

DTCC Deriv/SERV Update

1. Momentum in Trade Confirmations, Payment Reconciliation and related services for Credit, Equity and Rates Derivatives
2. Trade Information Warehouse – New infrastructure for OTC derivatives industry



Momentum, as of Mid June 2007...

- Signed up clients total 913 (up from 200 at start 2006)
 - 909 on Credit
 - 146 Rates
 - 132 Equities
 - 126 Payrec
- YTD Volumes average a little over 17,000 sides per day (up from 8,600 in 2006)
 - Typical Volumes (for info):
 - 12 to 18,000 per day on Credit (peak 24,000)
 - 800 to 2000 Rates (peak 3,300)
 - 300 to 600 Equities (peak 1,000)



Momentum this year....

- In past 12 months, 2 major initiatives:
 - Warehouse for Credit
 - 1.0 (Position Maintenance) live Nov 2006
 - 2.0/2.1 (Cashflow Calculations) live Feb 2007
 - 2.3 (Credit Events) just commenced UAT for Live Aug 2007
 - 3.0 (Central Settlement) on target for 1 Nov 2007
 - Expansion of Asset Coverage
 - Equities Release 3.2 live 14 June 2007, incl Americas Share and Index Variance Swaps
 - Equities 4.0 Scheduled August (enhanced Variance Swaps)
 - Rates 3.1 went Live May 17th
 - Rates 3.2 Scheduled August 2007 (Inflation Swaps)
 - Rates 4.0 Scheduled November 2007 (enhanced Asset coverage)

3

- Credit
 - 85+% credit mkt confirm volume now confirmed electronically on D/S
 - Fed 14 almost completed backloading into Warehouse
 - Major testing initiative between now and November, includes DTCC, CLS and 20 participant firms
 - Credit Event Processing now in UAT with plan Go-Live mid August
 - Central Settlement set for Nov Go-Live. Firms will go live in clusters of 3 to 5 to bed in process with clusters to stay in place 2 to 3 months
 - 90+% of D/S eligible trades (between launch partners) will flow into central settlement for coupon payments on day 1 (Single Name CDS, Indices) – Other products (eg Tranches, CMBS, RMBS, LCDX) in 2008
 - All Gold records between launch partners (ie all products supported for legal confirmation on D/S) will flow fee payments into central settlement
 - Separate PayRec service will continue for the foreseeable future

4

• Equities

- Fed Letter published by dealers 15 May to follow up on letter of 21 Nov'06. Sets aggressive targets – see attached.
- D/S supports virtually all published Master Confo Agreements (MCAs) for:
 - Index Options & Share Options
 - Index Swaps & Share Swaps
 - Index Variance Swaps & Share Variance Swaps
- Those not supported have only been published very recently and we have plans to support by mid-Aug
- Adding European Dividend Swaps in Q3
- The major issue in the market is one of getting proforma MCAs published and then getting parties to sign them. Our working group is leading the charge on this



5

• Rates

- 14 Dealers Live with New Trades, Terminations and Amendments
- Major test underway on Assignments, expected Live on 25th June
- Major firms like PIMCO, Blackrock, Citadel, Freddie Mac, Caxton, Moore Capital, Alliance Bernstein all live
- Significant Client interest, though we have delayed pushing until assignments live
- Drive to add asset coverage (Inflation Swaps, Amortizers, Cancellables, Non Deliverables, Caps, Floors etc)
- Once assignments live, focus will be on client onboarding



6



Trade Information Warehouse: New Infrastructure for OTC Derivatives Industry

STP challenges

- Trade volumes only go up
- Expanding customer base of OTC users
- Expanding product set & complexity
 - Custodian relationship and development plans
- Pressure from regulators on the dealers
- Competition for skilled staff
- Bilateral administration
 - Portfolio reconciliation
 - Trade reconciliation
 - Payment reconciliation
 - Price reconciliation

Cost and risk issues in OTC processing

- **Systems**
 - Continued investment to keep up
- **People**
 - Never a worse time to hire experienced staff
- **Error rates on payments**
 - Quarterly rolls cause a huge jump in effort
- **Lowest common denominator**
 - Only as good as your counterparty
- **Custodian service development and investment**
- **Faxes are no longer adequate**

9

Today: Bilateral Administration Environment

- **Parties must constantly “sync up” during contract life**
 - Payments, events, margining, etc.
 - Many manual and duplicative reconciliation/resolution processes (internal and between firms)
- **Each party is hostage to its counterparties’ processing**
 - You’re only as good as your counterparty – your records may be right, but if your counterparty disagrees or doesn’t know, you have a problem
 - Operating models vary across firms: different processes for different counterparties

10

Future: Trade Information Warehouse

- Two main components
 1. A comprehensive, centralized trade database with the primary record of each contract
 2. A central processing capability to standardize and automate “downstream” processing of payments and other post-confirm processes
 - Fully agreed with the industry – no more payment breaks
- Processing flows automatically from the electronic confirmation environment

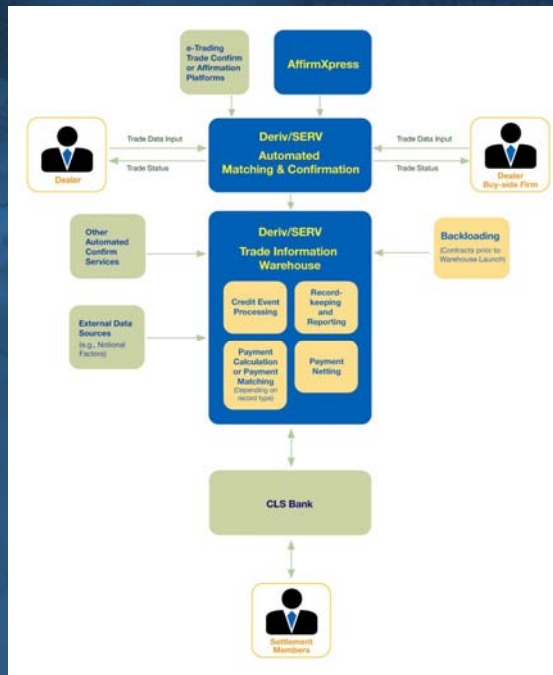
11

Why a Warehouse for OTC Derivatives?

- Record keeping is harder than it seems
 - Still no solution to fully reconciling both parties systems
 - FpML is the way forward, but it will take time for it to percolate into all the nooks and crannies of the industry
- Operational practises still not agreed
 - Firms employ people to resolve payments issues
 - ...which could be solved up-front
 - No detailed “book of rules” for every product type
- Volume
 - Onwards and upwards - people become the scale problem

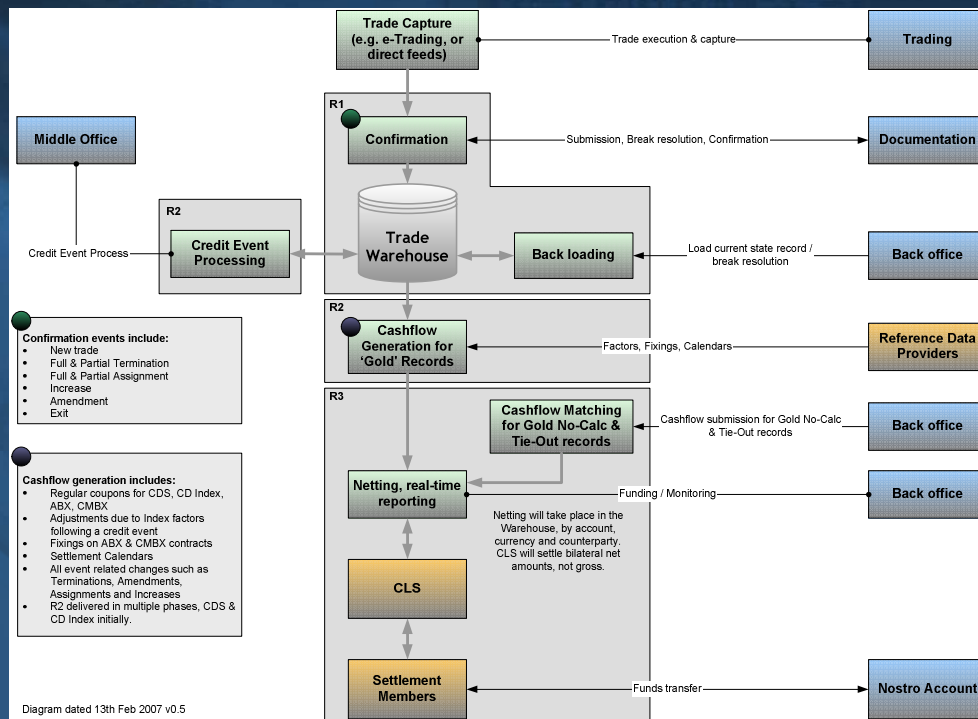
12

DTCC Deriv/SERV: A New Vision for OTC Derivatives



DTCC Confidential

The vision for OTC derivatives' Trade Information Warehouse



Participant Benefits

Correct balance sheet:

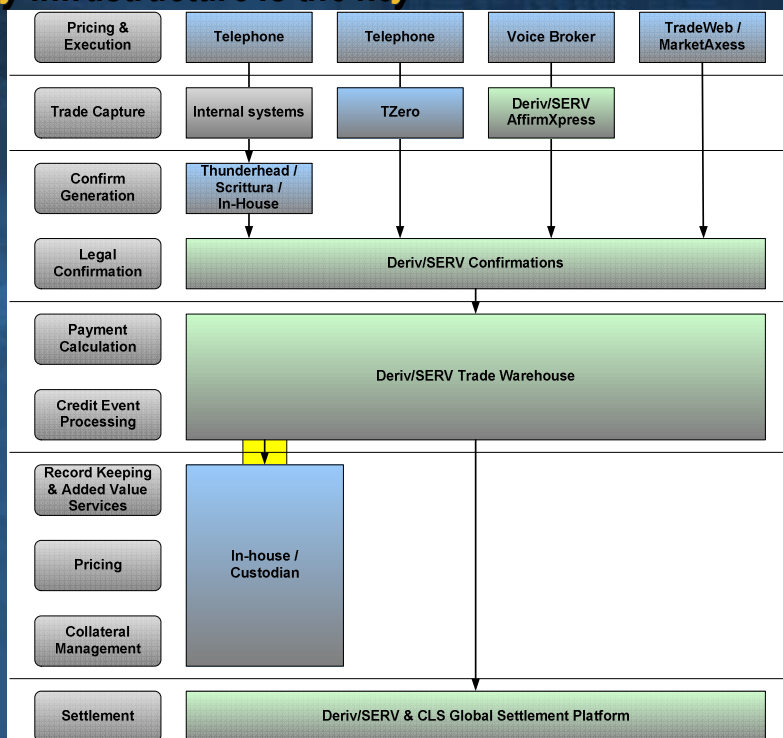
- through *immediate* trade reporting to warehouse and *centralized* deal maintenance.
- Reduces risk in:
 - Reporting (corporate, regulatory, etc.)
 - Market risk management
 - Counterparty credit risk management

Overhead reduced:

- Standardization of trade capture processing
- Reduced nostro fees; nostro breaks eliminated for all warehouse trades
- Efficient collateral management process; reduced disputes/investigations
- Standardized, automated processing for credit (and other) events and related reconciliations
- Reduced capital requirements due to more efficient tear-ups/portfolio management; lower reserves vs. settlements

15

Industry infrastructure is the key



16

Summary

- New entrants want access to OTC products without processing risks
- Investment in technology is the only way to keep ahead of market growth
- Possible emergence of turn-key solutions from multiple providers, including value-added services
- Future state may be fundamentally different from the past
- OTC markets may become as automated as exchange markets, in time



17



Much more about Deriv/SERV
and Trade Information
Warehouse can be found on our
website: www.dtcc.com