolio Clearing (NYPC) announced plans to launch operations formally on March 21.

As part of the launch, NYSE Liffe U.S. announced that it will begin trading Eurodollar futures on March 21 and will launch 2-year, 5-year and 10-year U.S. Treasury futures along with U.S. Bond and Ultra Bond futures products on March 28, subject to regulatory filings.

NYPC is a joint venture of DTCC and NYSE Euronext created to deliver unique

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Q&A with the CEO of NYPC



DTCC Chairman and CEO Gives Testimony on OTC Derivatives



DTCC Simplifies 529 Plan Monitoring

capital efficiencies to the market by netting and reducing risks between a clearing member's portfolio of cash bonds and derivatives. It will also provide important operational efficiencies to its members, including the "locked-in" trade delivery process that allows expiring futures to be seamlessly submitted to FICC for physical delivery.

In commenting on the CFTC approval, which was announced on March 2, Walter Lukken, CEO of NYPC said, "Today marks a historic day for competition and choice in the futures industry. In receiving these final regulatory approvals, NYPC is now ready to offer unprecedented capital and

operational efficiencies to the fixed income markets. While long in the making, I believe NYPC's value will prove worthy of the wait." (See Q&A with Lukken on page 3.)

Interest-rate futures traded on NYSE Liffe U.S. will benefit from the powerful capital efficiencies of NYPC's one-pot margining which, for the first time ever, will assess margin across fixed income securities, repos and interest rate futures to more accurately capture the actual risk of a clearing member's portfolio. Additionally, all U.S. Treasury Futures traded on NYSE Liffe U.S. will benefit from an innovative, streamlined delivery process allowing for the seamless netting of futures and cash securities. These innovations provide unique benefits to global futures market participants by reducing the cost, complexity and risk inherent in the

traditional trading and clearing model.

"We thank our members and clients for their unwavering commitment as we have worked in partnership toward planning this revolutionary cross-platform launch," said Lynn Martin, COO of NYSE Liffe U.S. "We are excited to bring real competition and choice to the U.S. futures market through this one-of-a-kind service."

NYPC's "open access" architecture will enable other derivatives exchanges and clearinghouses to link into the "one-pot" margining system, providing a viable alternative to the dominant vertical clearing model and enabling new entrants to compete in the U.S. futures market.

At launch, one-pot margining of cash and futures positions will only be available for the proprietary accounts of common members of NYPC and FICC. @

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**'Today marks a historic day for competition and choice in the futures industry. In receiving these final regulatory approvals, NYPC is now ready to offer unprecedented capital and operational efficiencies to the fixed income markets.'**

— Walter Lukken, CEO of NYPC



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# NYPC: Reducing Risk and Improving Capital Efficiencies

by Steve Letzler

**W**alter Lukken, the CEO of New York Portfolio Clearing (NYPC), the start-up U.S. derivatives clearinghouse owned equally by DTCC and NYSE Euronext, recently sat down with @dtcc to provide an update on this innovative joint venture.

When it launches on March 21, NYPC is expected to reduce risk and deliver capital efficiencies to its members in the fixed income markets by providing a single margin calculation across fixed income trades cleared at DTCC's Fixed Income Clearing Corporation (FICC) and futures traded on NYSE Liffe U.S. This groundbreaking capability is called "one-pot" margining.

Before being named to NYPC, Lukken was senior vice president at NYSE Euronext and a board member for both NYSE Liffe in London and NYSE Liffe U.S. Prior to that, Lukken served as Acting Chairman of the Commodity Futures Trading Commission (CFTC) for 18 months and commissioner of the CFTC since 2002. He also served for five years as counsel on the professional staff of the U.S. Senate Agriculture Committee under Chairman Richard Lugar, specializing in futures and derivatives markets.

## WHAT IS NYPC'S BASIC VALUE PROPOSITION?

The main idea for NYPC is to provide one-pot margining in the fixed income markets, which will help mitigate risk in the market while delivering capital efficiency to the clearing members of NYPC and FICC, at a time when capital is in great demand. The ability to see a firm's entire portfolio – both cash and futures positions – and the associated risk in one spot is a win-win both for the regulators and for the marketplace.

## WHAT IS NYPC'S STATUS IN TERMS OF REGULATORY APPROVAL?

NYPC has spent the last 18 months in discussions with regulators, providing them with the information and testing necessary to show that this initiative will benefit the markets without adding risk to the system. Our primary regulator is the Commodity Futures Trading Commission [CFTC], which approved our registration as a U.S. Derivatives Clearing Organization on January 31, 2011. On February 28, the Securities and Exchange Commission also approved FICC's rule change to allow it to engage in one-pot margining with NYPC. [See article, page 6.] On March 2, the CFTC approved a similar order for cross-margining for NYPC. These final approvals will enable us to launch the clearinghouse on March 21, 2011.

## WHAT TYPE OF TESTING DID NYPC CONDUCT TO VALIDATE ITS RISK MODEL?

Coming out of the financial crisis, the regulators were understandably cautious about an initiative that could require less margin for certain firms that are hedged in these markets. We had to demonstrate how our risk model could maintain the highest

level of risk management at a clearinghouse, while at the same time delivering capital efficiencies.

In order to do that, we conducted rigorous testing with a variety of real and hypothetical portfolios to demonstrate to the regulators that we will meet or exceed the highest global standards in risk mitigation.

## NYPC HAS AN INNOVATIVE CONCEPT OF MARGINING ACROSS ASSET CLASSES. WHICH INSTRUMENTS WILL BE ELIGIBLE FOR THE SINGLE POT?

Initially, these will be Eurodollar futures contracts and U.S. Treasury futures contracts listed on NYSE Liffe U.S., including the 2-year, 5-year and 10-year U.S. Treasury Note futures and U.S. Treasury bond futures.

FICC will continue to clear the cash positions it now clears: U.S. government securities and agencies, as well as the repo transactions for which FICC serves as central counterparty. All these products will be in the one-pot margining arrangement when NYPC launches.

## SO NYPC WILL MARGIN THESE PRODUCTS IN A SINGLE POT FOR RISK PURPOSES, BUT THE CASH AND FUTURES PRODUCTS WILL CLEAR AND SETTLE SEPARATELY?

Correct. The bridge between these clearinghouses occurs in the margin calculation and risk management. Once operational, there will be one margin calculation for a firm's entire portfolio, inclusive of cash and futures. Then, based on that calculation and using FICC's value-at-risk methodology, we will assign the margin calculation amounts to both the FICC side, as well as to the NYPC side.

There will still **[continued on page 4]**

# NYPC: Reducing Risk and Improving Capital Efficiencies *Continued from page 3*

be legal and regulatory differences between the clearinghouses, but for the first time, the risk management of these instruments will be integrated and unified. FICC will perform the margin calculations for NYPC, working closely with our chief risk officer to make sure this process is completely coordinated and integrated.

At launch, one-pot margining of cash and futures positions will only be available for the proprietary accounts of common members of NYPC and FICC.

## WHERE IS NYPC OPERATIONALLY? HAS EVERYTHING BEEN TESTED AND RUN?

We're in the final stages of testing. We spent February conducting final dress rehearsals with firms, and making sure the connectivity is there. We will be ready to go for our March 21 launch.

## CAN YOU TELL US WHERE NYPC STANDS IN TERMS OF CUSTOMERS?

We expect to have somewhere in the vicinity of 10 to 12 clearing firms on the first day of operations, including all the major firms you would expect to be there on day one. So, we're thrilled about that.

For firms that want to wait and see, we'll move quickly to get them in the door in a Phase II implementation. And we are highly motivated to bring additional firms on board in the next couple of months. My job as CEO of NYPC is to bring as much volume into the clearinghouse as possible.

## DO YOU ANTICIPATE THAT OTHER EXCHANGES WILL USE NYPC?

Yes. It's important to remember that NYPC is an open-access clearinghouse, meaning any exchange that meets certain objective criteria and wants to plug into NYPC and its one-pot arrangement with FICC can do so. We want to encourage other exchanges to join and to bring them on board as soon as it is operationally feasible for them to do so.

## HOW WOULD NYPC MARGIN ONE EXCHANGE'S CONTRACT AGAINST ANOTHER EXCHANGE'S CONTRACT?

They are not fungible in the sense that you won't be able to buy a contract on one exchange and close it out on another exchange. But the one-pot arrangement would treat these contracts equally for risk management and margining purposes.

## WHY ARE YOU LETTING OTHER CLEARINGHOUSES CONNECT TO NYPC?

NYPC is committed to giving the market flexibility and choice. We want to offer multiple options for accessing our system. While an exchange plugging into NYPC may be the simplest arrangement, some exchanges may want to maintain the relationship with their current clearinghouse, so they will want that clearinghouse to have the primary relationship with NYPC.

There are a variety of ways to structure these types of arrangements. For instance, we could allow one clearinghouse to become a super clearing member of the other clearinghouse, what we call a limited-purpose participant. This model has been used in the past by other clearinghouses. Right now, we have a general game plan for how this would look, but it will take additional discussions between the two clearinghouses to come up with the exact mechanisms for how such a relationship would work.



**NYPC HAS OPENED MEMBERSHIP TO FIRMS THAT JUST DO FUTURES TRADING. WHAT ARE THE BENEFITS TO THESE MEMBERS?**

A big benefit for these firms is FICC's locked-in trade delivery system, which will integrate with and utilize the cash delivery process of FICC. Firms that have futures contracts and want to make or take delivery will be able to deliver through FICC's system without the costs and inefficiencies associated with the current market structure. I think firms that are trading futures only will recognize this benefit immediately.

**WHAT CAN YOU TELL US ABOUT NYPC FEES?**

Without getting into the specifics, we have a very basic, three-word philosophy surrounding fees: simple, transparent and competitive. Given the complexity of today's fee schedules in the futures industry, we wanted to keep it simple. It's hard to hold someone accountable if you can't figure out how much you are paying for their services. So the first key is simplicity. The second is transparency. A lot of market participants find fees in the marketplace to be complex and opaque,

so let's make them plain and easy to understand. And the third is competitive. Certainly, our fees are going to be competitive out of the box.

**HOW WILL NYPC HANDLE A MEMBER DEFAULT OR LIQUIDATION?**

If a firm defaults, we will have a uniform liquidation agent serving both NYPC and FICC that will take the entirety of the portfolio, including cash and futures positions. The agent's first responsibility will be to either hedge the portfolio – to make sure it's protected against further price movement – or to liquidate it. The benefit of NYPC and the futures positions it holds is that it serves as a built-in natural hedge for the portfolio's liquidation.

The liquidation will be managed in a highly coordinated, unified manner, which will contribute to a greater transparency and understanding of the defaulting firm's portfolio. This will strengthen our ability to hedge or liquidate its positions rationally and quickly, which will, in turn, enable us to mitigate the overall risk more comprehensively.

**DO YOU ENVISION EXTENDING THE CASH AND FUTURES SINGLE-POT-MARGINING METHODOLOGY BEYOND U.S. BORDERS?**

At some point, but we want to walk before we run. Domestically, we want to make sure the machine works before we add other challenging factors such as cross-border jurisdictional issues and the additional legal and regulatory frameworks that come with operating internationally. @

**It's important to remember that NYPC is an open-access clearinghouse, meaning any exchange that meets certain objective criteria and wants to plug into NYPC and its one-pot arrangement with FICC can do so.**



PHOTOGRAPHS BY YVETTE NEVARES

# SEC Approval for Transformational One-Pot Margining Sets Stage for NYPC Launch

by Jim Conmy

**D**TCC announced that the Securities and Exchange Commission (SEC) has approved the transformational “one-pot” cross-margining arrangement between fixed income positions cleared by DTCC’s Fixed Income Clearing Corporation (FICC) subsidiary, including U.S. Treasury securities, agencies, repurchase agreements and interest rate futures positions cleared by New York Portfolio Clearing (NYPC). This is a critical step designed to deliver an unprecedented level of capital and operational efficiency, transparency and risk reduction.

The SEC approval permits FICC, for the first time ever, to participate in a cross-margining arrangement that brings together fixed income cash and derivatives positions in a single margin calculation. This innovative one-pot model will produce significant capital efficiencies by margining the actual economic risk of combined portfolios of cash and derivatives positions. By offering a single combined view of risk across asset classes, one-pot margining also enhances market and regulatory transparency with respect to the clearing of fixed income portfolios, which can be used to identify and moderate systemic market risks, facilitating more orderly risk mitigation and reduction in settlement risks.

## Mitigating risk

“Since the financial crisis, we’ve been intensely focused at DTCC on mitigating risk and increasing market transparency for regulatory authorities while introducing

new efficiencies into the clearing system,” said Murray Pozmanter, DTCC managing director, Fixed Income Clearance and Settlement. “In fixed income markets, where firms routinely use futures to provide a natural offset or hedge to cash market trades, we’re confident that one-pot margining will help achieve these goals, and we’re grateful that the SEC has approved this expeditiously.” In 2010,



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

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FICC cleared and settled transactions valued at average of about \$4.6 trillion daily.

The SEC rule filing also enhances risk mitigation procedures for FICC member firms that trade government securities by implementing twice-a-day margin calls instead of the single margin call currently in place.

## New York Portfolio Clearing

One-pot margining is a key element behind the launch of New York Portfolio Clearing (NYPC), a joint venture of DTCC and NYSE Euronext (NYX). NYPC will take advantage of the correlation between cash market trades cleared and settled at FICC and hedges made with offsetting futures markets trades cleared at NYPC.

NYPC will also provide important operational efficiencies to its members, including the “locked-in” trade delivery process that allows expiring futures to be seamlessly submitted to FICC for physical delivery.

NYPC will initially clear Eurodollar and U.S. Treasury Futures for NYSE Liffe U.S. Its “open access” architecture will enable other derivatives exchanges and clearinghouses to link into the one-pot margining system. At launch, one-pot margining of cash and futures positions will only be available for the proprietary accounts of common members of NYPC and FICC. @

See articles on pages 1 and 3 for more on NYPC.

# DTCC Calls for Continued Cooperation Between Global Regulators and Market Participants To Enhance Transparency in OTC Derivatives Market

by Craig Donner

Donald F. Donahue, DTCC chairman and CEO, called continued cooperation between global regulators and market participants essential to enhancing transparency in the over-the-counter (OTC) derivatives market.

In testimony before the House Financial Services Committee on February 15, Donahue said that the high level of transparency envisioned by Dodd-Frank could be achieved across the entire derivatives market within six to nine months after the final regulations are implemented. However, Donahue stressed that the key to meeting this timeframe is ensuring a high level of cooperation between global regulators and market participants, as well as the continued use of proven, non-commercial infrastructure that distinguishes the function of swap data repositories (SDRs) from commercial considerations and jurisdictional squabbles.

“It is our sense, as a user-governed and regulated utility servicing most of the major regulators worldwide, that the market participants and regulators globally are poised to undertake the significant cooperative effort necessary to provide complete transparency to these markets as contemplated by the Dodd-Frank Act,” Donahue said. “It is our strong belief that while many of the regulatory aspects of the Dodd-Frank Act remain in development, transparency is a policy option that is most ripe for implementation.”

## Transparency mitigates risk

In his testimony, Donahue stressed that transparency is key to mitigating systemic risk – and that providing transparency requires a cooperative effort between global regulators and market participants. As an example, Donahue cited the cooperation between regulators and the industry in the wake of the financial crisis to enhance transparency in the credit default swaps (CDS) market by leveraging DTCC’s Trade Information Warehouse (TIW).

The TIW is a centralized, comprehensive global electronic database containing detailed trade information for the market. The TIW database currently represents about 98% of all credit derivative transactions in the global marketplace, constituting approximately 2.3 million contracts with a gross notional

value of \$29 trillion.

DTCC leverages the TIW to publish comprehensive market-wide CDS information free of charge to the general public and provides comprehensive standard position risk reports to appropriate authorities worldwide (as well as responding to over 100 ad hoc requests from such authorities). In addition, DTCC has inaugurated an online portal for regulators to securely and directly access detailed data from the TIW’s global data set. At present, 20 different regulators worldwide have linked to this portal. (See article, page 1.)

## Global regulatory cooperation

“Had the TIW’s information been as comprehensive in the run-up to 2008 as it is now, much of the exposure uncertainty

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DTCC Chairman and CEO Donald F. Donahue, second from left, speaking before the House Financial Services Committee on the OTC derivatives market. Others who testified with Donahue were, from left to right, Craig Reiners, director of risk management, MillerCoors LLC, Terrence Duffy, executive chairman, CME Group Inc., and Donald Thompson, managing director and associate general counsel, JPMorgan Chase & Co.

# OTC Derivatives Market

*Continued from page 7*

that contributed to market instability at the time, at least in the CDS market, could have been mitigated,” Donahue said.

Donahue noted that the TIW’s success in enhancing transparency in the CDS market was attributable to the substantial degree of global regulatory cooperation achieved through the Over-the-Counter Derivatives Regulators Forum and the OTC Derivatives Regulators Supervisors Group. Another factor was DTCC’s role as a non-commercial entity with no motivation for holding the data other than to help both the regulators and market participants by providing a central place for data to be reported and for regulators to access it for both market surveillance and risk surveillance purposes.

## ‘Remove commercial concerns’

“It was critical to the success of this process to remove commercial concerns from what is and should remain primarily a regulatory and supervisory support function,” Donahue said. “As a true industry-governed utility, with both buy-side and sell-side firms, not to mention self-regulatory organizations, as stakeholders, DTCC has so far been able to secure the cooperation of virtually all market participants and all clearers and trading platforms with any significant volume. The challenge going forward is to bring similar regulatory and public transparency to other parts of the swap markets.”

Donahue warned that if regulatory cooperation or the cooperation of market participants fails, data would be fragmented, inevitably leading to misleading reporting of exposures and a very expensive “fix” for the regulators and the marketplace generally.

“Fragmentation of data will leave the task to regulators of rebuilding in multiple instances the complex data aggregation and reporting mechanisms that have already been created,” Donahue said. “That task was one of the primary reasons that the industry and regulators themselves created a single place for the data within DTCC.” @

# DTCC Calls for Extending Transparency Model in CDS Market To Other OTC Derivatives Asset Classes

by Stuart Z. Goldstein

Larry Thompson, DTCC managing director and general counsel, testified before the Senate Committee on Agriculture, Nutrition and Forestry that the most effective and quickest way to achieve the transparency goals of Dodd-Frank in the over-the-counter (OTC) derivatives market is to extend to other asset classes the current model used in the credit default swaps (CDS) market.

In his March 3 testimony, Thompson said that it is essential that both cleared and non-cleared trades be reported to a consolidated swaps data repository (SDR) or a single SDR per asset class to ensure that regulators can see risk from a central vantage point across the global market where these instruments are traded. As an example, Thompson pointed to the role of DTCC’s Trade Information Warehouse (TIW), which holds 98% of all credit derivative transactions in the global marketplace, in bringing significant transparency to that market.

“Regulators and the industry are still working toward achieving the same level of public and regulatory transparency in other OTC derivatives asset classes as is currently available in the CDS market,” said Thompson. “The key to success is ensuring a high level of cooperation between global regulators and market participants, as well as the continued use of proven, non-commercial infrastructure. It is critical that the SDR system that emerges from the Dodd-Frank Act regulatory process ensure that the kind of comprehensive data, such as that in DTCC’s Trade

Information Warehouse, is also maintained across multiple OTC derivatives asset classes.”

## Transparency in CDS market

Thompson cited the cooperation between regulators and the industry in the wake of the financial crisis to improve transparency in the CDS market by enhancing the capabilities of the TIW. The TIW’s success in bringing greater transparency to the market was attributable to the “substantial degree of global regulatory cooperation” achieved through the Over-the-Counter Derivatives Regulators Forum and the OTC Derivatives Regulators Supervisors Group.

Thompson also raised concerns during his testimony over the potential for data fragmentation if regulatory cooperation or the cooperation of market participants were to fail. @

**Thompson said that it is essential that both cleared and non-cleared trades be reported to a consolidated swaps data repository (SDR) or a single SDR per asset class to ensure that regulators can see risk from a central vantage point across the global market where these instruments are traded.**

# New Portal for CDS Data *Continued from cover*

with respect to data access protocols.

“In constructing this new portal, DTCC’s goal is to provide access to OTC derivatives data to regulators in a timely, fair and seamless manner, without any preferential treatment across geographic jurisdictions worldwide,” said Stewart Macbeth, DTCC managing director and general manager of DTCC’s Warehouse Trust subsidiary, which operates DTCC’s global CDS trade repository. “We have been committed since the inception of DTCC’s central repository to providing data on global OTC derivatives transactions so that regulators can view risk exposures from a central vantage point as a means to help protect markets against systemic risk. DTCC anticipates that the creation of this portal will be of great value to global financial authorities and banking supervisors in fulfilling their regulatory mission in this regard.”

## Tailored views

The portal allows for each regulator to access reports tailored to its specific entitlements as a market regulator, prudential or primary supervisor, or central bank. These detailed reports are created for each regulator to show only the CDS data relevant to its jurisdiction, regulated entities or currency, at the appropriate level of aggregation. The information DTCC provides through the portal is consistent with the data-sharing guidelines outlined by the 40+ regulators and supervisors that comprise the ODRF.

Examples of the reports available to regulators via the portal include:

## Standard views

- Counterparty Exposure Report – buy/sell positions for the regulated entity aggregated by counterparty and underlier.

- Reference Entity Exposure Reports – buy/sell positions aggregated by underlier and counterparty.

## Systemic reports

- Aggregate Positions where large financial firm is underlying.
- Aggregate Positions of large financial firms.
- Currency Aggregate Open Position Report, by underlier.

## Search views

- Updated daily open trade search by participant or underlying reference entity. Future enhancements will enable transaction event search using latest available data.

## Custom views

- Specific report requests from a particular regulator will be produced and made available via this view. Information is also made available in the

currency of denomination in which the regulator is domiciled.

“DTCC’s development of the regulatory portal is an evolutionary process and the company expects to add further reports and enhancements in concert with regulators worldwide on an ongoing basis,” said Macbeth.

DTCC has provided, upon request, regulator reporting to more than 20 regulators on CDS information relevant to their areas of purview.

## Public reporting

Since November 2008, DTCC has also been providing the general public with a significant level of aggregate transaction information on the top 1,000 corporate and sovereign CDS reference entities and CDS indices.

This information is updated every Tuesday after 5:00 p.m. ET (2200 GMT) and is accessible on [www.dtcc.com](http://www.dtcc.com). @



# EuroCCP Will Clear Trades For Spain's First MTF

EuroCCP, the pan-European cash equities clearinghouse, has signed a memorandum of understanding (MOU) with PAVE (Plataforma Alternativa de Valores Españoles), Spain's first multilateral trading facility (MTF), to become the clearinghouse for PAVE's trading.

The MOU establishes EuroCCP as the first clearinghouse to provide services to a Spanish trading platform and secures the company's position as a leading clearinghouse in the Spanish market.

EuroCCP is the European clearing subsidiary of DTCC and currently clears trades in more than 4,000 securities, making it one of the main cash equities clearinghouses in Europe, with 26 participant members.

## Alternative trading platform

The PAVE trading platform, which was created in August 2010, aims to provide liquid, efficient, ultra-fast and secure international trading of Spanish securities. PAVE, expected to become operational in the second half of 2011, will be Spain's first

alternative trading platform.

Diana Chan, CEO of EuroCCP, said, "I am delighted that PAVE has chosen EuroCCP as its partner in establishing Spain's first alternative trading platform. PAVE's presence will increase competition, helping price formation and improving efficiency in the Spanish market. We believe our high level of customer service, comprehensive approach towards risk management and competitive pricing model will bring great value to this new MTF and its customers."

## Most efficient CCP

Javier Tordable, founding partner and CEO of PAVE, stated, "PAVE seeks to increase liquidity in Spanish equities and bring international traders to the market. As such, it is vital that we develop a relationship with a clearinghouse that will help us to achieve our ambitions. Despite strong competition, EuroCCP has demonstrated that it is the most efficient CCP to provide clearing services for trades executed on PAVE." @

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## DTCC Participates in Trans-Atlantic Forum on Financial Reform *by Roland Kielman*

More than 250 prominent members of the European and U.S. financial industry, along with key regulators from around the globe, gathered recently in Paris for a seminar hosted by European think-tank Eurofi. Organized in collaboration with the French Presidency of the G20, the annual Eurofi High-Level Seminar provided a forum for discussing issues critical to financial regulatory reform on both sides of the Atlantic.

Donald F. Donahue, DTCC's chairman and CEO, was a featured speaker at the conference and also participated on a panel discussion.

### Central vantage point

Donahue spoke on the transparency of the commodities and over-the-counter (OTC) derivatives markets and focused on the need for central repositories, or registries, of OTC derivatives contracts to help ensure regulators globally have access

to timely and accurate information related to these financial instruments.

"It's absolutely critical that regulators have access to financial data that can help them identify the totality of an institution's risk exposures, including its derivatives exposures," Donahue said. "They need to see all exposures – domestic, international and cross-border – that may endanger financial stability or cause systemic problems."

According to Donahue, a global repository per asset class – such as DTCC's Trade Information Warehouse (TIW) – gives regulators "a central vantage point that permits them to gauge the totality of a firm's risk exposure across multiple markets worldwide."

He also said that DTCC had recently launched an online regulatory portal, created specifically for immediate and flexible use by regulators worldwide (see article, page 1).

Michael Sherwood of Goldman Sachs,

was also a featured speaker in this panel session.

### Forum for debate

The event, held on February 17-18, included a dozen panel discussions addressing issues related to the sustainability, efficiency, transparency and regulation of the global financial marketplace. Most sessions functioned as active debates, moderated by a chairman and introduced by several short speeches. Donahue also participated on a panel that included six other members of the financial industry, as well as a number of international regulators, which covered the stability of cash markets.

### More on Eurofi

Eurofi is a non-profit think tank dedicated to facilitating dialogue between industry leaders and global financial regulators and lawmakers to address ongoing regulatory and industry-driven issues and projects. @

# Mutual Funds Networking Enhancements Simplify 529 Plan Monitoring

by Richard Marulanda

**D**TCC introduced new enhancements to its Mutual Funds Networking platform in March to help the mutual funds industry better monitor 529 Plans and comply with Internal Revenue Service (IRS) rules and regulations.

529 Plans, named for Section 529 of the Internal Revenue Code, are used to pay expenses at any qualified college in the 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, which can create complexities and inefficiencies when processing 529 transactions.

Rules and regulations for 529 Plans set specific limits on contributions, distributions and the number of annual investment election changes. For the purpose of monitoring these limits, the IRS requires 529 Plan administrators and managers to aggregate all accounts – across multiple distribution platforms – matching the same account owner/beneficiary information, and reporting back to all the parties involved.

Networking, offered by DTCC subsidiary National Securities Clearing Corporation (NSCC), is the mutual fund industry standard for account reconciliation and dividend processing. Through Networking, all customer account-level information – either in an omnibus or non-omnibus environment – can be exchanged and reconciled between fund companies and broker/dealers and other distribution firms, allowing identical information to appear on all parties' records.

## Omnibus 529 aggregation

As the mutual funds industry continues to migrate toward an omnibus accounting environment, firms and funds with omnibus relationships need to aggregate daily activity files containing sub-account information in order to capture multiple accounts across different platforms to abide by the IRS rules and regulations.

“Until now, firms and funds have been capturing this information manually via reports, spreadsheets, faxes and emails,” explained Josephine Torelli, DTCC vice president, Wealth Management Services Product Management.

Working with the Investment Company Institute's (ICI) 529 Plan Task Force, the Broker/Dealer Advisory and Bank/Trust Advisory Committees, DTCC has developed aggregation files for its Networking platform, which enable funds and firms to send and receive daily activity and positions in 529 Plan sub-accounts. These aggregation files streamline the reporting process and allow customers to more easily monitor limits such as contributions and distributions when an account is held direct and in a brokerage account.

“Customers are now able to systematically communicate and capture information such as the beneficiary's address and Social Security number, cost-basis and earnings-to-date amounts, enabling them to easily meet compliance requirements using a standardized and centralized format,” added Torelli.

To establish guidelines and provide instructions on how to manage the aggregation files on the system, DTCC and the ICI 529 Plan Task Force have created a Best Practice document for Omnibus 529



Lisa Klassen, principal, Edward Jones

**‘These enhancements will allow broker/dealers to improve the service and support provided to clients in relation to their 529 investments.’**

– Lisa Klassen, principal, Edward Jones

Aggregation, which will be available during the second quarter of 2011.

## First impressions

While customers have only just begun to test the new Networking enhancements, initial feedback has been positive.

Lisa Klassen, principal, Edward Jones, a member of the ICI Task Force for Fund-Sponsored IRAs and 529 Plans, said, “These enhancements will allow broker/dealers to improve the service and support provided to clients in relation to their 529 investments.” @

# DTCC Names New Managing Director Of Equities Risk Management

by Michael Scholl

**D**TCC has appointed Reena Walia managing director of Equities Risk Management in its Enterprise Risk Management (ERM) Group.

In her new position, Walia will lead a team charged with assessing risk management across DTCC's National Securities Clearing Corporation (NSCC), Depository Trust Company (DTC) and EuroCCP subsidiaries and will provide oversight of current and potential risks that impact the company. She will be responsible for designing and managing the extensive technology initiatives that support risk management in those areas.

Walia will also be responsible for ensuring all of ERM's equities-related policies and processes are aligned with the organization's overall mission of mitigating risk and providing certainty, stability and reliability for the global financial markets. In addition, Walia will be charged with designing and implementing new risk systems and developing and implementing best practices in risk management. She will report to Douglas George, DTCC managing director and chief risk officer.

## **Robust risk management**

"The financial crisis has underscored the critical importance of having the best talent and robust risk management practices in place to protect the industry," George said. "Risk management is a core function of DTCC and Reena's proven track record in leading these types of initiatives for a variety of financial products, services and markets will help DTCC as we transform how we manage risk in the organization.

We are delighted to have someone of Reena's talent and experience join DTCC to provide her leadership and extensive knowledge on this key issue."

Walia is joining DTCC from Citigroup, where she was Head of Americas Investment Products Risk, responsible for managing risk for over US\$125 billion in assets under management. Prior to that, Walia held several positions with increasing responsibility at Credit Suisse, serving most recently as Global Head of Structured Products for Credit Risk, where she was responsible for a global risk book of over US\$30 billion of complex products. Walia began her career at Dresdner Kleinwort Benson in Australia as a credit manager specializing in commodities, project financing and infrastructure financing.

Walia has deep expertise in risk management, having successfully navigated some of the financial industry's most complex and innovative transactions. Her risk management leadership extends to the development of risk policies and procedures; development of rating and stress-testing methodologies; and strong decisionmaking skills. Her risk career spans both the buy-side and sell-side, with extensive experience in major asset classes globally.

Walia holds bachelor degrees in economics and commerce from the Australian National University. She also has received a post-graduate qualification in applied finance and investments from the Securities Institute of Australia. @



ROLAND KIELMAN

Reena Walia, DTCC managing director of Equities Risk Management, Enterprise Risk Management Group

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**We are delighted to have someone of Reena's talent and experience join DTCC to provide her leadership and extensive knowledge on this key issue.'**

— Douglas George, DTCC managing director and chief risk officer

# GCA VS Set for Pilot Test of New Browser

by Steve Letzler

**D**TCC's Global Corporate Actions Validation Service (GCA VS) will begin pilot testing a new browser on April 25, in preparation for implementation with all GCA VS customers in late June.

The browser will incorporate new data layouts on many pages, along with several more significant enhancements to the browser functions. For example, the new home page will provide an overview of the "securities of interest" for each client, broken down by event groups (i.e., redemptions, distributions, etc.), and whether those securities are DTC-eligible, replacing a listing of the latest processing times. (The processing times will still be available by clicking a button on the home page.) Many of the enhancements are being made as a result of customer suggestions.

"The enhancements we have made to the browser service will make GCA VS more user-friendly for GCA VS clients," said Chris Childs, managing director, Asset Services. "We've listened closely to our customers, and made many of the changes they said would make the browser more useful to them. And in the process, the same browser will also be made available for DTC customers as we begin to introduce the first elements of a redesigned corporate actions platform for them."

The changeover to the new browser service will be mandatory for all 50 firms that are currently clients of GCA VS. To help customer firms become fully acquainted with all the changes and enhancements to the new browser, DTCC is planning a series of webinars expected to begin at the end of March and extend through April. Firms that wish to participate in one of the webinars can

obtain information by contacting their Relationship Manager or by visiting DTCC's web site at [www.dtcc.com/gca](http://www.dtcc.com/gca). Information will be sent to all clients once dates and times are set.

## User readiness

Changes will also be occurring in the files that flow from DTCC to its customers' mainframe computers, according to Kurt Dodds, DTCC director, Global Corporate Actions.

"We will be adopting the same terminology for DTC-eligible securities that will be used for processing at DTC," he said. "As a result, some event types will be reclassified and all data model changes will be communicated shortly to our customers. For that reason, we are recommending that GCA VS firms sign up for user acceptance tests (UATs) that will be going on simultaneously with our pilot test for the browser. That will help firms get used to the changes that they will see as a result of our processing changes, even though GCA VS firms aren't necessarily going to be affected by processing changes unless they are also DTC members."

Dodds noted that DTCC was finalizing a presentation that provided an overview of all browser changes, and he said that would be distributed either at the webinars or in group meetings with customers in March and April.

## ISO 20022 pilot

GCA VS members are also eligible to begin participation in DTCC's ISO 20022 pilot test.

The service will be moving from its current DTCC proprietary format and standard ISO 15022 message format to the ISO 20022 message format by 2015. At that time, all GCA VS clients will need to

convert their systems to accept the ISO 20022 format since the prior formats will be eliminated.

Firms can make the transition any time between June 2011 and 2015, but a period of testing will be required before switching over, according to Dodds. The ISO 20022 pilot test will also begin in April and be available for immediate implementation beginning in June 2011. @

## Snapshot of GSA VS

**G**CA VS, a service of DTCC Solutions LLC, provides the largest centralized source of "scrubbed" corporate action announcement information for an array of securities from more than 200 countries worldwide. The data is used by brokerage firms, banks, hedge funds and others in their front offices for trading and in their back offices to help ensure the accurate processing of corporate action events. GCA VS delivers high-quality corporate action information through a comprehensive cleansing process that comprises data mapping, data normalization, consolidation and verification. The service is designed to help customer firms manage the risks associated with processing corporate actions from around the world.

In 2010, GCA VS processed more than 972,000 corporate actions and more than 9.5 million scheduled payments on securities from around the globe. DTCC Solutions is a subsidiary of DTCC.

# DTCC Revs Up For Foreign Dividend Season

by Edward C. Kelleher

**D**TCC once again is gearing up for the start of the foreign dividend season in April and its TaxRelief<sup>SM</sup> service will be running at full tilt, alerting customers to tax-saving opportunities as well as to changes in tax laws in countries around the world.

TaxRelief, offered by DTCC's Global Tax Services through The Depository Trust Company (DTC), a DTCC subsidiary, enables customer firms and their clients to obtain tax relief on foreign-sourced income payments. This comes either up front when a non-U.S. income payment is made – called “relief-at-source” – or post payment in the form of accelerated refunds. In 2010, the service delivered more than \$2.4 billion worth of tax relief benefits to customers.

“The foreign dividend season generally runs from April through the end of June, and we encourage customers to make sure that their files are up to date in the event they need to verify that their customers are entitled to at-source or accelerated tax relief,” said Nardeo Ganesh, DTCC director, Global Tax Services.

## New benefits

In 2010, DTCC expanded its services to provide tax benefits for holders of Spanish commercial paper, Italian bonds, certain American Depositary Receipts (ADRs) of Filipino, Dutch and Danish companies, as well as to non-U.S. investors in Finnish ADRs. ADRs, which allow investors to invest in securities from other countries, are receipts for the shares of a foreign-based company held in custody in the U.S.

The Global Tax Services also updated Frequently Asked Questions for Spain, Canada, Ireland, Italy and the Netherlands and TaxInfo<sup>SM</sup> content for Italy, Indonesia and Spain. TaxInfo is a service that provides succinct international tax withholding and relief information to help participants make the appropriate tax-relief elections on income payments from foreign securities.

## Country requirements

Ganesh also noted that the Canadian Specified Investment Flow-Through (SIFT) rules went into full effect on January 1, 2011, for certain publicly traded trusts or partnerships that were created prior to October 31, 2006. He noted that Canadian Real Estate Investment Trusts (REITs) and other investment trusts will require special consideration this year when making tax elections.

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

- Some countries require that a new Form 6166 be filed each year

before a dividend is issued and tax relief is granted.

- Some countries ask that Form 6166 be issued within a certain time period from when the income payment was made.
- The form may also be required if a taxpayer is filing for a tax refund via the standard long-form reclaim process.

DTC's TaxRelief Service is used by more than 400 firms, including many of the largest investment banks and broker/dealers, which obtain tax relief for themselves and their clients in 20 countries and territories (see box below).

The service applies to various depository-eligible international security types, including ordinary equities and fixed income securities, as well as ADRs and Global Depositary Receipts (GDRs). @

## Around the Globe

**D**TCC's TaxRelief provides tax services for certain depository-eligible securities in the following countries and territories:

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

## DTCC's Annual Global Tax Forum

**D**TCC will host its 12th Annual Global Tax Forum Friday, April 29, in New York. The half-day program for DTCC customers will be held at Bayard's, One Hanover Square, New York, N.Y., 10004 and will include:

- A discussion of recent changes in international tax withholding and tax treaties.
- An update on DTCC's Stock Loan & Repo Income Tracking Service.
- The latest on the Foreign Accounts Tax Compliance Act (FATCA) provisions.
- An update on the Canadian tax-relief process.

For more information or to attend the forum, contact Marta Alvarez, DTCC product manager, at [malvarez1@dtcc.com](mailto:malvarez1@dtcc.com) or 212.855.2761 or Ian DeSacia, DTCC product manager, at [ide\\_sacia@dtcc.com](mailto:ide_sacia@dtcc.com) or 212.855.3448.

# DTC Increases Daily Notifications On Partial Bond Calls

by Edward C. Kelleher

The Depository Trust Company (DTC) is helping boost efficiencies and reduce risk in the bond market by alerting its customers about partial calls of municipal and corporate bonds twice each day – in the morning and afternoon – in addition to the current end-of-day notification.

A partial call of a bond occurs when the issuer chooses to retire part of its debt and pay back both principal and accrued interest to some bondholders before the bond reaches maturity. When this occurs, the issuer must ensure that the called amount is distributed randomly and impartially across the entire bondholder base, which is done through a series of lotteries.

## Thousands of lotteries

When a partial call occurs – and they do thousands of times a month – DTC conducts a lottery to see which of its customers will be affected by the call. Once customers are notified, they in turn conduct their own lotteries to see which bondholders will receive early payment for surrendering their securities.

Under the old process, DTC sent out one lottery result file at end of day, usually around 5 p.m. ET, alerting firms and telling them how their positions would be affected by the size of the call. Customers conducted their own lottery the next day. “By notifying DTC customers twice during the day – at 8 a.m. and 3 p.m. – we’re providing them with a much wider window to conduct their lotteries and notify their bondholders,” said Daniel Thieke, DTCC vice president, Asset Services. The new intraday files are optional. “This will help our customers boost efficiencies and better serve their clients,” Thieke added.

## Faster notification

“We are pleased to have been selected by the DTC to work with them during the pilot stage of this new notification process, which will now become widely available and benefit the entire industry,” said Karl Baker, senior director, National Financial Services LLC. “Receiving notification of bond calls more frequently from the DTC – now three times a day – enables us to deliver even faster notification to customers who hold bonds that are being called.”

## Reducing risk

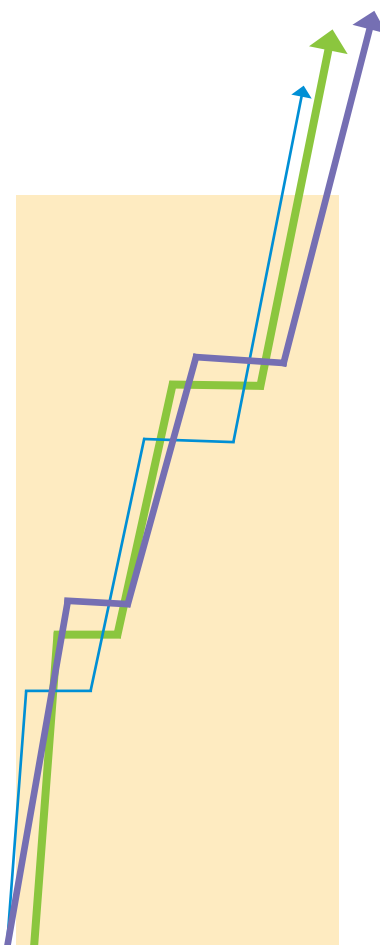
With the new schedule, firms are no longer waiting to receive one file overnight, and they can conduct random lotteries and notify investors as soon as possible about the recall. This reduces both monetary and reputational risk for a firm.

“Under the previous system, the time lapse between the DTC lottery and notification to the end investor could create problems,” said Thieke. “Bondholders may have chosen to sell a security without knowing that it was being called. They would find themselves short when they learned about the call, and would have to find a way to buy back the security, often at a higher price than they sold it at. When this happens, bondholders come back to the firm and ask, ‘Why didn’t you tell me about the call?’”

“The new lottery files will help avoid situations like this and, in many instances, firms can notify their customers the same day they receive the lottery file. This will boost customer satisfaction as well as reduce the risk of anyone losing money because of later notification.”

## Municipals vs. corporates

In 2010, DTC conducted more than 80,000 lotteries for partial calls involving more than \$57 trillion. The vast majority of the lotteries were for municipal bonds – more than 72,000 compared to just over 8,000 for corporate calls. @



# Certificates in DTC Vaults Drop Below 1 Million

by Edward C. Kelleher

The number of certificates in The Depository Trust Company's (DTC) vaults is dwindling – much to the industry's delight. In January 2011, transferable certificates for the first time dropped below the one million mark to 995,560. This compares with a high of more than 32 million in 1990.

The ongoing reduction in certificates is part of DTC's multi-faceted dematerialization plan aimed at eliminating paper certificates in the securities industry.

"Dropping below the million-certificate mark is a significant milestone for DTC and the industry in our push toward dematerialization," said Daniel Thieke, DTCC vice president, Asset Services. "It serves our customers and individual investors, and helps move the U.S. markets closer to the ultimate goal of a paper-free securities industry freed from the inefficiency, cost and risk associated with paper certificates."

## Bearer bonds

The latest decline in the number of certificates is attributed to several factors, according to Joseph Clemente, DTCC product manager, Asset Services. One primary driver is the drop in the number of bearer bonds in the vaults, the bulk of which have matured or are about to mature. (The United States stopped issuing new bearer bonds in 1982.)

"In 1990, DTC had 32 million certificates in its vaults. Of those, 24 million were bearer bonds," Clemente said. "Today, DTC holds just over 132,800 bearer bonds, and most will mature in a few years."

## So FAST

Clemente cited another reason for the

drop in certificates – DTC's FAST (Fast Automated Securities Transfer) program. FAST minimizes certificate movements and streamlines transfer processing by placing a customer's assets in the custody of a FAST transfer agent, reducing the risk associated with lost securities, as well as the costs of insuring, handling and shipping physical certificates. DTC, in turn, maintains a jumbo balance certificate registered in its nominee name – one for each issue – with the transfer agent; balances are adjusted automatically each day.

"More and more new issues are going with FAST, particularly municipal issues and issues from the bigger banks," said Clemente. "In January 2011, there were just 124,000 regular municipal issue certificates in the DTC vaults compared to 1.8 million issues in January 2003."

## DRS factor

Use of DTC's Direct Registration System (DRS), which enables investors to register ownership of their shares electronically with either the issuing company or its transfer agents, has also helped reduce the issuance of paper certificates. As of March 2008, all new issues on U.S. exchanges were required to be DRS-eligible. If a request for a Withdrawal-by-Transfer is received for one of these issues, DTC automatically defaults the request to a DRS statement, eliminating the participant's ability to request a certificate through the depository.

## Shredding program

Another major contributor to the dwindling vault population, although not the transferable certificates, is DTC's ongoing destruction of non-transferable

certificates. Non-transferable certificates are those for which the service of a transfer agent is no longer available, and the majority of them are worthless because they were issued by companies now out of business.

In 2004, DTC began the destruction of thousands of non-transferable certificates, after receiving the go-ahead from the Securities Exchange Commission (SEC). At the time, DTC vaults held 1.4 million non-transferable certificates. The shredding program has dramatically reduced the volume of these certificates. In 2010, DTC destroyed 135,000 of them, bringing the total left in the vaults to just 450,000 in January 2011. @



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