

BC3402

Tutorial 5 Q2

Seminar Group 1
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a) Based on the speech, summarize the key technological changes/ advancements that DTCC has experienced in the mid 2000s.

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Depository Trust & Clearing Corporation (DTCC)

- An American financial services company that provides clearing and settlement services for the financial markets.
- Settles the vast majority of securities transactions in the U.S.

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Forces that shape DTCC's technologies

- Globalization
- Customers and their expectations
- New financial instruments
- Industry needs
- The markets themselves (volatile market)
- Regulatory issues
- Partnering and outsourcing
- Business continuity planning

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Technological Advancements in DTCC

(1) Constructed clearing and settlement systems with flexibility to accommodate practices in other markets

- Can accept real-time input from exchanges and other marketplaces outside the U.S
- Can accept trades in multiple currencies
- Can settle transactions and service assets in currencies other than the U.S. dollar

(2) Capability Maturity Model Integration (CMMI)

- Improves the way DTCC develops and tests software
- Streamlines process improvement and encourage productive, efficient behaviors that decrease risks in software, product and service development

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Technological Advancements in DTCC

(3) New Issue Information Dissemination System

- Reengineer core underwriting and corporate actions platforms
- Centralize and automate the electronic collection and distribution of information on new bond issues

(4) Deriv/SERV

- A matching and confirmation service
- Automates the legal confirmation process for OTC derivatives, including credit equity and interest rate derivatives

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Technological Advancements in DTCC

(5) Followed up Deriv/SERV with their Trade Information Warehouse for OTC derivatives in 2006

- Provides a comprehensive trade database and support infrastructure that automates and standardizes post-trade processes – such as payments and contract term changes – over the life cycle of a contract, which can go on for years

(6) New Managed Accounts Service in 2006

- Bring new efficiencies and risk reduction to the process of opening and maintaining managed accounts
- Automatically links investment managers, broker/dealers and service providers through a single, centralized, automated platform

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Technological Advancements in DTCC

(7) Alternative Investment Products Service

- Automate and streamline trade order, reporting and settlement of complex products

(8) AccuBasis

- Has security pricing data back to 1925 and calculates the historical security changes caused by stock splits, mergers, dividend reinvestments and every other possible cost-basis adjustment
- Investors will have accurate cost-basis information delivered to them in a matter of seconds

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Technological Advancements in DTCC

(9) Symmetrix Automation Replication (2003)

- Replicate data in 30-minute intervals at a location thousands of miles away
- Enabled DTCC to operate a remote data center which dramatically improved business continuity for the industry

(10) Symmetrix Triangulated Automation Replication (2006)

- Cut the 30-minute cycle downtime to under one minute
- Means that if a disruption in network service occurred at DTCC's regional data centers, no more than one minute worth of data would be lost after the systems were recovered at the remote data center → greatly reducing the amount of lost transactions

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b) After reading the FT article, do you agree that clearinghouses should be consolidated?
Why or why not?

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Benefits of Consolidation

Greater Economies of Scale

- Pooling resources together for greater efficiency - more capable of handling greater trade volume
- Lower costs for market participants

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Benefits of Consolidation

Greater Multilateral Net Settlement System

- Consolidation will provide the clearinghouse with a greater volume of transactions for internal settlement
- This reduces bank fees, currency conversion costs etc.

Eg. DTCC reduced 97% of total value of equity trade that require settlement through MLN.

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Benefits of Consolidation

Streamlined and Simplified C&S Process for Participants

- Different clearinghouses have differing rules
- Consolidation would provide participants with only 1 set of regulations
- Overall more efficient for trading

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Benefits of Consolidation

Better Allocation of Participants' Financial Resources

- Working with several clearinghouses usually causes brokers to post a greater amount of collateral collectively.
- Consolidation would help reduce the overall collateral requirement.

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Problems of Consolidation

Systemic Risk

- Consolidated entity might be a "single point of failure".
- Brokers also face greater concentration risk for their collateral

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Problems of Consolidation

Risk of Monopoly

- Clearing and settling trades is a relatively inelastic demand.
- Absence of competition might enable the dominating entity to charge higher prices.
Eg. 9 cents increase to 10 cents because they can.

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Our Stand: Clearinghouses in Europe should be consolidated

- We acknowledge the
 - benefits of having multiple players in the industry eg. increased competition, diversified risks etc.
 - cons arising from consolidation.
- But the pros of a consolidated clearinghouse outweighs the cons.

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Our Stand: Clearinghouses in Europe should be consolidated

- The circumstances also drive this change as
 - EU - lower barrier to implement a cohesive settlement system,
 - Europe has already made substantial progress towards coherent post-trade settlement, and in a shorter time compared to DTCC
- Regulations should be in place (eg. antitrust) to ensure all stakeholders' interests are protected and ultimately improve risk management, increase efficiency, and reduce barriers to trade.

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Thank you!

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