



*The Depository Trust &  
Clearing Corporation*

# ***DTCC Deriv/SERV Trade Information Warehouse***

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# ***Transformation of Credit Derivatives Market***

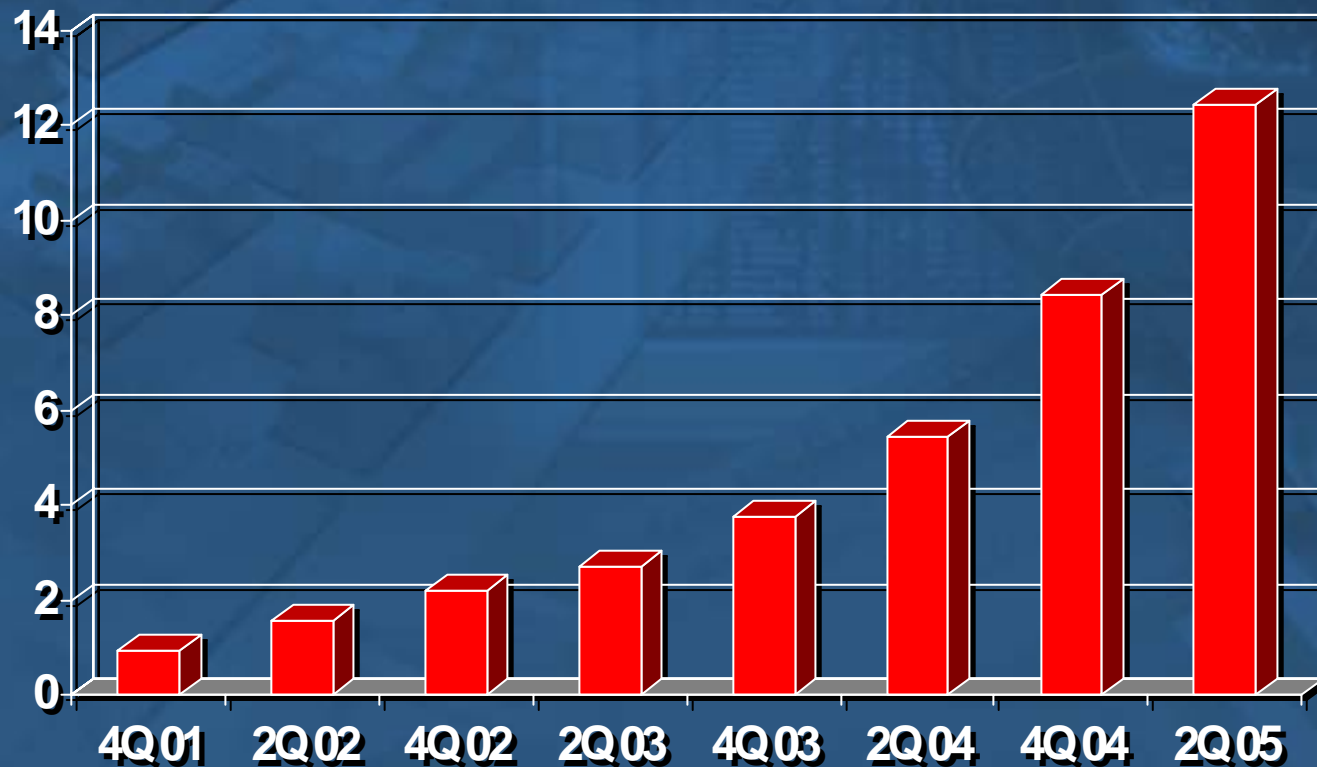
## **Two related transformative trends**

- **Rapid, multi-dimensional growth**
  - ✓ *Volumes; products; market participants; secondary market*
- **Rapid spread of automated trade confirmation**
  - ✓ *Great bulk of all trading is confirmed on an automated basis, both inter-dealer and dealer-to-customer*

**Trends create both concern around post-confirm processing and means to mitigate**

# ***Growth in Credit Derivatives Market (Notional Value Outstanding)***

\$US Trillions



# ***Products Standardized or Brought to Market Since Launch of Deriv/SERV***

## **Single Name CDS**

**(all Deriv/SERV eligible)**

- **Corporate**
  - Japan
  - Australia-New Zealand
  - Singapore
  - Asia (other)
  - Latin America
- **Sovereign**
  - Asia
  - Japan
  - Latin America
  - Emerging Europe and Middle East
  - Western Europe (non-G10)

## **Index (all Deriv/SERV eligible)**

- **CDX**
  - High grade
  - High yield
  - Emerging market
- **iTraxx**
  - High grade
  - High yield
  - Emerging market
- **ABX**
- **CMBX**

## **Tranches (in Deriv/SERV UAT)**

- **CDX**
- **iTraxx**

# ***Product/Life Cycle Event Matrix*** ***(confirmable through DTCC Deriv/SERV)***

<b>Products</b>	<b>New Trades</b>	<b>Full and Partial Assignments (<i>secondary market</i>)</b>	<b>Full and Partial Terminations</b>	<b>Increases; Amendments</b>
<b>Single Name CDS (high volume)</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Indexes (high volume)</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Tranches</b>	<b>UAT</b>	<b>UAT</b>	<b>UAT</b>	<b>UAT</b>

**88 separate product/event combinations**

# ***Spread of Automated Confirmation***

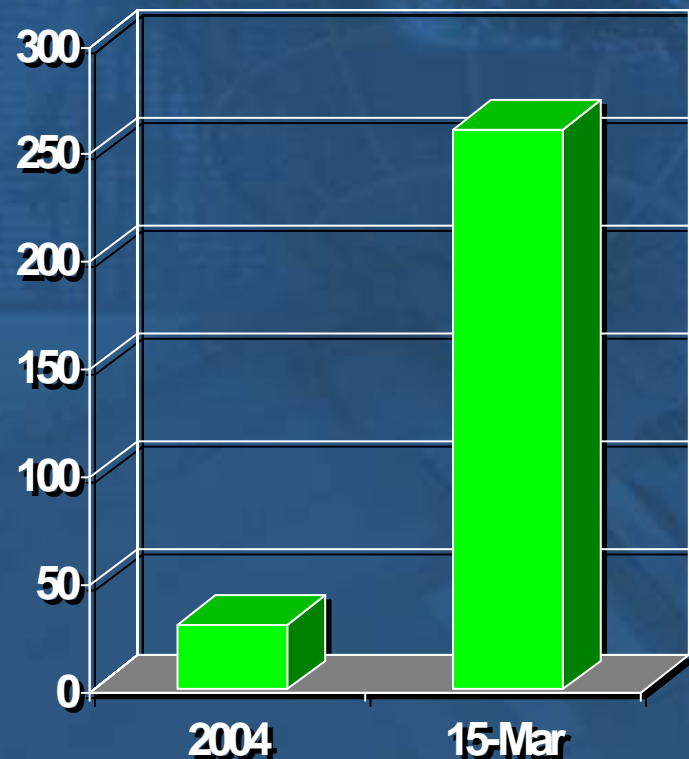
## **Dealer take-up**

*All major dealers use Deriv/SERV for automated confirmation*

**“Major Dealer” commitment to European and U.S. regulators:**

- Be able to process all eligible transactions through Deriv/SERV*
- Automated confirm with all customers doing 4 trades per month by 31 March*

## **Buy-side take-up**



# ***Current Bilateral Administration Environment***

- **Parties must constantly “sync up” during contract life**
  - ✓ *Payments, events, margining, etc.*
  - ✓ *Many duplicative reconciliation/resolution processes (internal and between firms)*
- **Each party is hostage to its counterparties’ processing**
  - ✓ *Counterparties’ abilities vary - you’re are only as good as your counterparty*
  - ✓ *Operating models vary across firms too - firms need different processes for different counterparties*
- **Much manual intervention (internal and between firms)**

# ***Proposed Solution***

**A central trade information warehouse and support infrastructure where “downstream” processing flows automatically from the correct, electronic agreement of contract terms**

- ✓ **Similar to central asset servicing for other high-volume products through central securities depositories or listed derivative clearing houses; but**
  - *Neither book-entry DVP services nor central counterparty (CCP) credit intermediation are proposed because:*
    - *OTC derivatives are not deliverable instruments, and*
    - *CCP credit intermediation is a distraction (see next slide)*

# ***CCP Credit Intermediation a Distraction***

***CCP credit intermediation provides only minimal operational efficiencies beyond the warehouse; also:***

- **Too restrictive as to instruments**
  - ✓ Only those amenable to centralized risk management and liquidation processes would be eligible
  - ✓ Excludes complex transactions; as well as vanilla products where “flattening the book”, auction or other liquidation processes are difficult (or would have no consensus)
- **Cannot easily accommodate buy-side**
  - ✓ Would require central credit underwriting for thousands of end users and non-top tier tier dealer banks
  - ✓ Would require dealers to share credit exposure across all customers

# ***Core Principles - Inclusiveness***

- **Open and attractive to all market participants** – Major dealers, investment managers (traditional and alternative), smaller banks, other investors
- **Global infrastructure** – Firms are looking for a single process globally
- **Design extensible to all OTC derivative products** – including rates, equities, FX, commodities
- **Open architecture** – facilitate the provision of additional value added services to market participants through support of user-permissioned data access by vendors

# ***Core Principles – Maximum Trade Capture***

- **All contracts in any asset class being serviced** – All credit derivatives to start
- **Efficient, automated legal confirmation of most trades** – currently available through Deriv/SERV, including both new trades and life cycle events
  - ✓ Simple electronic tie-out records not constituting full legal confirmations needed for structured or non-standard deals
- **Back loading previously confirmed legacy deals** – Required for fully useful warehouse
- **Multiple input sources** – Warehouse will accept any of the above from other providers

# ***Core Principles – Downstream Processing***

- **Standard, automatic “downstream” processes**

- *“Current state” contract maintenance, including position reporting*
- *Credit event processing*
- *Cash flow generation/netting/settlement*
- *More efficient assignment processing*
- *Additional efficiencies in portfolio management, bilateral margining, etc.*

**Key, first  
release items**

**Either  
directly,  
through  
integration  
with other  
providers, or  
both**

# ***Participant Cost Savings***

## **Processes eliminated:**

- **Verbal or ad hoc trade checkouts - IDBs, customers**
- **Portfolio substantiation/tie-outs - both internal and counterparty reconciliations, inc. DSWG and other processes**
- **Bilateral cash flow reconciliation**
- **Assignment e-mail process**
- **Break investigation of breaks with respect to the above**

## **Overhead reduced:**

- **Reduced nostro fees; nostro breaks eliminated**
- **Efficient collateral processing; reduced disputes/investigations**
- **Standardized, automated processing for credit (and other) events and related reconciliations**
- **Standardization of checkout processing (so standard information is fed to warehouse)**
- **Reduced capital requirements due to more efficient tear-ups/portfolio management; lower reserves vs. settlements**

# ***Participant Risk Reduction***

## **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**

## **Other risk reduction:**

- **Credit event management** (especially multiple credit event scenarios)
  - ✓ *Ad hoc reconciliation eliminated*
  - ✓ *Fully transparent data set*
  - ✓ *Standard messaging*
- **Similar for other events** (e.g., corporate actions)
- **Payments always correct and complete**
- **Payment failures transparent**

# ***Governance***

## **Senior Oversight Group established by DTCC Board**

- **Global Representation** – Senior personnel from banks who committed to European and North American regulators to support this project, as well as end user representatives from Europe and North America (majority nominated by trade associations to represent their constituencies)
- **Coordination of development and implementation of warehouse and other OTC derivatives post-trade services**

