



Securities Transfer Association

DTCC Update October 2009

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A service offering of DTC and DTCC Solutions, a subsidiary of
The Depository Trust & Clearing Corporation



Agenda

- Dematerialization Update
- Cost Basis
- Build America Bonds
- DWAC Centralized Billing
- DTC Underwriting and FAST eligibility requirements
- FAST Balance Certificates
- Additional Asset Services topics



Dematerialization Milestones - 2009

- January 9, 2009
 - Eliminated the ability to request a certificate on a DRS eligible and participating issues from DTC
- July 1, 2009
 - Eliminated the certificate request option on issues that are DRS eligible but not participating
 - If a certificate is required, firms can request either a Rush/Exception WT or a DWAC



Results

Default to Statement

- Beginning January 9, 2009, 100% of all requests on DRS-eligible and participating issues were processed as statements
- In total, 89% of all WT requests were processed as statements
- Non-DRS eligible issues accounted for an additional 11% of WT requests*

*DRS-eligible but non-participating issues are no longer eligible for WT processing



Current DRS Statistics – as-of 10/5/09

- 6,996 equity issues now DRS eligible
 - DRS Statement or Certificate – 5,742 issues (82%)
 - DRS Statement only – 417 (6%)
 - DRS eligible but not participating – 837 (12%)*

*Down from 1,502 issues in January 2009



Additional Milestones

- December 1, 2009
 - The elimination of the Direct Mail by Depository (DMD) Service for all issues
 - Participants will either pick up certificates at DTC premises or potentially switch over to the DMA service
 - Agents could see an increase in DMA activity as a result of this transition



Cost Basis Reporting

- The Emergency Economic Stabilization Act of 2008 contains requirements for financial intermediaries to perform cost basis reporting.
- The requirements will be phased in over a three year period beginning in 2011. The effective dates of these phases are as follows:
 - January 1, 2011 for securities transactions (e.g, equities)
 - January 1, 2012 for mutual funds and dividend reinvestment plans
 - January 1, 2013 for financial instruments such as debt securities and options



Cost Basis Reporting – Key Challenges

Recordkeeping

- Existing systems will need to be enhanced to record and store basis information, including bifurcating books to distinguish between positions acquired pre and post legislation effective date.

Upgrading Calculation Algorithms and Affected Systems

- Enhancements begin with upgrades to cost basis calculators to be compliant with the new regulations and can extend into many other systems



Cost Basis Reporting – Key Challenges

Account Transfers

- Financial intermediaries systems' also require the ability to transfer and receive cost basis information on any financial transactions that involve the transfer or movement of a security from one financial intermediary to another.

Corporate Action Data

- Issuers will be required to provide a description of the action, the quantitative effect on basis and contact information, within 45 days of the action.



Cost Basis – DTCC Role

Account Transfers

- Several industry committees are working with DTCC to define business requirements
 - Input from transfer agents, SIFMA account transfer group, mutual funds
- Cost Basis Reporting Service (CBRS) will be expanded as the “hub” for the industry
- DTCC is hosting the Cost Basis Steering Committee to unify these efforts



Build America Bonds

- Introduced as part of the American Recovery and Reinvestment Act of 2009
- The Build America Bond program was established authorizing state and local governments to issue two types of Build America Bonds:
 - Direct Pay
 - Tax Credit
- Issuance of these bonds must occur prior to January 1, 2011
- Industry concerns around the tax credit bonds with respect to Underwriting and Corporate Actions



DTC Proposed Enhancements

- At the time of issuance, Underwriter will provide DTC with a CUSIP for the primary issue and all potential strips
- New fields will be added to the DTC master file providing additional details on the tax credit component (e.g. tax credit plus interest, tax credit only)
- A new Corporate Actions function code will be created to announce the tax credit entitlement
- DTC will calculate the tax credit entitlement to be displayed on DPAL and remove position similar to a redemption
- Outbound files will be updated to contain this new information
 - Eligible securities files
 - Corporate Action announcement files



Current Status

- Thus far there have been approximately 34 tax credit issues that have applied for DTC eligibility
 - 20 have a tax credit/interest component
- Indication that there a number of other deals in the pipeline
- Industry continues to await guidance from Treasury Dept
- Upcoming milestones:
 - October 2009 – Release Important Notice alerting customers of changes to existing outbound files (6 months lead time required for all file changes)
 - December – Finalize functional specifications of enhancements
 - March 2010 – Target to implement changes



DWAC Centralized Billing

- DTC will look to implement a mechanism to pass through charges associated with DWAC transactions from the agent to the DTC Participant
- Similar to DRS Reject Centralized Billing, DTC will retain a portion of the fees collected to recover the cost associated with the technology investment
- Agent will instruct DTC on fee and exclusions to billing



Current Status

- October 2009 - Finalize the business requirements for the new process
- November 2009 - Validate the workflow with agent community and DTC Participants
- December 2009 – Commence the system development
- Q1 2010 – Test and implement new functionality (subject to SEC approval)



DTC Eligibility Requirements

- DTC has modified the eligibility requirements for both new and older issues
- New issues:
 - Compliance review on certain asset types
- Older issues:
 - Require an offering document
 - Electronic submission (e-mail) of the eligibility request and attestation from the sponsoring Participant
 - Agent attestation similar to the process we perform on new issue request
 - Proposed fee in 2010



FAST Eligibility Requirements

- DTCC is required to perform an increased level of due diligence on adding securities to the FAST program
- As part of the process we look for several criteria to determine if we will add CEDE & CO. inventory to FAST
- FAST Agent eligibility:
 - At this point, DTC is waiting for the uncertainty surrounding the recent SEC-approved rule filing, and the obligations of FAST Agents, to be resolved before considering any new FAST Agent applications



FAST Balance Certificates

- Evaluating the potential of eliminating the requirement to maintain a FAST balance certificate
- Potentially modifying the requirement for an agent to produce a certificate upon request
- Legal decision expected by year-end



Asset Services Current Initiatives

- Re-engineer Legacy Underwriting System:
 - Implemented first phase in September 2008 to support new issuances in the municipal market
 - Developed the New Issue Information Dissemination Service (NIIDS) in conjunction with the MSRB to help support trading in the when-issued markets
 - Released next phase of new system in October to support equity issuances
 - Underwriters will have the remainder of the year to optionally use the new system before it is mandatory for all new equity issuances
 - Two releases in 2010 will cover corporate debt and CD's

- Re-engineer Legacy Corporate Action System:
 - Overall approach for CA Re-engineering has been recast to reduce scope, cost and implementation risk
 - The new approach enhances existing systems, rather than developing a replacement
 - It supports industry standards rather than proprietary formats, and data will be published in ISO 20022 format, with a unique CA ID
 - Customers will be provided with a unified, web-based user interface that spans announcements, instructions, allocations through to payments
 - Existing platforms and operations teams will be converged, to reduce redundancies and lower cost
 - All changes will be phased in over time, and all DTC legacy files will be retired by no later than 2015
 - Implemented key enhancement upgrades to instruction processing in Q2 (EDS cutoff times and standing instructions); SLPO enhancement scheduled for production in Q4