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# WMS

## Wealth Management Services Quarterly



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# A Conversation with Ann Bergin

**R**eflecting last year's upheaval in the financial markets, 2009 was a challenging year for the wealth management industry. As an organization deeply ingrained in the mutual funds arena and becoming much more entrenched in managed accounts and alternative investment products, DTCC was equally challenged in its quest to bring additional operational efficiencies to financial institutions involved in these industry sectors. Wealth Management Services Quarterly spoke with Ann Bergin, general manager and managing director of DTCC Wealth Management Services, about the issues facing the business unit, as well as opportunities on the horizon.

**WMS Quarterly: What do you see as the major challenges that WMS and its customers will face in the near future?**

**Bergin:** In mutual funds there's a growing trend toward omnibus accounting, which generally reduces the activity in our transaction services as broker/dealers take on more account-processing functions. However, we expect the increased need for transparency will generate demand for our reconciliation services and for additional support services.

We've been working with industry groups to identify new services to provide flexibility to support multiple processing models that will meet the different needs of our clients and preserve efficiency.

We've also discovered that our clients don't have the resources they once had to invest in large technology upgrades. So, we need to make our products more accessible to the end client and focus more on developing Web-based, front-end applications.

**WMS Quarterly: Can you provide an example of where you're doing that?**

**Bergin:** A perfect example is our new Managed Accounts Service Portal, which we created so that investment managers could immediately begin to use MAS to communicate with their sponsor partners. Firms who use the service and portal can do so with very little initial investment and no need for a technology upgrade. It changes their entire business models.

By eliminating redundant and expensive proprietary connections, the economics of their products are immediately improved.

UBS Financial Services, the third-largest broker/dealer of managed accounts in the U.S., launched a test of both the service and the portal with 15 investment managers, and more gearing up to join as early testers.

**WMS Quarterly: What are some of the key initiatives your unit worked on in 2009?**

**Bergin:** We've expanded MAS to support unified managed accounts – one of the most rapidly growing investment products in today's market.

In the mutual funds area, we've been focused on moving the industry onto Mutual Fund Profile Service. Profile is a database of comprehensive information necessary to effectively distribute mutual funds – information that includes blue sky laws, CDSC data, commissions, short-term redemption fees, expenses and commissions, as well as breakpoint schedules and linkage rules. It has the potential to address a long-standing inefficiency in the mutual fund distribution market, which is the central availability of



**DTCC Family of Companies:** The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports seven principal subsidiaries: The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, DTCC Loan/SERV LLC, and European Clearing Counterparty LTD (EuroCCP).

information through a single, industry-endorsed repository.

But it needs a high level of commitment and vigilance by fund companies so their distributor partners can rely 100% on the data. That's been a major initiative in 2009. We've had strong support from organizations such as the Investment Company Institute and FINRA, which firmly believe in Profile, and we've provided funds with significant tools to make it easy for them to input and validate their data on an ongoing basis. Beyond that, the service has enormous capacity that we haven't yet tapped, so our work will continue into 2010.

**WMS Quarterly: What is the potential for the managed accounts market in the current environment?**

**Bergin:** The potential is huge, and we are fully committed to this market in a way that reflects a long and successful tradition at DTCC of bringing operational efficiencies to almost every sector of the financial services industry.

Growth in the managed accounts market is projected to be

significant. By using the same principles applied by all of DTCC's subsidiaries, we can deliver solutions that could, potentially, be as effective as our services to the mutual funds industry have been, particularly in our ability to bring real scale to businesses.

**WMS Quarterly: What progress have you had in getting firms to adopt your Alternative Investment Products Suite?**

**Bergin:** The product mix that makes up alternative investments is quite broad, and these products have had some challenges lately that have slowed adoption. However, we've identified an opportunity in the non-traded real-estate investment trust market. We expect to see a significant number of firms adopting AIP in 2010.

We're also awaiting approval from the SEC on a rule amendment that would designate a client account held at a hedge fund to be broker/dealer-controlled if the account is supported on our service. This feature would be very

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**The development of more complex portfolios, along with the need for advisors to be able to look across them through one lens, gives us an opportunity to provide a technology platform that pulls together all those portfolio investments into one view for our customers.**

# A “Trifocal” View of the Managed Accounts Industry and

**D**TCC is currently testing its Managed Accounts Service – both the hub and Web-based portal created for investment managers – with UBS Financial Services Inc. and 15 managers, including Thornburg Investment Managers. WMS Quarterly recently sat down with UBS’s Marianne Leone, executive director; Thornburg Investment Managers’ Randy Dry, managing director, Institutional Group; and Christopher Davis, president, The Money Management Institute, to discuss the future of MAS, as well as the state of the industry. What follows are three separate interviews from these pioneering advocates for a new model of operational efficiency.

## Interview with Marianne Leone

**WMS Quarterly:** UBS has committed to using the DTCC MAS and MAS Portal. From a sponsor perspective, what were the key reasons your firm decided to become an early tester of MAS and the MAS Portal?

**Leone:** UBS is committed to the belief that our firm, our clients and the industry will always benefit by the standardization of systems and practices.

**WMS Quarterly:** What are the compelling benefits of MAS and the MAS Portal?

**Leone:** For managers, it is the ability to combine numerous input sources into one standardized view or workflow that enables the reduction of headcount, errors and training issues necessary to support multiple sources and business practices. Automating and standardizing a process suitable for all or many of their sponsor partners ultimately will reduce operational costs for these firms.

For the sponsor firms, the primary benefits are the ability to integrate the Portal into their Workflow in a more automated manner and eliminate emails and conversations external to the existing process. The MAS Portal introduces a concept of the complete lifecycle of the transaction, which clearly enables both sides of the equation to track each and every step of the process.

Furthermore, it provides for a standard in exception processing that expedites the approval of accounts that have been transferred from one sponsor to another via the ACATS system.

**WMS Quarterly:** In your view, what is the next logical stage of development for MAS?

**Leone:** The addition of dual contracts to MAS and the MAS Portal would streamline a process that plagues both managers and sponsor firms, because the current process is heavily reliant on paper flow and lacks practical automation. The benefits of this automation would truly be realized if we standardized the approach and methodology.



Marianne Leone, UBS Financial Services

**“The MAS Portal introduces a concept of the complete lifecycle of the transaction, which clearly enables both sides of the equation to track each and every step of the process.”**

**WMS Quarterly:** From a sponsor’s perspective, what other operational inefficiencies should the industry be addressing?

**Leone:** UBS sees an opportunity to work with DTCC and the industry to enhance connectivity among various NSCC-supported systems, such as ACATS and Fund/SERV® and related communication alerts among broker/dealers, money managers and mutual fund companies for accounts in the ACATS\* process. By doing so we, as a community, will benefit from a standardized communication that will help eliminate delays in transferring positions and trading for these client accounts.

**WMS Quarterly:** You recently said that operations are not a differentiating factor for sponsors and investment managers. What’s needed to bring the industry to a point of wide adoption, the way the mutual funds community did some 20 years ago with Fund/SERV, which allowed it to grow to a peak of \$12 trillion in assets?

**Leone:** One would think that the

# DTCC's MAS

frequent movement of financial advisors from firm to firm and the tremendous market swings experienced in the fourth quarter of '08 and first half of '09 – which catapulted our termination, withdrawal and account transfer volumes – were enough of an incentive for the industry to take pause and seriously consider the need for change. That said, as with Fund/SERV, which grew exponentially after a slow start, I expect that a few firms, with foresight, will commit to MAS, and the rest of the industry will naturally evolve to the platform, which represents a process that's far superior to the way we're communicating managed-account information today.”

*\*ACATS is an acronym for NSCC's Automated Customer Account Transfer System. It is a central processing system that provides for the timely transfer of customer accounts among participant financial institutions.*

## Interview with Chris Davis

**WMS Quarterly:** At the time DTCC and the MMI began their partnership, what issues were your organization attempting to solve, and have those issues been solved?

**Davis:** We started out with the goal of attacking industry-wide operational inefficiencies relating to communications between investment managers and sponsors. This was the most pressing issue at the time. And while there is still more to do, we believe we have succeeded by giving the industry a solution that can be implemented, which UBS and some of our largest investment-manager member firms are currently doing.

**WMS Quarterly:** How did the MMI's strategy for attacking this inefficiency develop?

**Davis:** One of the first things we did was to engage Deloitte to conduct a study of the industry and to answer, in particular, one critical question: Is the industry on the proper path to operate efficiently – and with scale – as we grow assets aggressively? Deloitte came back to us and said, “The answer is no.”

We also asked Accenture to help us examine next steps. How sponsors communicate with investment managers is unique to each sponsor program. That creates a heavy burden

for managers. Accenture recommended that the MMI develop a set of standard communication message units – communication protocols – that would be specific to the industry but not unique to a sponsor firm. We then asked our Standards Committee to review Accenture's recommendations and begin to create open industry standards using XML. That's been completed, and we released the standards to the industry in 2009.

**WMS Quarterly:** Accenture also recommended that the industry have a choice – to use those message units through a centralized hub, such as DTCC's Managed Accounts Service, or to communicate directly. Would you comment on that?

**Davis:** Accenture felt it was important to make the process of developing and publishing a solution open and accessible to all industry participants. The MMI Managed Account Solutions Standards (MASS) Committee has focused on developing a standard message protocol but not a platform for communicating the messages. The board had always envisioned that the messages could and would be used in many ways by the industry. DTCC took the first step and is using the messages for an industry-scale solution through its MAS hub and Web portal.

There are many reasons to support the DTCC solution, but one that resonates with our Board is what I call “the traffic cop.” If a firm attempts to send a message that doesn't comply with our standards, the hub will reject it and return it to the sender. This process protects the integrity of our standards.

DTCC has a long history of ensuring that all parties involved in a transaction follow established rules and guidelines in order to make a process run as smoothly and efficiently as possible. This is an important part of the role they are playing in the managed solutions industry.

**WMS Quarterly:** In what stage of development are the messages now?

**Davis:** The MMI MASS committee has made great progress in publishing messages and improving them, as well as taking on new challenges like model portfolios. With UBS making a commitment to the standards

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*Chris Davis, MMI*

# A “Trifocal” View continued from page 5

and now testing the MAS hub and portal along with their top managers, this has given us an opportunity to make significant improvements in our first release and expand the number of messages being published. As a result, we’ll all end up with a much better solution.

**WMS Quarterly: What are growth projections for the industry, and can they be achieved under its current operational state?**

**Davis:** We expect the industry will resume an aggressive growth rate in 2010 as the nation’s economy recovers, particularly because advisors will be able to address client concerns by expanding portfolios to include exchange-traded funds, unified managed accounts and mutual-fund advisory programs. And also because they’ll be able to open and administer new accounts faster and easier using MMI’s communication standards and DTCC’s central facility to send and receive messages.

**WMS Quarterly: How do you see MAS and the MMI’s message standards being leveraged to further support the industry?**

**Davis:** We currently have subcommittees of the MASS Committee working on model messages, trading, reconciliation and billing, and they’re all making significant progress on delivering solutions that will solve operational challenges in these areas.

This is a rapidly changing industry, so the Committee will continue to develop standards so our members can efficiently serve their clients’ needs.

We also look forward to continuing our partnership with DTCC and seeing the MAS hub and Portal grow into a full-scale industry solution.

**WMS Quarterly: Early in 2009, the MMI sponsored a white paper on the need for the industry to address new investor strategies, such as the spend-down of assets and guarantees of retirement balances that combine insurance and managed accounts. Do you believe this will be the key focus for the next generation of wealth solutions, and why?**

**Davis:** Absolutely. You know the saying, “Demographics are

destiny.” As Americans age and as boomers reach retirement, they, and the managed accounts industry, will have a tremendous interest in bringing security to retirement-income management. As portfolios move from the build-up to the spend-down phase, we’ll see a host of products and portfolios with insurance-like features to address the needs of a massive aging population.

In fact, we’re already seeing our members doing this with early-stage, first-generation product development. The demographics point to enormous opportunities.

## Interview with Randy Dry

**WMS Quarterly: How do you see the MAS hub and Portal changing your operations when more sponsors become adopters of DTCC’s solution?**



*Randy Dry, Thornburg Investment Managers*

**Dry:** What we hope to get out of the MAS Portal are efficiencies similar to the mutual fund industry’s experience with Fund/SERV and NSCC’s other services. One key advantage would be reduced liability. By contract, we are obligated to act on a client instruction within two business days. That’s hard to do when you’re chasing down missing faxes and emails or accidentally deleting instructions on new accounts, deposits or withdrawals. Standardizing operational tasks would make for a much more efficient workflow. In addition to that, it will allow us to grow without adding staff and free up staff to handle

higher volumes.

Of course, this requires commitment and participation across the industry, and we’re optimistic that it will happen.

**WMS Quarterly: What prompted Thornburg to become an early tester of the MAS hub and Portal?**

**Dry:** We saw a lot of upside to it. For us, it’s replacing an existing process, not adding to it. So, being involved as an early adopter allows us to capitalize on the efficiencies gained by using the service.

**WMS Quarterly: Have the industry’s operational inefficiencies been particularly problematic for Thornburg?**

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# Another Year of Satisfied DTCC Customers

Customers gave DTCC a 91% overall satisfaction rating in 2009 for the fourth consecutive year. According to results from the annual customer survey, the number of respondents who are “extremely satisfied” with DTCC increased over 2008.

Factors including DTCC’s integrity, commitment to quality, effectiveness in reducing risk, reliability, technology and transaction-processing capabilities all contributed to the exceptional level of satisfaction, according to The Melior Group, an independent marketing research and consulting firm that conducts the annual survey for DTCC.


“Benchmarking DTCC against the industry average for 14 comparative metrics, DTCC exceeded the industry average for all 14 metrics,” the Group wrote in its analysis. In 2008, DTCC exceeded the industry average for 13 out of the 14 metrics.

The survey included responses from 1,461 respondents in two separate waves, the first in March and the second in June 2009.

## Good Marks for Mutual Fund Services Members

In addition to ratings for the corporation, customers weighed in on specific product areas. Those customers who use NSCC’s Mutual Fund Services collectively gave the business unit an overall satisfaction rating of 93%. “Clearly, customers believe using [these services] creates advantages for them – they can operate more efficiently, with less risk, and at a lower cost,” Melior reported.

Respondents gave five attributes world-class ratings of 89 or higher.

- Products and services help my firm operate more efficiently: 98%
- Products and services reduce operational risk: 94%
- Products and services help reduce costs: 92%
- Notification lead-time prior to implementation of new products/services: 90%
- Important Notice content: 89% 



## A “Trifocal” View continued from page 6

**Dry:** I don’t think we’re any different from most managers. We all have to work with sponsors’ individual platforms and ways of doing business. However, if we can improve and standardize the operational environment, then we can decrease our liability and work on improving our margins over time. And so we’ll continue to advocate for standardizing the business. We’ve seen how much benefit there was to taking that route in the mutual fund space; if you layer that on top of the managed accounts business, there’s a lot to gain.

**WMS Quarterly:** With the advent of model messaging and other types of managed accounts being developed, are we witnessing the end of the traditional separately managed account?


**Dry:** Not by any means. UMAs and other types of managed accounts are becoming very popular, but the actual dollars invested in them are still quite small in comparison with investments in traditional SMAs. There certainly are benefits to end clients who have UMAs – one account, one tax form, and so on. But from our perspective, it’s equally important to consider the “value add” that an investment manager brings to the table. In Thornburg’s case, it’s a strategy that includes

quite a large number of American Depositary Receipt orders which we can execute overnight in foreign markets. UMA platforms don’t yet have the infrastructure in place to do that.

**WMS Quarterly:** With the economic turmoil of the past year, customers’ demands and expectations have changed. How are you meeting that challenge?

**Dry:** Clients and advisors are looking for good absolute – and relative (to a benchmark) – performance; that is paramount. We believe that providing good performance will help build our business and in fact, it did, in both 2008 and 2009 – two very different markets.

**WMS Quarterly:** From an investment manager’s perspective, what should the managed accounts industry be tackling next?

**Dry:** With fee compression and the need to trim expenses across the board, you’ve got to take a look at being as efficient and streamlined as you can. A solution like the MAS Portal will allow advisors and managers to do just that. 

# Mutual Funds: How DTCC's New Fund-to-Firm Transfer

**I**n May of 2009, NSCC launched a new capability to transfer mutual fund shares between fund companies and distribution firms through its ACATS-Fund/SERV product, drawing yet another industry process into an automated, standardized environment. The first phase of the rollout automates firm-initiated transfers. In 2010, phase two will streamline transfers activated by funds, followed by a third phase addressing liquidations.

Wealth Management Services Quarterly recently sat down with Joseph Zaets, vice president and department manager, Morgan Stanley's Account Transfer Services, to find out how his organization (one of the first to employ ACATS-Fund/SERV for these transfers) was using the new capability, and how he believed it was helping his company's business model.

**WMS Quarterly: Joe, why is the industry addressing this issue right now?**

**Zaets:** Transfers of positions between funds and firms take an incredible amount of time; it is an extremely manual process, and so many people touch it. A front office will send a transfer request to another front office; and, in some cases, that front office will send it to a closing unit. So, from the time a customer signs a form stating that they want to transfer their assets, that request could be shifted through five, six or seven different areas. That frequently could add up to weeks. With the new process, transfers can be completed in two days.

**WMS Quarterly: How has the new transfer process impacted your day-to-day operations?**

**Zaets:** We would have to print the transfer form and send it overnight to the transfer agent. At the same time, we needed to set up a shell account – an open account at a fund company – through Networking and wait for the shares to come in. The fund company would receive our transfer request and, in turn, go through their internal process of transferring the shares from their account to our account.

The new process is simple. My area will receive a request from a branch; the request goes out to the fund via ACATS-Fund/SERV; and if everything is in good order, we receive the assets the next day. If not, we'll receive a rejection from NSCC, and we will know the reason why it was rejected in minutes.

Right there, we've cut down significantly on the cost of

rework and the inefficiency of not knowing, sometimes for weeks at a time, what the status of the transfer is.

**WMS Quarterly: Why is Morgan Stanley taking a proactive role in championing the enhancement?**

**Zaets:** Mandated cost-basis reporting kicks in for the funds industry in January 2012; that's not very far off. As a broker and a custodian that conducts significant business with fund companies, we realized early on that we needed an effective solution because of the tax implications; so we began working with committees of the Investment Company Institute and SIFMA [the Securities Industry and Financial Markets Association] and with folks from DTCC to determine what systems we needed to support the new IRS regulations. It was a priority for Morgan Stanley, certainly, but also we could see the beneficial impact it could have on the entire industry.

**WMS Quarterly: How much of your fund transaction processing work is now automated?**

**Zaets:** We've automated approximately 20-to-25% of our transactions. By the end of 2010, we expect it to reach around 90%.

**WMS Quarterly: Has the new process lowered risk and operational costs for your clients?**

**Zaets:** Yes, it has. With the process being so manual, there was room for errors -- typos and entering wrong assets and account numbers, for example. Requests were sent to the



# Capability is Enhancing Morgan Stanley's Operations

delivering party for interpretation and, ultimately, the movement of assets.

Through ACATS/Fund/SERV, transfer data is passed electronically, and core information is systematically brought in through the ACATS record. The transfer agent receives it and checks to see if it matches. If it doesn't, the request is routed to an Operations team that works on exceptions, and they can correct it immediately.

From a cost standpoint, the new process will allow our front office to submit their own requests, further reducing touch points in the process and making the process much more scalable. Additionally, our staff members no longer have to place multiple calls to find out the status of pending items. It allows us to focus our attention on delivering better service to our customers.

**WMS Quarterly: Would you share with us your experience bringing this new function into your operations?**

**Zaets:** Because this was a new capability, we wanted to ensure that Morgan Stanley and our fund partners were using it correctly. We tracked every reject and followed them up with calls to the funds to find out if the information they gave us matched the reject reasons. Based on this analysis, we made changes to our processing and worked with funds on data review to increase the acknowledgment rate.

We discovered that it was vital to (a) ensure that the fund


had activated the broker for the service, and (b) obtain the most up-to-date statements from clients before submitting a transfer request. We found that many clients use outdated statements to make transfers, which will lead to rejects.

**WMS: Would you comment on phases two and three of the rollout, their importance and their benefits to the industry?**

**Zaets:** Because funds are recognizing how easy it is to complete a firm-initiated transfer, they're anxious to pull the same efficient process into their operations.

In addition, I think it's becoming more apparent to all of us that while the upcoming cost-basis requirement clearly shows the need for automated fund/firm transfers, we also need a solution for moving cash. It's important that we work on bridging the gap on settling assets between ACATS and Fund/SERV. Phase three – liquidations – will give a fund/firm the ability to request a liquidation of an asset. This process poses many challenges which are regulatory in nature and will require ongoing analysis by the industry.

**WMS: Any final comments?**

**Zaets:** This is a huge step in the direction of straight-through processing, in reducing costs and in delivering more service-oriented value to our customers. DTCC has been a real partner to the fund industry by bringing this solution to the market. 



# Fees Realigned for Mutual Fund Services

New fees for Fund/SERV® and Mutual Fund Profile Service became effective January 4, 2010, following approvals by DTCC's Board of Directors and the Securities and Exchange Commission. The changes realign the fees to better reflect shifts in marketplace volumes and trading practices.

"Over the years, tight financial management combined with growing volumes allowed us to make continual fee reductions that have saved the industry millions of dollars, while increasing operational efficiencies through enhancements and new services," said Ann Bergin, managing director and general manager, Wealth Management Services.

"However, the mutual fund industry wasn't immune to the realities of the economic crisis that hit almost every sector last year. Volumes have been flat, and the anticipated 5% increase did not materialize."

As a result, the fee for a Fund/SERV transaction was increased one penny, from 5 cents to 6 cents. The fee for Networking, a companion service that exchanges and reconciles all customer account-level information between funds and distribution firms, remains unchanged at 10 cents for every 100 records.

Together, fee cuts for both Fund/SERV and Networking from 2005 to year-end 2009 represent savings to the industry of nearly \$150 million.

Mutual Fund Profile Service, which comprises both the Daily Price & Rate File and the Security Issue, Participant

and Distribution Databases, is being repriced.

Over the last 18 months, NSCC has transformed the Security Issue Database. Its architecture was reengineered; its capacity was expanded to accommodate a complex and extensive range of prospectus and operational rules-based data; and DTCC provided funds with numerous tools to help them input data and ensure its quality.

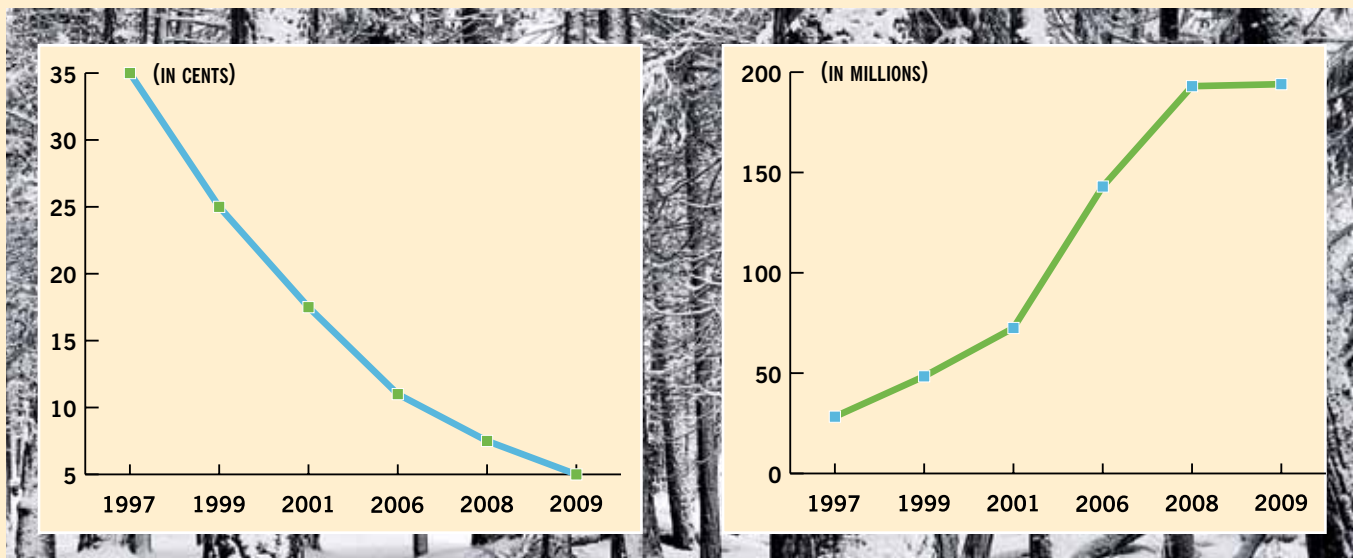
"This undertaking, completed on behalf of the funds industry, has automated and streamlined a highly inefficient – but indispensable – process of information exchange, the value of which becomes more apparent as we delve deeper into the industry's needs and leverage Profile's inherent capabilities," Bergin added.

The fee for Profile, effective January 4, was adjusted to align with members' usage. Distribution firms and fund companies with more than 25 CUSIPs\* in the Security Issue Database, will now pay \$1,200 a month. For funds with 25 CUSIPs or less, the fee will be \$600, a reduction of \$150 per month.

Bergin stressed that DTCC remains committed to delivering services at cost and will closely monitor these services and readjust fees if circumstances allow. <sup>®</sup>

*\*CUSIP is a registered trademark of the American Bankers Association (ABA); the CUSIP distribution system is owned by the ABA and operated by Standard & Poor's.*

## Fund/SERV Transaction Costs Slide... As Volumes Rise



Fee cuts for both Fund/SERV and Networking from 2005 to year-end 2009 represent savings to the industry of approximately \$150 million.

# A Conversation with Ann Bergin continued from page 3

attractive to broker/dealers because it would allow them to make these products available to their advisors and, subsequently, to their investors.

**WMS Quarterly: Are you also developing business overseas?**

**Bergin:** We are. We can now accept non-U.S.-based firms as direct members and users of our Mutual Fund Services. And our services are open to the global markets. This year we are also planning to offer money settlement in euros and pounds sterling for fund transactions.

**WMS Quarterly: What will be your primary focus in 2010?**

**Bergin:** We'll focus on expanding our customer base and on generating more understanding and recognition of DTCC within the buy-side community and other influential organizations.

Our Wealth Management Services Senior Advisory Board, which we created in 2009, has been a great entry into the senior-level executives at our participant firms. During three very productive sessions, not only did we share needs, concerns and strategies, we also broadened their understanding of DTCC's involvement in other areas of their organizations, as well as how we can help them meet the challenges in their own business lines.

We conducted a similar meeting with the Investment Company Institute recently. Don Donahue, our chairman and CEO, and a contingent of senior-level DTCC executives spent a day at the Institute's headquarters in Washington, D.C. and gave the group an overview of what DTCC has accomplished as an organization. It was well-received, and I believe it will lead to a stronger relationship going forward.

**WMS Quarterly: What potential does Wealth Management Services have to increase its value to the industry?**

**Bergin:** We've been tremendously successful in the mutual funds and other daily-valued pooled investment arenas, to the point where the industry is no longer challenged by operations issues. That is not the case in other segments of the wealth management market – managed accounts, alternatives and insurance products, for example. Operations are still manual and costly, and unnecessarily so.


At the same time, asset values dropped significantly in 2008 and 2009, which has changed the mindset of the investing public. They're looking for products that give them confidence and security, and they're seeking a deeper level of advice and guidance from their advisors. And advisors are being challenged to become more creative in assessing their customers' needs today and, more importantly, in the future.

Putting those two scenarios together, what you have is the development of more complex portfolios comprising a broader and innovative product mix, along with the need for advisors to be able to look across those portfolios through one lens in order to effectively assess their clients' needs and optimize their investments. From an advisor's viewpoint, that is an ideal construct.

DTCC is already supporting the first part of that construct through

Fund/SERV®, AIP, MAS and the products provided by our Insurance & Retirement Services business that give developers the flexibility to build new products without burdening margins with operations costs. Where our opportunity lies, and this is directly aligned with DTCC's corporate strategy, is in providing a technology platform that pulls together all those portfolio investments into one view for our customers.

**WMS Quarterly: And why is now a good time for this?**

**Bergin:** With 90 million Americans retiring, or about to retire, in the U.S. alone – and living longer – there's never been a more appropriate time. 

**Our Senior Advisory Board has been a great entry into the senior-level executives at our participant firms. We shared needs, concerns and strategies, and broadened their understanding of how we can help them meet the challenges in their own business lines.**

# DTCC Insurance Customer Survey Shows Meeting Regulatory and Compliance Requirements Top 2010 Priority

By Ted Davis

A recent customer survey conducted by DTCC revealed that satisfying more stringent regulatory and compliance requirements is the top 2010 priority in the insurance industry.

While the goal of regulation is to create safer markets by enhancing transparency and efficiency, 40% of respondents say that successfully meeting these demands will require greater automation and standardization in their operational practices. While these mandates are high on the agenda, the survey also shows budgetary constraints make them challenging in a tighter fiscal environment.

“DTCC is committed to partnering with the insurance industry to meet the challenges of a more demanding regulatory environment where mitigating risk and increasing transparency are crucial for sustainable growth,” said Adam Bryan, DTCC Managing Director, Insurance & Retirement Services. “Bringing greater automation and standardization to the insurance industry is critical to successful adaptation to the ever-changing regulatory landscape.”

Since 1997, DTCC’s Insurance & Retirement Services has worked closely with the insurance community to provide a suite of services that help foster growth, reduce paper flow and lower costs by bringing the scalability and efficiency of automation to the markets.

After regulation, budgetary constraints ranked second as an issue, with approximately 28% of respondents listing it as the number one challenge for growth. Conversely, regulation requirements also surfaced as bringing more opportunities for growth, with nearly 32% citing that a standardized compliance solution would provide greater transparency, lower costs and forge the industry forward.


“Moving in to the next decade, this survey shows that the insurance industry will be working toward greater adoption of automated services, which will impact their ability to meet

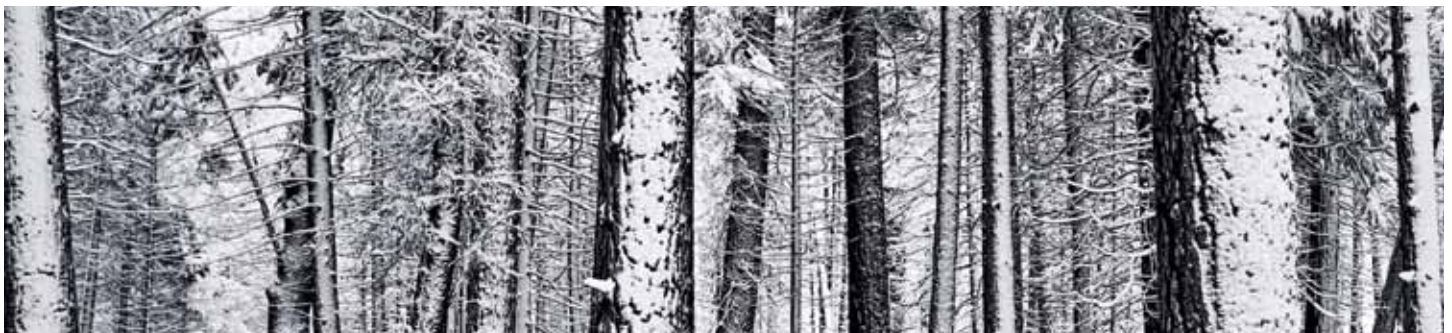
regulatory demands,” Bryan explained. “An example of DTCC’s role in introducing more automation is the recent launch of Attachments, a new electronic solution designed to streamline the processing of required paperwork and signatures for pre-sale and post-issuance transactions in the insurance industry.”

## Other noteworthy survey findings include:

- 25% of participants listed on-line applications as the most critical component to straight-through-processing.
- 20% of participants claim that less costly, front-end transactions would encourage industry growth.
- Global expansion and merger activity were seen by a significant number of participants as having the least impact on influencing industry growth. 33% ranked global expansion as the least important factor, while 20% cited merger activity as the lowest in importance.
- Roughly 17% of participants ranked Centralized Product Profile Management and access to real-time confirmation of Licensing & Appointment status as the most critical component to STP.

“Our in-depth research yields similar and complementary findings to DTCC’s customer survey; straight-through processing and integration of books and records are key areas for investment in the broker/dealer community,” said Doug Dannemiller, senior analyst at the Aite Group. “Certain brokerage products, including variable annuities, have historically been more difficult to process efficiently, and with these processing inefficiencies also comes regulatory and compliance difficulty.”

Survey participants included insurance carriers, broker/dealers, vendors, clearing firms, solution providers and DTCC participants. 



## Profile: Michelle McLean *by Bari Trontz*

**M**ichelle McLean has over 17 years of experience in mutual funds operations. Since joining DTCC in September 2009 as a Wealth Management Services product manager, she has worked on a variety of projects for the business.

Her current focus is to build the Alternative Investment Products (AIP), a suite of services that links global market participants and provides end-to-end processing of alternative investments such as real estate investment trusts, hedge funds, funds of hedge funds, managed futures and commodity pools. Michelle's secondary responsibility is to implement enhancements and modify existing functionalities for NSCC's Mutual Fund Services.

"Every day is an evolving learning experience," she explained. "I'm enjoying the challenge of learning the new AIP product line, which uses some of the same terminology as mutual funds but has different meanings. Simple terms like *settlement date* are defined differently from business to business. For mutual funds it means the actual date the trade settles. But for AIP, it indicates the time when the fund/firm sends the contract note to DTCC in order for settlement to occur," she said.


Adjusting to the DTCC work environment was a natural transition for Michelle. "I spent a healthy portion of my career at Seligman Data Corporation as an NSCC business analyst working on a daily basis with raw data and record layouts, so I have a good understanding of how the DTCC process of clearing and settlement works. I'm also excited to be part of the team that is helping to get the AIP platform off the ground and developing solutions similar to what DTCC has done for the mutual funds industry."



*Michelle McLean*

So what's a typical day for this multi-tasker? "There isn't one," she said. "But currently, it's likely to include conducting a GAP analysis for 529 Plans to implement Phase II enhancements for improvements to Fund/SERV® and Networking, so that customers can systematically process these transactions with greater ease and efficiency." She's also analyzing Networking and Fund/SERV record layouts for future enhancements, writing business requirements and creating an AIP user guide.

Prior to joining DTCC, Michelle spent over nine years at Seligman supporting the Trading Business Area, resolving trade rejects and testing DTCC's Fund/SERV and Networking system enhancements prior to implementation. She was also responsible for balancing the bi-monthly and quarterly 12b1 commission payments transmitted through Commission Settlement.

Michelle holds an associate's degree in Banking & Financing from the Borough of Manhattan Community College and studied finance and business management at Baruch College in New York City. 

# DTCC Marks 10th Anniversary *by Helen Cunningham*

**A** little over ten years ago, on November 8, 1999, DTCC announced completion of the final step in the integration of The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC). The deal closed when all shares in DTC and NSCC were exchanged for shares in the new entity, a holding company called The Depository Trust & Clearing Corporation, under which DTC and NSCC would operate as subsidiaries.

In 1999, the vision for the integration of the two companies was to leverage their respective strengths to create a single organization that would support the changing U.S. financial services industry. DTCC was expected to increase synergies, drive down costs, strengthen the industry's technology platform and advance an international strategy for the U.S. industry infrastructure.

At that time, it was impossible to anticipate the blistering pace of change in the industry, the volatility, the exponential growth of volumes, the proliferation of trading platforms, the expansion of new asset classes, the new business continuity requirements and the new types of risk – not to mention that two of the top five broker/dealers in the industry would not exist 10 years later.

“All these changes put tremendous demands on the infrastructure in spheres of activity that were not on the drawing board when DTCC was created,” said Donald F. Donahue, DTCC chairman and CEO. “As a result, we have seen an order-of-magnitude shift in the level at which DTCC must perform.”

## Power of one

In announcing the official launch of DTCC in 1999, then-chairman and CEO Jill Considine said, “We are looking forward to beginning the new millennium as one company with a unified strategy, purpose and mission: to be the provider of choice worldwide for investment servicing solutions through leadership, innovation and technology.” The inaugural annual report, whose theme was “The Power of One,” captured the spirit of the new company.

DTCC delivered on the initial drivers for the integration while continuing to give the industry the efficiency and reliability it had come to expect from DTC and NSCC. The new organization also proved agile in an ever-changing environment, taking a leadership role on a range of industry issues. And, as DTCC expanded into new asset classes, geographies and client segments, it created new subsidiaries and joint ventures under the holding company umbrella.

The organization also confronted events no one could have predicted, including 9/11, the largest blackout in U.S.

history in 2003 and the collapse of Lehman Brothers in 2008. During those and other volatile times, DTCC rose to the challenge to support the industry, and then applied lessons learned from the experiences to further fortify the infrastructure for the future.

During the first part of the decade, DTCC focused on aligning its risk infrastructure with mainstream industry practices. Since then, the mandate has become far broader. “Today, when it comes to risk management, the industry recognizes that DTCC needs to be ahead of the curve, rather than in the mainstream,” Donahue said. “The fact that we began preparing for the potential failure of a major member in 2005 illustrates that we have moved to the forward edge of risk management.”

Now DTCC is taking steps to increase its focus on systemic risk, including the recent hiring of a new chief systemic risk officer.

## Intersection of cost/volume curves

DTCC's achievements over the past 10 years include its success in driving fees to their lowest levels ever, while seamlessly processing volumes that surged to dizzying new heights. In fact, its fees represent just a sliver of the cost of overall trading.

For instance, DTCC charges the lowest equity clearance fees in the world. Back in 1999, its NSCC subsidiary charged 8.2 cents per equity side. Now, 10 years later, the company

**During those and other volatile times, DTCC rose to the challenge to support the industry, and then applied lessons learned from the experiences to further fortify the infrastructure for the future.**

charges about one-third of a penny. Said another way, for each 100 equity shares in a trade, customers today pay an average of just 66-thousandths of a penny. DTCC's ability to continually lower fees across all its subsidiaries over the past 10 years has allowed it to return billions of dollars to the industry in fee cuts and rebates.

Meanwhile, the decade also saw equity volume catapult to astonishing levels. Between 1999 and 2008, annual volume processed grew twenty-fold to 21.9 billion transactions with a value of \$315 trillion. In 1999, DTCC processed total equity volume of 1.6 billion transactions with a value of \$70 trillion.

### A quantum leap

In addition to processing surging volumes, DTCC's technology organization faced challenges including: reinforcing and dispersing the industry's infrastructure to strengthen business continuity post-9/11; creating new products on time and within budget; rolling out enhancements to existing products; reengineering the legacy systems that had served the industry for decades; insourcing applications and systems from SIAC; strengthening risk systems; and implementing global messaging standards.

DTCC succeeded in these and other initiatives thanks to a behind-the-scenes transformation of its technology organization.

Today, DTCC is the only U.S.-headquartered financial services organization to achieve the Capability Maturity Model Integration (CMMI) Level 3 rating across its entire applications development group, with progress beyond this level well under way. And last year, DTCC became one of the first companies in the industry to install the IBM z10, considered the first commercially available super-computer on the market.

### Global footprint

Globalization also marks DTCC's first decade, with the organization extending its products and infrastructure to support firms whose businesses are increasingly global.

In 2001, DTCC created Omgeo, a joint venture with Thomson Financial to serve the institutional market globally. And 2003 saw the launch of Deriv/SERV LLC, a new subsidiary that took DTCC into a new and booming global asset class: over-the-counter derivatives. The same year, DTCC rolled out the Global Corporate Actions Validation Service. In 2007, DTCC established its European subsidiary, EuroCCP, to provide clearance, settlement and risk management services on that continent. And in 2008, the company entered the global syndicated loan space with its Loan/SERV product offering.

Today, the DTCC family of companies serves customers out of offices in New York, London, Shanghai, Tampa and

elsewhere and has a growing roster of non-U.S. clients. Approximately 160 customers operate directly from offices outside the U.S., a number that rises to 600 when including the firms served by MarkitSERV, DTCC's joint venture with Markit for the over-the-counter derivatives market.


In addition, DTCC's clearing corporations have opened their doors to direct membership by non-U.S. firms. FICC's membership, for example, now includes sovereign wealth funds from Asia and the Middle East, as well as the World Bank.

DTCC also has signed memoranda of understanding with 11 infrastructure partners from Brazil, China, India, Japan, Korea, Pakistan and Taiwan.

**Globalization also marks DTCC's first decade, with the organization extending its products and infrastructure to support firms whose businesses are increasingly global.**

### Then, now and into the future

"It is difficult to imagine that just in the last decade we had numerous clearing corporations and depositories, all operating separately in the United States," said Donahue. "Today, the infrastructure functions as a cohesive organization that offers customers a robust platform and an integrated package of services they can rely on."

Forward thinking also characterizes DTCC, according to Donahue. "Our board members and our staff are always focused on the issues that will be facing the industry in the coming years," he said. "And this ability to stay ahead of the curve is part of the richness of the organization." 

# New Book Describes Clearance and Settlement – in Plain English

by Crystal Bueno


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.

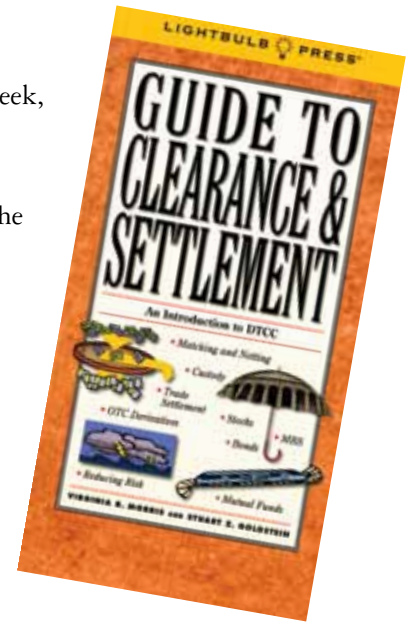
Published by Lightbulb Press and co-authored by DTCC, this new publication, *Guide to Clearance and Settlement: An Introduction to DTCC*, is the first book of its kind produced by an industry infrastructure organization.

## Plain-English Challenge

“This project was originally born from the need to have something to help educate our diverse constituencies – including public policymakers, regulators and the investing public – about the role DTCC plays in the industry, especially to broaden awareness during this intense period of financial re-regulation,” said Stuart Z. Goldstein, DTCC managing director, Corporate Communications. “The challenge in writing it, however, was not just in trying to distill our arcane business language into ‘plain English,’ but

also to explain how, week-by-week, our business and our industry changes.”

*The Wall Street Journal* cited the publication in its “Overheard” column on November 18: “The ‘Guide to Clearance and Settlement’ 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 Guide to Clearance and Settlement: An Introduction to DTCC is available from Amazon.com. You can also order it through DTCC’s website at [www.dtcc.com](http://www.dtcc.com).*}

**About the Photographer:** *California native Steve Holderfield considers himself a product of the “tried and proven method of learning – experimentation – as it allows him to learn from mistakes to get the desired result. The challenge of daring to experiment is, in his opinion one of the biggest obstacles an artist faces. Holderfield also is a firm believer in Ansel Adams’ concept of pre-visualization, in other words, “seeing” a photograph in his mind’s eye before capturing it with a camera.*

*He works primarily with Canon EOS 1Ds and “L” Canon lenses, and shoots with film, as well. The photograph that appears in this newsletter is from his “Yosemite” series.*

*To visit Mr. Holderfield’s work, visit [www.xlr8photo.com](http://www.xlr8photo.com).*



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