

# DTCC Relationship Services

## HIGHLIGHTS

Volume 5

The Depository Trust & Clearing Corporation

Issue 5

### Other DTCC News You Can Use!

- [DTCC Development Agenda](#)
- [DTCC Important Notices](#)
- [DTC Important Notices](#)
- [NSCC Important Notices](#)

### Service News

- [SMART/Search](#)
- [Restricted Share Web Guide](#)
- [GCA Validation Service](#)
- [Cost Basis Reporting](#)

### Holiday Schedules

[DTC – July 4, 2006](#)

[NSCC – July 4, 2006](#)

**Relationship Services**  
800 – 422 – 0582

E-mail: [rmsupport@dtcc.com](mailto:rmsupport@dtcc.com)

**Customer Support Center:**  
888 – 382 – 2721

**Customer Service**  
**Customer Help Centers:**  
888 – 360 – DTCC (3822)

### **Web Site Links**

<http://www.dtcc.com/>

<http://www.nsccl.com/>

<http://www.dtc.org/>

<http://www.bdug.org/>

<http://www.sia.com/>

<http://www.sec.gov/>

<http://www.federalreserve.gov/>

### Important Notices

#### **SUBJECT: Modification of Trade Submission Practices and Clearing Fee Revisions – Revised Implementation Timeframe**

Following discussions with a number of our participants, as well as with our regulators, NSCC has decided to revise the implementation timeframe for these changes. Recognizing that these changes may have significant impact and require firms to modify their trade submission practices and procedures, as well as requiring time for affected exchanges and QSRs to make necessary systems changes, NSCC intends to implement Phase I on the first day of the fourth month following the SEC's approval of the rule change.

Phase II, the requirement that all such locked-in trade data be submitted real-time, would be implemented six months following the Phase I implementation date. Collectively, this should provide firms with a reasonable period to make any needed modifications to their trade submission practices and procedures, and will provide exchanges and QSRs with nine months from the time the SEC approves the rule filing to make any necessary systems changes to enable them to submit trades on a real-time basis.

[NSCC Important Notice A# 6246](#)

#### **SUBJECT: NSCC Service To Support SEC Rule 22C-2 - REVISION**

The enhancement described in Important Notice A#6213, P&S #5783, dated March 8, 2006 regarding NSCC's service to support SEC Rule 22C-2 has been revised. Additional values have been added or changed in a number of the data fields.

Several participants recommended adding an additional "Partial Response Indicator" value to the B/U 21 record to accommodate a more orderly solution for incomplete response data, and not falsely represent these transactions as rejects.

[NSCC Important Notice A# 6254](#)

#### **Subject: DTC / Omgeo Tradesuite System Real-Time Settlement Link**

Omgeo's TradeSuite system currently feeds DTC a batch file of approximately 320,000 eligible affirmed institutional trades (non-CNS) at approximately 1:00 pm on settlement date -1. Delivering DTC participants then authorize or exempt these trades in DTC's Inventory Management System (IMS) for automated settlement to be attempted at the depository. This November (subject to SEC approval), the TradeSuite interface is being enhanced to enable DTC to accept these trades from Omgeo in real-time to reduce business continuity risk.

Additionally, some new functionality is being introduced via the enhanced Omgeo and DTC interface. To learn more see [DTC Important Notice B# 9613-06](#).

# **DTCC White Paper**

## **“Structured Securities Processing Challenges: A White Paper on the processing challenges posed by Collateralized Mortgage Obligations and other Asset-Backed Securities”**

DTCC first discussed CMO and ABS processing in a white paper issued to the industry in 2003. Although the depository and paying agents have implemented automation and process improvements in the last two years, little overall progress has been achieved in improving the accuracy of CMO/ABS payment processing.

As noted in our 2006 Development Agenda, DTC is publishing this second white paper outlining a series of new initiatives aimed at solving the processing problems of the structured securities market.

Specifically, working with the industry, DTC will:

- Expand the distribution of monthly agent performance “report card” beyond the agency community. Currently, DTCC works with major paying agents and together they use the report cards to examine processing and performance problems. The data in these cards can be used to create similar report cards for service providers in other industry segments to help them improve efficiencies and meet new regulatory requirements.
- Create a time limit for late adjustment.
- Implement financial disincentives for failure to comply with established industry standards for accuracy and timeliness.
- Explore other recommendations to improve timeliness and accuracy, including establishing best practices for all parties involved in the processing chain.

The paper can be accessed on the DTCC Web site at [www.dtcc.com](http://www.dtcc.com) under “Thought Leadership” and is entitled [“Structured Securities Processing Challenges: A White Paper on the processing challenges posed by Collateralized Mortgage Obligations and other Asset-Backed Securities.”](#)

If you have any questions on the white paper, please contact your Relationship Manager.

***Mark Your Calendar!!!!***

***2006 BDUG Annual Meeting***  
***October 15 – 18***

Marriott Tampa Waterside Hotel & Marina  
700 South Florida Ave • Tampa, Florida 33602 USA

For additional information, go to [www.bdug.org](http://www.bdug.org)

## **Inventory Management System (IMS) Red & Yellow Releases / Drop Reports**

Effective June 9, 2006, participants who use IMS to control the processing of their deliveries will be able to release their recycling valued red & yellow transactions until the valued input cutoff which occurs at approximately 3:20 p.m. Currently, red and yellow transactions drop at the valued recycle cutoff which occurs at approximately 3:10 p.m.

The IMS Red and Yellow recycle profiles allow participants to recycle and complete their deliveries in a specified order. Transactions routed to the red recycle queue are not processed until the delivering participant releases them either individually or globally. Transactions routed to the yellow recycle queue are processed in strict recycle order, i.e., the second transaction will not complete until the first transaction completes.

Red and yellow transactions that are released after the valued recycle cutoff will be systemically Pend Cancelled and a new transaction will be submitted with a new Relative Block Number (RBN), i.e., Transaction ID. The new transaction will be forced to the Receiver's Authorized Delivery (RAD) screen if the forced RAD period is in effect. Once approved in RAD, the transactions will either make or drop immediately. Transactions that always bypass RAD, i.e., Matched Reclaims, Institutional Deliveries (ID), etc. that are released after the valued cutoff at 3:10 p.m. will not be Pend Cancelled and will either make or drop immediately. As with all other transactions that drop immediately after the 3:10 p.m. recycle cutoff, red and yellow released transactions that drop immediately will not appear on the PEND function or the FFSP Drop function (this function will be eliminated shortly); however, participants can view these drops on the Activity Research Tool (ART) Drop option (#5).

Red and yellow transactions that drop may be reintroduced depending upon the deliverer's reintroduced drop profile. This includes red and yellow transactions that do not complete for any reason, i.e., those that were never released from red or yellow, those that were released from red and yellow and remained unapproved in RAD and those that were released from red and yellow and dropped in the Account Transaction Processor (ATP) immediately or after being approved in RAD. **All of these transactions that do not complete will now be included in the participant activity drop file (DTFMTA).**

Red and yellow recycling transactions destined for other Central Securities Depositories, e.g., CREST will continue to drop at their specified recycle cutoffs.

## **Planned Settlement Enhancement Corporate, Municipal and UIT (CMU) Products**

By year end, DTCC is planning to provide the ability to settle CMU trades that match in the morning of T+3 in the afternoon T+3. This capability exists for equities today. DTCC would leverage the equity CNS functionality for CMU activity. DTCC is also evaluating the possibility of netting CMU T+1 settlement cycle trades in the future.

Questions/comments can be referred to Ed Fanning (212-855-7623, [efanning@dtcc.com](mailto:efanning@dtcc.com))

# **Reminders**

## **Pass-Through of ADR Custodial Fees For Non-Dividend Paying ADR Issues**

The prospectus and deposit agreement with the agents for American Depositary Receipt (ADR) issues allows for the imposition of a custodial fee to holders, to be collected by the ADR agent. Since the vast majority of ADRs pay periodic dividends, the usual practice is for the ADR agent to subtract the custodial fee from the gross dividend payable to the ADR holders. DTC assists in this process by announcing to its participants both the gross dividend rate and the net dividend rate after the deduction of the ADR custodial fee. The ADR agent then pays DTC the net dividend, which DTC then allocates that net dividend to the appropriate participants.

A small minority of ADR issues that do not pay dividends also permit the agent to assess a custodial fee. While DTC has never offered a mechanism to collect annual custodial fees on these, DTC allows ADR agents to request position listings showing participants' holdings at the close of business on the "record" date for assessing the custodial fee. The agents then use the listings to mail invoices to participants, requesting them to remit the fees.

The ADR agents have recently approached DTC requesting assistance in collecting these custodial fees. This led to extensive discussions with various industry groups concerning the process, including the Regulatory and Clearance Committee of the Securities Industry Association's Securities Operations Division. Eventually it was agreed that DTC should collect these ADR custodial fees for non-dividend paying ADRs via its monthly participant billing process.

DTCC's Board of Directors approved the implementation of the ADR Custodial Fee Collection at its April meeting, as well as a collection fee which DTC will retain to cover its costs of providing this service. On April 28, 2006 DTC filed a rule change (SR-DTC-2006-08) with the SEC, which was effective on filing. This filing will allow DTC to collect the ADR fees from its participants and pass them through to the ADR agents as well as charge the above-mentioned collection fee.

As of May, 2006, the procedure is as follows:

- Upon receipt of fee details from the ADR agents, DTC will publish an Important Notice notifying its participants of the event. The notice will include all issues for each event, the security description, CUSIP number and fee for each ADR issue being processed.
- Agents are expected to notify DTC 30 days prior to "record" date.
- The ADR custodial fee will update on the following month's bill. The charge will appear in the long position section of the bill and will be a summation across all ADR issues charged that month.
- DTC will provide participants with an itemized breakdown for each month's bill, listing the individual ADR issues (identified by CUSIPs) involved and the participant's record date position and associated custodial fee. As soon as automation is available, this will appear in SMART/Search.

Questions regarding the billing for ADR custodial fees should be addressed to Marcelo Mejia, Operations Director, at (212) 855-5071 or [mmejia@dtcc.com](mailto:mmejia@dtcc.com). See also [DTC Important Notice # 9614-06](#).

# **SERVICE SPOTLIGHT**

## **Legal Notice System (LENS)**

The Legal Notice System (LENS) is a comprehensive library of notices, published by third party, public or private agents and agencies, reporting non-settlement information about DTC-eligible securities.

Originally introduced as a request function on the proprietary Participant Terminal System, the LENS on the Web service is only available to Participants.

LENS on the Web Features include:

- Immediate viewing in original notice formats
- E-mail forwarding of selected notices to interested parties
- Expanded and reusable search options
- User preferences settings for:
- Free receipt of e-mail alerts
- Document abstracts
- Customized screen display
- Monitoring for duplicate requests

Benefits include:

- No waiting for delivery of printed copies
- Eliminates searching through stacks for a specific notice
- E-mail alerts announcing notices of interest
- E-mail forwarding minimizes handling and distribution costs
- Available to departments without PTS terminals (e.g., Legal, Compliance)

LENS on the Web includes the following types of Legal Notices:

- Notices to Security Holders
- Bankruptcy
- Defaults Litigation/Class Action

For information or questions about LENS on the Web, call your Relationship Manager or e-mail: [LENSWEB@dtc.org](mailto:LENSWEB@dtc.org).