



DTCC MARGIN TRANSIT

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Securing Today. Shaping Tomorrow.™





INTRODUCTION

Derivatives regulations and new capital and liquidity requirements for financial institutions remain the key drivers of new collateral demands. Recent estimates based on discussions with market participants suggest that margin call activity may rise by as much as 1000%.

In the first instance, the increase in margin calls will be driven by regulatory reform of the OTC derivatives market and, in particular, the rise in central clearing of such products which will require all counterparties to provide initial margin. The new clearing requirements will also mean the potential creation of multiple regional clearing venues per product, which will have a splintering effect on the number of margin calls and in particular intra-day margin calls. Other factors which will increase the volume of margin calls include changes to ISDA's Standard Credit Support Annex documentation and capital requirements under Basel III which will reduce market participants' ability to cover an entire portfolio with one margin call, as well as mandate the matching of the currency of the collateral with the currency of the underlying trade for risk mitigation purposes.

The resulting increase in margin calls will put a significant strain on the current operational processes and systems infrastructure within banks, buy-side firms, their administrators and custodians. Firms will need to invest in technology, as well as in the re-engineering of the settlement process, exceptions management and dispute resolution. The increase in margin calls will necessitate not only comprehensive record keeping but consolidated record keeping across jurisdictions and geographic locations of their clients.

HOW DTCC'S MARGIN TRANSIT WILL HELP THE INDUSTRY MANAGE A HIGHER VOLUME OF MARGIN CALLS

DTCC's Margin Transit service, an industry-led initiative, will enable industry participants to meet the operational challenges which will be created by the increase in margin calls across different jurisdictions and geographies. The service is the industry's first comprehensive, straight-through processing ("STP") solution for streamlining the processing and settlement of collateral.

WHO IS THE MARGIN TRANSIT SERVICE FOR?

DTCC's Margin Transit service will help banks, brokers, investment managers, corporate treasuries, fund administrators and custodians manage their margin calls or the margin calls of their clients. Virtually any institution or entity that moves margin or collateral can benefit from the service.



OVERVIEW

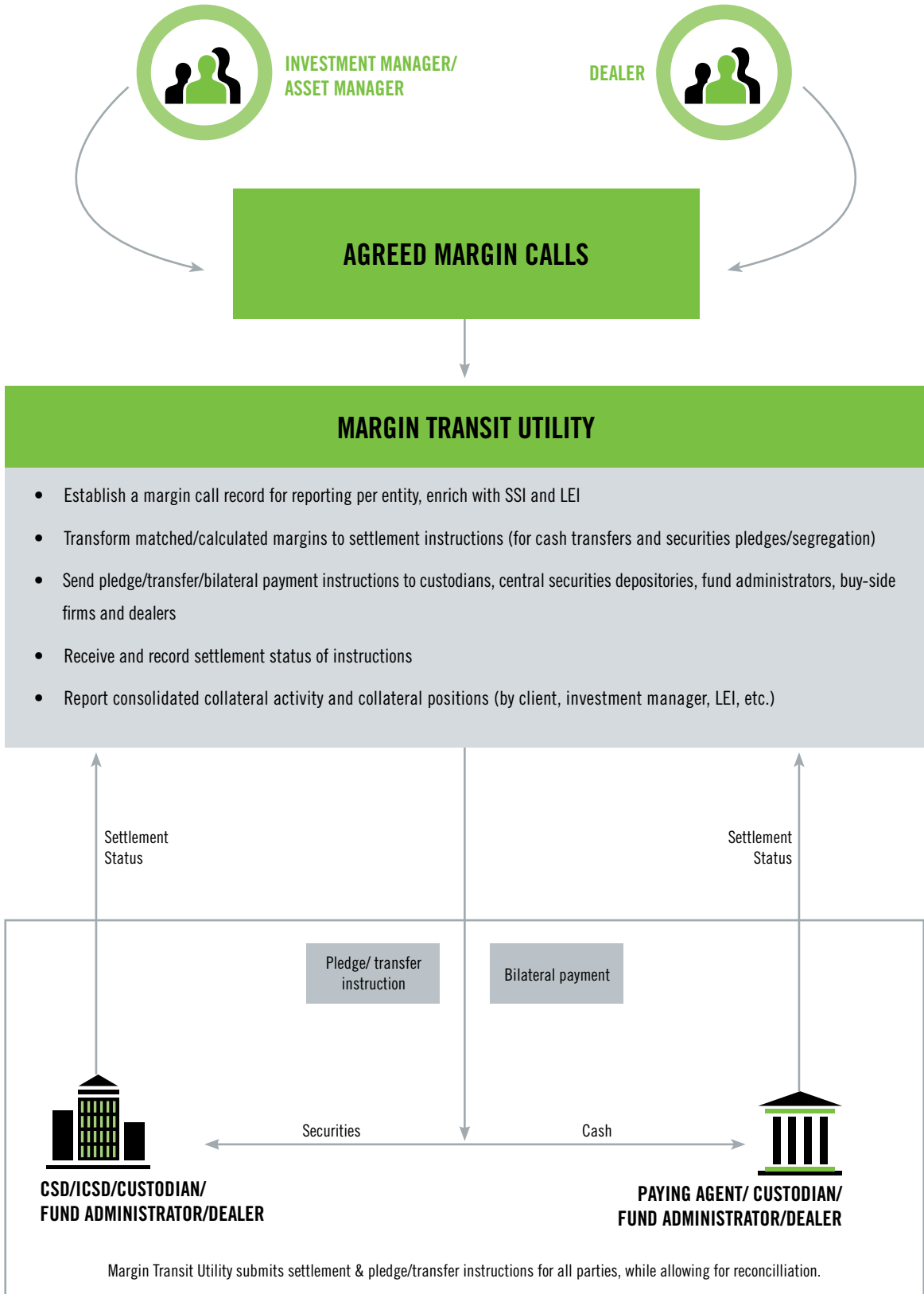
The service will provide a more efficient and streamlined collateral process through:

COLLATERAL INSTRUCTION ENRICHMENT – Upon receipt of an agreed margin call, the service will enrich the message to include a legal entity identifier (LEI) and a standing settlement instruction (SSI) leveraging Omgeo’s ALERT system.

COLLATERAL SETTLEMENT – After enrichment, the service will initiate a cash or securities settlement message to interested market participants including paying agents, custodians, central securities depositories, fund administrators, buy-side firms and dealers which will be used to trigger a transfer of cash or securities pledged to or released from a collateral account. Multiple currencies will be supported. Once the transfer of collateral has been completed, the custodian, central securities depository, fund administrator, paying agent or dealer will communicate an ISO-based message indicating that settlement has occurred. The record of the settlement activity will be updated centrally within the Margin Transit Utility for record keeping purposes.

SECURITIES SEGREGATION – The service will provide a central hub for communicating settlement instructions to custodians, central securities depositories, fund administrators, and dealers globally in order to deliver, pledge or release securities to/from a segregated account meeting applicable laws and regulations. Dealers and custodians that are Participants at DTC will have the ability to utilize DTC’s pledge service as an option for segregated collateral.

COLLATERAL REPORTING AND RECORD KEEPING – The service will provide consolidated reporting and record keeping regarding collateral activity on a global basis across all marginable products by linking settlement activity to margin activity. With the added transparency of this service, the industry will have the ability to establish processing benchmarks and standards, confirm securities and cash balances on an intra-day basis, maintain a central reconcilable reference for record keeping and significantly improve the collateral management processes particularly during times of financial stress.





STARTING IN **2015** THE SERVICE IS EXPECTED TO BE LAUNCHED IN PHASES

DTCC has established a working group composed of market participants representing the dealer, custodian and buy-side community. The working group's mandate is to define the detailed specifications for the Margin Transit service and to provide governance for the project.

BENEFITS

The Margin Transit service will enable dealers, buy-side firms and their custodians to more efficiently manage their collateralization process, regardless of product or clearing eligibility. Margin Transit is a solution forged to standardize the margin process for OTC derivatives transactions both cleared and non-cleared, futures, options, mortgage-backed securities forwards and any other marginable product.

In particular the service will:

- **REDUCE MULTIPLE FORMS OF RISK.** Counterparty risk is limited as STP is introduced, reducing fails and reconciliation challenges. Liquidity risk is better managed as near real-time settlement information is fed through the chain. Operational risk is reduced as manual processes such as faxes and e-mails are removed and replaced with electronic standardization.
- **DECREASE OPERATIONS AND SYSTEMS COSTS.** As an industry utility introducing standard processing and scalability, the Margin Transit service will enable participants to meet the upcoming regulatory and risk management changes seamlessly, without the added costs required to scale.
- **REDUCE FUNDING COSTS.** As a result of increased transparency, near real-time settlement notifications and scalability, firms will be able to manage their liquidity needs more efficiently with more timely data.

The service will be offered by one or more subsidiaries of DTCC.

For more information about DTCC Margin Transit service,
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ABOUT DTCC

With over 40 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry. From operating facilities, data centers and offices in 15 countries, DTCC, through its subsidiaries, automates, centralizes, and standardizes the post-trade processing of financial transactions, mitigating risk, increasing transparency and driving efficiency for thousands of broker/dealers, custodian banks and asset managers worldwide. User owned and industry governed, the firm simplifies the complexities of clearing, settlement, asset servicing, data management and information services across asset classes, bringing increased security and soundness to the financial markets. In 2013, DTCC's subsidiaries processed securities transactions valued at approximately US\$1.6 quadrillion. Its depository provides custody and asset servicing for securities issues from 139 countries and territories valued at US\$43 trillion. DTCC's global trade repository processes tens of millions of submissions per week. To learn more, please visit www.dtcc.com or follow us on Twitter [@The_DTCC](https://twitter.com/The_DTCC).

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