

DTCC proposes new vision for US settlement

The Depository Trust & Clearing Corporation (DTCC) has proposed to construct a new settlement model that will streamline securities settlement, reducing costs and risk for the US financial services industry.

In the white paper, *Straight-Through Processing: A New Model for Settlement*, the DTCC would redesign the current system to provide customers with more centralised methods of controlling their securities transaction processing earlier in the settlement cycle, writes Dick Fredholm.

In addition to a new approach to transaction inventory management, the new model also puts forward new solutions for managing the central settlement system.

Donald Donahue, managing director of the customer marketing and development group at the DTCC, commented: "Our vision for transforming settlement will result in a more streamlined, safer and cheaper settlement system – one that will be ready for STP and T+1 and for greater integration with other settlement systems around the world."

He added: "It will also prepare the industry for increasing volumes ahead."

The white paper proposes simplifying the current settlement system so users have more centralised control over their transaction inventory and settlement processing. In addition, it is designed to

facilitate deeper integration with settlement systems in other countries, as well as with other systems in the US.

"This new model would benefit customers significantly, because it would give them more centralised control, and thereby more assured settlements," Donahue said. "The industry would have a unified means of managing settlement, which would enable individual participants to control the order and timing of their deliveries processing through the central system. This translates to lower risk and improved efficiency," he explained.

Currently, many firms manage their transaction processing with late-cycle interventions – withholding or exempting trades from more automated processes, reintroducing them when they are ready for settlement, and then, on occasion, reversing or reclaiming unknown transactions before or after settlement has occurred.

These late-cycle interventions disrupt automated processing and contribute to the incidence of failed trades, which increases costs and risk for clients and the industry as a whole.



Donahue: new solution ready for T+1

The white paper identifies a number of benefits of the new model such as the introduction of a new inventory management system (IMS), which DTCC would build and operate. This would be a single point of entry for all trade-related input into the settlement system from participants, matching utilities, vendors and other entities.

In addition, IMS would facilitate the processing of cross-border transaction settlements requiring interactions with other settlement systems, as participants would be able to prioritise deliveries to synchronise with time zone differences.

The new model proposes to improve overall management of the central settlement system itself in two important ways. First, look-ahead processing would reduce transaction blockages by applying risk management controls to the net of selected receive and deliver transactions in each security that is settling, instead of evaluating them individually. Second, combining DTC's and NSCC's settlement systems would eliminate costs of redundant systems, lower intra-day funding requirements for participants and their settling banks, possibly facilitate an earlier settlement and reduce risk for DTCC.

Over the next few months, DTCC will compile and analyse the comments it receives from the industry on the white paper, and develop preliminary product specifications as well as processing and system requirements.

The company will establish a business case for each element of the proposed new model and acquire the appropriate level of sponsorship among customers, industry groups and others.

Pension funds set to benefit from new partnership

A marketing link between transaction cost measurement company, Inalytics, and pension fund monitoring and accounting software provider, Euraplan, funds set to bolster the UK pension fund market.

Inalytics has developed a new system known as TVA, which it says, captures all aspects of transaction costs in a concise report, writes Kevin Turner. Subsequently, an agreement has been reached with Euraplan, one of the major service providers to the pensions industry, to market TVA to Euraplan's existing customers.

According to Euraplan, transaction cost measurement is a central part of the Treasury backed Myners Report, which provides specific guidelines to trustees on how best to address the issue of transaction

costs and their measurement. Inalytics claims to be able to help trustees by providing the information necessary to conduct a dialogue on transaction costs with their fund managers and by interpreting and assessing their responses.

Commenting on the agreement, Rick Di Mascio, chief executive of Inalytics, explained: "At a time when absolute returns for pension funds are low, the impact of transaction costs on the total performance of the fund is significant. It is a commercial imperative for trustees to be able to measure and monitor such costs by fund manager and by broker. These costs can be measured, and therefore managed. We are delighted that this agreement with Euraplan will expedite the introduction of TVA to the industry."