

Annual Report 2008

# DTC

The Depository Trust &

Clearing Corporation

“In a world of uncertainty, the one place where there has been stability and resilience is in the infrastructure.”

**Larry E. Thompson**  
*Managing Director and  
General Counsel*

**Donald F. Donahue**  
*Chairman and Chief  
Executive Officer*

**Ellen Fine Levine**  
*Managing Director,  
Chief Financial Officer  
and Treasurer*

**Lehman Bankruptcy**

Closed Out –  
\$500 Billion in  
Market Exposure  
Eliminated

**Credit Default**

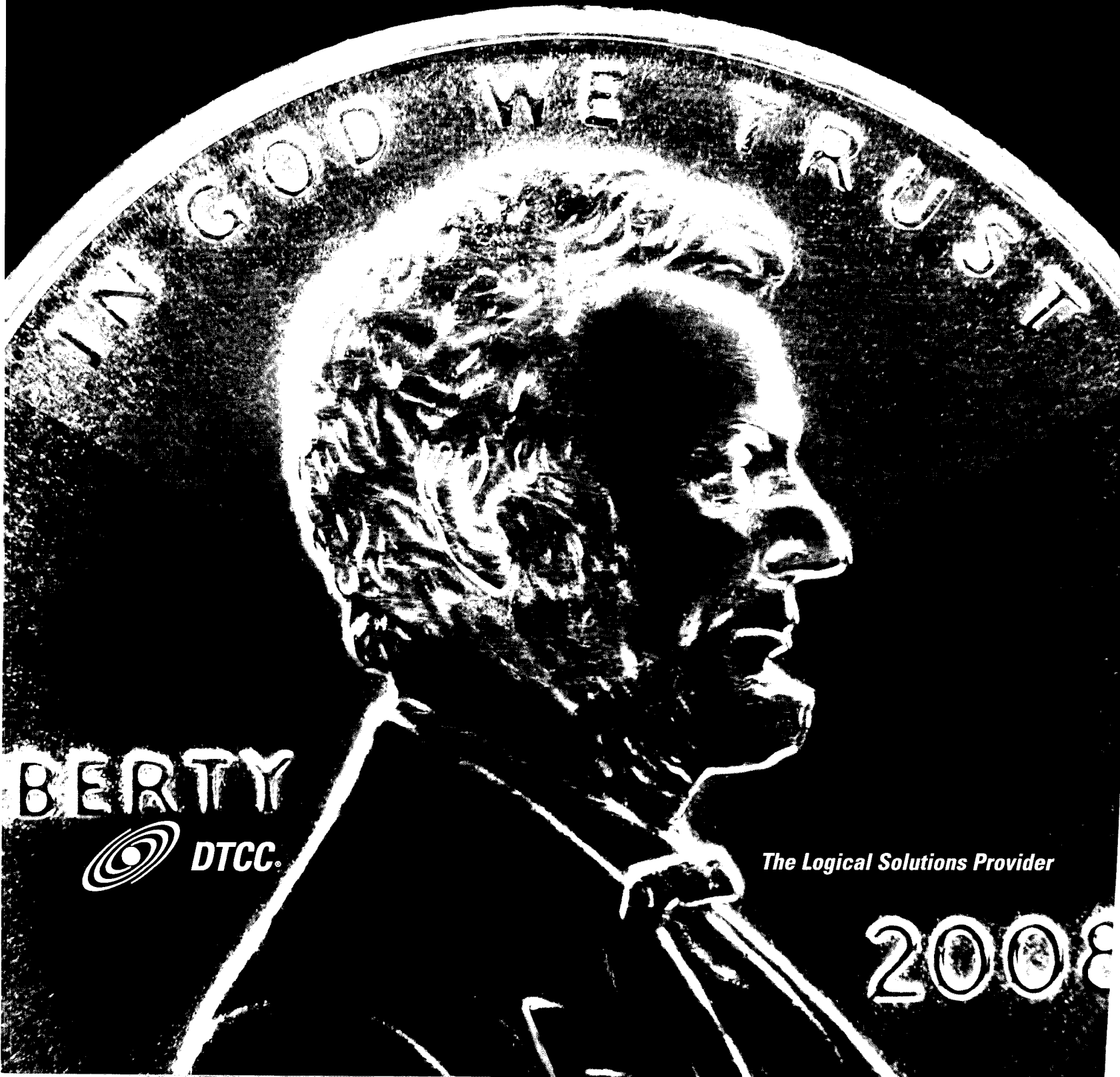
**Swaps** Settle  
Smoothly

Release of Credit  
Default Swap Data  
**Calms Financial  
Markets**

**EuroCCP** Brings  
Low-Cost Clearing  
and Settlement to  
Europe

# What does a third of a penny buy?

The Depository Trust & Clearing Corporation (DTCC) charges the lowest prices in the world for equity clearing. Included in that price is the industry's most comprehensive risk management program, which allows DTCC to monitor and mitigate risk from a central vantage point, across asset classes, to protect customers.



**BERTY**

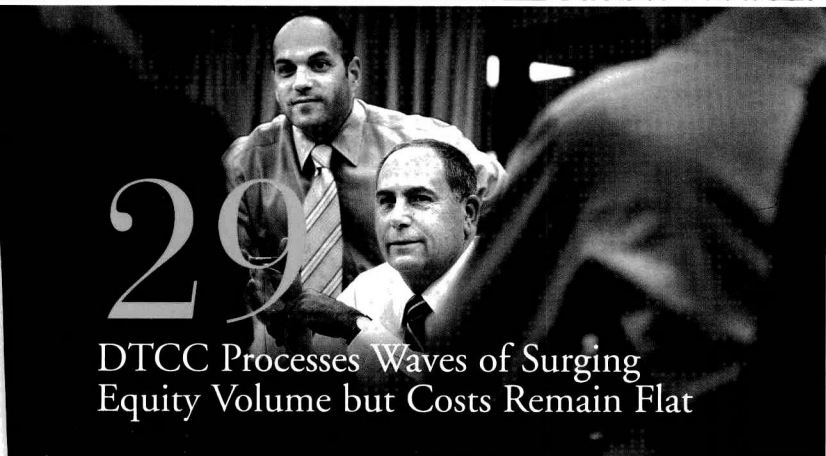
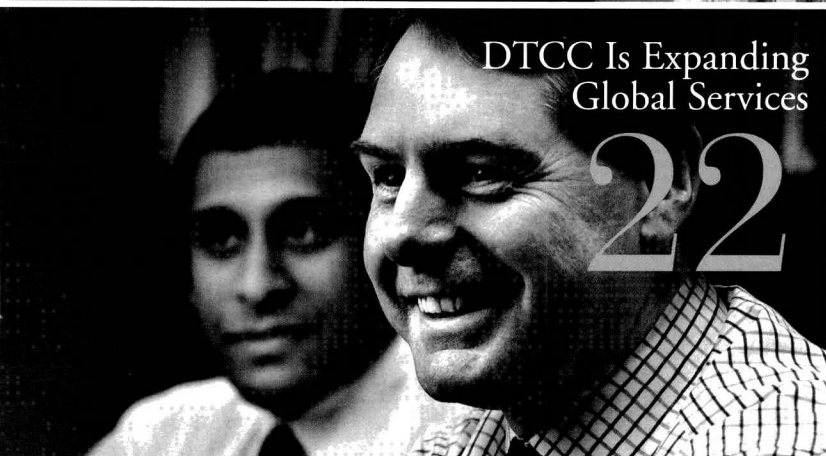
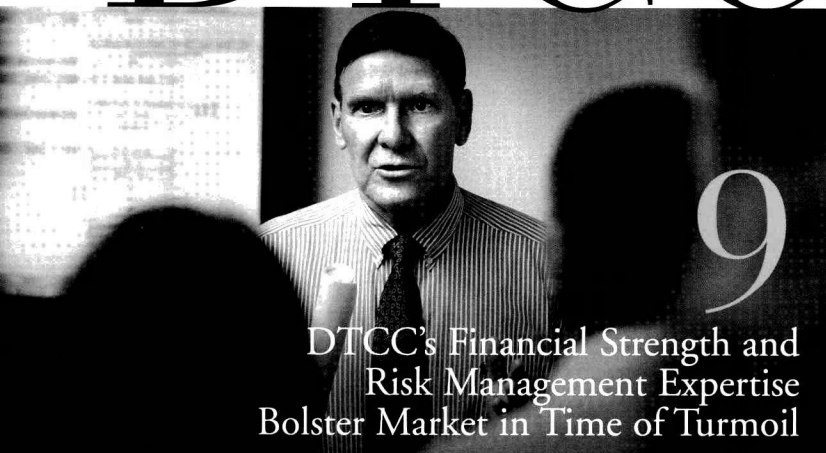


*The Logical Solutions Provider*

2008

# DTCC

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2008 Performance Highlights

\$1.88  
quadrillion



\$315.1  
trillion



\$181.9  
trillion



\$27.6  
trillion

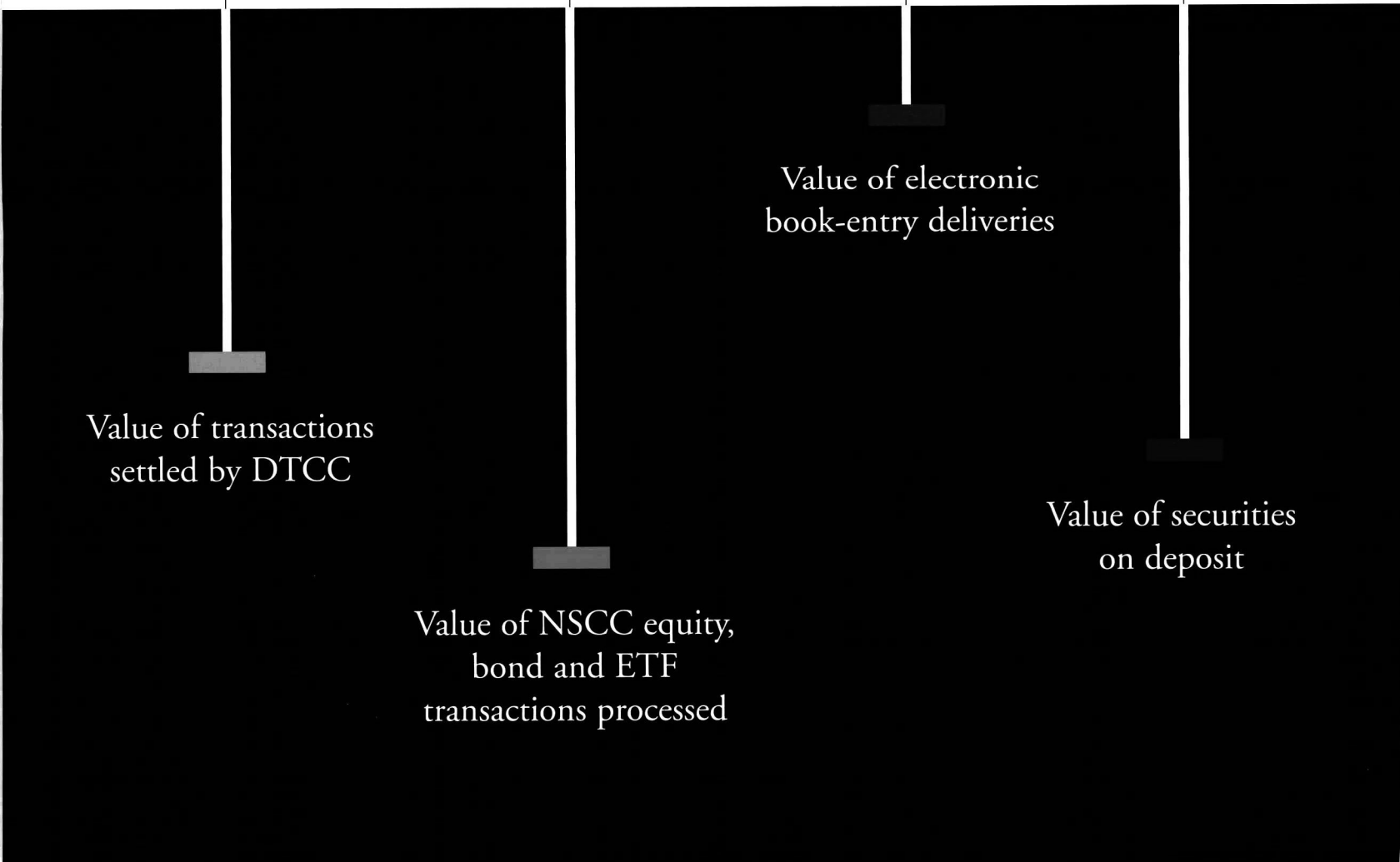


Value of transactions  
settled by DTCC

Value of NSCC equity,  
bond and ETF  
transactions processed

Value of electronic  
book-entry deliveries

Value of securities  
on deposit



\$29.2  
trillion

\$2.9  
trillion

\$1.04  
quadrillion

\$111.3  
trillion

Value of mutual fund transactions processed

Value of MBS trades compared (par value)

Notional value of credit derivatives contracts in the Warehouse

Value of U.S. government transactions processed

# Managing Risk in a Challenging Environment – A Letter to Stakeholders

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**A**mid the unprecedented turmoil that engulfed our customers and the financial services sector in 2008, DTCC continued to deliver the rock-solid risk management and reliability our customers have counted upon for more than three decades. Our years of proven experience in identifying and managing a broad set of industry risks, coupled with our ability to see these exposures from a central vantage point, were instrumental in helping the industry mitigate the year's volatile markets and system-shaking events. The year was one of the most challenging, but also one of the most successful, in DTCC's history.

In the year's "headline" event, we successfully protected our members and the nation's securities clearance and settlement system throughout the days following the Lehman Brothers' bankruptcy – including resolving \$500 billion in exposure, the largest liquidation in U.S. financial history, without having to draw upon our members' clearing fund.

Our Trade Information Warehouse also successfully managed 11 credit events in the over-the-counter derivatives markets in 2008, including Lehman Brothers Holding Inc., Fannie Mae, Freddie Mac and Washington Mutual. Approximately \$285 billion (in aggregate gross notional value) of credit default swap (CDS) contracts were netted down to \$12 billion in actual payments, completed through the Warehouse link with CLS Bank.

We helped steady the industry during the March bailout of Bear Stearns. Our support for the transfer of Bear Stearns' deal book of about 150,000 open CDS contracts to multiple JPMorgan Chase subsidiaries, most of which were handled in just 48 hours over a weekend, worked to eliminate uncertainty in the market and operational risk for our members.

In another example of DTCC's battle-tested capabilities, our equity clearing subsidiary took responsibility for all trades members had open with Bernard Madoff Investment Securities through December 12, 2008 – the firm's last trading day – and subsequently closed out all of those trades with no loss to member firms.

And throughout all these extraordinary events, we continued to process seamlessly in excess of \$1.88 quadrillion in securities transactions in 2008. We continued to deliver excellent results across all areas of our business, with flawless systems reliability amid record volumes; tight expense management, including the largest fee cuts in our history; service enhancements completed on schedule and within budget; and further initiatives to strengthen our internal processes, capped by our certification as a CMMI Level 3 organization.

During 2008, we also made plans for further growth, with the successful launch of our EuroCCP clearing subsidiary in Europe; we reached agreement on a combination of our confirmation services for OTC derivatives and those of Markit; and we completed the first stage of discussions toward a merger with LCH.Clearnet Group, Ltd. The case for the merger with LCH.Clearnet also is truly compelling – a seamless transatlantic infrastructure would provide enormous benefits to the industry in both Europe and the U.S., leveraging IT capabilities and platforms to reduce the costs, enhance operating efficiency, create new services for users and help manage the risk of any single firm more effectively from a central vantage point. The transatlantic governance contemplated in the merger proposal would ensure that European and U.S. market participants could continue to control those services most crucial to their operations, while benefiting from the global perspective and scale the combined organizations can bring.



**Michael C. Bodson**  
*Executive Managing Director,  
Business Management and Strategy*

**Donald F. Donahue**  
*Chairman and Chief Executive Officer*

**William B. Aimetti**  
*President and Chief Operating Officer*

More recent developments in the European scene suggest that our plans may need to be tailored for the current market environment, given the heightened sensitivities of customers and sharpened concerns about the appropriate process for regulatory oversight. Nonetheless, we remain confident that solutions can be found that address these concerns without losing sight of the extensive benefits the merger can bring. A more unified infrastructure can play a unique role in addressing regulatory concerns and helping manage operational, market and systemic risk, and DTCC remains committed to playing our part in helping that unified infrastructure come into being.

### Managing Risk

**W**e saw firsthand in 2008 how our ability to manage risk associated with a single member from a central point across multiple asset classes gave us a huge advantage in mitigating systemic risk.

DTCC continues to act in numerous ways to strengthen our risk infrastructure, to make it more robust and to improve liquidity resources in the depository and clearing corporations. But we also take a broader view of the industry's risks and how DTCC must act to help control and mitigate them. For example, in uncertain times DTCC can also leverage our central role to help counteract misinformation and calm market unease. At the time of the Lehman bankruptcy, DTCC's rapid public correction of rumors that Lehman's exposure in the credit default swap market could reach \$400 billion – our Trade Information Warehouse records suggested Lehman's net exposure was closer to \$6 billion – helped to calm the financial markets.

To address the underlying uncertainty, in November, at the request of the Federal Reserve and in consultation with customers, DTCC began disclosing data on the outstanding notional values (gross and net) of the top 1,000 underlying CDS single-name reference entities and CDS indices registered in our Trade Information Warehouse. This information, disclosed every Tuesday, is extensively reported in the press, contributing to greater transparency and a more accurate public picture of the credit derivatives market.

We also act to support other initiatives mitigating risks. For credit default swaps, we announced our intentions to support, on a non-discriminatory basis, all potential service providers in the industry that are developing central counterparty (CCP) capabilities to guarantee the completion of these contracts. As a utility, DTCC's Trade Information Warehouse will continue to be market-neutral so our customers can leverage this central database of CDS contract details and expeditiously meet the expectations of regulators around the world.

As we look ahead at efforts to enact regulatory reforms of financial markets, DTCC believes there will be more meaningful contributions our central infrastructure can make to alleviate industry risks, both in monitoring the markets and in providing greater transparency.

### Delivering Resilience and Reliability

**B**ut DTCC's commitment to safety and soundness in the industry's infrastructure is not limited to managing credit and market

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risks – our customers know they can count on steady reliability in all areas of our performance. In systems performance, uptime for mainframe processing in 2008 was 100% and for distributed processing, 99.96% – even as we seamlessly handled the biggest sustained volume increase in our history, breaking our daily processing record four times in one week. (On October 10, we saw an all-time high when our equity transaction processing volume jumped to 209.4 million transactions (or 19.3 billion shares), more than double the peak volume experienced in 2007.)

Our success in keeping processing capacity ahead of market needs is critical to sustaining market confidence. In 2008, we increased our equities processing capacity to 500 million daily transactions, up 79% from 280 million in 2007.

And we're just as committed to reliable performance in meeting and exceeding our development commitments to customers with new technology solutions. In September, DTCC became the only U.S.-based financial services organization to achieve an enterprise-wide Level 3 certification under Carnegie Mellon University's Capability Maturity Model Integration (CMMI) standard for excellence in software development and delivery. Certification at this coveted level means that we leverage continuous improvement processes to reduce cost and risk, improve product quality and assure timeliness in the delivery of technical solutions for the industry.

## Serving a Global Market

**D**TCC's customer base is increasingly made up of global financial institutions that are headquartered in Europe as well as in the U.S. and handle instruments that are traded globally. This past year we've continued to expand capabilities to meet the growing needs of our customers to extend our processing prowess and low costs to new market segments. Our EuroCCP subsidiary successfully launched its pan-European equity clearing platform last fall and volume continues to grow, with a peak daily record to-date at more than 500,000 transactions. With fees among the lowest in Europe, EuroCCP clears trades executed on the Turquoise trading platform and for SmartPool, a new exchange-led dark pool. We also have been selected to clear and settle trades on the new high-frequency trading platform, NYSE Arca Europe. To date, EuroCCP serves markets in 15 European countries and supports 24 approved clearing participants, and we continue to look at expanding the markets and securities we clear and settle.

Last July, DTCC and Markit announced the formation of a new company that will combine Markit's front- and middle-office trade processing services with Deriv/SERV's back-office leadership in

post-trade confirmation and matching services. The new company will provide a single gateway for confirming OTC derivative transactions globally and be quicker to market, provide better client solutions and further streamline the infrastructure that serves these globally integrated markets.

We also introduced Loan/SERV, a family of services we are growing to help bring greater efficiency and automation to the global syndicated loan market. This past year DTCC started with the introduction of the Loan/SERV Reconciliation Service, which enables agents and lenders to view and reconcile loan commitments and transactions on a daily basis and Loan/SERV Messaging Service, which provides a safe, secure and automated network for the transmission, receipt and online storage of industry-standard loan messages. Further expansion of the Loan/SERV suite of services is planned in 2009.

DTCC has also moved forward to broaden participation in its subsidiaries beyond our traditional U.S. customer base. DTCC received regulatory authorization so that non-U.S. financial institutions can directly join DTC and NSCC, and is awaiting this approval for FICC's Government Securities Division. The broader we can extend the risk management and netting umbrella of DTCC subsidiaries, the safer and cheaper trades will be for all our members, domestic and international.

Omgeo, DTCC's joint venture with Thomson Reuters, continued to grow volumes while providing certainty and efficiency in post-trade processing for an expanding customer base of institutional investors across the globe. It currently manages matching and exception handling of trade allocations, confirmations and settlement instructions for some 6,000 investment managers, broker/dealers, custodian banks and hedge funds in 46 countries.

## Reducing Costs and Fees

**E**ven as we meet these challenges, we recognize that we must also continue to lower fees through stringent fiscal controls, reduced operating costs and economies of scale achieved from rising volumes. DTCC made its deepest fee cuts ever in 2008, yielding customers a total savings of more than \$260 million. For 2009, we expect fee cuts to generate approximately \$108 million in customer savings.

Our equity clearance fees are the lowest in the world, the result of ongoing efforts by DTCC to identify cost inefficiencies in the clearance and settlement system and act to eliminate them. While we recognize this task is never completely done, DTCC has been relentless and very successful in its focus on driving core clearing costs down.



# DTCC's ability to manage risk from a single firm across multiple asset classes helps mitigate systemic risk.

In 2008, the total operating cost to clear the entire U.S. equities markets was less than \$70 million. The average cost per firm for clearing was approximately \$250,000, with more than three-quarters of our members paying an average of less than \$14,000 each to clear their trades.

DTCC firmly believes that fragmenting the clearing system cannot lead to further reductions in clearing costs, when all aspects of the system are taken into account. Fragmentation requires industry members to interact with multiple clearing venues, to post collateral at multiple locations, and eliminates the ability to mitigate risk from a central vantage point, as we did during the Lehman bankruptcy. When assessed "all in," this cannot be viewed as a wise choice.

Given current market conditions, DTCC will put even further emphasis in 2009 on achieving strong financial performance and continuing to help customers drive down their costs. Key to this will be DTCC's enterprise-wide focus on cost controls and productivity driven by Six Sigma/quality process management tools and other metrics-based initiatives.

## The Year Ahead

This Annual Report reviews in detail the statistics for the year and illustrates why 2008 represents a truly remarkable year in DTCC's history. But, as always, our focus continues to be on what is yet to come, and how DTCC can deliver even greater value to the industry in the coming years, including accelerating the trade guaranty for NSCC-cleared transactions, implementing a central counterparty for mortgage-backed securities transactions, and expanding EuroCCP's services to its members, among other initiatives. In addition, DTCC is working to support global standards for securities settlement systems and central counterparties published by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions.

DTCC also recognizes many ways in which we can help the industry respond to the likely intensification of regulations in the future. The global dialogue will focus on improving "systemic" oversight, and DTCC's central role in the system clearly offers capabilities for a more efficient oversight process and one that would be far less costly than oversight based on individual regulatory supervision of the thousands of individual financial institutions that make up the market. DTCC has already formulated initial thoughts on these subjects that have been discussed with industry members and regulators, and will be continuing to think through these possibilities with the industry as the restructuring of the global regulatory architecture moves forward.

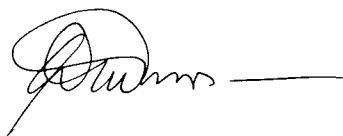
## Thanks to Our Board of Directors and Our Employees

DTCC's Board of Directors has always been an enormous resource for our organization, but their special contributions and strong support were even more valued as DTCC navigated through unprecedented industry upheavals this past year. Considering market conditions and the pressures all of our member firms were experiencing, the commitment of time and expertise of Board members during the year was particularly noteworthy. They played a hands-on role during the financial crisis – and their guidance was invaluable. As always, we are extremely grateful for their insights, guidance and support. I must express special thanks to Charlie Cardona, Steve Casper, Randy Cowen, Ian Lowitt, Norm Malo and Ron Purpora, all of whom are leaving DTCC's Board, for all of their many contributions during the years.

Lastly, we want to praise the talented and dedicated team of professionals at DTCC, who never quit no matter the challenge and who approach every issue with a sense of personal ownership. Against the backdrop of crisis in 2008, DTCC's overall customer satisfaction scores once again reached 91%. This score demonstrates that even as DTCC supported customers under extraordinary market stresses, we remained focused on advancing business initiatives to meet the ongoing needs and requirements of all customers. This customer-centric approach is in the DNA at our firm and we thank our employees for their skill and dedication.

This period of extraordinary volatility and shaken confidence has underscored how well DTCC protects our members, how much value our robust infrastructure brings to the markets and how our core strengths can buttress the expansion of markets globally. In fact, in a world of instability and acute financial pressure, the infrastructure has proven both resilient and flexible in supporting the industry.

All indications are that 2009 will be another extremely challenging year for DTCC, our customers and financial services globally. However, as the industry continues to change and globalize, DTCC's job will remain the same – to reduce risk, lower costs, facilitate growth and ensure the integrity of the financial system.



Donald F. Donahue  
*Chairman & Chief Executive Officer*

Overall customer  
satisfaction rating in  
2008 from a customer  
satisfaction survey,  
conducted by an  
independent research firm.

91%  
consecutive years

# DTCC's Financial Strength and Risk Management Expertise Bolster Market in Time of Turmoil

DTCC's risk management team has something in common with successful athletes the world over. It practices and practices and practices. It runs stress tests, back tests and portfolio tests. It employs "desk-top" exercises. And it helps lead company-wide "war games" to see how DTCC might hold up in the face of a major firm's failure in the market.

In 2008, all of that practice paid off. "It was," as the Financial Times noted in 2009, "remarkably prescient."

Amidst the surging trading volumes and volatility that characterized global markets, DTCC's risk management expertise proved essential to the smooth functioning of the U.S. financial markets. In the crisis created by the Lehman Brothers bankruptcy, for example, DTCC subsidiaries were abruptly faced with trying to wind down a half trillion dollars in outstanding trades. In the end, with daily input from DTCC's risk managers, they succeeded in doing so without having to draw on their lines of credit or their customers' clearing fund deposits.

Over the past several years, DTCC has enhanced its risk management systems, building an expanded Enterprise Risk Management group focused on credit and market risk, operational risk, quantitative analysis, and strategic initiatives such as cross-margining.

"Our principal mission is to protect our members and promote stability in the markets," says Douglas George, DTCC Chief Risk Officer. "To accomplish that, we have to do more than simply react to market events. We need to anticipate how the trading landscape is changing and the kind of stresses it's likely to throw at our customers. Then we need to craft a centralized risk management solution that protects our members in a cost-efficient way."

Risk management also plays a key role in DTCC's product development process. Risk mitigation standards are integrated into the design of new services and the reconfiguration of existing products.

Like nearly all financial firms, DTCC's risk management unit starts with a risk assessment methodology called Value at Risk – VaR for short – for the liquid portion of the unsettled portfolio. It is one way of measuring the boundaries of risk in a portfolio over a set period of time. "Risk analysis tools like Value at Risk can be extremely useful, but like any tool, they require human skill and judgment to be fully effective. They need to be tested and refined and managed. And that's what we do," George says.

From DTCC's role as a central counterparty handling millions of transactions for hundreds of firms, one can get an eagle's eye view of each firm's risk across different markets and asset classes. This view provides a much broader perspective than any single VaR assessment, and helps to fine-tune ongoing risk evaluations and collateral calculations.

In normal as well as extraordinary times, risk management's daily activities mesh tightly with those of DTCC's Finance group, led by Chief Financial Officer Ellen Fine Levine. Finance oversees the provision of resources to ensure completion of settlement by maintaining sufficient liquidity in the event of a member failure. DTCC returns to its participants the interest it earns on their deposits – and Finance oversees the investment of those funds each day as well.

DTCC's depository and its two clearing subsidiaries each carry a AAA/A-1+ credit rating. "The Lehman close-out underscored how critical a solid credit rating and adequate lines of credit can be in a crisis," George said. "What if the market tumult had put two major

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Our principal mission is to  
protect our members and promote  
stability in the markets.



**“WE GET IT. CUSTOMERS WANT TIGHT FISCAL CONTROLS, EFFECTIVE RISK MANAGEMENT AND EXCEPTIONAL QUALITY.”**

**William B. Aimetti**  
*President and  
 Chief Operating Officer*

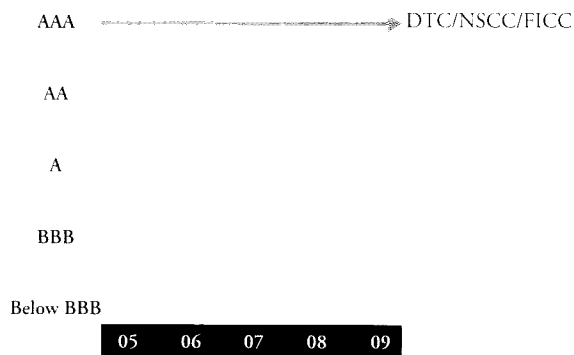
firms into bankruptcy simultaneously? We have to be prepared for the unthinkable – and the ‘unknowable’ – with adequate access to capital to ensure the integrity of the financial system.”

During the days of the Lehman crisis, according to Levine, DTCC worked to manage the high volumes of cash flowing in, and to ensure it had plenty of cash on hand. “Fortunately, we didn’t have to draw on the company’s lines of credit,” she said. “But having a top credit rating always makes it easier to get access to cash if it’s needed.”

DTCC’s risk management team plans to continue its tabletop close-out simulations using actual positions, actual members and actual values across a member’s family of companies – a leap beyond the old standard that clearing houses should protect against the failure of the single largest member.

At the same time, Finance remains focused on careful financial planning to make certain that DTCC has adequate cash and financial resources to safeguard its member-customers. “We need to stay ahead of the curve,” Levine said. “That’s what risk and financial management are all about.”

**Credit Ratings**  
*For DTCC Subsidiaries*



The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC) and Fixed Income Clearing Corporation (FICC) all hold AAA/A-1+ credit ratings from Standard & Poor’s.

Capping one of the most volatile trading weeks in the history of Wall Street, DTCC seamlessly processed a record 209 million sides on Friday, October 10, 2008, a 15% increase over the previous record of 182 million achieved September 18.

"Despite the extreme volatility that continues to grip the markets, DTCC is bringing much-needed stability and soundness to the industry by processing record volumes of transactions without disruption," said Donald F. Donahue, DTCC chairman.

An October 2008 when DTCC responded to a major financial firm failure. Even though it seemed

# DTCC to Publish Weekly Data on CDS Mkt Size

## DTCC WILL NARROW INDUSTRY'S RISK WITH A REAL-TIME TRADE GUARANTEE

DTCC has announced two measures that will further mitigate risk for the industry and ensure greater certainty for market participants: 1) the plan to implement a real-time trade date guarantee for all Continuous Net Settlement (CNS)-eligible trades, including equity, corporate bond and municipal bond trades.

trades or v instead of exposure for risk across

Currently, t midnight or before NS

step toward bringing the public greater access to CDS information though this central industry registry, our goal is to

## OTC Derivatives: Novation Consent Goes Full Throttle

Activity on DTCC Deriv/SERV's Novation Consent platform has accelerated significantly as market participants in the over-the-counter (OTC) credit default swaps (CDS) market move to bring novation processing into an automated environment by

"We have seen a tremendous pick-up in customers using Novation Consent," said Peter Axilrod, DTCC managing director, Business Development. "We believe the rapid pace at which customers are starting to use our service underscores the importance market participants place on meeting deadlines they've pledged with regulators

## \$500M of Lehman Exposure Closed Out

The benefits of DTCC's risk management experience was evident in October 2008 when the organization, through all of its subsidiaries, successfully

DTCC would have to take to respond to a major financial firm failure. Even though it seemed like a far-fetched scenario at the time, on two occasions

## DTCC Offers Lowest Equity Clearing Fees in World

In the fourth quarter of 2008, DTCC experienced a 25% jump in volume, handling a

## DTCC Processes Waves of Surging Equity Volume

Capping one of the most volatile trading weeks in the history of Wall Street, DTCC seamlessly processed a record 209 million sides on Friday, October 10, 2008, a 15% increase over the previous record of 182 million achieved September 18.

## DTCC passes the Lehman hurdle

Resolution of Lehman was complex, multiple asset classes and required a holistic approach to mitigate potential losses

## DTCC SUCCESSFULLY CLOSES OUT LEHMAN BROTHERS BANKRUPTCY

DTCC, the leading post-trade clearance and settlement infrastructure for the U.S. capital markets, announced October 30 that it had successfully closed out over \$500 billion in market participants' exposure from the Lehman Brothers, Inc. (Lehman) bankruptcy, which occurred the week of September 22.

## DTCC Expands CDS Data Released From Trade Information Warehouse

DTCC announced that, in its ongoing efforts to enhance transparency in the market for over-the-counter (OTC) credit derivatives, it is expanding the data its DTCC Deriv/SERV unit publishes on credit default swaps (CDS) registered in its Trade Information Warehouse (Warehouse) to show additional detail on weekly transaction activity.

The Warehouse is the market's only central trade registry and industry-recognized infrastructure for credit derivatives trades.

Effective Tuesday, January 20, the contract data posted on DTCC's website includes a new Section

## DTCC Rolls Out New Risk Management Model for Mortgage-Backed Securities

This was the largest close out in DTCC history to be any impact to its retained equity fund deposits as a result of closing

Lehman was a leading participant and over-the-counter (OTC) derivative of DTCC's Mortgage Backed Securities and among the top-10 participants (NSCC) and The Depository Trust International (Europe) was a par