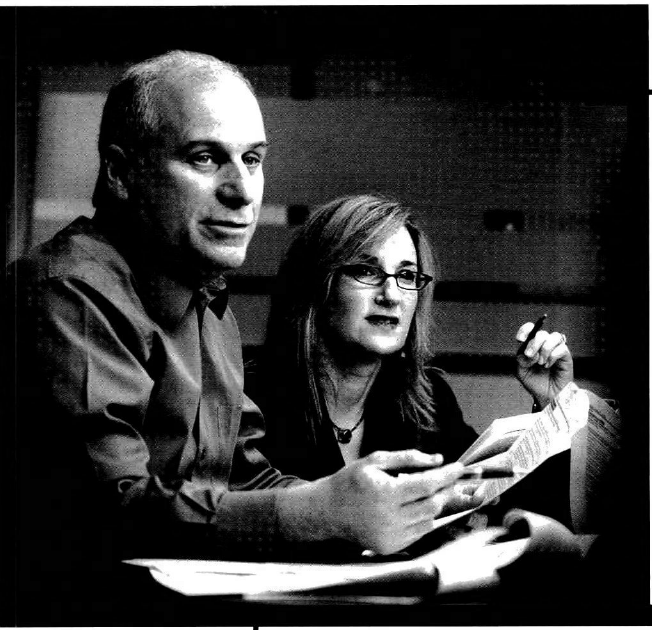
Protecting Our Members – The Lehman Bankruptcy

Thomas Quaranta, *senior relationship manager, Relationship Management, and* **Elena Staloff,** *vice president, Clearance and Settlement/Equities*



Lehman Bankruptcy Timeline

Sunday, September 7
Federal government puts Fannie Mae and Freddie Mac into conservatorship. Rumors begin about other firms that may be in trouble, including Lehman Brothers Holding, Inc. (LBHI), the holding company that had a brokerage subsidiary, Lehman Brothers, Inc., which was a major member of various DTCC subsidiaries. It ranked as a top-three user of DTCC's mortgage-backed securities division. It was a top-five user in DTCC's U.S. government securities division and at Deriv/SERV for OTC derivatives. And it was in the top 10 of users at the National Securities Clearing Corporation (NSCC), and at The Depository Trust Company (DTC).

Tuesday, September 9
Lehman Brothers, Inc. placed on highest level of surveillance by DTCC. Additional Lehman clearing funds are demanded by NSCC and FICC.

Thursday, September 11
DTCC Board credit and risk management committee begins meeting regularly on Lehman, often more than once a day. Meetings continue until September 24.

Friday, September 12
DTC lowers net debit cap for Lehman Brothers, Inc. to zero to minimize risk to the depository. The move effectively prevented any payment obligations to DTC to occur in the account in case LBHI declared bankruptcy that weekend.

Saturday, September 13
The Federal Reserve Bank of New York convenes emergency meetings with industry representatives to discuss the possible sale of Lehman Brothers. Lehman's fate topped the agenda during those sessions. The Bank of America and Barclays were considered potential suitors initially. Their interest in LBHI, however, was contingent on loans or other guarantees against Lehman losses to be provided by the Fed or the Treasury. And in the end, the chance of a sale evaporated when no Fed or government support materialized. Bank of America, however, did end up engaged in discussions to take over Merrill Lynch that weekend.

John Petrofsky,
associate counsel, General Counsel's Office

The first time DTCC dealt with the possible bankruptcy of a major firm like Lehman Brothers, it was a game – a "war game."

It was, in fact, a risk-management exercise DTCC went through in June 2008. The idea was to give executives and staff a real-time scenario of what they might face if one of Wall Street's largest investment banks – and one of DTCC's largest customers – suddenly went belly up.

The next time DTCC dealt with the bankruptcy of Lehman Brothers, three months later, it was profoundly real – and the beginning of a quick-moving crisis.

Lehman was one of the nation's most powerful financial institutions and among the world's five largest participants in the trillion-dollar markets for government and mortgage-backed securities. Yet Lehman Brothers Holdings, Inc. slid into bankruptcy abruptly on Monday, Sept. 15, 2008, followed about a week later by the bankruptcy of its U.S. brokerage subsidiary.

Its collapse, the largest in U.S. history, left DTCC with a staggering challenge: how to wind down the more than $500 billion in securities trades that remained on the books of Lehman. One newspaper called it "The Nightmare on Wall Street."

'Nightmare' Scenario

For DTCC and its subsidiaries, a nightmare was all too possible. After all, as central counterparties, they had guaranteed completion of billions of dollars worth of Lehman's trades. If they incurred substantial losses when winding trades down, they would need to start drawing on clearing funds their customer-members maintain with them in case of defaults. Never in its 35-year history had DTCC been forced to do this.

So What Happened?

DTCC had begun stepping up its daily risk monitoring of Lehman's trading activity some weeks earlier. Executives from DTCC's risk

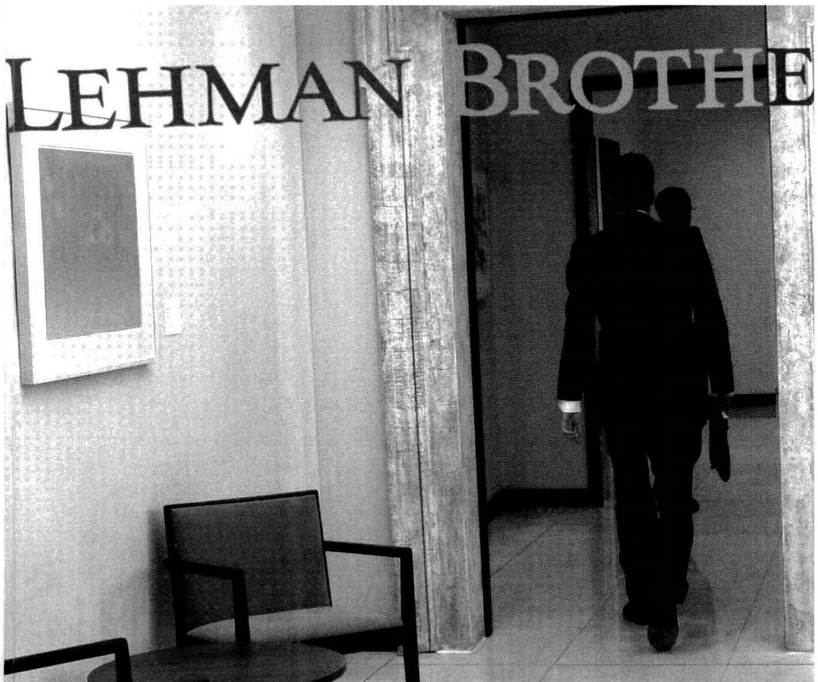
Sunday, September 14

Talks for takeover of Lehman break down on Sunday. DTCC is advised Sunday evening that LBHI will file for bankruptcy, but Lehman Brothers, Inc., Neuberger Berman and Lehman Bank will not be impacted and will continue to operate.

Monday, September 15

DTC, NSCC and FICC issue important notices stating they would continue to act for Lehman Brothers, Inc., Neuberger Berman and Lehman Bank.

Julie Krill, *director, Clearance and Settlement/Equities, and* **Michael C. Bodson,** *executive managing director, Business Management and Strategy*



Week of September 15

DTCC's goal this week was to mitigate risk to members. During the week, DTCC staff closely monitored the LBI settlement activities and exposures and discussed with Lehman Brothers, Inc. a possible wind-down. During the early days of that week, DTC gave back modest net debit cap activity to the firm in order to allow it to facilitate certain transactions. Late in the week, ACATS transfers out of Lehman begin to increase significantly, reflecting extensive customer account transfers away from the firm. At the time, Lehman Brothers, Inc.'s positions were increasingly locked up in pledges and could not be released to meet transaction delivery obligations. As a result, DTCC started to see large intraday settlement debits develop in Lehman Brothers, Inc.'s clearing corporation settlement balance. Also, early in that week, reports indicated that Barclays Capital (Barcap) would buy certain assets of Lehman Brothers, Inc. But later in the week, discussions indicated that Barcap intended to purchase only assets and not liabilities of Lehman Brothers, Inc. Late in the week, DTCC hired bankruptcy counsel Proskauer Rose to advise it. DTC settlement was extended three hours on Thursday, September 18, to permit transfers of Lehman Brothers, Inc. collateral pledged to the Fed.

management and legal teams were also meeting with regulators during this period. To prevent any exposure DTCC's depository, The Depository Trust Company (DTC), might have to a Lehman bankruptcy, DTC sharply restricted any debit Lehman Brothers, Inc. could incur at the depository.

The Pre-Dawn Wait

DTCC executives had already gathered in their offices before dawn on Monday, September 15. They knew an announcement was imminent. Lehman Brothers Holdings, Inc. was about to shock the world by declaring bankruptcy, although the Lehman subsidiaries that were members of DTCC were not covered by that declaration. When the news hit, the markets went into a near free fall. Trading volume on U.S. markets climbed to a record that day, and then proceeded to set more records as the week wore on.

The next day, the bankruptcy court appointed the Securities Investor Protection Corporation (SIPC) trustee for Lehman Brothers, Inc. DTCC's clearing subsidiaries had been accepting as many Lehman trades as possible to allow member-customers the opportunity to take advantage of their guarantees to see the trades through to completion. Over the weekend, Lehman agreed with DTCC's subsidiaries to conduct an orderly wind-down of any outstanding positions, and on September 22, DTCC's subsidiaries advised their customers that they would no longer accept any new Lehman trades.

Meanwhile, the British bank, Barclays, proposed to spend $1.75 billion to purchase certain assets of Lehman Brothers Holdings, Inc.'s business, including, possibly, its brokerage arm. DTCC acted to stop transfers via ACATS, its automated customer account transfer service, to avoid a severe liquidity demand at Lehman that could have resulted in a default. That would have caused significant legal issues before the sale of assets to Barclays could have been completed.

The Barclays Interlude

Over the long, hectic weekend of September 19-21, Barclays' teams met with DTCC executives to review the Lehman assets DTCC was holding in its depository and as collateral for trading positions. Finally, sometime around 2 a.m. Monday, September 22, the bankruptcy judge overseeing the Lehman case signed off on Barclays' asset purchase plan. And later Monday morning, DTCC sent out formal notices to customers that said Lehman would begin an orderly wind-down of outstanding trades still on the books at the clearing corporations. By September 24, that changed to a formal "cease to act" order, and DTCC's subsidiaries took over responsibility for liquidating the positions.

But there would be more late-night meetings in the coming weeks, especially for DTCC's Deriv/SERV unit. It would have to help guide the industry through several major credit events in the global credit default swap (CDS) market while simultaneously coping with media reports and market anxiety about the size of credit default swap payouts due on Lehman contracts.

Heng Sun, *director, Quantitative Risk, Risk Management, and* **Elke Jakubowski,** *vice president, Clearance and Settlement/Fixed Income*

Timothy Beckwith *(left), senior operations specialist, EuroCCP, and* **James Cressy,** *head of operations, EuroCCP (London)*

Friday, September 19

A Securities Investor Protection Corporation (SIPC) trustee was appointed for Lehman Brothers, Inc. DTCC and Lehman agreed that Lehman would not submit new trades effective Friday, except for option exercises and assignments from Options Clearing Corporation. DTC lowered net debit cap for Lehman to zero again. DTCC also acted to eliminate debits via ACATS to avoid severe liquidity demand that could result in a default, which would have caused significant legal issues before the sale of assets to Barclays would have been completed.

Saturday, September 20

SIPC trustee authorizes sales of Lehman Brothers, Inc. assets to Barclays Capital. Terms are discussed over the weekend.

Monday, September 22

DTCC advises members it will work with SIPC trustee to effect an orderly wind down of Lehman Brothers, Inc. for all open accounts and assets not acquired by Barclays. MBSD starts its normal "distributed liquidation process" for liquidation of pending "to be announced" mortgage-backed securities trades, but members object, given the dollar value of the trades. After discussions with MBSD members and the U.S Securities and Exchange Commission (SEC), MBSD then elects to use a centralized netting process for the first time, which ultimately allows it to reduce gross obligations from $329 billion to about $30 billion.

Catching a Break

That Monday, however, DTCC caught a break. Its Fixed Income Clearing Corporation (FICC) already had plans to launch a new central counterparty (CCP) that could net and guarantee trades in the mortgage-backed securities market. Now executives at a major securities industry trade group, the Securities Industry and Financial Markets Association, were on the phone exploring whether it would be possible to kickstart the CCP right away in order to wind down Lehman's forward mortgage-backed securities trades. "We were looking at $329 billion in mortgage trades that had to be dealt with," said Murray Pozmanter, DTCC managing director, Clearance and Settlement Group. "Frankly, we were ready to look at anything that could work."

An hour later, Pozmanter and others listened to some 300 broker/dealers on a conference call. Rather than follow its standard trade-by-trade wind-down procedure, the brokers asked if FICC could try to net out as many of the trades as possible through a central counterparty approach.

The lights burned through the night in an all-hands-on-deck exercise as more and more numbers were entered into spreadsheets. And by the next day, some $300 billion in Lehman forward mortgage-backed securities trades – or about 90% of the value outstanding – were netted out. The securities industry heaved a collective sigh of relief.

Yet Lehman's book held close to $200 billion in other trades as well – all of them guaranteed by DTCC companies. The trades included $190 billion in government securities and repos, and another $5.85 billion involving equities, municipal bonds and corporate debt.

National Securities Clearing Corporation (NSCC), which clears and settles virtually all broker-to-broker trades in the U.S. in equities, corporate bonds and municipal bonds, faced total exposure of approximately $5.85 billion from Lehman Brothers at the time its accounts were closed. This sum included $3.8 billion in options exercises and assignments from the Options Clearing Corporation, which expired on Friday, September 19, and NSCC processed and subsequently guaranteed. A portion of Lehman's obligations at NSCC was also successfully resolved when DTCC's DTC subsidiary took the lead in working with Lehman's pledgee bank to arrange for the release of $1.9 billion in securities, which were used to satisfy open trades at NSCC. As a result, NSCC did not need to go to the marketplace to purchase securities for these trades.

DTCC completed the largest close-out in history – $500 billion – without any loss to our customers' clearing fund.

Liquidating Lehman's Portfolio

At this point, DTCC hired an investment manager to help in liquidating positions held by DTCC's equity and fixed income clearing corporations. Neither the investment manager's identity nor DTCC's was disclosed so they could operate in the markets with anonymity. The investment manager provided advice and helped determine the best strategy to hedge the portfolios, minimize risk and conduct an orderly liquidation without disrupting the markets.

By Thursday, September 24, the team was already beginning to hedge the outstanding trades. The next day, DTCC locked down Lehman's fixed-income portfolio and on Saturday was able to lock down the portfolio with equities and corporate bonds. The rest of the wind-down now began in earnest.

Mitigating Risk Overseas

EuroCCP, a U.K.-based subsidiary of DTCC that provides pan-European clearing and settlement services for multilateral trading facilities, was in midstream of its initial business launch when it was called on to close out trading positions for Lehman Brothers International (Europe) (LBIE). LBIE was placed into administration on September 15, but EuroCCP continued to settle as many of the open positions as possible with LBIE's agent banks so it could deliver the securities to other participants the same day. LBIE had open trades in 12 markets and six currencies, totaling almost €21 million. The next day, EuroCCP ceased to act for LBIE once it became clear that LBIE's agent banks would no longer be settling the remaining positions. EuroCCP engaged a broker to close out €16 million in remaining positions. EuroCCP successfully completed its close-out of LBIE's open positions without the need to use EuroCCP's Guarantee Fund.

Rumor Mill on CDS Trades Continues to Spook Financial Markets

Meanwhile, as uncertainty and turmoil continued to swirl through the markets, DTCC acted to minimize risk for its OTC derivatives customers. It acted as early as September 15 to stop the automated central settlement of CDS payment obligations maintained in DTCC's Trade Information Warehouse involving two Lehman subsidiaries, LBIE and Lehman Brothers Special Financing, Inc. DTCC also assisted counterparties in listing and removing from the Warehouse more than 300,000 CDS contracts that market participants held with Lehman. However, market anxiety continued to grow, driven in part by speculation that the CDS market had exposure of as much as $400 billion for payments on a Lehman default.

Calming Public Fears

Later that week, after discussions with customers and the Federal Reserve Bank of New York, which was looking for ways to help calm the markets, DTCC disclosed publicly for the first time figures from its Trade Information Warehouse. DTCC's press release communicated that the real size of obligations in the CDS market was closer to $6 billion, far less than many had speculated. Less than two weeks later, DTCC was able to provide instructions for the transfer – without incident – of about $5.2 billion in net funds among the various counterparties involved in the Lehman "credit event."

At the same time, DTCC's Operations team was scrambling to keep up with Federal Reserve initiatives to unfreeze the commercial paper market and obtain timely payments from key paying agents.

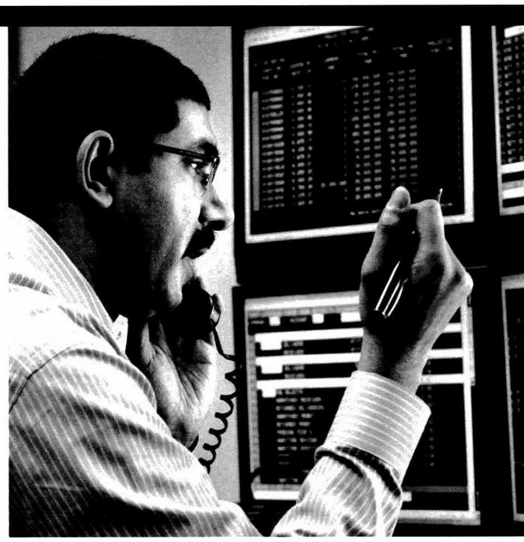
By October 13, DTCC was able to liquidate the last of Lehman's mortgage-backed securities trades. It took another week to complete liquidating the huge book of U.S. government securities trades Lehman's collapse had left behind. And finally, at the end of October, six weeks after the bankruptcy, the investment manager closed out the last of the equity and corporate bond trades.

Outside of people in the finance world and at the Federal Reserve, few knew that DTCC had completed the largest close-out in the history of U.S. financial markets. And it did so without touching any lines of credit held by its subsidiaries – or any of the clearing funds all customer-members are required to put up.

The nightmare had been vanquished. □

Tuesday, September **23**

Lehman Brothers formally fails to settle.



Wednesday, September **24**

DTCC publishes notification to its members at NSCC, FICC and DTC that it has ceased to act for Lehman Brothers, Inc. DTCC also makes arrangements to hire an outside adviser/investment manager firm to liquidate the FICC and NSCC portfolios of securities from the Lehman bankruptcy.

(Above) **Kesavan Menon,** *manager, user acceptance testing, Deriv/SERV*

(Left) **Drew Saur,** *systems director, Applications Development and Maintenance (ADM), Information Technology*

Thursday, September 25
DTCC locks the FICC portfolios for Lehman and turns them over to an investment manager for liquidation. The portfolios amounted to $190 billion in U.S. government securities trades and $329 billion in MBS trades.

Friday, September 26
DTCC locks the NSCC portfolio for Lehman and turns it over to an investment manager for liquidation. Appropriate hedges were put in place. Portfolio totaled $5.9 billion. Because DTC had lowered its net debit cap, there were no DTC-owned assets that had to be liquidated.

Thursday, October 30
DTCC announces in a press release it has successfully liquidated Lehman Brothers, Inc. open positions, worth more than $500 billion, with no losses to DTCC or to any member's clearing funds.

(Above, Left to right) **Jeanne Potter,** *director, Finance;* **Marie Rey,** *managing director, Credit and Market Risk Management;* **Alan Bendel,** *application developer, Deriv/SERV and* **Albert Gambale,** *managing director, ADM Clearing and Risk*

(Left) **Maryana Smaga,** *control unit lead, Deriv/SERV Operations*

integrity

Customer rating in 2008 from a customer satisfaction survey, conducted by an independent research firm.

The Trade Information Warehouse Safely Navigates CDS Market Through Stormy Waters

"Managing one major bankruptcy and its impact on the credit default swap (CDS) market would not necessarily cause alarm in the global financial system. However, the reality of tackling eight credit events nearly simultaneously this past fall worried market observers," said Peter Axilrod, managing director, business development, DTCC. Against this backdrop, market participants relied on DTCC's Trade Information Warehouse (Warehouse) to help them navigate the stormy waters churned by a growing list of troubled financial institutions including Fannie Mae, Freddie Mac, Lehman Brothers, Washington Mutual, Tembec Industries Inc., a Canadian forest products company, and three Icelandic banks.

The Warehouse's robust infrastructure minimized the risk associated with the turmoil in the financial markets. "Had the Warehouse's central settlement capability and automated credit event processing service not already been in place when these credit events took place, the burden of calculating and managing the payouts on affected contracts would have severely stressed participants in the OTC credit derivatives market," said Axilrod.

DTCC's Warehouse eased the finance industry's concerns, providing the only comprehensive global registry and automated processing infrastructure for CDS transactions. "Because the Warehouse's central settlement function nets payment obligations among counterparties of a CDS contract, the total exposure of $285 billion in gross notional value the market experienced from the eight credit events was significantly reduced to a fraction of that amount, to approximately $12 billion in funds transfers from net sellers to net buyers of protection for the CDS contracts written on the eight companies," said Frank De Maria, managing director and chief operating officer, DTCC Deriv/SERV.

As word spread on the actual size of the settlements, fears that the ongoing string of credit events might destabilize the finances of those firms trading in CDS instruments began to ebb.

Maintaining OTC Derivatives Contracts Throughout Their Life Cycle

DTCC Deriv/SERV LLC, a wholly-owned subsidiary of DTCC, launched the Warehouse in late 2006 in collaboration with market participants. The aim was to address the industry's need to centralize the maintenance and automated processing of OTC derivatives contracts throughout their multi-year life cycle. At the end of 2008, the Warehouse's global registry held a total of approximately 2.2 million CDS contracts – which represents the vast majority of outstanding contracts – with an aggregate gross notional value of approximately $29.2 trillion.

DTCC enhanced the Warehouse's functionality in November 2007 by adding a central settlement solution for calculating, netting and issuing payments between counterparties to bilateral CDS contracts. Central settlement reduces the operating risks associated with the manual steps that were traditionally used to process these payments. In 2008, the Warehouse reduced 3.82 million gross quarterly coupon payments valued at US$169 billion gross to 2,200 net payments valued at US$9.8 billion. DTCC's central settlement service is provided in collaboration with CLS Bank International.

Ensuring an Orderly Transfer

In addition to its ability to process multiple credit events, the Warehouse proved the value of its central registry when it took charge of moving Bear Stearns' CDS deal book of open CDS contracts, encompassing hundreds of thousands of trades, to JPMorgan Chase last summer. Without the Warehouse's automated processing capability, the transfer may have taken months. Instead, working with teams at many of the affected counterparty firms, a staff of Deriv/SERV professionals completed the majority of the swing over a 48-hour period during a weekend in mid-July.

DTCC accomplished this by leveraging records already maintained in the Warehouse to streamline an otherwise lengthy confirmation process required with the numerous counterparties affected by the transfer. Because market participants were able to manage these novations, or contract assignments, in synchronous bulk fashion, the process was controlled and ownership of the transactions involved remained certain. This exercise has since proved to be a preview of similar initiatives as the financial services industry goes through further consolidation.

Largest Community of Users

In addition to the CDS contracts, Deriv/SERV also provides automated matching and confirmation for a wide range of OTC credit, equity and interest rate derivatives. Deriv/SERV's customer base is the largest of any post-trade processing service provider in the industry and includes all major dealers and more than 1,200 buy-side firms in 35 countries.

In 2008, DTCC Deriv/SERV processed nearly 10.1 million OTC derivatives transactions through its matching and confirmation service, up 71% from the 5.9 million transactions processed in 2007. Average daily transaction volume in 2008 was approximately 39,000, up about 71% from 23,000 in 2007. Market participants indicated in their October 31 report to regulators on their progress to strengthen the infrastructure for the OTC derivatives market that more than 95% of CDS contracts are electronically processed through Deriv/SERV's automated processing platform.

Creating an OTC Derivatives Processing Powerhouse

In July, DTCC and Markit announced plans to form a new company that would combine DTCC Deriv/SERV's trade matching and confirmation service with Markit's confirmation and up-front work-flow processing services for OTC derivatives, including Markitwire and Markit Trade Manager. The new OTC derivatives processing powerhouse will deliver increased operational efficiency and certainty to the market by providing a unified gateway for confirming OTC derivative transactions globally across all asset classes. The strategic partnership also responds to customer demand for a more secure, reliable and streamlined operational environment. While Deriv/SERV's matching and confirmation engine will become a part of the new company, the Warehouse will remain part of DTCC.

Gearing Up for 2009

"As the market turbulence of 2008 spills into 2009, the Warehouse continues its critical role in bringing greater transparency, efficiency and certainty to the OTC derivatives market. DTCC is already gearing up to manage processing the 12 credit events and bankruptcies that have been declared since the beginning of the year," said Axilrod.

In addition, as global regulators and OTC derivatives market participants worldwide focus on establishing a central counterparty (CCP) for CDS transactions, DTCC is already collaborating with all proposed CCP solutions to facilitate links to the data managed in the Warehouse's global registry as they move towards providing the trade guarantee services now being called for in the market. □

The Trade Information Warehouse, a global registry for CDS transactions, minimized risk associated with eight major credit events.

Trade Information Warehouse Broadens Transparency in the CDS Market

At the height of the financial crisis, rampant speculation valued the exposure of the credit default swap (CDS) market to the Lehman Brothers Holding, Inc., bankruptcy at $400 billion. The rapid growth of the CDS market, coupled with misconceptions about how it functions and how traders hedge their positions, led many observers to suggest that astronomical sums were at risk.

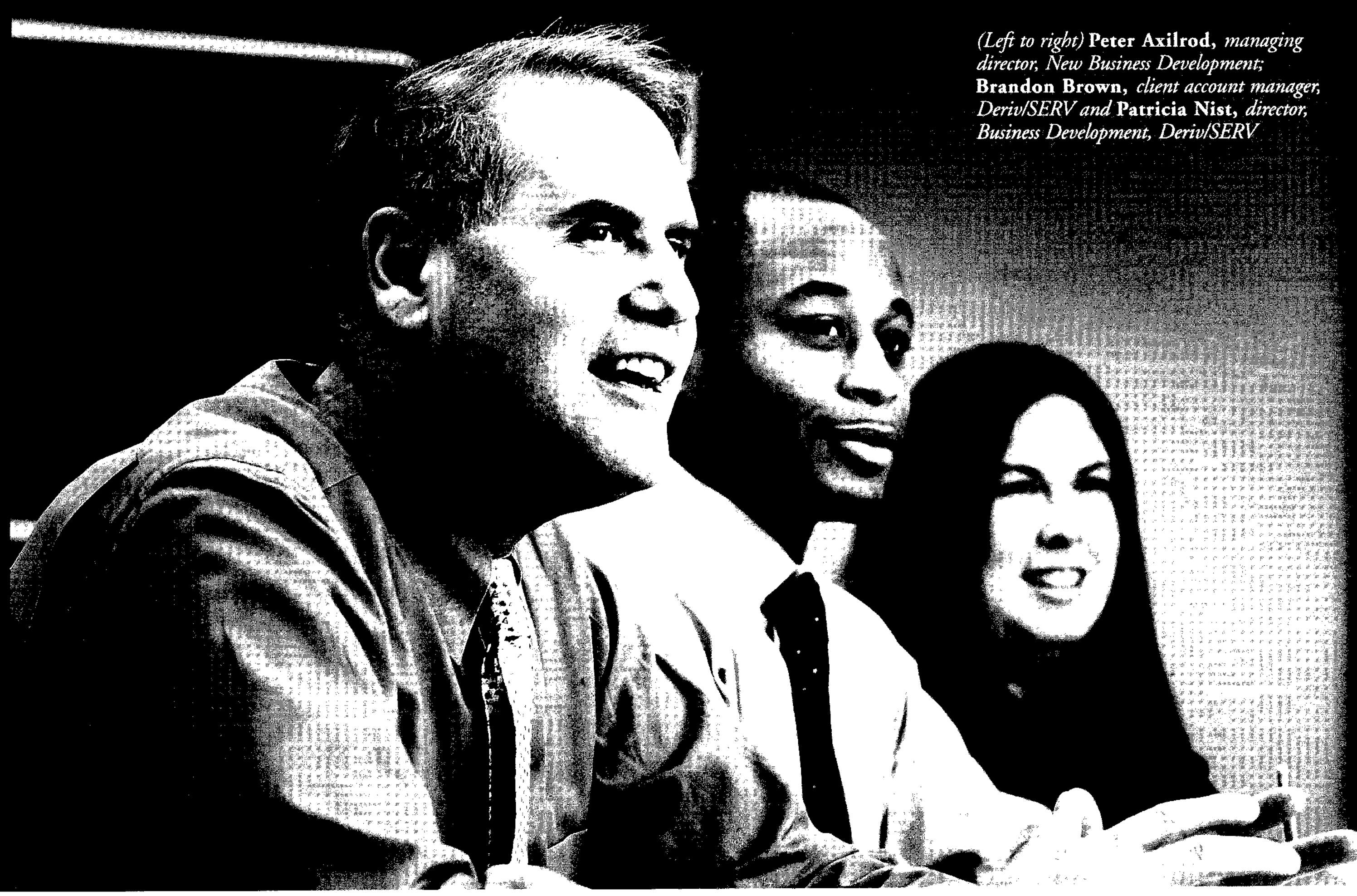
During this time of uncertainty, DTCC calmed an anxious public about the financial system's ability to meet these challenges. "DTCC's disclosure in mid-October of the Trade Information Warehouse's (Warehouse) calculations on the Lehman Bankruptcy and on the true size and scope of CDS contracts outstanding brought some much needed perspective," said Peter Axilrod, managing director, Business Development, DTCC. DTCC reported that, as of October 9, the total gross notional value of the CDS contracts maintained in its Warehouse was approximately $34 trillion. Warehouse records also indicated that the expected payout between net sellers to net buyers of protection on Lehman Brothers as a CDS reference entity would be around $6 billion, dramatically lower than the hundreds of billions of dollars previously estimated. Ultimately, the Warehouse instructed the transfer of approximately US$5.2 billion in net funds among the affected counterparties without incident when settlement occurred on October 21.

A Drive to Enhance Transparency

"Because the vast majority of CDS contracts are maintained in DTCC's global registry, the Warehouse has been central to the industry's and regulators' drive to enhance transparency in the OTC derivatives market," said Marisol Collazo, vice president, Business Development, DTCC Deriv/SERV.

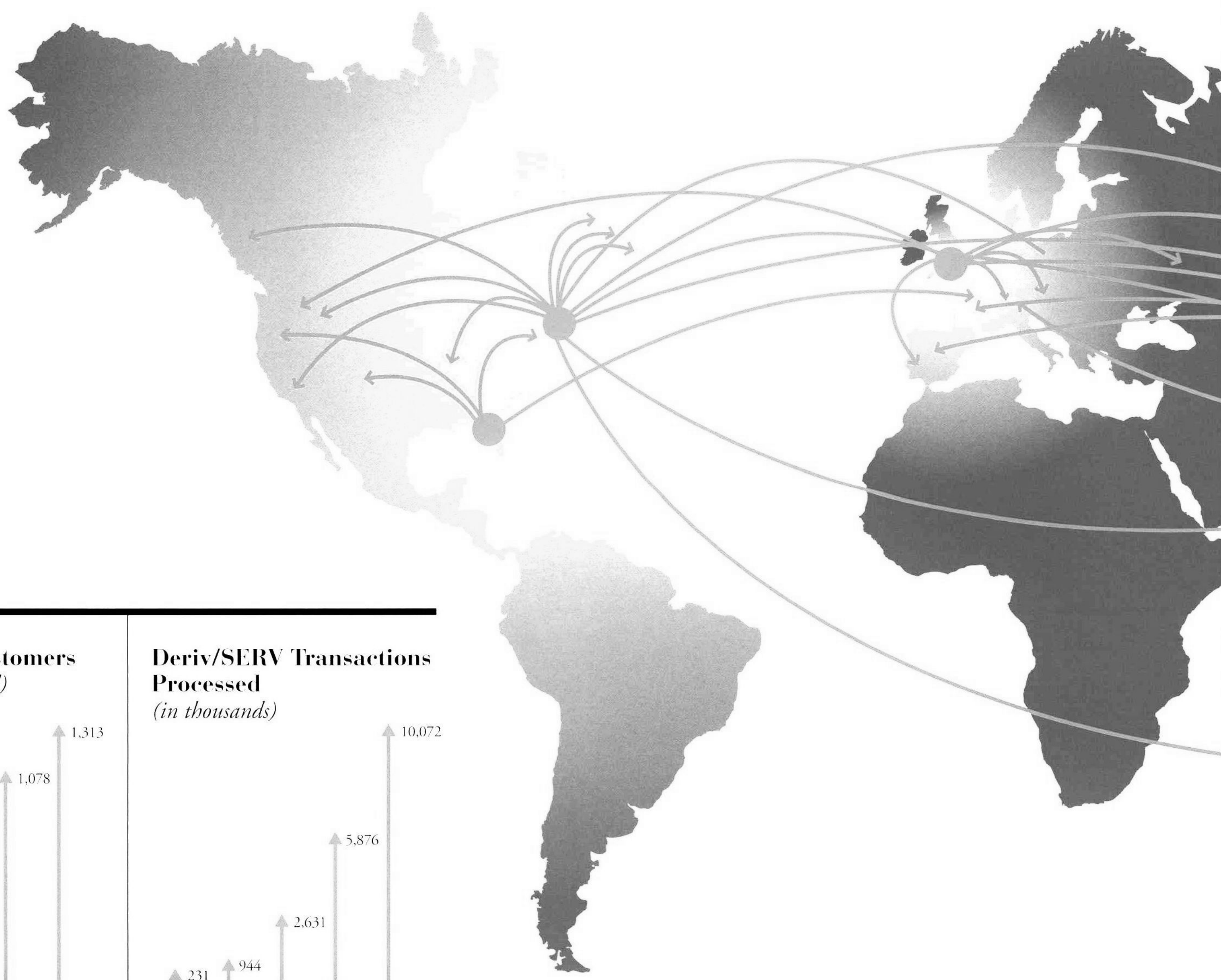
A major step forward in this effort came on November 4 when DTCC began releasing figures on the outstanding gross and net notional values on the top 1,000 underlying CDS single-name reference entities and all indices, as well as cumulative data on the gross notional values of these instruments. The information is updated every Tuesday after 5:00 p.m. and is posted on DTCC's website. The data release ensures that key information on the CDS market is publicly accessible, painting a more accurate picture of the marketplace.

DTCC has since received widespread recognition for its data publication efforts. Regulators have acknowledged that DTCC's data releases signify a broadened focus on enhancements in market design and risk and have welcomed the effort as part of the industry's progress in strengthening the operational infrastructure for OTC derivatives.

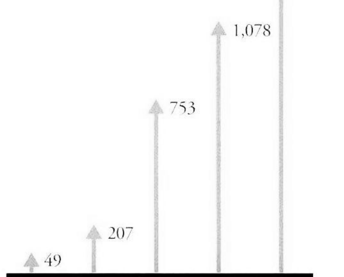


(Left to right) **Peter Axilrod,** *managing director, New Business Development;* **Brandon Brown,** *client account manager, Deriv/SERV and* **Patricia Nist,** *director, Business Development, Deriv/SERV*

DTCC Is Expanding Global Services



Deriv/SERV Customers
(number at year end)



Deriv/SERV Transactions Processed
(in thousands)

04	05	06	07	08
231	944	2,631	5,876	10,072

▲ Total Volume

As markets expand, customers want a broader range of investment servicing solutions that can reach beyond geographical borders, yet are still reflective of local markets – operated at-cost and owned, guided, developed and governed by the firms that are its primary users. At DTCC, 2008 saw the launch of new services to meet their needs.

Automating the Syndicated Loan Market

The global syndicated loan market exceeded US$2.1 trillion through the third quarter of 2008, even as deal volumes slowed after years of double-digit growth. To continue to grow this market and boost efficiencies for customers, DTCC created two new services to help automate and streamline syndicated commercial loan processing.

"Today, loan processes are essentially manual, with information faxed between market participants," said Chris Childs, DTCC vice president, Global Loans Product Management. "In the same manner as we did with Deriv/SERV in the OTC derivatives market, we want the new Loan/SERV products to deliver a broad range of automated and value-added services that will work in Europe, North and Latin America, Asia and other markets."

Syndicated loans are complicated structures involving multiple lenders for each borrower, with an agent bank acting as the liaison, transmitting information back and forth among parties. The Loan/SERV Reconciliation Service, launched in 2008, enables agent banks and lenders to view and reconcile their loan positions daily. The complementary Loan/SERV Messaging Service, piloted in late 2008, provides a safe, secure, automated network for the transmission, receipt and online storage of industry standard loan messages.

Strategic OTC Derivatives Partnership

With the success of the DTCC Deriv/SERV platform providing a secure, reliable and streamlined operational environment for matching and confirmation for a wide range of OTC derivatives products, DTCC looked in 2008 to collaborate with another industry leader to expand the reach of this market. Expected to launch in 2009, this new combined company will link the front- and middle-office trade processing services of Markit, a U.K.-based financial information services company, with Deriv/SERV's back-office post-trade confirmation and matching services. This collaboration will allow buyside and sell-side

OTC derivative market participants to confirm trades, while at the same time, gain access through a common portal to additional services provided by the parent companies.

New Service Will Automate Alternative Investment Products

In May 2008, DTCC received approval from the U.S. Securities and Exchange Commission (SEC) to launch the new Alternative Investment Product (AIP) suite of services. AIP links global market participants, including broker/dealers, custodians, alternative fund managers and hedge fund administrators. The service provides end-to-end processing of investor-level transactions for alternative investments, such as hedge funds, funds of funds, private equity, real estate investment trusts and limited partnerships.

Processing alternative investments is currently handled manually, using hard-copy documents, fax, email, phone calls and spreadsheets. AIP introduces a standardized communications format and an automated central infrastructure into the alternatives market.

"AIP effectively addresses many of the costly and risk-prone aspects of processing these securities," said Ann Bergin, managing director, DTCC Wealth Management Services. "In much the same way that Fund/SERV® system revolutionized how mutual fund orders were processed and settled more than 20 years ago, we believe AIP will similarly transform the global alternative and direct investment industry." By year-end, the first two charter clients, BNY Mellon Shareowner Services and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, went live.

Expanding Membership in DTCC's Subsidiaries

DTCC also received permission from the SEC in 2008 to admit non-U.S. financial companies as full members to NSCC and DTC. In December, the company filed to bring non-U.S. firms into both the mortgage-backed and government securities divisions of FICC as full members, and has since filed to expand membership opportunities for buyside firms, including mutual funds and hedge funds. Although many non-U.S. financial firms are major participants in the various U.S. securities markets, previously only firms with U.S. branches or agencies were eligible for direct membership in DTCC's subsidiaries.

Permitting non-U.S. financial companies to clear and settle their trades directly in U.S. markets leaves those firms better positioned to take advantage of the risk management, balance-sheet netting and cost savings that direct membership provides.

"Since the bankruptcy of Lehman Brothers, hedge funds and other buyside firms have been looking more closely at how they can mitigate risk through DTCC's various central counterparties" said Michael Bodson, DTCC executive managing director, Business Management and Strategy.

GCA Validation Service Earns High Marks from Customers

DTCC is one of the few organizations in the world that offers broad, global coverage of corporate actions. With operations in New York, London and Shanghai, the Global Corporate Action (GCA) Validation Service "follows the sun," providing 'round-the-clock coverage.

The GCA Validation Service – one of DTCC's most highly rated products and services, with 92% overall satisfaction among customers – currently tracks more than 2 million securities in 160 countries, in 16 languages, providing information on corporate actions announcements. In 2008, the service provided more than 1 million corporate action announcements and more than 3 million announcements of scheduled payments on fixed income instruments. This year, enhancements to the service included establishing new intraday feeds about corporate actions from DTC, as well as supplementing the existing secondary sources of data with information from some 18 newswires from around the world.

Global Outreach

DTCC continued to work this year with formal standards bodies and industry associations to promote industry standards. DTCC collaborated with SWIFT on global message standards and the new AIP service suite will soon accept ISO 20022-compliant, XML formats. DTCC has also adopted FpML® (Financial products Markup Language) in the new Loan/SERV Messaging Service.

During 2008, DTCC worked closely with Japanese and Brazilian colleagues on organizing a "CCP12" summit in Tokyo, where 30 central counterparties from around the world compared notes on global issues. DTCC also strengthened relations with global counterparts who are members of the Americas' Central Securities Depository Association (ACSDA) and where Mary Ann Callahan, managing director, DTCC Global Relations and Development, was re-elected president of ACSDA early in 2009. Lastly, DTCC hosted its first Global Relations Exchange and Training (GREAT) workshop, fostering cross-border collaboration on key trends shaping operations practices in today's capital markets. □

Sabahat Khan *(left), senior architect, IT Governance, and* **Christopher Childs,** *vice president, Loan/SERV Product Management*

There is no one even remotely better than DTCC, not even commercial institutions that are trying to take business away from DTCC.

Senior executive comment in
2008 customer satisfaction survey