



A PUBLICATION OF THE DEPOSITORY TRUST & CLEARING CORPORATION • DECEMBER 2009

GLOBAL SOLUTIONS

FOR ASSET SERVICES

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A Message from the Managing Director

We're ready to hit the ground running come the New Year, but we'd like to take a few moments to look back on 2009 and review what we, together with you, our customers, accomplished this year and how we plan to carry it forward into 2010.

Corporate Actions

The reengineering of our corporate actions platform moved ahead in 2009 with the automation of the Survivor Option instruction process, implementation of new Elective Dividend Service instructions and cutoff times, streamlined Stock Loan and Repurchase Payments Orders, and the introduction of standing instructions for foreign currency and Dividend Reinvestment Program opt-outs. These were all new products and enhancements introduced without requiring mandatory programming efforts. As we promised earlier this year, any system changes remain optional for DTC customers in 2009 and 2010.

We'll soon be sharing with you our road map and schedule for the completion of the corporate actions reengineering – our goal is to eliminate all legacy files no later than 2015. And we'll provide updates on our support of industry-wide standards in the corporate actions arena. The Global Corporate Actions group continues to work closely with several industry groups, including XBRL US (the consortium for eXtensible Business Reporting Language in the U.S.) and SWIFT Standards. Together, we are developing strategic initiatives to drive industry standards. Our new corporate actions platform will support these industry standards, and data will be published in ISO 20022 format.

Underwriting

Following the successful launch of the new municipal underwriting system in 2008, DTC's underwriting team took

on corporate equities in 2009, and the reengineered platform began processing equity instruments in early October. In 2010, the team will take on the underwriting processing of corporate debt and institutional certificates of deposits.

Syndicated loans

Loan/SERV, our suite of services for the global syndicated loan market, went live in Europe in 2009, and also launched its Contract Reconciliation Service in the fourth quarter of 2009. Loan/SERV is now linked to more than 1,750 invest-

ment funds managed by more than 145 fund managers. In October, DTCC and Markit announced that together they will work to develop a comprehensive solution for the processing of syndicated loans. Markit will add the Loan/SERV Messaging Service to its electronic loan settlement platform as well as future Loan/SERV products to help increase efficiency and reduce risk in this multi-trillion dollar syndicated loan market. In 2010, Loan/SERV plans to introduce cash settlement capabilities including Delivery versus Payment.

And more

All this is just the tip of the iceberg.

We'll continue to develop new products and enhancements in many Asset Services areas as well as doing our regular, behind-the-scenes work like handling a \$64 billion merger (see story page 3), working to improve the processing of Canadian securities (story page 12) and enhancing the Stock Loan Tracking System (story page 8).

In the meantime, we wish you the best for the New Year and look forward to working with you in 2010.



PATRICK KIRBY, DTCC MANAGING DIRECTOR,
ASSET SERVICES

A handwritten signature in black ink, appearing to read 'Patrick Kirby', written in a cursive style.

Your friends and colleagues at DTCC wish you a happy and healthy holiday season.

DTC Processes \$64 Billion Merger and All Goes According to Plan

It was a high profile merger involving two pharmaceutical giants, the New York Stock Exchange, The Bank of New York Mellon, Computershare and The Depository Trust Company (DTC) – and a transfer of \$64 billion in cash and stock to DTC customers and then on to thousands of individual shareholders.

The merger of Pfizer, Inc. and Wyeth was announced in January 2009 when Pfizer proposed purchasing Wyeth in a cash and stock deal. In October, DTC helped execute the merger’s massive payment transfer.

“We believe it was the largest merger we’ve ever handled and probably the single largest payment of any kind made in DTC’s history. And it all went according to plan,” said Lori-Ann Trezza, vice president, Asset Services.

Announcements

DTC was involved in the deal from the very start. Minutes after the companies filed papers with the Securities and Exchange Commission (SEC) in January, DTCC distributed a preliminary announcement on the merger to customers and the industry. In June, DTC followed up with a subsequent announcement when the prospectus was filed with the SEC.

Crunch time came on October 15, the last day Wyeth shares traded on the New York Stock Exchange and the day DTC prepared to distribute cash and shares of Pfizer stock to its participants that held Wyeth shares. Under the merger agreement, Wyeth shareholders received \$33 and 0.985 shares of Pfizer stock for each Wyeth share they held.

Chill out

“The first thing we do in this type of transaction is to get control of all our inventory (Wyeth stock), which means we put a ‘chill’ on all security deposits two or three days before the actual merger date. That way no shares are withdrawn

from or transferred into our FAST program,” said John Saris, operations supervisor, Asset Services.

FAST is DTCC’s Fast Automated Securities Transfer program that enables agents to provide electronic custody, transfer, deposit and withdrawal services.

“But we handled this case differently. Working with both The Bank of New York Mellon and Computershare, we agreed to accept DWACs up to the merger date since we were guaranteed payment on these securities.”

The DWAC function – Deposit or Withdrawal at Custodian – enables customers to transmit electronic requests to DTC which allows their transfer agent custodian to deposit or withdraw shares from their DTC account.

A balancing act

Working with Wyeth’s transfer agent, The Bank of New York Mellon, DTC and the bank had to make certain they had the same total of FAST shares to be exchanged in the merger. “It’s basically a balancing act,” said Walter Gutmann of the Special Issuance Unit at The Bank of New York Mellon. “There are always last minutes DWACs that have to be accounted for...so there are always

adjustments to be made in the final FAST total. But we arrived at the right balance at the right time.”

Once the FAST balance was agreed upon – roughly 1.3 billion shares – DTC worked with Computershare which coordinated the transfer of funds, the issuance of Pfizer shares and the debiting of Wyeth shares. In this instance, Computershare served as both exchange agent and transfer agent for Pfizer.

Team effort

“Computershare and DTC worked very closely on this deal,” said Matthew Attubato, project manager – Corporate

‘We believe it was the largest merger we’ve ever handled and probably the single largest payment of any kind made in DTC’s history. And it all went according to plan.’

– LORI-ANN TREZZA, VICE PRESIDENT, ASSET SERVICES.

Asset Services Gets Thumbs Up In 2009 Customer Survey

In checking off the “above average” box in the 2009 Customer Survey to describe the overall value of DTCC’s Asset Services group, one senior executive added, “They’re already above average – don’t know what else they could do” to improve.

While the sentiment was not unanimous in the survey, it does reflect the growing satisfaction levels that customers are reporting about the products and services offered by the Asset Services group. And the product ratings for these services clearly attest to increased customer satisfaction.

Customer satisfaction was high in almost every business line, including:

- Securities processing: 95% of customers were satisfied;
- Non-Cede & Co. custody: 92% satisfied;
- Underwriting: 85% satisfied;
- Corporate actions processing: 85% satisfied;
- Tax: 79% satisfied.

The right people

“This year the survey methodology made sure that we were talking to the right people. In addition to surveying senior executives, the survey zeroed in on the people who use our services on a day-to-day basis – those individuals who know what’s right about each service and what needs improvement,” said Dan Thieke, vice president, Asset Services. “That’s why we regard these results as an accurate measure of product satisfaction. In fact, we are using this year’s results, even as high as they are, as our new benchmark on how we measure ourselves going forward.”

Thieke pointed to the survey that went out to municipal underwriters. “We know exactly who is using our municipal underwriting system and who should be surveyed. These are customers who use the system on a day-to-day basis, who are the most knowledgeable about the system and can give us the best feedback.”

Excellent support


While there were complaints about the service and suggestions to improve the underwriting system, many users rated the system “above average” and “excellent.” The un-

derwriting team is “reliable and there when we need them,” said one user. Others said the team provided “excellent support and assistance with problems” and pointed to the team’s “rapid response.”

Security processing also won compliments from customers. “DTCC is very helpful in answering questions and resolving securities processing issues we have,” wrote one customer. Another cited the “timely, accurate responses” that security processing provides, and still another said that “any problems are treated with urgency.”

Customers who expressed dissatisfaction with Asset Services most often cited poor customer service or the lack of urgency on the part of DTC personnel. In securities processing, those who felt they were not getting good value for the service said they were primarily concerned with cost.

Overall, DTCC maintained its 91% customer satisfaction level for 2009. The key drivers cited by customers were DTCC’s “customer centricity,” “commitment to quality” and the fact that it was proactive in letting customers know when problems arose.

The survey included responses from more than 1,450 respondents in two separate waves, the first in March and the second in June 2009. 



DTC Will Change the Way It Processes P&I Payments

The Depository Trust Company (DTC) will change the way it handles principal and income payments (P&I) on more than 3.5 million securities it services beginning in 2011, according to a DTC white paper published in November. The paper, titled *P&I Payment Refinement: A Move to Further Reduce Payment Risk*, says the move will help reduce risk in the allocation of more than several trillion dollars annually.

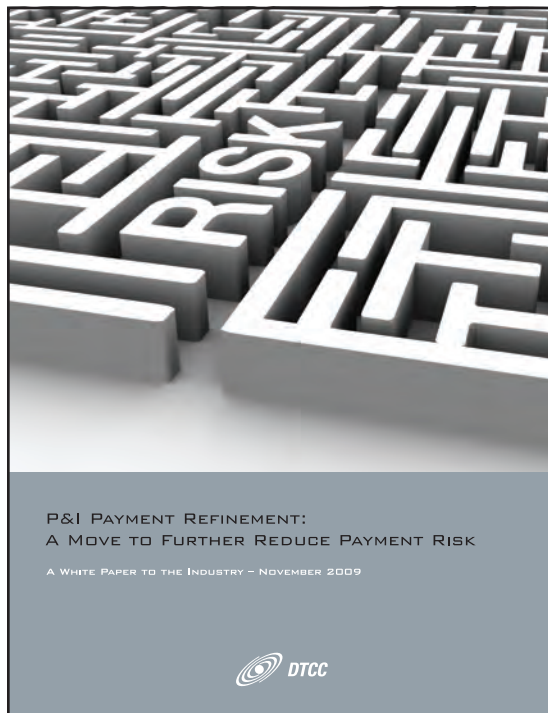
DTC, a subsidiary of The Depository Trust & Clearing Corporation (DTCC), collects and allocates cash entitlements due on DTC-eligible securities on a daily basis. The P&I payments include dividend, interest, periodic principal, redemption and maturity payments. In 2008, DTC collected and allocated more than five million payments totaling more than \$3 trillion.

Reducing risk

“There will be a major change in how we process P&I payments as we sunset our current practice and transition to a methodology that reduces risk for the industry,” said William B. Aimetti, president and chief operating officer of DTCC. “We are reaching out to our customers and other stakeholders to help them prepare for 2011 and to solicit industry input and collaboration as we move forward on this change.”

Under the current practice, DTC “collects and allocates virtually all payments on their scheduled payable dates – including those that may be paid to DTC after established intraday cut-off times or received without the detail needed to allow a payment to be paired with its specific CUSIP number,” the paper states. (A unique CUSIP number is assigned to all securities issued in the United States.) In 2009, DTC has allocated more than 99.95% of all cash due on the payable date.

But “there are inherent risks associated with allocating late and unidentified payments,” the paper states, and “while the practice of allocating all entitlements on the payable dates has provided a great deal of certainty for DTC par-



ticipants and their customers, the exposure to credit and liquidity risk in an increasingly complex financial and regulatory environment has grown to unacceptable levels.”

Regulators

After conducting an extensive internal review and in-depth discussions with regulators, DTC “has determined that, given today’s market conditions, these risks must be substantially eliminated.” This involves moving from an “allocate all” methodology to one that allocates only those payments that have been made on time and identified with the correct CUSIP. This would mean that even if 96% of the payments were made to DTC on


time and identified correctly on a payable date – 96% is the current performance level – there would still be a sizeable amount of unallocated payments. “For example, on a peak day where expected allocations totaled \$50 billion, 96% compliance would result in approximately \$2 billion not being allocated,” according to the white paper.

“We believe this paper will raise awareness of the risks involved in P&I processing and that the changes it recommends will help refine the process and reduce payment risk for all parties,” said Aimetti.

Action steps

As part of its action plan, DTC will:

- Form an industry task force to ensure collaboration as this effort moves forward.
- Expand communication among all agents on payment timeliness so that each can see how they are faring compared to other agents.
- Provide agents with more and current information on what payments are due DTC.
- Publish milestones as DTC moves toward implementation.

P&I Payment Refinement: A Move to Further Reduce Payment Risk can be accessed at www.dtcc.com under Thought Leadership, White Papers. 

DTCC and Markit Join Forces to Develop Comprehensive Solution For Syndicated Loans

DTCC and Markit, a leading global financial information services company, have announced plans to bring together key services for the loan market in order to offer a comprehensive solution for the processing of syndicated loans. The initiative aims to increase efficiency and help reduce counterparty and operational risk in the multi-trillion-dollar syndicated loan market.

Markit will combine Markit WSOData, ClearPar and DTCC's Loan/SERV Messaging Service and will link to other Markit and DTCC Loan/SERV services. DTCC is expected to contribute its Loan/SERV Messaging Service to Markit's electronic loan settlement platform. The Loan/SERV Messaging Service is a safe, secure and automated network for the transmission, receipt and online storage of industry-standard loan messages in FpML format.

Cash settlement

The combination of DTCC's electronic messaging and Markit's loan settlement platform will improve communication between buy-side and sell-side market participants significantly. In addition to contributing its Loan/SERV Messaging Service, DTCC will connect the new Markit platform to other existing and future Loan/SERV products for loan reconciliation and cash settlement including Delivery versus Payment (DVP).

Markit's platform, which integrates parts of its WSO portfolio management software and services, will be enhanced further after Markit acquires ClearPar, an automated syndicated loan operations platform, from FIS. That acquisition is expected to close by the end of this year.

Straight-through processing

"We're pleased that Markit and DTCC have come

together to provide this solution to the loan market," said Michael Bodson, DTCC executive managing director, Business Management and Strategy. "The Loan/SERV Messaging Service will help eliminate faxes and associated back-office costs while greatly improving the reliability, timeliness and accuracy of syndicated loan communications. This service and future Loan/SERV products will help move the syndicated loan market closer to straight-through processing."

"The syndicated loan market is one of the largest credit asset classes, and we have been working with the industry on a global settlement solution that will connect buy- and sell-side participants electronically for the first time," said Armins Ruis, Markit's executive vice president and global co-head of Fixed Income. "It is only by improving communication across the marketplace that we can speed loan settlement times and reduce operational risk to bring about a more transparent and liquid loan market."

Right direction

"Participants in the syndicated loan industry have long agreed on the need to move to electronic-based processing," said Andrew Gordon, CEO and president of Octagon Credit Investors. "In addition, there is a necessity in the industry to provide transparency in the closing and settlement process. The combined solution to be provided by Markit and DTCC is a positive step in that direction, as long as the majority of the loan community adopts the solution."

The DTCC Loan/SERV Messaging Service is expected to be incorporated into the Markit loan settlement platform in the first half of 2010.

Loan/SERV is a service offering of DTCC Loan/SERV LLC, a subsidiary of DTCC. 



DTCC Launches Contract Reconciliation For Global Syndicated Loan Market

DTCC has launched its Loan/SERV Contract Reconciliation Service, which greatly enhances and expands reconciliation capabilities for the global syndicated loan market.

The Contract Reconciliation Service, in addition to enabling agent banks and lenders to reconcile loan positions on a daily basis, takes loan reconciliation to a more detailed level. It will provide market participants with information on interest rates, margin and fee calculations, drawn and unutilized balances, payment-in-kind balances, and a host of other data that will further automate and streamline the processing of syndicated loans.

DTCC introduced its earlier Reconciliation Service in 2008, which enabled agent banks and lenders to view and reconcile loans at a total commitment balance level.

More loan information

“Contract Reconciliation represents phase two of our Loan/SERV reconciliation process and provides 30 new data fields that help identify and correct processing errors before they lead to settlement problems,” said Mathew Keshav Lewis, DTCC vice president, European Loans Product Management.

“The Loan/SERV Contract Reconciliation is the first and only global service that can provide reconciliation at all levels, from commitment and facility level down to the individual contracts, with all of the relevant transaction detail,” said Lewis.

Fewer adjustments

“One of the great benefits of Contract Reconciliation is that it will help agents and lenders correct errors in cash accruals and related cash flows before they become problems,” said Marc Romain, managing director, Barclays Capital. “This brings major new efficiencies to the syndicated loan

ClearStructure Links to Loan/SERV

ClearStructure Financial Technology LLC, a leading supplier of software solutions to the financial services industry in the United States and Europe, will link its Sentry loan trading and portfolio management products to DTCC’s Loan/SERV Contract Reconciliation Service and Loan/SERV Messaging Service.

“ClearStructure’s Sentry offers powerful, flexible loan-management solutions with a broad range of services

that meets the needs of both the sellside and buy-side participants,” said Scott Turley, chief executive officer of ClearStructure. “By linking to Loan/SERV, we’re giving our customers valuable new tools that will provide them with highly detailed loan information on a daily basis and enable them to communicate via an efficient, industry-standard messaging service.”



SCOTT TURLEY, CHIEF EXECUTIVE OFFICER,
CLEARSTRUCTURE

market by helping reduce profit-and-loss adjustments that come with processing errors, and eliminating the time and effort required for manual tracking and correcting of these errors. For example, market participants will

be able to see upcoming interest payments so that if they see a problem or an error, they can correct it before the payment comes due.”

Contract Reconciliation will be in full production with leading global banks, including J.P. Morgan, The Bank of New York Mellon, Barclays Capital, Citi, Deutsche Bank and The Royal Bank of Scotland in the next few months. Leading investment firms such as PIMCO, Oak Hill Advisers, Highland Capital Management and KKR will begin using Contract Reconciliation at the same time.

“This represents a major advance for the global syndicated loan market because participants have never before had this quality and volume of information available at their fingertips on a daily basis,” said Lewis.

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New Capabilities Enhance Stock Loan Tracking System

Recent enhancements to The Depository Trust Company's (DTC) Stock Loan and Repurchase Payment Order (SLPO) system have further streamlined stock loan processing. The changes give both lenders and borrowers new capabilities for ensuring the accuracy of information pertaining to corporate actions, such as dividends and tax rates.

"These enhancements deliver a new level of control and efficiency to parties on both sides of a stock loan or repurchase payment order," said Patrick Kirby, DTCC managing director, Asset Services. "Now, customers can review the data as soon as they receive it and reject transactions and correct any errors that may have occurred prior to payments being allocated."

What SLPO does

The SLPO system facilitates the exchange of funds between lenders and borrowers involved in stock loans and repurchase payment orders (repos). In these transactions, the borrower must continue to make payments in lieu of dividends and interest to the lender. The SLPO tracking system automatically debits the account of the borrower and credits the lender's account with a predetermined payment amount on a regular basis.

Until the enhancements took effect in October, participants in SLPO had no way to reject or decline a payment if it was incorrect, and the mistake would have to be manually corrected after the payment had been allocated. This would result in a second transaction to correct the first one.

"Now SLPO allows borrowers or lenders to reject the transaction, as well as explain why they are rejecting it," said Dan Thieke, DTCC vice president, Asset Services. "Custom-

ers no longer need to let incorrect transactions proceed to payment allocation and then submit additional transactions to correct them." Reasons for rejecting a transaction can include a revised rate, quantity difference, tax-rate difference or "other," a field that allows the participant to explain the reason for rejecting the transaction.

"What's best about the enhancement is that we can check on a transaction before it's booked and make a correction,

if need be," said Vincent Bonafede, assistant vice president, Morgan Stanley. "The enhancement also prevents aged adjustments from occurring."

No more dupes

Another SLPO enhancement is the elimination of "duplicate" transactions.

"In the past, if you owed your counterparty \$100, for example, you might submit an SLPO transaction to credit that firm \$100 while it submitted a transaction to debit you \$100," said Thieke. "You would end up transferring \$200 to the counterparty, and one of you would need to submit a transaction to rectify the duplicate. This will no longer occur because the enhancement prevents counterparties from submitting a transaction where one already exists."

Now, a counterparty must either reject the initial transaction or allow it to proceed to payment allocation before submitting a new SLPO transaction. This prevents duplicate transactions from being submitted by counterparties as well as the additional transactions that would be necessary to correct the duplicate transactions, Thieke explained. **GS**

[For questions about the Stock Loan and Repurchase Payment Order system, contact Robert Epstein, DTCC vice president, Asset Services, at repstein@dtcc.com or 212.855.2965.]

'What's best about the enhancement is that we can check on a transaction before it's booked and make a correction, if need be.'

— VINCENT BONAFEDE, ASSISTANT VICE PRESIDENT,
MORGAN STANLEY



UW SOURCE Begins Processing Equity Issues

The underwriting of equities just got streamlined. On October 9, The Depository Trust Company's (DTC) reengineered underwriting platform, called UW SOURCE, began processing equity instruments.

UW SOURCE frees firms from the need to submit paper documents and faxes to DTC for the purposes of equities underwriting, and instead captures all the pertinent information electronically. "This change marks a breakthrough in the eligibility process for these instruments," said Patrick Kirby, DTCC managing director, Asset Services. "It brings greater efficiency and transparency to the eligibility process, which benefits all parties involved in the underwriting chain."

Price incentives

DTC is encouraging customers to transition to UW SOURCE as soon as possible, since the legacy DTC systems for equities underwriting (WUN and PUND) will be decommissioned on January 1, 2010.

While DTC will continue to accept paper questionnaire submissions for underwriting eligibility, it is charging reduced fees for underwriting handled through UW SOURCE. Firms can obtain a further fee cut if they opt to submit additional details, such as information on puts and calls, to the new system. This information will further streamline DTC's downstream processing of the issue after the initial distribution.

"If a firm sends the additional data, we will apply a fee discount, since that information will save time and effort at the time of the underwriting," said Ann Marie Bria, DTCC director, Product Management. A complete fee schedule for UW SOURCE will be available before year-end.

To drive customer adoption of the system next year, effective January 1, 2010, DTC will levy a penalty of \$2,000 per CUSIP submitted on firms that continue submitting information via the paper questionnaire.

Equity types that will be accepted by the new platform include common stock, preferred stock, equity derivatives, limited partnerships, closed-end funds and American Depositary Receipts. Corporate debt and Certificates of Deposit will be added to the system going forward. (UW SOURCE has been processing new municipal bond issues

electronically and disseminating that information widely to the industry since 2008.)

Better communications


User testing of UW SOURCE took place from early August until September 25. Customers encountered few problems and also benefited from better communication with DTC's Underwriting Department.

"The new system gives firms an electronic platform to communicate directly with DTC," Bria said. "It tells customers which DTC specialist is handling their submission, outlines missing information needed for settlement eligibility and provides a real-time update on the status of their transaction."

How to get there

Customers can access UW SOURCE for equities using a secure browser connection or via MQ Series computer-to-computer messaging. Using the browser, firms can either enter data in each field on the screen or upload a formatted spreadsheet to DTC using the system.

Users need to register to gain browser access, which is through DTCC Web Direct. If a firm already has a designated Access Coordinator for DTCC Web Direct services, then the coordinator can register and open access to individual users at the firm. Firms that do not have an Access Coordinator must send the appropriate request form, available on DTCC.com's website, to Raven Walowitz at rwalowitz@dtcc.com in DTCC Implementation Services to be set up to use the system.

Instructions for accessing the UW SOURCE system for equities, as well as how to use the system, are available on DTCC's website. Go to www.dtcc.com, then Thought Leadership, Issues & Initiatives and select Reengineering. From there, select Underwriting Project Status Updates in one of the blue boxes on the right side of the page, and then select UW SOURCE Detailed Implementation Information (.doc) in the bottom blue box of the page. 

[For more information on UW SOURCE for equities, contact Ann Marie Bria, DTCC director, Product Management, at abria@dtcc.com or 212.855.4024.]

DTC Fortifies Corporate Actions Platform

The Depository Trust Company (DTC) has been moving steadily forward on its corporate actions re-engineering project, while maintaining its commitment to deliver new products and enhancements without requiring mandatory programming efforts by customers in 2009 or 2010. Any system changes for new products or enhancements remain optional for DTC customers at this time.

‘Our approach has been to enhance existing systems, rather than develop new ones, and reduce the overall scope and cost of the plan.’

– PATRICK KIRBY, DTCC MANAGING DIRECTOR,
ASSET SERVICES.

“Last year we announced that, in light of the severe economic downturn, we would forge ahead with the reengineering of our corporate actions system in a manner that would obviate the need for the industry to make near-term system changes,” said Patrick Kirby, DTCC managing director, Asset Services. “Our approach has been to enhance existing systems, rather than develop new ones, and reduce the overall scope and cost of the plan,” Kirby said.

Single platform

The multi-year reengineering project by DTC, a DTCC subsidiary, is creating a single new platform that will be capable of handling increasingly sophisticated types of securities – both domestic and international.

The system will also support an array of new asset servicing requirements and complex corporate actions, process increasing volumes and support international messaging standards. The goal is to eliminate all legacy files by no later than 2015.

What’s new

This year, DTC has rolled out multiple new services and enhancements to the corporate actions platform, including:

- Automation of the Survivor Option instruction process, implemented in March;

- Incorporation of cutoff times in Elective Dividend Service (EDS)-supported instructions, which took effect in June;
- Introduction of standing instructions for foreign currency and Dividend Reinvestment Program (DRP) opt-outs, completed in the third quarter;
- Introduction of streamlined Special Payment Orders (SLPO) procedures, implemented in the fourth quarter;
- Implementation of the EDS instruction approval process, scheduled for completion by year-end.

Benefits of the new system

To improve communications and support industry-wide standards in the corporate actions arena, DTCC has been working closely with XBRL US, the consortium for eXtensible Business Reporting Language in the United States, the International Securities Services Association (ISSA) and SWIFT Standards. The new corporate actions platform will support these industry standards rather than proprietary formats, and data will be published in ISO 20022 format, with a unique Corporate Action Identifier that will provide clear and consistent identification of an event on a global basis.

The reengineering and standardization will bring other major benefits, including:

- Enhanced straight-through processing (STP). Support of ISO messaging for the entire corporate action lifecycle, including automated elections for all elective events, will enhance STP and reduce risk for the industry.
- Improved announcement data. Receiving XBRL messages directly from issuers will ensure that customers receive the most timely and accurate announcement data possible.
- Single interface. This will enable customers to manage the entire corporate action lifecycle, including announcements, instructions and payments from a single integrated Web application.

Implementation timetable

DTC will provide implementation dates for each future phase of the reengineering plan by the end of the year, and prototypes of the new user interface will be available beginning in 2010. [GS](#)

DTC Processes \$64 Billion Merger and All Goes According to Plan *continued from page 3*

Actions, Computershare. He said there were a lot of last-minute adjustments. “We needed to coordinate the confirmation of the final outstanding balance, which included several last-minute DWACs that DTC notified us of. It was certainly a team effort all around.”

Attubato said it was one of the largest mergers Computershare has handled and that it was believed to be the 11th largest merger on record. “From Computershare’s standpoint, this merger went very smoothly. This includes


‘From Computershare’s standpoint, this merger went very smoothly. This includes both the interaction with DTC and with the 35,000 or so registered shareholders.’

– MATTHEW ATTUBATO, PROJECT MANAGER,
CORPORATE ACTIONS COMPUTERSHARE

both the interaction with DTC and with the 35,000 or so registered shareholders. Additionally, Computershare is one of the few transfer agents that has the infrastructure and expertise to execute a transaction like this within the specified timeframe and regulatory requirements,” he added.

On October 16, DTC received the merger proceeds and allocated them to their participants. “We received a cash payment of \$42 billion, plus 1.3 billion common shares of Pfizer valued at \$22 billion and distributed the cash and shares to our clients the same day,” said Alan Hutton, DTCC managing director, operations.

As Trezza observed, thanks to the work by the industry and DTC to dematerialize securities and centralize their custody, transactions like the Pfizer/Wyeth merger today are completed in a seamless, streamlined and automated fashion.

“It’s almost become business as usual for us,” said Trezza. “While we don’t treat any transaction as ‘business as usual,’ we like to think we have it down to a science.” 



DTC Offers One-Step Processing for Canadian Securities

The Depository Trust Company (DTC) now offers all DTC customers the ability to settle Canadian securities that are not fully eligible for DTC services. This capability, which is offered by DTC's Canadian-Link Services, can potentially reduce cross-border processing costs and inefficiencies that result from dual-currency transactions.

Canadian securities that are not regulated by the U.S. Securities Exchange Commission do not qualify as DTC-eligible and, therefore, are blocked from participating in the dual settlement offered by Canadian-Link Services. Now, customers that register to use "intra-DTC," as this new capability is called, can have these "limited-eligible" securities unblocked for DTC settlement in U.S. dollars, Canadian dollars or free of payment. ("Free of payment" means DTC will handle the transfer of a security from one account to another, but the payment will be settled outside DTC.) Prior to the 2008 rollout of intra-DTC transactions, customers could only settle Canadian securities in Canadian dollars through The Canadian Depository for Securities Limited (CDS), the national central securities depository of Canada.

Expanding services

DTC established a link with CDS in the early 1980s to facilitate cross-border security movements. In 2005, DTC rolled out the Canadian-Link Services to offer a Canadian dollar settlement service that allowed DTC participants to process cross-border Canadian dollar securities transactions with participants of CDS. In 2008, DTC expanded the service to streamline corporate actions processing, offering new processing capabilities for income, redemption and corporate actions payments. Previously, DTC customers had to turn to CDS, or other custodians, to handle corporate actions.


"The intra-DTC transaction capability is a valuable extension of our Canadian-Link Services in that it removes the

CDS step and associated fees, and delivers a one-stop clearing process for our customers," said Patrick Kirby, DTCC managing director, Asset Services. Previously, the settlement process required customers to funnel trades through CDS in Canadian dollars, which incurred additional fees and resulted in longer transaction periods.

Canadian-Link Services is designed to address the growing asset servicing needs that customers encounter in processing DTC-eligible Canadian securities and to eliminate the need for firms to maintain separate inventories in Canadian and U.S. securities. Eligible and qualified DTC members, both broker/dealers and banks, can use Canadian-Link Services.

Customer perspective

A testament to the efficiency of intra-DTC transactions and their growing popularity is the client base it has captured over the last year, including a major U.S. firm and Canaccord Capital Corp., a leading independent, full-service investment dealer in Canada, which was an early adopter of the intra-DTC platform.

"We have embraced intra-DTC activity because it enables us to settle our balance-order trades more efficiently while also mitigating risk and reducing cost," explained Terry Puls, Canaccord Capital Corp., supervisor, U.S. and International Settlements. "With intra-DTC activity, Canaccord has eliminated transaction delays and additional costs that the traditional multi-layered process requires, and it allows us to complete the settlement process with one quick step. Our experience with this service has been exceptional, and we anticipate more firms will sign up for it." 

[To learn more about Canadian-Link Services, contact John Casalino, DTCC Product Manager, Asset Services, at jcasalino@dtcc.com or 212.855.5683.]



Un-sponsored ADRs Get TaxRelief

The Depository Trust Company (DTC) has expanded its TaxRelief Service™ to provide tax relief benefits for holders of the growing number of un-sponsored American Depositary Receipts (ADRs). The service provides customers billions of dollars in tax benefits each year and was previously available for sponsored 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. Whereas a sponsored ADR is created by a depository bank in collaboration with the issuing company, an un-sponsored ADR has no direct involvement with the foreign company and is generally established in response to investor demand.

“The expansion of TaxRelief to un-sponsored ADRs will help standardize the tax-relief process for both un-sponsored and sponsored programs and will bring significant processing efficiencies to the marketplace,” said Patrick Kirby, DTCC managing director, Asset Services.

Rule change

Until last year, if a depository bank wanted to establish an un-sponsored ADR, the non-U.S. company had to register its securities with the U.S. Securities and Exchange Commission (SEC) or qualify for an SEC exemption, which meant filing detailed documentation with the SEC.

“In October 2008, the SEC amended its rules and simplified the exemption process,” said Nardeo Ganesh, DTCC director, Tax Services. “In effect, these changes removed the involvement of the issuer, which has led to the rapid growth of these instruments.”

The new rules grant exemptions to non-U.S. companies if they:

- Publish their disclosure documents on their Website in English.
- Maintain at least 55% of their global trading volume on one or two exchanges outside the U.S., with higher trading volume on one of the exchanges than the total trading volume in the U.S.
- Have no existing reporting obligations to the SEC.

“The changes have prompted the establishment of more

than 850 un-sponsored ADRs since last year, which benefits investors looking for new opportunities to invest in global securities,” Ganesh said. “It also meant that these customers would seek the same tax relief that DTC gives them with their sponsored ADR investments.”

‘At-source’ relief

The TaxRelief Service, offered by DTC’s Global Tax Services, enables customers to secure relief from international withholding taxes. This comes either up front when a non-U.S. income payment is due – called “at-source” relief – or subsequently through accelerated refunds.

“Un-sponsored ADRs are not a new investment vehicle, but with the resurgence of these instruments after the SEC

amendment, we knew we needed to do something about tax relief right away,” said Michael Finck, managing director, The Bank of New York Mellon. “So we immediately initiated talks with DTC.”

Finck added, “Many of these ADRs are dividend paying accounts, so tax relief and a less onerous reclamation process certainly make the product more attractive.”

To establish a process to obtain tax relief, DTC worked with The Bank of New York Mellon and the three other major depository banks – Citi, Deutsche and JPMorgan Chase – along with GlobeTax Services, a firm that helps the depository banks process tax information.



MICHAEL FINCK, MANAGING DIRECTOR, THE BANK OF NEW YORK MELLON

Multiple parties

“Obtaining tax relief for an un-sponsored ADR is more complicated than the process for a sponsored ADR,” said Ganesh. “With a sponsored ADR, you deal with one depository bank and one local custodian bank, but with un-sponsored ADRs, you can deal with multiple depository banks, as well as many different local custodian banks. It’s necessary to get all those parties on the same page when you process the tax relief.”

Today, DTC offers its TaxRelief Service to more than 152 un-sponsored ADRs in six countries, and the service will be expanded to cover additional countries.

“We’ll continue to work with the depository banks to expand the coverage of TaxRelief in other markets and for non-U.S. investors where appropriate,” said Ganesh. **GS**

Paying Agents Ace Structured Securities Report Card

The Report Card. The bane of many a student's existence. But at The Depository Trust Company (DTC), the report card is a major initiative helping the industry solve processing problems in structured securities by tracking the performance of the leading paying agents on a monthly basis. The agents are responsible for reporting payments rates to DTC, which determine principal and interest (P&I) payments to beneficial owners.

"Payment data problems in the market for securitized instruments have been responsible for billions of dollars in late payments to hundreds of thousands of investors each year," said Peter Gleeson, DTCC vice president, Asset Services. "These late or inaccurate payments cause additional interest costs, back-office write-offs and significant exception processing costs to broker/dealers and custodian banks," Gleeson added.

The report card is changing all that.

Working with the industry

DTC and an industry-wide task force worked for more than a year to help resolve these problems. In 2008, DTC, with the approval of the Securities and Exchange Commission, implemented several major initiatives to improve the timeliness of P&I payments, including issuing the report card for the six largest paying agents – the Bank of New York Mellon, Citibank, Deutsche Bank, LaSalle NB, U.S. Bank and Wells Fargo.

"The report card was not a new idea," said Gleeson. "We had issued reports for the leading agents for several years, but it was for their eyes only; they could see numbers on their own individual performance and how they compared to their peers, but could not identify by name the performance of the other agents."

The task force, including the agents, decided to open the report card to the

industry, and DTC posted it on its Web page for the first time in March 2008. The result? "Everybody has improved their performance," said Gleeson.

Introducing Six Sigma

The report card measures the agents' performance on the timely reporting of rate information as well as the accuracy of that information. DTC took the report card a step further and introduced Six Sigma metrics to help measure the performance of each agent and of DTC, in order to provide a comprehensive view of the process.

Six Sigma methodology emphasizes a metrics-driven set of quality management tools that strives to deliver world-class performance and reliability. Using industry statistics

based on historical data and in accord with the agents, DTC developed Sigma targets for the industry, said William Scotto, DTCC director, Business Reengineering and Quality.

Surpassing goals

"Working with the agents and using customer-centric metrics, we developed targets for each paying agent," said Scotto. The result was a dramatic improvement on the part of all the agents. "Every agent is surpassing its goals, and the entire structured securities industry is benefiting," Scotto added.

In the past, late or missing rates on "pay date minus one" – paying agents are supposed to submit payment rate information one business day prior to the payable date – amounted to 15% of all payable rates. "The goal for 2008 was to reduce this to 12%. But since October 2008, we have cut the average late or missing rate to just over 4%, a full 11 percentage points from the

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DTCC Launches Contract Reconciliation For Global Syndicated Loan Market

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“It will be especially valuable in Europe, where deals can be more complex with multiple borrowers, multiple currencies and a greater number of individual contracts. It will save countless hours in manual problem-solving and will move the market closer to straight-through processing.”

Security feature

DTCC's Reconciliation Service has been operating since September 2008 and currently has more than 1,750 investment funds managed by more than 145 fund managers linked to it. Security features ensure users can only see their positions, either as agent or lender, in the system. Loan/SERV customers will be able to choose the level they would like to reconcile loan processing and can continue to use the Reconciliation Service or move up to the Contract Reconciliation Service.

Loan/SERV also will offer cash settlement capabilities, including Delivery versus Payment (DVP), beginning in 2010. “Our multi-currency DVP service, coupled with the Loan/SERV Contract Reconciliation Service, will dramatically reduce risk and provide greater certainty in the syndicated loan market,” said Lewis. “DVP will provide greater certainty to loan traders that cash settles simultaneously with changes to asset ownership recorded by agent banks.”



MARC ROMAIN, MANAGING DIRECTOR,
BARCLAYS CAPITOL

The Loan/SERV suite

DTCC's Loan/SERV Messaging Service provides a safe and automated network for the transmission, receipt and online storage of industry-standard loan messages. The global standard loan messages were developed by The Loan Syndications and Trading Association (LSTA) in the United States, in cooperation with The Loan Market Association (LMA) in Europe.

The messaging service employs FpML, the industry-standardized e-commerce language that the LSTA and LMA have worked to advance for the benefit of the global market. FpML has already proven itself in the over-the-counter derivative trading market, where it combines speed, accuracy and security to provide an effective communications vehicle. (FpML is a trademark of the International Swaps and Derivatives Association.)

Loan/SERV is a service offering of DTCC Loan/SERV LLC, a subsidiary of DTCC. **GS**

(For More Information on Loan/SERV in the Americas, contact Christopher Childs, +1 212.855.2331 or cchilds@dtcc.com; in Europe, the Middle East, Africa or Asia contact Mathew Lewis, +44 (0) 207.650.1543 or MathewLewis@dtcc.com.)

Paying Agents Ace Structured Securities Report Card *continued from page 14*

previous rate,” said Gleeson.

Structured securities are collateralized mortgage obligations (CMOs) and asset-backed securities (ABS). They are essentially bonds or notes backed by a pool of mortgage loans for CMOs and loan payments, such as credit cards and auto loans for ABS. While new structured securities issues coming to market have dropped substantially since the current economic crisis began, DTC continues to pay out more than \$45 billion a month for an estimated 150,000 P&I payments.

More metrics for Asset Services

“Based on the success of structured securities, we applied Sigma standards to our other business lines in Asset Services and will soon be publishing them on an industry-wide basis as well,” Scotto said.

Metrics and Sigma levels will be published, by agent, underwriter and data provider, for Underwriting, Dividend Announcements, Cash Processing, Redemptions, Reorganization Announcements, Reorganization Processing and Global Corporate Actions. **GS**

DTCC Explains It All – In Plain English.

A new book is now available that describes clearance and settlement in a way that is accessible, readable and user friendly – the “plain English” explanation of what happens after the trade.

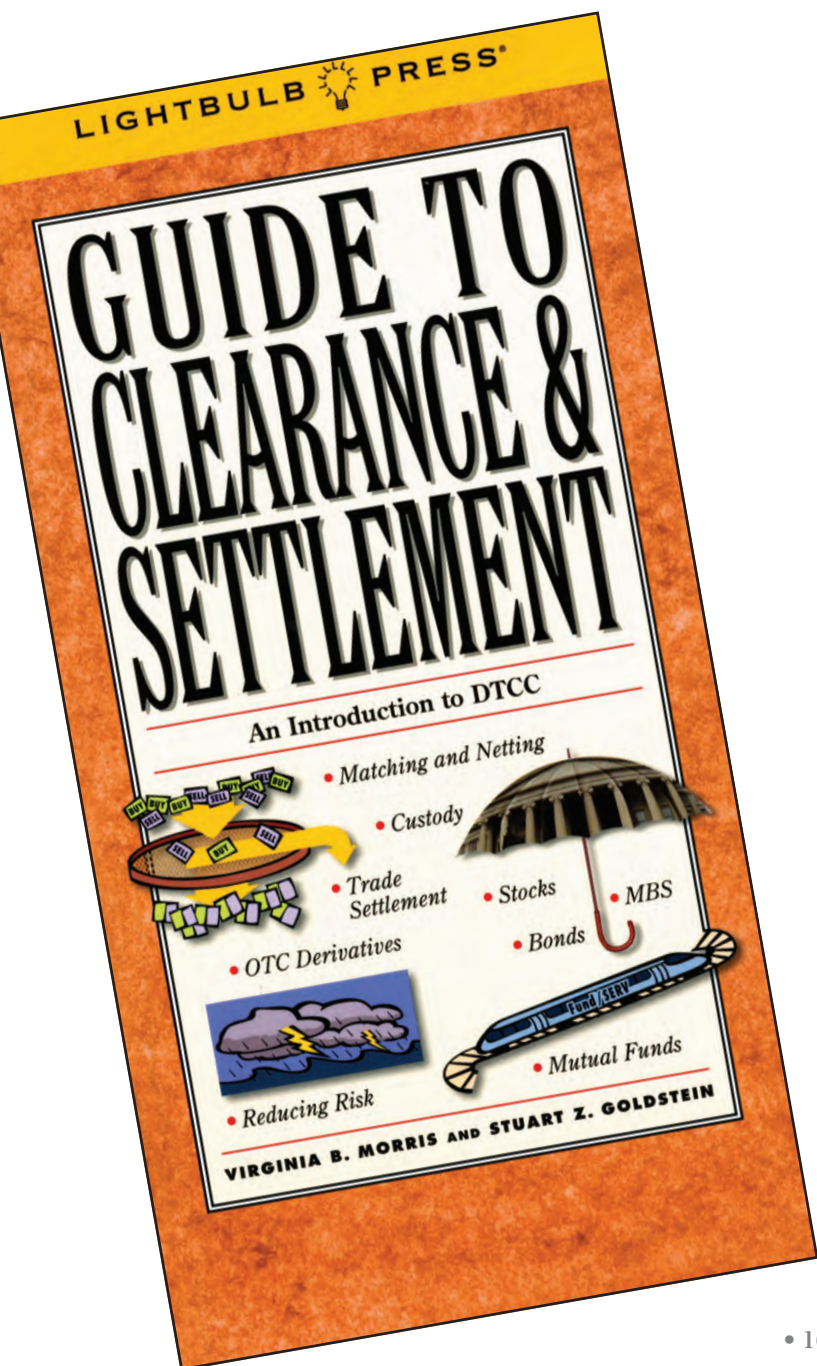
Published by Lightbulb Press and coauthored by DTCC, this new publication – *Guide to Clearance & Settlement: An Introduction to DTCC* – is the first book of its kind produced by an industry infrastructure organization.

“This is a terrific resource for anyone who wants to understand the vital role DTCC plays in the financial services industry,” said Patrick Kirby, DTCC manager director, Asset

Services. “And it will help fill in the blanks about what DTCC does beyond asset servicing.”

The Wall Street Journal cited the publication in its “Overheard” column on November 18: “The Guide...explains an unglamorous but vital financial pillar, with such page-turning chapters as ‘Matching and Netting.’ Overheard welcomes the ‘plain English’ approach and the DTCC’s modesty: ‘We don’t expect our book to be a wild runaway *New York Times* bestseller.’”

The book is available from Amazon.com and from DTCC’s Website at www.dtcc.com. **GS**



Published by



Corporate Communications Department

Stuart Z. Goldstein
Managing Director

Edward C. Kelleher
Editor

Troy Cavaliere
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Printed by
DTCC Print Department

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