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# The ABCs of LEI

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# Industry Gears Up for MBS CCP Launch by James Conmy

Every morning for nearly two months now, securities firms, banks and other participants in the mortgage-backed securities (MBS) market have been able to see the difference in how their MBS trades are currently margined versus how the margining process would work under a central counterparty (CCP).

This “parallel testing” period has allowed trading firms to compare the current clearing process and its margin requirements with what would take place under a CCP with pool netting. It is one of the steps DTCC’s Fixed Income Clearing Corporation (FICC) is taking to help its members prepare for the anticipated launch later this year of the new MBS CCP, subject to approval by the Securities and Exchange Commission.

## Pool netting

Although FICC already nets the to-be-announced (TBA) trades that come into the company for clearing, it has never netted the pools of mortgages that underlie the trades and are sent to FICC prior to settlement. With the start of its CCP operation, however, FICC will guarantee trades upon TBA matching and then begin its new Pool Netting Service, which will net the most active pools.

In its role as a central counterparty, FICC will then become the contra-side to any net pool settlement obligations that result from the pool netting process. Obligations that cannot be pool netted

will be left to firms to settle directly with their opposite trading party, just as they do today.

To prepare for the CCP process, FICC is instituting some operational changes, such as same-day notification of settlement and same-day processing of debit and credit cash differences resulting from settlement balance order (SBO) netting.

## Two Clearing Fund additions

When the CCP goes live, FICC will also require two new margin components from its member firms to meet their Clearing Fund requirements.

One addition, called the Coverage Component, involves a daily “back test” to ensure that each member firm has enough collateral on hand for that day to meet the assumptions calculated by FICC’s “Value at Risk,” or VaR, model. The model assumes that if FICC has to liquidate a member’s portfolio, it can do so in three days, and that the Clearing Fund – based on VaR calculations – will be able to cover a loss on the member’s portfolio due to price movements during the liquidation period at least 99% of the time.

“The Coverage Component looks back at the historical calculation to see if it accurately covered these potential

losses based on the mark-to-market price movement in the portfolio,” said Caithlin Corrigan, DTCC director, Enterprise Risk Management. “If the coverage was less than expected, then the Clearing Fund requirement is adjusted accordingly.”

The other Clearing Fund change FICC plans for CCP operation is designed to deal with potential intraday exposure. Named the Margin Requirement Differential, it provides a snapshot of the intraday risks in a portfolio versus its end-of-day status. Firms whose “differential” is large will typically have to post more intraday margin.

## Updated test results

FICC member firms that participated in the parallel testing period that ran from December 2011 through January 2012 now have a better understanding of what this part of their Clearing Fund requirements will amount to, because they were able to compare their current collateral needs with what will be expected under the CCP, according to Michele Hillery, DTCC vice president, Clearance and Settlement, Fixed Income Clearing Corporation.

“This is like taking a test drive before a race,” she said. “Then, when you get on the track, you have an idea what to expect.” @

# The ABCs of LEI

by Steve Letzler

The industry has made significant headway to address a critical data gap that surfaced during the 2008 global financial crisis, hindering regulators and risk managers worldwide in their efforts to identify and manage systemic risk. That gap was the inability to quickly identify the parties to financial transactions across markets.

Now consensus is building globally to resolve this vexing issue by building a legal entity identifier (LEI) system. But what exactly is LEI, and how will it work? What benefits will it provide? Which entities will need to have an LEI? When will it be up and running?

To get answers to those and other questions, @DTCC talked with William Hodash, the DTCC managing director charged with coordinating with global trade associations and regulatory bodies to design a new LEI utility, and Ronald Jordan, DTCC's chief data officer and the person responsible for leading DTCC's internal activities and partnering with SWIFT to implement the LEI facilities.

## What is LEI?

The New York Times has referred to LEIs as "unique IDs to help regulators keep track of financial firms."

"That definition is true as far as it goes, but it doesn't tell the whole story," Hodash noted. "The beauty of LEI is that not only will organizations across

the globe have unique identifiers in a single format, each identifier will also be accompanied by critical information, core identification data such as address and eventually parental hierarchical data, which will be available in a public database. The ability to access that type of information about all the parties that transact in the financial markets in one place will mark a significant leap forward in terms of transparency and risk management."

The International Organization for Standardization (ISO) has already established a new draft standard, called ISO 17442, for the LEI, according to Hodash. "The draft standard received unanimous approval from ISO Member Bodies in December 2011, and ISO is now in a very strong position to move toward final publication in 2012," he said.

## Risks posed by lack of data

The first thing to understand is that, currently, there is no single, international standard for a legal entity identifier.

"All sorts of systems are used to identify parties to financial transactions – marketplace identifiers, company registration numbers, tax reference IDs and firms' own internal numbering systems," said Hodash, adding that even DTCC uses its own numbering systems for members/participants of its various subsidiaries. "But there is no consistent, single standard that applies globally. And



William Hodash, DTCC managing director, Business Development

in today's global marketplace, where systemic risk is a huge concern, that is a problem."

It is clearly a problem for regulators charged with overseeing a legal entity or monitoring systemic risk who cannot quickly and accurately determine overall risks represented by the activity of a legal entity, unless they know all of its cross-organizational affiliations. The same conundrum faces risk managers at financial firms, who may not be fully and accurately measuring the risks of doing business with different entities without having timely and accurate legal entity information, including

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## ABCs of LEI *continued from page 3*

knowing which entities are parts of the same organization. And identifying the players in a transaction is just part of the dilemma.

Another issue is determining which jurisdiction controls the subsidiary and the ultimate parent corporation if a problem arises. Currently, it is difficult, if not impossible, to find the answers to these and other questions quickly and easily. Even when firms perform these tasks well, they incur significant duplicative expenses in doing so, with each firm performing similar detailed research and trying to keep the information current.

### Getting ID'd

Any legal entity that enters into financial transactions will be eligible for an LEI. "That would include transacting entities, issuing entities, reference entities, reporting entities, ultimate parent entities and potentially other participants in financial transactions, such as exchanges, depositories, clearing corporations, registrars, regulators and industry organizations," Hodash said.

The identifier itself will be a 20-digit, alphanumeric code. While it will contain no embedded "intelligence" (i.e., none of the numbers or letters will mean anything), it will have specific data associated with it, such as the exact legal name of the entity, its address, country of formation, LEI status, and other metadata

(such as when the LEI was assigned, last changed or disabled).

In the first phase, ultimate parent data will be required, unless restricted by law. Future phases will deal with these legal restrictions and likely include additional information, including immediate parent.

And who will provide the information? "The data for the LEI will be obtained

primarily through self-registration by the entities themselves, but the LEI system will also allow for registration by third parties in cases where a company has not yet self-registered and an LEI must be assigned for reporting compliance," Jordan noted. "Then that data can be validated by the entities themselves and, in all cases, the LEI utility will attempt to validate that information using public



## Lehman, for Example

As an example of the dilemma posed by the lack of a legal entity identifier (LEI) system, take the 2008 Lehman Brothers bankruptcy that is generally considered the trigger event for the financial crisis.

It was Lehman Brothers Holdings Inc., the parent company that declared bankruptcy September 15. But Lehman Brothers Inc., the brokerage subsidiary (and member of three DTCC subsidiaries), was not included in the bankruptcy initially, nor was Lehman Neuberger Berman or Lehman Global Alpha Funds, both NSCC mutual fund members. Meanwhile, Lehman Brothers International (Europe) was part of the bankruptcy in Europe and was put "into administration" immediately.

"It's easy to understand how there was confusion over what was and wasn't included in the bankruptcy," said Ronald Jordan, DTCC's chief data officer. "It would have made a big difference if the industry had had a system to more precisely and quickly determine which entities of Lehman were or were not impacted. That's one example of why the LEI program is so important."

sources in over 200 jurisdictions around the world.”

The LEI information will reside in a public database, accessible for free.

### Getting to LEI

Within the financial industry, calls for a single legal entity identifier standard are not new, but the concept got a big push post-2008.

In December 2010, regulators from around the world met to discuss a “collaborative approach” for building and maintaining a system of LEIs that would meet both regulators’ and firms’ needs.

Shortly afterwards, the U.S. Treasury’s Office of Financial Research (OFR) asked the industry to recommend organizations to implement and operate an LEI solution. In May 2011, a coalition of international financial industry associations and their member organizations released “Requirements for a Global Legal Entity Identifier (LEI) Solution” outlining the industry’s views of the requirements for the LEI system. They then launched a Solicitation of Interest (SOI) process to identify and evaluate potential solution providers for the LEI infrastructure.

After extensive dialogue and due diligence, the coalition of trade associations finalized its recommendation to the global regulatory community in July 2011 as follows.

- The ISO would set the standard for the LEI.
- DTCC would be the facilities manager, collecting and validating information connected to the LEI and maintaining the public distribution system.
- SWIFT would serve as the registration authority, registering and assigning LEIs.
- ANNA (the Association of National Numbering Agencies) would work as a key partner to register, validate and maintain LEIs for issuers and obligors in some of the smaller nations globally.

“While the international industry associations recommended DTCC and the other partners as solution providers for LEI, there still has to be agreement from regulators internationally to support that recommendation,” said Hodash. “In November 2011, the G20 nations formally supported the project at the summit meeting, and assigned the international Financial Stability Board [FSB] to come up with recommendations on the governance, funding and operational models, as well as dealing with data confidentiality and privacy issues and implementation scope phasing. Those recommendations are expected by the end of April, in time for submission to the G20 for its next summit in June 2012. At that point, the regulators and industry will have a road map for the full

implementation of the LEI utility across geographies, asset classes and types of legal entities.”

### Ahead of the curve

In addition to working with the FSB on the broader road map, the trade associations are working with the over-the-counter (OTC) derivatives regulators and the recommended solution providers on an early proof-of-concept phase of the LEI.

According to Jordan, DTCC will enhance its existing data capabilities and SWIFT will leverage its registration authority platforms to assign an estimated 20,000 or more provisional legal entity identifiers by mid-2012. The assignment of the provisional identifiers is necessary to support regulatory requirements for OTC derivatives transactions in the U.S., which go into effect in July.

The soon-to-be-formed LEI utility also plans to launch a free web portal in mid-2012 to support third-party registration of entities by broker/dealers, trade repositories, vendors and other intermediaries, as well as self-registration by entities themselves and self-validation by the entities of data submitted by third parties. The portal will provide database search and download capabilities.

“The portal will be available to market participants, regulators and vendors without restriction,” said Jordan. ©

# UTC Transforms Equity Trade Capture by Bari Trontz

**U**niversal Trade Capture (UTC) has streamlined how U.S. equity trade data is captured and distributed during the clearance process. The system, launched in early 2011, delivers risk reduction, cost savings and standardization to a critical component of post-trade activity in the equity markets.

“We designed UTC to provide a more efficient and cost-effective method to capture, process and report equity trade data submitted for clearance and settlement,” said Murray Pozmanter, DTCC managing director and general manager, Clearing Services. “UTC gives our customers the ability to unify the processing of trades executed in the various market venues, which in turn strengthens their internal risk management and increases overall market efficiency.”

## From four systems to one

UTC’s implementation marked the most comprehensive redesign of the industry’s equity trade capture system in decades. Its real-time platform provides contract output moments after trades are submitted for clearing. This functionality was accomplished by migrating four legacy trade capture systems into a single, near-real-time validation and reporting engine.

The system is the brainchild of National Securities Clearing Corporation (NSCC), a DTCC subsidiary. To date, approximately 50 NSCC participants, representing over 70% of the overall equity trade capture volume, have subscribed to receive UTC output. These participants are currently testing the new record format in preparation for fully incorporating it into their downstream processing.

## Understanding UTC

Trade capture is the first step in the trade clearing process. It starts with NSCC’s collection of transaction data coming from virtually all U.S. equity trading venues, including the major exchanges. Once NSCC receives the trades, it records and stores them, then produces and transmits contract reports to the firms, which use them for their trade reconciliation needs.

Within the legacy system, each individual marketplace used its own proprietary format for submitting input data to NSCC, which produced four separate contract reports in a machine readable output (MRO) data file format in batches throughout the day. Given the fragmentation of that system, a firm’s ability to efficiently reconcile millions of trades intra-day was vulnerable to operational risk.

NSCC’s redesign of the legacy system

helped reduce these risks by leveraging the Financial Information eXchange (FIX) protocol format to create a near-real-time system that offers a single and standardized input record from all marketplaces and standardized real-time output messages to participants.

Customers have the option of receiving the new UTC trade capture output as a FIX standard message using MQ or the FIX engine. Firms also have the ability to receive a new intra-day MRO data file. (The new system continues to support existing interfaces with markets and members, allowing them to migrate to the universal format at their own pace.)

## Coming soon

A key 2012 initiative is onboarding additional members to the new UTC output and supporting the conversion of additional markets and exchanges to the FIX infrastructure.

“Our focus this year is to continue working with member firms to ensure a smooth transition to the new UTC output and to work closely with the market centers as they convert to FIX, the new universal input record,” added Pozmanter. 

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

# New Equity Post-Trade Risk Management Service Is Set to Launch in Q1

by Bari Trontz

**D**TCC has received regulatory approval to launch DTCC Trade Risk Pro<sup>SM</sup>, a new post-trade risk monitoring service that will help clearing firms monitor the intra-day exposure of their correspondents, clients and their own equity trading desks.

Scheduled to go live during the first quarter of 2012, Trade Risk Pro will be the only service in the U.S. marketplace that offers a single, centralized view of all U.S. equity trades submitted for clearance.

DTCC created Trade Risk Pro to give clearing firms the ability to easily monitor and set equity trading credit limits in order to mitigate their overall risk.

“We designed this innovative service to help mitigate systemic risk in the U.S. equity markets,” said Murray Pozmanter, DTCC managing director and general manager, Clearing Services. “It will give U.S. clearing firms the ability to monitor their daily trading limits in near-real-time, which, in turn, enables them to more effectively manage the exposure introduced by their correspondents and their own firms.”

## In a nutshell

Trade Risk Pro is a web-based service that provides DTCC clearing members with a continuously updated snapshot of their equity trading activities in a centralized and standardized method.

It reports aggregate and net value and share exposure for equity transactions within seconds. It also provides an early warning system that alerts clearing firms to trading activity that is nearing the credit limits they have set for their own and their correspondents' accounts, enabling them to effectively manage potential risk.

An offering of National Securities Clearing Corporation (NSCC), a DTCC subsidiary, the service sources its data from NSCC's Universal Trade Capture system. That system combines virtually all broker-to-broker equity, listed corporate and municipal bond and unit investment trust trading in the U.S. The data is available intra-day, and refreshed within seconds, compared to previous reporting systems that regenerated data over minutes or sometimes hours.

As the central counterparty for the U.S. equities market, NSCC leverages trade submissions and position offsets from exchanges and other liquidity destinations to report this information to participants.

## How the service works


Through the web-based portal, participating firms create “Risk Entities” that track the activity of their correspondents and their own trading desks. The Risk Entity information entered by the firm will drive position calculations and displays within the

**‘WE DESIGNED THIS INNOVATIVE SERVICE TO HELP MITIGATE SYSTEMIC RISK IN THE U.S. EQUITY MARKETS.’**

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

system. Customers set and update share and dollar limits with respect to each Risk Entity at gross, adjusted and net levels.

Trade Risk Pro nets, aggregates and displays position information to monitor credit limits. If positions near or exceed the established limits, Trade Risk Pro notifies the customer via screen alerts. The alert allows the firm to view exposure at the CUSIP and individual trade levels.

Because the service offers complex scalability, as well as “off-the-shelf” capability, NSCC's largest member firms, as well as broker/dealers that typically handle lower trading volumes, are expected to sign up for it. 

[To learn more about Trade Risk Pro service, contact Bonnie Bowes at 212.855.8024 or [bbowes@dtcc.com](mailto:bbowes@dtcc.com).]

# Customers Rate DTCC

by Helen Cunningham

Customers gave DTCC an 88% overall satisfaction rating in 2011, compared with 91% in 2010.

The key drivers of customer satisfaction included the high quality of relationships with DTCC in terms of service and dependability; the products and services offered; and DTCC's customer service and relationship management efforts.

Satisfaction levels remained strong for key attributes, including integrity, industry leadership, effectiveness in reducing risk, commitment to quality, breadth of the product line, communications with customers and relationship management. On the lower end of the scale was the rating for DTCC's ability to reduce processing costs.

The survey benchmarks DTCC's performance against The Melior Group's industry database of 15,000 respondents. (The Melior Group conducts the survey and analyzes the results.) In 2011, DTCC received ratings above the industry average for all benchmarked categories: overall satisfaction, industry leadership, customer service, relationship management, technology and product/service array.

## Acting on the data

"Although overall satisfaction trended down in 2011, the survey does not indicate major shifts in customer perceptions of DTCC, and the company

continues to perform well against financial industry benchmarks," said DTCC's Corporate Chief of Staff Paula Arthus. "However, we are very mindful of the fact that the survey data, when taken together, suggests future satisfaction could erode if we fail to make improvements in certain key areas, including problem resolution."

To prioritize areas for improvement, DTCC has been analyzing the data and verbatims, and developing action plans based on the information obtained from the survey. Implementation of the plans is under way and will move forward in the coming months.

## European perspective

DTCC conducted a separate survey for its European subsidiary, EuroCCP, to address the needs of its client base. For 2011, respondents gave EuroCCP a 100% overall satisfaction rating for the second consecutive year.

"In today's highly competitive environment, this rating sends a strong signal of ongoing customer support for the

EuroCCP model and mission," said Diana Chan, EuroCCP's CEO. Further evidence of strong customer satisfaction was the 95% rating for the question regarding a customer's likelihood of recommending EuroCCP to business associates. "In any business, a third-party endorsement is a win-win," Chan said. "It says your existing customer is happy and it gives your company positive exposure to potential new customers."

## Risk mitigation

For the first time, the 2011 survey broke into two parts the question about DTCC's effectiveness in reducing risk. One question ranked effectiveness in reducing risk for the industry, for which satisfaction was 88%. The second ranked risk reduction for the respondent's firm, for which satisfaction was 85%. (These scores compare with 83% satisfaction for overall effectiveness in 2010.)

"The favorable ratings align with DTCC's all-out focus on strengthening the industry's risk capabilities since the 2008 financial crisis," said Arthus. "Risk management will remain a priority for



the foreseeable future and, in 2012, we will build on progress made to date to further strengthen the industry's risk infrastructure."

### Focus on problems

As in years past, the number of problems customers experience is extremely important to their satisfaction levels.

In 2011, problem incidence rose to 21% (vs. 18% rating in 2010). The proportion of "significant" problems (as defined by the customer) also increased slightly to 20% (vs. 18%). Significant and moderate problems were mostly technology-related.

Satisfaction with overall problem resolution dropped to 44% from 56% last year. "Customers clearly indicated a decline in satisfaction with how effectively we handled their problems in 2011, particularly significant or moderate problems, and improving these scores will be a priority this year," said Arthus. "We fully understand that a company's ability to resolve a customer's problem is a critical driver of customer satisfaction," she continued. "We are examining factors that contributed to last year's lower rating and will be working closely with customers and our own staff to address them."

### Key drivers

The survey includes a list of 23 "key attributes" that influence DTCC's relationship with customers. Satisfaction

for most of these attributes remained stable in 2011.

Integrity received the highest attribute rating, rising to 95% satisfaction, up 2 points from last year. "DTCC's reputation as a trusted, ethical advisor is an essential component of its ability to work effectively with customers, regulators and counterparts to address the industry's growing needs, particularly in the areas of transparency and risk mitigation," said Arthus.

Customers also indicated strong satisfaction with DTCC's transaction-processing capabilities, which received a 91% rating; industry leadership (89%); breadth of product line (88%); and communications with customers (88%). All these ratings track 2010 scores.

The largest improvement among the attributes was for leveraging the internet, which reached 81% satisfaction, up 4 points from 2010. "Given DTCC's unique role in financial services, our technology organization's top priority is to protect and strengthen the industry's infrastructure, so we always have to balance that mandate with the use of technologies," said Arthus. "Safely leveraging the internet has been an area of focus for the past several years, and we expect to make further progress in 2012."

### Product overview

The majority of customers (88%) expressed satisfaction with DTCC's

overall product array in 2011, similar to 2010's 87% rating. At the individual product level, satisfaction is generally strong, with most products achieving higher ratings than in 2010.

Customer satisfaction, according to survey results, is [continued on page 10]

## How the Survey Is Conducted

**D**TCC retains The Melior Group to conduct its annual customer survey and to analyze the results.

Melior conducted the 2011 survey in three parts: a web survey for daily contacts in two waves, in April and in September, and a telephone survey for senior contacts in September. This approach provides an early reading on customer perceptions and allows DTCC to address emerging concerns sooner in the year.

The EuroCCP survey was conducted in a single wave in September.

The overall response rate was 25%, well above industry norms. EuroCCP achieved an 80% rate by participant firm (some firms chose to consolidate all comments on one response). Both rates are well above industry norms, according to The Melior Group.

The total number of respondents was 1,117.

## Customers Rate DTCC *continued from page 9*

based on DTCC's ability to offer high-quality products that address current and emerging needs; the accurate information they receive; and technology that is reliable and easy to use.

Customers who are not satisfied cited reasons including insufficiently wide product coverage and technology that is not current or user-friendly enough.

Of the 15 products and services rated, 9 achieved gains (3 of which were double-digit increases); 5 remained stable; and 1 experienced a decline.

### **Taking care**


Overall satisfaction with the ability of DTCC's relationship managers to meet customers' needs was 92%, similar to 2010. For EuroCCP, customers expressed 100% satisfaction with their relationship management team.

For many firms, satisfaction is based on their relationship manager's high level of responsiveness, sense of commitment and ability to keep the customer informed. The survey results also indicate DTCC could further improve scores in this area by ensuring these behaviors apply across the entire customer base.

Relationship managers received solid ratings for conveying value and credibility (94% satisfaction) and the ability to marshal resources to meet customer needs (93%). Most relationship managers are viewed as trusted advisors.

"The strong scores for relationship management reflect our customer-centric focus and ongoing initiatives to continually strengthen the customer relationship and service delivery," said Arthus.

Survey results also indicate relationship managers could add more value to customers by honing their ability to propose solutions that meet business needs. "It gets back to thought leadership," said Arthus. "We need be aware of the big picture and think creatively about all the ways DTCC's capabilities can benefit each customer with its current and emerging needs. In 2012, we will continue to be even more proactive on this front."

Overall communication with customers improved in 2011. Of the 8 communications vehicles rated in the 2011 survey, 7 received higher scores than in 2010 and the eighth remained stable. Suggestions to further improve communications included making web-based publications more user-friendly and giving customers the ability to pick and choose the publications they receive. 

## White Paper Urges

by Edward C. Kelleher

**F**inancial institutions that require accurate, timely and cost-effective corporate actions information could derive significant benefits from outsourcing some functions to independent firms that offer high-quality global corporate actions information and validation services.

This view is expressed in a white paper – Building the Business Case for Outsourced Corporate Actions Validation – that was prepared for DTCC by the A-Team Group, a leading online news and consulting service for technology professionals in the financial services industry.

DTCC's Global Corporate Action Validation Service (GCA VS) tracks, validates and distributes corporate actions information on 2.5 million securities globally in 200 countries and 15 languages. The service was named the Best Corporate Actions Solution Provider by the 10,000 readers of Waters Magazine in 2011.

### **Data quality**

Corporate actions are events such as mergers, dividends, stock splits and other events that may require an action to be taken by an investor or financial shareholder. They often touch multiple parts of the trade cycle and can be notoriously difficult to manage.

While many leading financial institutions "are reaping operational benefits and avoiding unnecessary financial exposures by ensuring the quality and timeliness of their corporate actions data," the paper states, other "institutions of all sizes continue to

# Outsourcing Corporate Actions Validation Function

struggle with corporate actions data quality.”

The paper describes challenges associated with processing corporate actions, including:

- **The ever-increasing volume of corporate actions messages:** “Pressure on firms for greater returns is forcing them to seek out new markets, each bringing with it a new corporate actions data stream.”
- **Costs associated with maintaining in-house platforms and professional staff:** “Practitioners concede that corporate actions validation is an expensive business. On top of the cost of systems and data sources...you need quality people...You need the right people and you need to train them and keep them.”
- **The need to handle manual exceptions, which can overwhelm a firm’s corporate actions team:** DTCC’s GCA VS reported processing more than 14,800 manual actions in just one week in 2011.
- **Sources of corporate actions data:** “It is not enough to rely on a single un-validated source of corporate actions from a broad data service provider for quality corporate actions data. Metrics show that no single vendor has the breadth of coverage for the global market.”
- **Understanding local nuances:** “Challenging situations may originate from any marketplace, and their resolution requires detailed understanding of the market’s particular nuances.”

The paper provides a comprehensive checklist of requirements that will help an organization construct its own internal business case, and also describes the tasks and expertise needed to ensure an effective validation service.

“As corporate actions data grows ever more complex and voluminous, companies’ corporate action teams are increasingly stretched and the risk of error continues to rise,” said Andrew Delaney, editor in chief of the A-Team Group. “By outsourcing the acquisition and validation of corporate actions data to an established provider and ensuring performance through rigorous service-level agreements, firms can ensure the accuracy, timeliness and breadth of coverage they need for corporate actions information,” he said.

## ‘Scrubbed’ data

DTCC’s GCA VS “is a completely outsourced data validation service, providing a centralized source of ‘scrubbed’ corporate action announcement information for more than two million active securities,” according to the paper. DTCC’s cleansing process for the

information “comprises data mapping, data normalization, consolidation and verification.”

“More than 50 leading global buy- and sell-side firms trust GCA VS with their corporate actions validation process,” said Daniel Thieke, DTCC vice president, Asset Services. “GCA VS provides comprehensive, round-the-clock coverage across all event types and all global markets with offices and local staff in New York, London and Shanghai.

“We continually work to ensure data accuracy and a streamlined data flow while reducing risks associated with corporate actions,” he said. “With detailed metrics, experienced staff and an active working group comprising industry representatives, GCA VS works to promote straight-through processing in corporate actions while offering customer firms accurate and timely data.”

GCA VS provided more than 972,000 corporate actions announcements and more than 9.5 million announcements on scheduled payments for fixed income securities to its clients in 2010. The service also handled about 125,000 announcements from 175 custodians to its clients on those securities. ©

*[To read Building the Business Case for Outsourced Corporate Actions Validation, go to [www.dtcc.com/products/gca/index.php](http://www.dtcc.com/products/gca/index.php).]*

# Partnerships Offer GCA VS Customers Integrated Cap

**D**TCC is extending the reach of its Global Corporate Actions Validation Service (GCA VS) by teaming up with leading software companies that automate the processing of corporate actions information. The partnerships give customers an end-to-end solution that combines GCA VS's high-quality data with state-of-the-art processing capabilities offered by multiple vendors.

"We publish and distribute files of corporate action data up to 15 times a day so our customers receive the latest and most accurate data available," said Daniel Thieke, DTCC vice president, Asset Services. "In some instances, firms are unable to process the information quickly and efficiently by themselves, so they are turning to outside vendors for help."

To support this customer need, DTCC designed a new Certified Software Partner program through which GCA VS collaborates with a select group of firms that offer processing capabilities for corporate action events. "We are integrating our corporate actions data feeds with their processing software to give customers a cost-effective, comprehensive processing option for their corporate actions businesses," said Thieke. "Going forward, we will work with other qualified software firms that



*Brooks Gibbins, vice president, Product and Strategy, Asset Control*

are prepared to be certified to interface with the data feed from our validation service."

### **Partners' perspective**

GCA VS tracks, validates and distributes high-quality corporate action data on 2.5 million securities globally in 200 countries and in 15 languages. GCA VS is an offering of DTCC Solutions LLC, a DTCC subsidiary.

Leading corporate actions firms that have signed on as certified software partners include Asset Control, Information Mosaic and XSP.



*Doug Jeffrey, president, Americas, Information Mosaic*

"The focus for Information Mosaic has always been to automate post-trade processes, whether it's trade capture, settlement or, as in the case of the GCA VS, corporate actions," said Doug Jeffrey, president, Americas, for Information Mosaic. "We have always worked closely with DTCC and supported the processing of DTCC data within our application," he continued. "This agreement not only formalizes the relationship but will ensure that our clients and DTCC clients are confident that the services and applications we provide interact seamlessly, reducing operation risk."

# abilities

by Edward C. Kelleher



Brendan Farrell, Jr., CEO, XSP

THE PARTNERSHIPS GIVE CUSTOMERS AN END-TO-END SOLUTION THAT COMBINES GCA VS'S HIGH-QUALITY DATA WITH STATE-OF-THE-ART PROCESSING CAPABILITIES OFFERED BY MULTIPLE VENDORS.

“Our goal is to help clients source and integrate corporate actions data by providing the most efficient and cost-effective solution available,” said Brooks Gibbins, vice president, Product and Strategy, Asset Control. “Thanks to this partnership, clients do not have to build costly, labor-intensive internal systems to process the corporate actions data. Now with GCA VS, Asset Control offers a completely integrated solution combining DTCC’s data and Asset Control’s data management products.” Gibbins said that a leading, global bank

has the new system up and running.

“DTCC Solutions is the premier provider of cleansed corporate action data, with a depth and breadth unparalleled in the industry,” said Brendan Farrell, Jr., CEO of XSP. “By combining this data with the XSP software, we’re moving the industry towards straight-through processing. The solution not only boosts efficiencies and eliminates data errors, it also allows our clients to focus on downstream processing, such as notifications to clients and instructions to prime brokers and custodians. With our new XSP

Cloud offering that supports the DTCC reengineering initiative, XSP will even auto-instruct DTCC for participants.” Farrell said several XSP clients are already processing corporate actions with the integrated system. 📧

*[For more information on DTCC’s Certified Software Partner agreements in Asia, contact Catherine Deng at [ndeng@dtcc.com](mailto:ndeng@dtcc.com) or +086 213220 4710, ext. 8015; in EMEA, contact Carl Jones at [cjones1@dtcc.com](mailto:cjones1@dtcc.com) or +44 (0) 20 7650 1421; and in the U.S., contact Patrice Lott at [plott@dtcc.com](mailto:plott@dtcc.com) or +1 212.855.4215.]*

# NYSE Liffe US Will Launch Futures Based on DTCC Index

In a deal that breaks new ground for DTCC, the company has licensed the repo trading data it publishes each day to NYSE Liffe US, the U.S. futures exchange of NYSE Euronext, as the basis of a new futures contract.

The new contract, which NYSE Liffe US expects to have ready for listing in the second quarter of 2012, will be based on DTCC's GCF (General Collateral Finance) Repo Index™, the industry's source for average daily interest rates in the \$400 billion-a-day repo market for U.S. Treasury securities, agency securities and mortgage-backed securities.

"For the first time," said Gary Chan, DTCC vice president, Product Management, Fixed Income Clearing Corporation, "market participants will be able to hedge interest rate exposure related to overnight funding costs for executed transactions, which is something they can't do now. By creating this contract, NYSE Liffe is also opening the market up to investors other than the large institutional trading desks that usually use it, which means there will also be increased liquidity."

## Better risk management

According to Thomas Callahan, CEO, NYSE Liffe US, the new product will allow financing desks to hedge interest rate exposure more readily using a liquid, transparent and centrally cleared futures instrument. He said feedback from customers suggests significant demand for this product, which could

quickly develop into a new short-term benchmark and another important tool for managing risk.

The trades will be cleared through New York Portfolio Clearing, LLC, (NYPC), the joint-venture derivatives clearinghouse owned equally by DTCC and NYSE Euronext. This will allow the trades to be cross-margined against the cash market trades of U.S. Treasury and agency securities used in repurchase agreements, which are cleared by DTCC's Fixed Income Clearing Corporation subsidiary.

"NYPC's one-pot margining approach will be particularly effective," Chan said, "because the contracts will be based directly on the average cash market repo rates we report at DTCC each day. That means the risk of the futures and

underlying cash market trades will tend to offset each other more directly."

## About the index

Repos typically involve a form of short-term secured loans based on the sale of a security and its subsequent repurchase, usually the next day. GCF Repo Index data is utilized by market participants around the world, including bank financing desks and interest-rate swaps traders, as well as industry regulators.

DTCC began publishing a weighted average of daily repo trades on its corporate website ([www.dtcc.com](http://www.dtcc.com)) in November 2010, and now provides additional distribution of the index to the trading community worldwide each day as part of the financial market data made available via Bloomberg LP terminals. @



Gary Chan, DTCC vice president, Product Management, Fixed Income Clearing Corporation



Thomas Callahan, CEO, NYSE Liffe US

# E.U. Financial Reform: DTCC Takes Its Place at the Table

by Roland Kielman

As 2012 begins and the financial regulatory community on both sides of the Atlantic rushes to meet its obligations under the December G20 deadline, DTCC has expanded its outreach with key policymakers to ensure its views are actively considered during the reform process.

“Financial sector reform will have a lasting impact on our industry, with important consequences for our customers and investors globally, so it is critical to get it right,” said Larry Thompson, DTCC general counsel. “DTCC is taking an active role in shaping the outcome in the U.S. and Europe, representing our customers in the drive to reduce risk, increase transparency and strengthen certainty in the markets, which are objectives shared by financial firms, regulators and lawmakers alike.”

In Europe, DTCC has moved into high gear over the past year, establishing itself in the region’s political and financial centers with policymakers as they develop new rules that will govern two of the company’s primary service offerings: over-the counter (OTC) derivative trade repositories and central counterparty (CCP) services.

## European approach

Unlike the U.S. Dodd-Frank Act, which seeks to transform the financial services industry through one sweeping piece of legislation, Europe is relying on a

more nuanced legislative approach to determine how the industry is regulated – most notably through two primary initiatives, the European Market Infrastructure Regulation (EMIR) and the Markets in Financial Instruments Directive (MiFID).

DTCC has built close relationships with European policymakers involved in crafting both these pan-European financial reform proposals. The company’s outreach efforts are led by the Brussels-based Government Relations office, in concert with the Washington, D.C., office as well as the executive team. For instance, DTCC Executive Chairman Robert Druskin visited Europe in late November, with an agenda that included discussing the Eurozone crisis and DTCC’s OTC derivatives trade repositories with prominent policymakers, as well

as presenting an award to a prominent member of the E.U. Parliament. (See page 17.)

## Avoiding indemnity

One of DTCC’s top European policy objectives is an EMIR proposal to enhance stability in the OTC derivatives markets. Specifically, DTCC has focused on the issue of indemnification – a Dodd-Frank provision that DTCC has urged European policymakers to avoid replicating in EMIR.

Trade repositories, such as DTCC’s recently launched Global Trade Repository for Interest Rates, have been identified by the global regulatory community as an essential tool for enhancing market transparency and mitigating systemic risk in the OTC derivatives markets because of their ability to provide

[continued on page 16]

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## EMIR Timeline

The European Market Infrastructure Regulation (EMIR) has completed a three-way negotiation process known as *trialogue*, during which the European Parliament, Commission and Council reconciled their individual drafts to produce the final draft legislation.

Upon adoption in early 2012, EMIR will become the responsibility of the new pan-European regulatory authority known as the European Securities and Markets Authority (ESMA). ESMA will develop and implement the rules designed to support EMIR, and DTCC will remain engaged with the new European regulator throughout this process.

## E.U. Financial Reform *continued from page 15*

comprehensive position-level data to international supervisors.

DTCC's position is that indemnification threatens the ability of regulators to access data by introducing unnecessary roadblocks to previously developed – and well-functioning – international data sharing agreements. Now, in large part due to DTCC's sustained outreach effort to the European Parliament and with the Council and Commission, EMIR does not contain reciprocal indemnity language.

“From the beginning, we built on DTCC's reputation as a reliable driver of sound

public policy, along with our unique position in the OTC derivatives space, to influence the debate,” said Andrew Douglas, DTCC's head of European Public Affairs. “One of the primary goals of EMIR is to promote market transparency in the OTC derivatives space, and we've made it clear that including reciprocal indemnity language would achieve exactly the opposite.”

### Promoting CCP competition

On another front, DTCC and its European subsidiary that clears cash equities, EuroCCP, have been actively involved in debating the elements of EMIR that aim to create a common set of rules and minimum safety standards to govern central counterparties (CCPs), including derivatives CCPs.

EuroCCP will be one of the many CCPs subject to EMIR's authority. Another of the company's top policy objectives was to promote choice of clearing service provider through non-discriminatory access of CCPs to trade feeds and interoperability between CCPs. In this regard, DTCC seems poised to achieve its goal. As it currently stands, EMIR reinforces the principle of competition among CCPs that will provide users choice, first in the cash equities market and in OTC derivatives in a few years' time.

### MiFID review

As EMIR nears completion, the revision of MiFID is also underway.

Originally implemented in November 2007, MiFID is a key component of the European effort to provide consistent regulatory supervision of the European investment services industry. The 2008 financial crisis exposed some of the directive's shortcomings, and Europe's legislative bodies are now reviewing and amending it.

DTCC is actively involved in the review process, having recently submitted a formal response to a questionnaire issued by the European Parliament. In line with its position on EMIR, DTCC hopes to reinforce the principle of CCP open access, among other things.

The process of amending MiFID, beginning under the current Danish presidency, is likely to move relatively slowly as the E.U. and Eurozone focus on resolving the ongoing sovereign debt crisis. Final agreement is not expected before late 2012 or early 2013 at best.

Despite MiFID's drawn-out timetable, Dan Cohen, DTCC managing director, Government Relations, anticipates another busy year for DTCC as it expands its outreach within the European policymaking scene. “In a relatively short period of time, we have achieved a great deal in Europe,” Cohen said. “We are now viewed as a reliable resource within Europe's top policymaking circles and

## European Network

**D**TCC's network within the European policymaking community includes representatives from organizations such as the European Parliament, European Commission, Council of the European Union and European Central Bank.

The company operates a full-time Government Relations office in the E.U. capital of Brussels. Company representatives also spend considerable time in the financial and legislative centers of London, Frankfurt, Berlin, Paris and Strasbourg and in individual member states like Denmark, which recently assumed control of the rotating E.U. presidency.

DTCC has firmly established itself as a dependable thought leader on issues related to financial reform and post-trade infrastructure.

“The challenge now is to build on the momentum of the past year and redouble our efforts to promote sound financial policy – not just in Europe but on a global scale – and I’m confident we will do just that.” 📸

## Across the Pond

With financial reform taking place on both sides of the Atlantic, it can be difficult to keep abreast of all the developments – and it can be particularly challenging to track events on the other side of the pond.

To help lawmakers, regulators and other key constituents address this informational challenge, DTCC publishes a concise two-page newsletter called *Across the Pond*. The publication provides a “thumbnail” sketch of developments in financial regulatory reform in both the U.S. and the E.U.

To subscribe or to obtain detailed information on any topic highlighted in the publication, contact Dan Cohen, DTCC managing director, Government Relations, at [dcohen1@dtcc.com](mailto:dcohen1@dtcc.com), or Andrew Douglas, DTCC head of European Public Affairs, at [awdouglas@dtcc.com](mailto:awdouglas@dtcc.com).



*Robert Druskin, DTCC executive chairman, and Astrid Lulling, recipient of the Members of Parliament award for the Economic and Monetary Affairs Committee*

## MEP Awards

Robert Druskin, DTCC executive chairman, presented an award at the annual Members of Parliament (MEP) Awards Ceremony in Brussels, Belgium, during a trip to Europe in late 2011. The event, hosted by Parliament Magazine and attended by more than 350 guests, featured awards for 18 MEPs for their work in a number of policy areas.

Druskin presented the award for the Economic and Monetary Affairs Committee, the key legislative committee of the European assembly dealing with economic and financial affairs. The award was received by committee member Astrid Lulling, an MEP from Luxembourg and one of the most senior MEPs in the parliament.

“I was delighted to participate in this year’s award ceremony and meet so many of Europe’s most driven and committed lawmakers,” Druskin said. “It was a great honor to present the award to MEP Lulling for her work on the Econ committee, not to mention her more than 40 years of experience in the European policymaking community.”

# Blog for Employees Reinforces DTCC's Risk Minds

At every level of DTCC, we need to think critically and creatively about risk to ensure we are out front in protecting the industry," said Michael Bodson, DTCC's COO. "Within the company, we are driving home the risk management focus by encouraging people to communicate more openly. The goal is to create an environment in which employees feel free to challenge the status quo, ask questions and voice ideas about the ways we identify, monitor and mitigate risk."

Under a program called DTCC 3.0, DTCC has been steadily raising the bar on risk management and a critical aspect of 3.0 is increasing risk awareness and dialogue among all employees. One vehicle DTCC uses to achieve this objective is a blog for employees, launched in May 2011.

To date, the primary author of the blog has been Donald F. Donahue, DTCC president and CEO, who has written close to 100 postings. "One benefit of this blog for me is the opportunity to memorialize some stories about DTCC – stories that have key lessons about DTCC's history, or stories that just fill in some important context about past decisions that could be relevant to issues we might face again in the future," Donahue wrote in a recent posting.

In 2011, the blog included a series titled "The Seven Habits of Highly Effective Infrastructures" in which Donahue spelled out the criteria for a successful infrastructure organization, using many

real-life examples from DTCC. The blog also covers leadership and diversity topics, drawing on events in the news, books and other points of reference.

Here is a sampling from DTCC's 3.0 blog.

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## Risk

At DTCC today, making the choice to lose sight of risk is not an option. When we decide to accept a residual risk or tolerate a certain level of risk, we have to remember it's never a decision that's set in stone. Accepting a particular residual risk comes with the responsibility that, over time, we will keep going back to it and questioning whether it's still something we should accept.

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We need to pay close attention to what happens in the extreme places, what happens in the "tail" of the risk curve, when our resilience and our ability to continue to deliver stable, safe and sound services, including risk mitigation, will become absolutely critical to the health and safety of our members and the financial system as a whole.

\*\*\*

All our thinking about risk has to factor in the reality that "the better we get at risk mitigation, the more risks people will take." Risk is dynamic and ever-increasing and, to stay ahead of it, we have to run at least twice as fast.

\*\*\*

An economist named Hyman Minsky spent his career thinking about financial

crises – how they arose and why they frequently seemed to increase in ferocity. He developed a theory based on the fundamental insight that financial systems are inherently unstable. They naturally trend towards crisis in a cycle that repeats over time as the effects of prior crises fade from people's memories. Understanding this idea is what I call Habit No. 4 of highly effective infrastructures.

\*\*\*

In part our role involves providing information to regulators to strengthen their ability to oversee financial system risk. The "regulatory portal" our OTC derivatives team makes available to more than 30 regulators around the globe illustrates this perfectly.

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Highly effective infrastructures are always forward-looking and always scanning the landscape to see what's new, what's developing and how that will translate into new forms of risk.

\*\*\*

Like someone crossing Water Street, our approach to risk management has to look both ways. Our "headlights" perspective tries to spot risks on the horizon before they become urgent. Our "backstop" role strives to make our own systems and processes ever more risk-resilient so they will hold up even when we're dealing with the unexpected.

\*\*\*

Although Operational Risk Management

# et

by Helen Cunningham

(ORM) is a relatively new discipline that grew out of the Basel II “bank capital adequacy” standards developed around the turn of the century, I’ve always thought that DTCC has been in the business of identifying and controlling operational risks since its inception 40-plus years ago.

## Leadership/Diversity

Some of you know that I admire Winston Churchill a lot... As with Churchill, we’re all a mixture of strengths and weaknesses. Sometimes a weakness can become a strength, depending on the situation. Oftentimes a strength can become a weakness, when we become over-reliant on it.

\*\*\*

If I were Tim Cook, I’d be very focused now on the leadership team I’d be relying on to carry Apple forward. I’d be assessing that team for its strengths in innovation and creativity, and also in the collaboration and motivational qualities that are critical to Apple’s future without its phenomenal “imperial CEO.”

\*\*\*

I am particularly struck by the sea change represented by how [my daughter] Lily and her peers “think about” the issues and concerns we label “diversity and inclusion.” I put “think about” in quotes because the striking thing is that they don’t seem to think about it at all. Diversity is in the air they breathe.

\*\*\*

Many of our most interesting ideas come from what at first seem far-fetched

associations, “out-of-left-field” comments that occur to us. So pay attention to those random ideas that occasionally pop into your head – sometimes they’re gold!

\*\*\*

Columnist David Brooks had an interesting article in today’s New York Times about the work of Daniel Kahneman, a Nobel Prize-winning economist now at Princeton University. Kahneman is an advocate of the idea of “adversarial collaboration” – when studying something, work with people you disagree with, so that your interactions tend to offset whatever biases might be at play.

## DTCC

DTCC 3.0 will involve incredible change for our company. We have to rethink much of what we do, and really consider deeply how we can improve our ability to control and, where possible, eliminate risk in all of the services we provide.

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I want to send a resounding kudos to our Asset Servicing team. Their hard work in upgrading DTC’s principal and income (P&I) processing has paid off spectacularly.

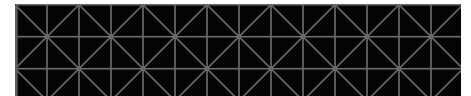
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We have just received exciting news. A global group of trade associations and financial services firms coordinated by the Securities Industry and Financial Markets Association in the U.S. has recommended DTCC’s consortium to

provide a global system for the creation and maintenance of “legal entity identifiers.”

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For the first decade of the 21st century I think we all realized we were part of a “new” DTCC – in one sense very literally, since the merged organization was legally formed in the waning weeks of 1999. And it felt very “new.” Now it feels to me that over the last year we came of age. @



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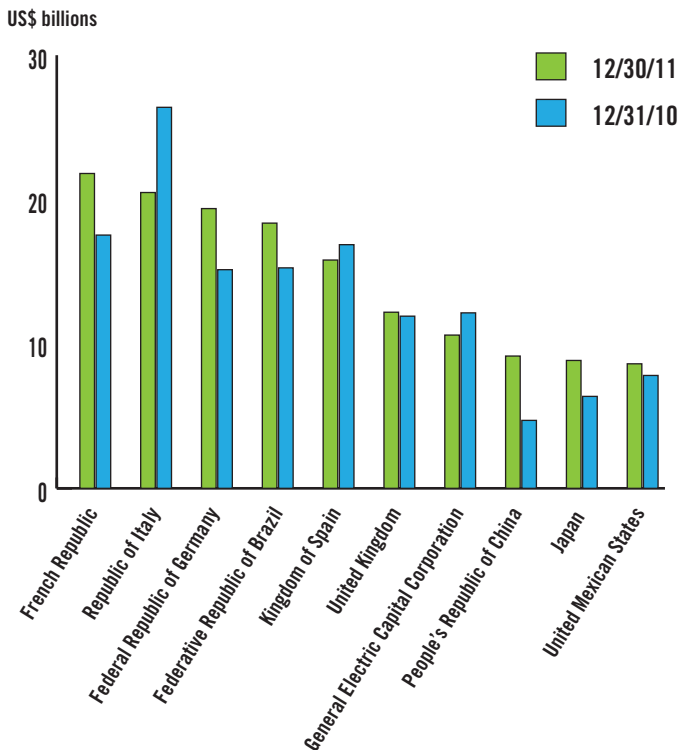


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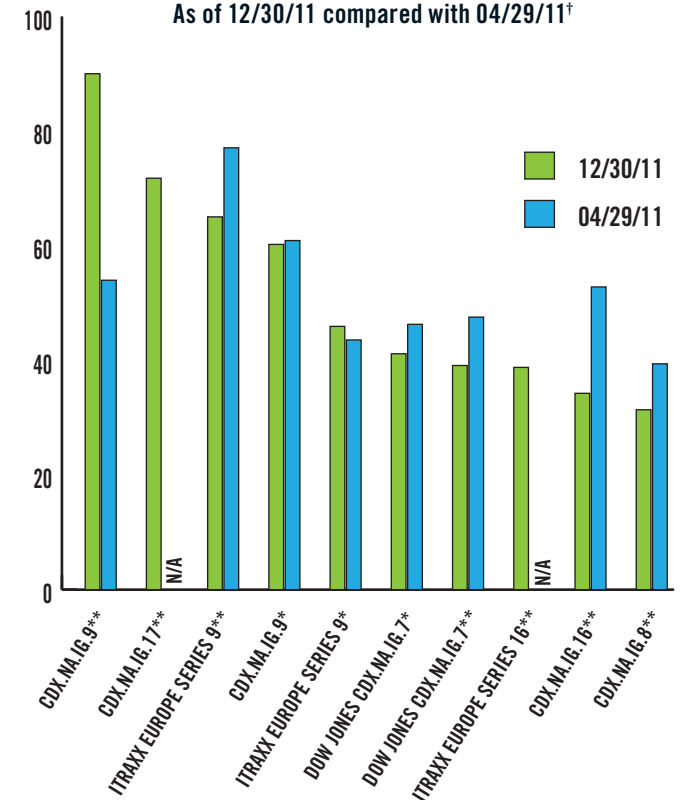
# OTC Credit Default Swaps Data From DTCC's Trade Information Warehouse

Net Notional Values (US\$ Equivalent)

**Top 10 Single-Name Reference Entities**  
As of 12/30/11 compared with 12/31/10



**Top 10 Index Reference Entities**  
As of 12/30/11 compared with 04/29/11<sup>†</sup>



\* Tranchet \*\* Untranchet

<sup>†</sup> 04/29/11: Date Warehouse began segregating tranchet and untranchet indices

## Warehouse Inventory

To access the data in DTCC's Trade Information Warehouse, go to [www.dtcc.com](http://www.dtcc.com) and click OTC Derivatives (under the dashboard on the left-hand side); under Industry Essentials, click Warehouse CDS Data.

DTCC updates the information every Tuesday after 5:00 p.m. ET (2200 GMT). The data available consists of 25 downloadable tables, divided into four sections.

• **Section I (Tables 1-8):** data on all live positions in the Warehouse as of specified dates. For example, Table 6

lists the top 1,000 reference entities by gross and net notional values, and includes each entity's sector, region and number of contracts.

- **Section II (Tables 9-16):** the change in gross notional, net notional and contracts outstanding from the prior week.
- **Section III (Tables 17-23):** information on all transaction activity, such as new trades, assignments and terminations that were confirmed within the specified

week reflecting an increase or decrease in overall positions.

- **Section IV (Tables IVa-IVb):** weekly "market risk transfer activity" resulting in a change in the market risk position of market participants. Transaction types include new trades between two parties, a termination of an existing transaction or the assignment of an existing transaction to a third party. Table IVa tracks single-name activity and Table IVb tracks index activity.

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