

20100211 DTCC: Fed Approval received for Warehouse to be Member of Federal Reserve System

Source: DTCC

New York, February 10, 2010

The Depository Trust & Clearing Corporation (DTCC) announced today that the Federal Reserve Board had approved its application to establish a DTCC subsidiary that is a member of the Federal Reserve System to operate the Trade Information Warehouse (Warehouse) for over the-counter (OTC) credit derivatives.

The new DTCC subsidiary will be called the Warehouse Trust Company LLC (Warehouse Trust). Its regulation is an important step forward in furthering regulatory and industry objectives to bring greater transparency and added risk mitigation to the global OTC credit derivatives market. While the Warehouse Trust will be directly regulated by the Federal Reserve and the New York State Banking Department, it is also expected to be subject to a global cooperative oversight framework involving other U.S. and non-U.S. regulators. DTCC fully supports such a cooperative oversight framework and embraces the concept of regulatory harmonization across borders.

Working Towards a Global Cooperative Oversight Framework

"As the operator of the global processing infrastructure and trade repository for the OTC credit derivatives market, DTCC is committed to working with regulators and market participants worldwide to protect the safety and soundness of the OTC derivatives market," said Peter Axilrod, DTCC managing director for New Business development. "In establishing the Warehouse Trust as a regulated entity, our aim is to ensure that regulators, wherever they are located, have unfettered access to the information they need to assess risk exposure in this global market, and that industry participants have the assurance of that regulatory oversight over the critical infrastructure that supports their market activities."

The Trade Information Warehouse provides a wide array of automated downstream processing services for recorded contracts, including the netting and settlement of credit default swap (CDS) payment obligations in multiple currencies (through a partnership with CLS Bank International), processing of credit events (such as bankruptcies) and so-called "successor" events such as mergers, acquisitions and reorganizations. The Warehouse today contains virtually all OTC credit derivatives traded worldwide.

DTCC also publicly releases weekly aggregate information on OTC credit derivatives, including open interest and turnover information for the top 1,000 names traded worldwide, available on its website at www.dtcc.com/products/derivserv/data/index.php. The release of this information has been an important step forward in helping increase transparency in the marketplace. More detailed information on individual firm trading has been made available confidentially to regulators around the world with the consent of market participants.

"Certainly, the Warehouse is a critical component of the global credit derivatives market's infrastructure," said Stewart Macbeth, DTCC managing director and head of the Warehouse. "As a regulated entity, our aim is to work with global groups, such as the OTC Derivatives Regulators' Forum, in this critical area of global concern.

"The industry, working with DTCC, has provided regulators with voluntary access to OTC credit derivatives trade records for the past year," said Macbeth. "We look forward to collaborating with both members of the OTC derivatives community, lawmakers and regulators to ensure that the global infrastructure that is already in place continues to meet the evolving needs of all relevant parties."

The Warehouse, established in 2006 in collaboration with members of the OTC derivatives industry and regulators, now has a global customer base that includes all the major credit derivatives dealers and more than 1,700 buy-side firms in 52 countries. Having a central repository for OTC

credit derivatives data proved critical a little more than a year ago, when Lehman Brothers declared bankruptcy. When rumors sent serious concern through the market that potential net liabilities on credit default swaps written on Lehman could top \$400 billion, DTCC was able to step in and dispel this misinformation by publicly releasing data from the Warehouse showing that the actual amount would be less than \$6 billion. This had a calming effect on the market.

In November, the New York State Banking Board also approved DTCC's application for Warehouse Trust to be regulated as a limited purpose trust company, so the Fed's approval is the final regulatory approval needed for the new subsidiary. The Warehouse Trust will begin operations once certain organizational conditions have been met, which are expected shortly.

As of January 29, 2010, there were about 2.3 million contracts in the Warehouse with a gross notional value of \$25.5 trillion. The Warehouse also contains non-legally binding trade data on about 145,000 highly customized credit derivatives contracts worth an estimated \$4.5 trillion as of December 31, 2009. In October 2009, DTCC and MarkitSERV, a joint company created by DTCC and Markit, were selected by the industry, through a proposal process run by the International Swaps and Derivatives Association (ISDA), to develop and run a global repository for OTC equity derivatives trades. That repository is scheduled to be initially operational in July 2010.

About DTCC

DTCC, through its subsidiaries, provides clearance, settlement and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments and over-the-counter derivatives. In addition, DTCC is a leading processor of mutual funds and insurance transactions, linking funds and carriers with their distribution networks. DTCC's depository provides custody and asset servicing for more than 3.5 million securities issues from the United States and 121 other countries and territories, valued at US\$33.6 trillion. In 2009, DTCC settled more than US\$1.47 quadrillion in securities transactions. DTCC has operating facilities in multiple locations in the United States and overseas.

NovaRes Team