



DTCC

*The Depository Trust &
Clearing Corporation*

Transforming Corporate Action Processing

VI Asamblea General de ACSDA
Buenos Aires, Argentina
30 de abril de 2004

REINVENTING THE WAY CORPORATE ACTIONS ARE PROCESSED

Agenda

- **2003 Position Paper**
- **GCA Validation Service**
- **GCA Messaging Service**
- **Streamlined Processing**
- **Standards and Best Market Practices**
- **Elimination of Certificates**
- **Business Continuity**
- **Leveraging Resources**
- **Corporate Action Reengineering**



- In 2003, DTCC released a position paper *Transforming Corporate Action Processing* (at <http://www.dtcc.com> under the *Thought Leadership* tab) that analyzed the challenges associated with Corporate Action processing and DTCC's strategy to assist Participants and the Industry:
 - Manage risk
 - Control costs
 - Improve client servicing
 - Expand coverage
 - Reduce volume sensitivity
 - Provide world-class business continuity

In summary, provide a new level of risk management and achievement of straight-through processing (STP)



Challenges

- The paper outlined many of the well documented challenges in corporate action processing
 - Obtaining Accurate Data
 - Streamlining the Flow of Information
 - Handling Increasingly Complex Instruments
 - Using Information for Multiple Purposes
 - Managing Resource Requirements
 - Processing Elections



DTCC Corporate Action Strategy

- Maintain leadership position in assisting the industry in meeting challenges of globalization and straight through processing
- No single answer will address challenges
- Leverage existing resources for initiatives to address the challenges on global corporate actions
 - Staff and experience
 - Infrastructure and world-class business continuity
 - Network of contacts and relationships
 - Industry Associations and Committees
 - Role as Industry cooperative

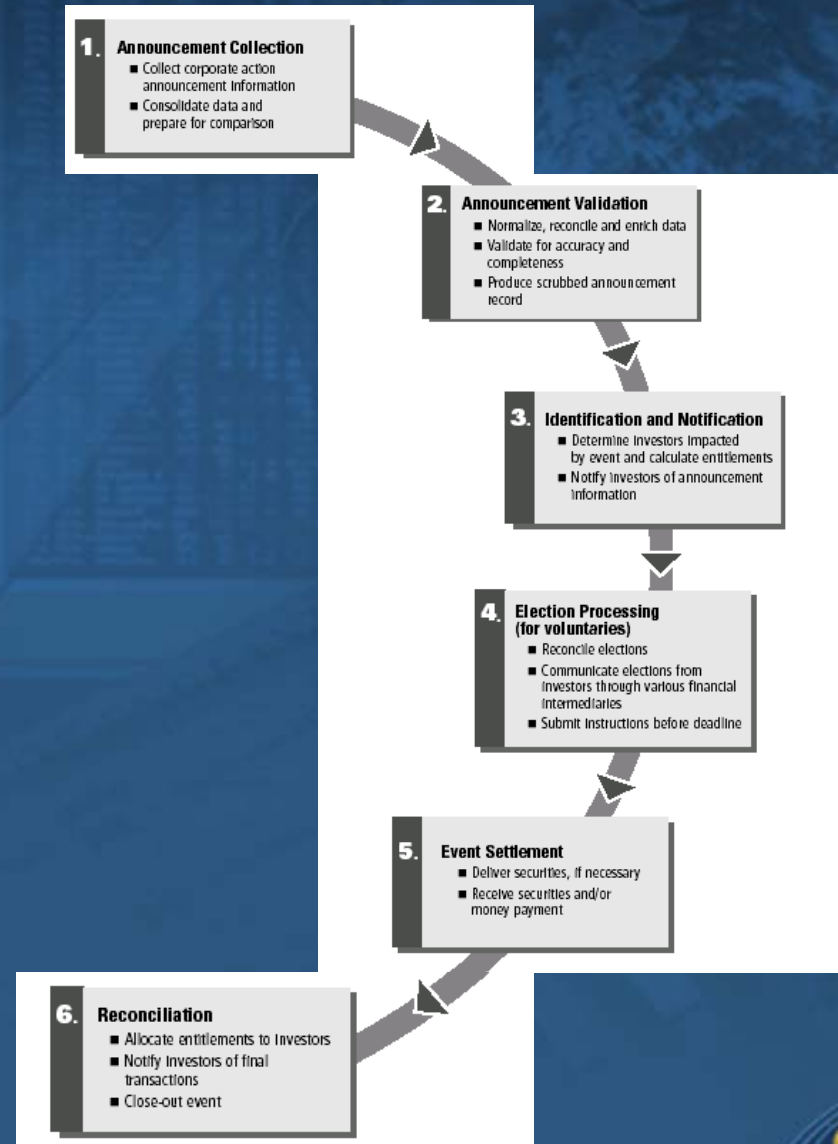
And ...



- **Encompass Best Practices as building blocks**
 - **Automate and Standardize Announcement Information**
 - **Automate Creation and Dissemination of Announcements**
 - **Promote Standards and Best Market Practices**
 - **Automated Exchange of Instructions**
 - **Eliminate Certificates in Corporate Action Transactions**



DTCC is committing the resources to transforming processing throughout the Corporate Action Lifecycle



Global Corporate Action (GCA) Validation Service

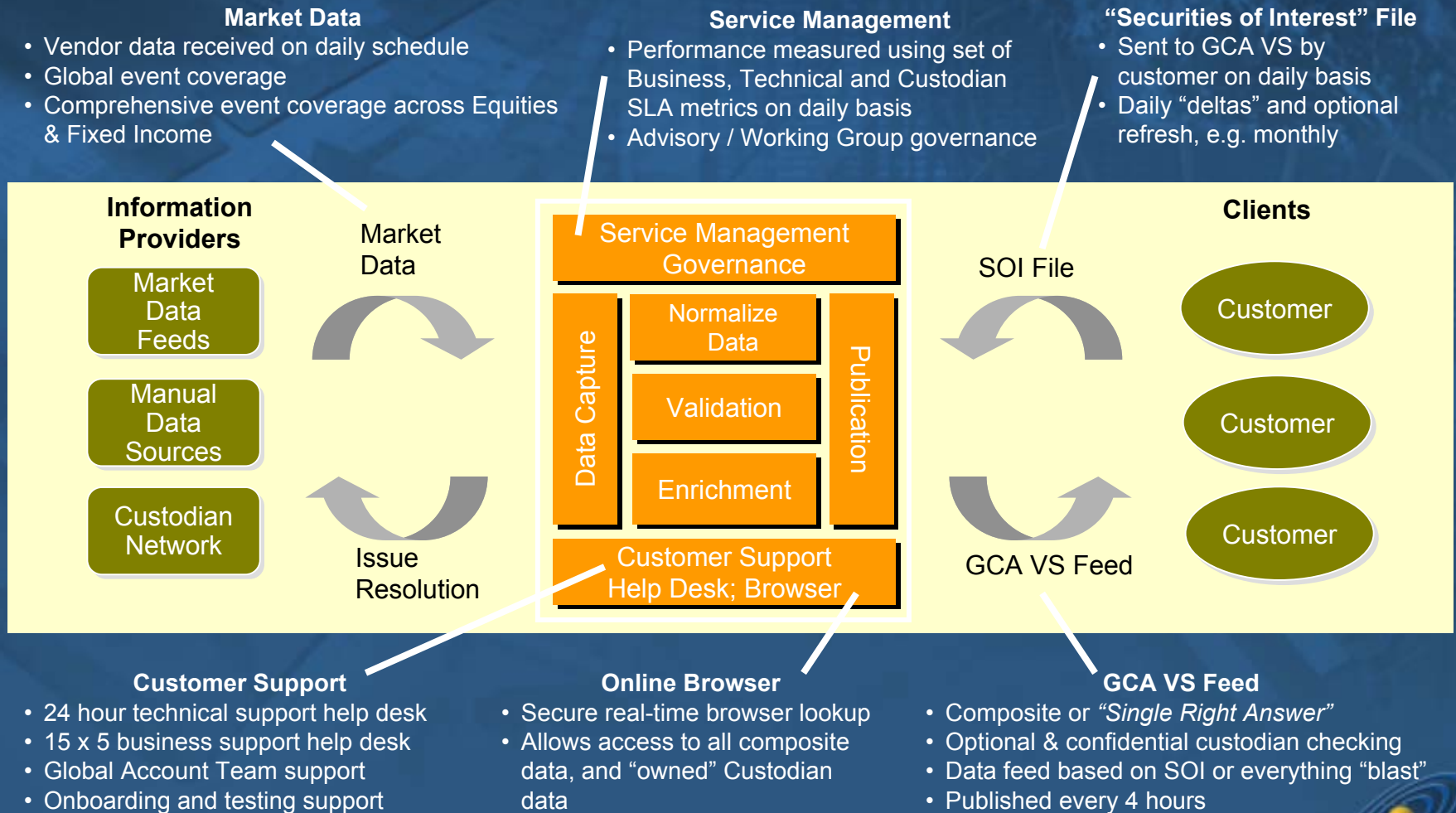
The GCA Validation Services allows firms to outsource the receipt, normalization and validation of corporate action announcements and focus their resources for value added efforts



REINVENTING THE WAY CORPORATE ACTION ANNOUNCEMENTS ARE MANAGED



GCA Validation - Features



GCA Validation – Value Proposition

Assists financial services firms in reducing costs & managing risks of corporate action validation, by leveraging a trusted industry leader and the inherent economies of scale

Cost Reduction

Back office Re-deployment

- Re-focus of resources to other core business activities
- Upwards to 90% of corporate action validators/supervisors and supporting IT staff can be re-deployed within large broker/dealer environments
- Sizable annual net savings potential of millions of dollars per annum

Utility Pricing Model

- Annual service fees decrease as client volume activity increases

Risk Management

Industry Inefficiency

- Today, in-house validation requires dedicated headcount, offers little competitive advantage and leads to industry-wide redundancy and inconsistencies

Exposure from a Single Event

- Estimated 10% of annual corporate actions processing costs comes from “write-off” funds to cover losses from inaccurate and incomplete data

“Single Right Answer”

- GCA VS streamlines corporate the process and provides clients with the “single right answer” by “scrubbing” multiple corporate action sources

Trusted Utility

Trusted by the Industry

- DTCC has 30 years of experience “manufacturing” and processing corporate actions
- DTCC has a unique position within the industry, central to issuers agents and exchanges

Differentiated Service

- Significant value-add provided through an integrated, confidential “custodian checking” feature

GCA Validation – Service Coverage

Comprehensive product coverage across Equities and Fixed Income and is managed through a set of comprehensive Service Level Agreements

In Scope Products

- Equity (Common, Ordinary, ADR, GDR, etc.)
- Preferreds (Auction Rate, Convertible, Cumulative, Exchangeable, etc.)
- Units
- Limited Partnership
- Real Estate Investment Trust (REIT)
- Warrants (Equity)
- Rights
- Unit Investment Trust (UIT)
- Closed End Funds
- Sovereign Debt
- Agency Debt
- Corporate Bond
- Municipal Bond
- Convertible Bonds
- Government Bonds

Event Types

- Mergers
- Tenders
- Conversions
- Exchanges
- Redemptions
- Splits
- Bankruptcies
- Distributions (Cash & Stock)



GCA Validation – Enhancements

- Service introduced April 2003
- Starting in 2004, GCA Validation Service now receives, compares, and validates Custodian Records
 - Support receipt of ISO 15022 messages from Custodians (564/568) on an intra-day basis forwarded by the Customer
 - Custodian record data is compared with the *GCA Validation record*
 - Custodian data remains proprietary
- 2004 planned enhancements:
 - Tiered pricing
 - Asian Service Center
 - “Blast” coverage



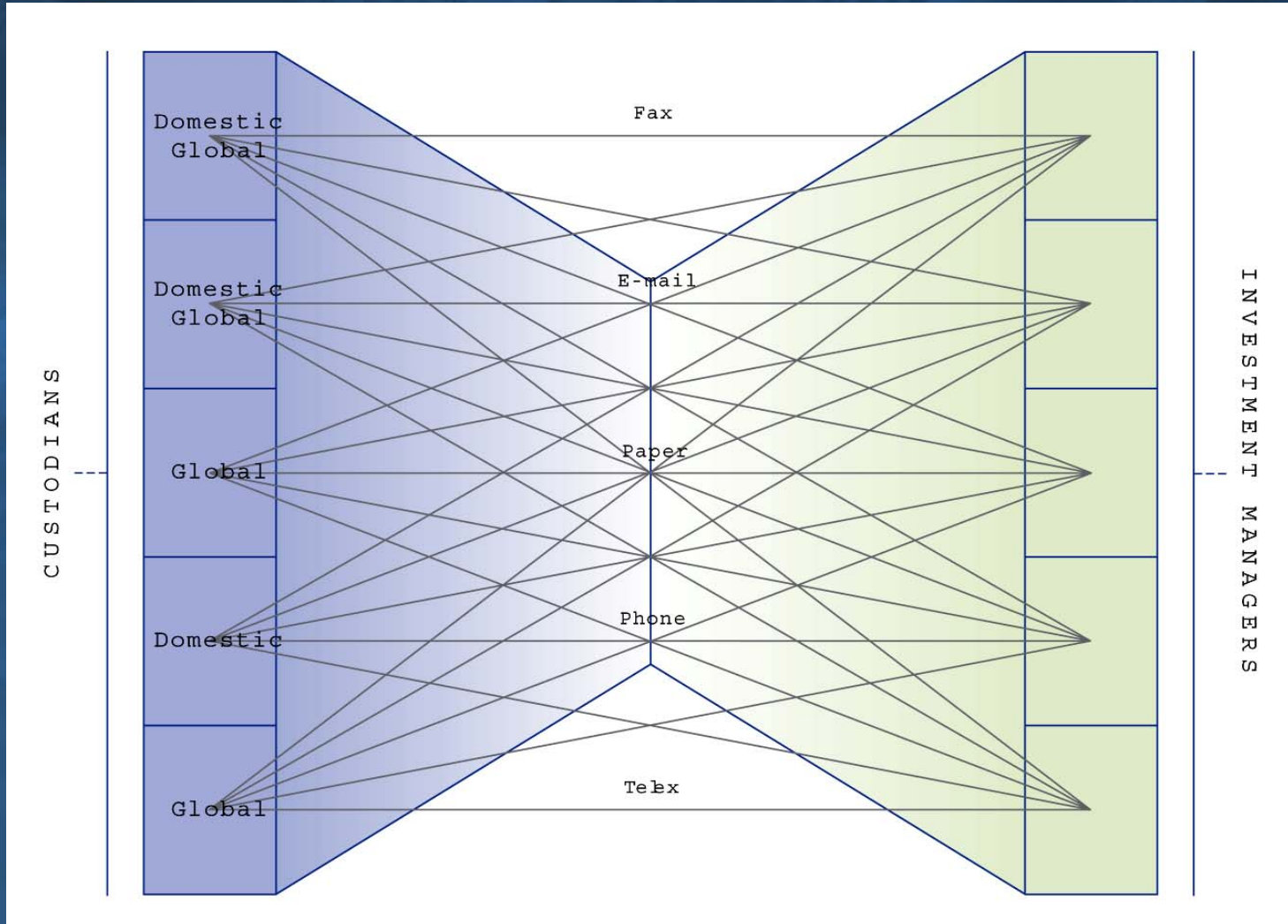
Global Corporate Action (GCA) Messaging Service

The Messaging Service is a business tool, developed to automate and standardize corporate action messaging between custodians and investment managers.

The goal is to provide a solution that can be applied globally using accepted industry standards facilitating the reduction of risk.



Current Corporate Actions Messaging Environment

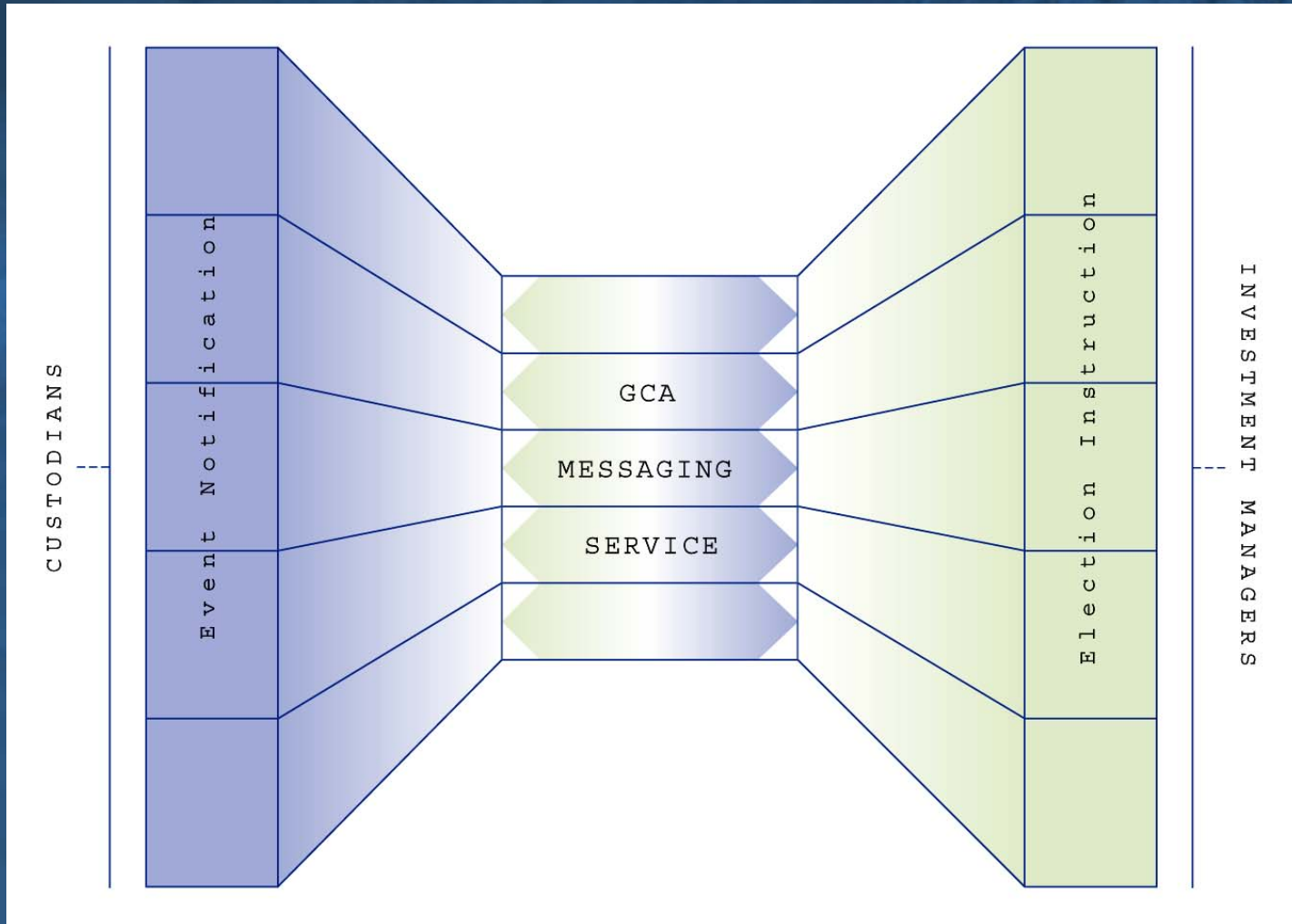


Current Corporate Actions Messaging Environment

- **No Automation**
 - Labor Intensive processing of faxes and phone calls
- **Lack of standards**
 - Varying practices of delivery and format amongst institutions
- **Financial Risk**
 - Manual Processing
 - Record Keeping
 - Managing numerous interfaces across business partners



Capability to reduce risk, standarize communication and streamline processing



GCA Messaging - Features

- **Status Monitor**
 - Tracks the progress of actions through out their life cycle with audit trail.
- **Messaging Alerts**
 - Reminders and follow-ups
- **Industry Standards**
 - Messages are compliant with ISO 15022
- **Facilitated Tracking and Navigation**
 - Sophisticated sort facilities plus summary and detail reports that provide election information
 - Message board capabilities
- **Comparison of announcements against DTCC**



GCA Messaging - Benefits

- **Low Cost Implementation**
 - Cost efficient access via the internet (browsers) and file transfer protocols
- **Risk Reduction**
 - Eliminates faxes, phone calls and a manual data entry. Electronic audit trail and on-line comparison capability against DTC announcements
- **Standardization of the entire corporate action process**
 - From the receipt of messages announcing an action through the exchange of information about election instructions
- **Automation**
 - Consolidates and automates many fragmented corporate action components



Streamlined Processing

- **Implemented Direct Agent Interfaces**
 - Automated input to the depository streamlines the announcement process
 - More timely announcements
 - Eliminates errors and delays from manual processing
 - Standardized format eliminates interpretation issues
- **Structured Securities implemented 2Q 2003**
 - Automated 62% of announcements from 8 agents
- **Leveraged interface for Redemption Agents Q4 2003**
 - Over 5,000 announcement processed from 20 agents



Streamlined Processing – Next Steps

- Focusing on expanding the participation on both the Structured Securities and Redemption interfaces
- Investigating expanding message data elements to further reduce need for manual intervention, specifically on the more complex Structured Securities
- Internal six sigma initiatives identified streamlined processes that were implemented
- Additional work is underway to allow DTCC better utilize security information to anticipate and proactively reach out to agents to facilitate processing



Standards & Best Market Practices

- Automated agent submissions developed in conjunction with The Bond Market Association task force
- Committed to helping define rules and their application in conjunction with industry associations
 - ISITC – IOA
 - National and Global Market Practice Groups
- WG11 will produce a single standard for describing a financial instrument throughout its lifecycle
- Support for SIA Corporate Action Division initiatives
- Committed resources to internally implement ISO 15022 messaging standards for corporate actions
- Working with Security Transfer Association (STA) on streamlining legal transfer process



Elimination of Certificates

- Physical certificate processing present numerous challenges to the industry and inhibit the migration for STP
 - SIA's "Immobilization & Dematerialization Guide cites that brokerage firms spend \$140MM annually processing physicals
 - Fees to beneficial owners
 - Restricts processing of corporate actions
- Majority of US securities processed book entry (BE) or book entry only (BEO)
 - FDIC Insured (CDs), Treasury and Agency, Municipals, MMIs, Mutual Funds and 99% of Corporate Bonds
 - 6500 Exchange based securities are eligible for Direct Registration Service (DRS)



Elimination of Certificates

- **DRS is a book-entry system that safeguards ownership and eliminates need for physical certificates**
 - DTCC is working with and supporting the SIA's efforts on immobilization and dematerialization and stand ready to support a more aggressive effort
- **Implemented Networking for Equity (NFE) in 2003**
 - Allows transfer agents, on behalf of the issuer, to maintain dematerialized security positions at the customer account level
 - Mechanism allows DTC to fully service assets and facilitates dematerialization efforts for restricted securities
- **Improving transfer processing efficiencies**
 - Working with the STA to establish streamlined procedures to effect certain legal transfers that will benefit both Participants and agents



Business Continuity

- Implemented remote data processing capability in 2003
- Implementation of SMART (DTCC's Securely Managed and Reliable Technology) moving forward with migration plan that will conclude by the end of 2005
 - Extends redundancy by automatically linking Participants to all data processing centers
- Establishing out-of-region operations center supporting critical operational functions
- On-track with implementation of NSCC In-Sourcing
- Implemented internal procedures and continually evaluating procedures to ensure highest level of business continuity



Leveraging Resources

- **DTCC is working harder, but also smarter in implementing initiatives**
 - Improved product management process
 - Incorporation of industry standards is becoming standard
 - Migration to common internal standards
 - Coordination across business units
- **Recent Examples**
 - Implementation of Redemption Agent Interface leveraged development effort from Structured Securities
 - Liability Hub Solution is built on the GCA Messaging Service platform, shaving significant time off the development and providing features that were initially considered too costly to implement



Corporate Action Reengineering

- The initiatives outlined in the position paper *Transforming Corporate Action Processing* have been initiated and in many cases implemented, providing tangible benefits to the industry
- However, much more remains to be accomplished...
- DTCC is looking to apply similar efforts, as defined in the position paper for the industry, on itself to help transform corporate action processing



Corporate Action Reengineering

- All of these efforts and initiatives are part of DTCC's system that supports the handling and processing of corporate action events (reorganizations, redemptions and periodic income/principal payments)
- The platform is actually numerous distinct customized subsystems that share common processes that were implemented over twenty years ago
 - Must be maintained and linked individually
 - Inhibit ability to respond to more automated processes
 - Based upon single identifier and currency capability
 - Batch process



Corporate Action Reengineering

- DTCC initiated multi-year reengineering initiative to achieve absolute processing efficiencies by integrating existing subsystems into a single platform designed to accommodate global corporate action announcements
 - Eliminate contra-CUSIPs (which are a barrier to automated instruction processing)
 - Accommodate payments in multi-currencies
 - Handle all forms of security identifiers
 - Incorporates industry standards
- The efforts to date have uncovered and resulted in the elimination of redundancies and inefficiencies that are projected to yield near-term and ongoing savings in systems utilization and capacity requirements



Summary

DTCC is:

- Actively moving toward industry solutions as outlined in the position paper *Transforming Corporate Action Processing*
- Supporting the development and promotion industry standards, and is moving to implement them to facilitate the take-up within the industry
- Striving to develop industry solutions by working directly with its Participants, with advisory groups and industry associations such as ACSDA
- Committed to reengineer its infrastructure to facilitate straight through processing
- Provides quarterly updates on all major initiatives including those of Asset Services at <http://www.dtcc.com> under the tab *Customer Focus*

