Deriv/SERV Trade Information Warehouse

What Is the Trade Information Warehouse?

The Trade Information Warehouse is a centralized and secure global infrastructure for processing over-the-counter (OTC) derivatives over their life cycle, which could extend for years. It consists of two components:

A comprehensive trade database containing the primary record of each contract;

A central technology infrastructure that automates and standardizes trade processing, such as record keeping, payment calculations and settlement, notional adjustments and contract term changes over a contract's life.

DTCC worked closely with global dealers and asset managers to develop the Warehouse, and gathered extensive input from senior experts across the OTC derivatives market. The Trade Information Warehouse is an extension of DTCC Deriv/SERV, using confirmed transaction details as input for the Warehouse's central trade database, so that post-trade processing flows automatically from agreed-upon trade terms.

Initially supporting credit derivatives, the Warehouse is designed to be extended to other OTC derivatives products including rates, equities, and commodities.

DTCC built the Warehouse with a flexible, open architecture, so that a wide range of industry service providers can connect to the Warehouse and offer complementary services.

What Post-Trade Challenges Does Today's Market Face?

The soaring growth of the OTC derivatives market, particularly in credit derivatives, is creating a host of challenges for market participants. With progress in automating confirmations well under way, the industry is now focused on the work that takes place after the trade is confirmed.

In today's OTC derivatives environment, trading parties must continually "sync up" with their counterparties over the life of each contract, keeping track of all post-trade events, such as assignments, amendments, terminations and notional adjustments. This reconciliation process involves many manual and redundant steps relying on faxes, e-mails and phone calls. What's more, operational practices vary across firms, which means different processes are followed for different counterparties, leading to errors, inefficiencies, and increased risk.

The Warehouse addresses another issue that has been plaguing the markets: the absence of a "rule book" detailing exactly how firms need to calculate payments on OTC credit derivatives contracts under all circumstances. The lack of standards means firms have to resolve payment breaks when counterparties' calculations differ. During the development process for the Warehouse, major dealer and buy-side firms reached agreement on a "rule book" for payment calculations, which when fully implemented via central settlement, will help eliminate these payments breaks.

Why Use the Warehouse?

The Trade Information Warehouse provides a securely managed central database of contract information. It assigns a unique DTCC transaction reference number that can be used to positively identify each contract. This number provides the starting point for reconciliations and processing over the life of the contract.

The existence of a central database relieves participants of the onus of handling event processing and payment calculations, while also offering settlement capabilities. Post-confirmation processes, such as credit event processing and assignment processing, will be made more efficient. Over time, the Warehouse will significantly reduce operational risks and costs, reinforcing the safety of the market and contributing to its expansion. Key benefits include:

Operational Risk Reduction:

Reduces errors in corporate and regulatory reporting by helping firms ensure correct balance sheet information through immediate and accurate trade reporting to the Warehouse.

Reduces risk through greater transparency in terms of outstanding contracts and trading counterparties.

Helps firms manage credit risk and maintain adequate collateral based on correct and fully reconciled contract information.

Promotes accurate and complete payments based on the most current contract records, along with the capability to easily track and identify payments flows between firms.

Helps firms manage credit events more smoothly (especially multiple credit event scenarios) by eliminating ad hoc reconciliation and supporting standardized messaging.

Cost Savings:

Standardizes and automates trade capture, and post-trade processing of payments and events over a contract's life, doing away with complicated bilateral reconciliations and processing errors.

Eliminates paper-intensive processing, which can result in errors and delays.

Promotes efficient collateral management processing by minimizing collateral disputes due to portfolio or valuation discrepancies with counterparties.

Lowers expenses by reducing the number of cash movements as a result of the bilateral netting of payments.

Increases efficiency of portfolio management tools and processes, including bulk tear-ups.

How Does the Trade Information Warehouse Work?

1. Market participants confirm a new contract or post-trade event in Deriv/SERV, such as:

- New trade
- Full or partial termination
- Full or partial assignment
- Increase
- Amendment
- Exit

2. All trades confirmed on Deriv/SERV are automatically sent to the Warehouse. Unconfirmed trades are reflected as "pending."

3. The Warehouse assigns a unique DTCC reference identifier for each contract, and performs automated record keeping to maintain the "current state" contract terms, taking into account post-trade events.

4. The Warehouse maintains the official legal record ("gold" record) of all contracts eligible for automated legal confirmation, as well as basic economic information for non-standard contracts not confirmed through Deriv/SERV ("bronze" records).

5. The Warehouse calculates payments due on "gold" contracts and supports payment matching on "bronze" contracts. The Warehouse nets payments by customer account, currency and counterparty, and will settle bilateral net amounts.

6. The Warehouse provides customers with a comprehensive suite of reports that gives a snapshot of all their trades registered in the Warehouse. Reports can be delivered electronically overnight for the start of business each day (through a computer-to-computer connection), or requested on a one-off basis from the Deriv/SERV Web application for delivery overnight and downloaded straight onto your computer. The Warehouse also offers a range of online workflow management and inquiry tools.

What About "Pre-Warehouse" Trades?

The Warehouse went live in November 2006. Trades made prior to the launch date need to be re-matched and backloaded via a backloading software module and procedure, to ensure the most up-to-date contract details are stored in the Warehouse, and available for automated post-trade processing. Trades matched after the Warehouse went live are automatically registered as described above.

Note: Keeping trade records in sync with the Warehouse

Since Warehouse records are legal trade records, it is imperative that customers keep their records up-to-date in the Warehouse. When DTCC integrates the Warehouse with the central settlement facility, the cash movements derived from the Warehouse trade records will only be correct if the contract records are up-to-date.

Most dealers are implementing an automated reconciliation between their own systems and the Warehouse. Other customers should arrange for reconciliation with the Warehouse, whether manual or automatic. The output of the reconciliation will result in break items requiring resolution either by modifying their own records, or through bilateral action with the counterparty to the trade contract via Deriv/SERV.

How Will Credit Event Processing Work?

A major challenge in the industry today is processing the effects of a credit event, which may or may not trigger protection on a credit contract. Today's process relies on phone calls, e-mails and faxes to establish the correct industry implementation of each event.

DTCC has designed a process that will be built into the Warehouse to enable firms to view the details of each event, associate their accounts and trades with a specific event, communicate with their counterparties and view the economic effects of an event applied in an automated way to both coupons and the net cash settlement for an event.

How Will DTCC Partner with CLS for Central Settlement?

DTCC is partnering with CLS Bank International (CLS) to provide central, automated settlement of payments for contracts processed in the Warehouse. This partnership will create an integrated global payment processing infrastructure that leverages CLS's multi-currency expertise and robust settlement infrastructure. Payments will take place automatically, resulting in more efficient and accurate exchange of funds in multiple currencies.

Through CLS, Warehouse customers will gain settlement certainty – all payment instructions generated by the Warehouse and settled by CLS will be final and irrevocable in immediately available central bank funds. The Warehouse will receive real-time information on the status of all payment instructions that have been submitted to CLS Bank.

Who Can I Contact?

For more information, please contact Deriv/SERV Relationship Management:

E-mail: derivserv_rms@dtcc.com
New York: +1 212 855 2027
London: +44 (0) 20 7650 1410

DTCC Deriv/SERV Trade Information Warehouse: A New Vision for OTC Derivatives

e-Trading Trade Confirm or Affirmation Platforms

AffirmXpress

Dealer

Trade Data Input →
← Trade Status

Deriv/SERV
Automated Matching & Confirmation

Trade Data Input ←
→ Trade Status

Dealer Buy-side Firm

Other Automated Confirm Services →

External Data Sources
(e.g., Notional Factors) →

Deriv/SERV
Trade Information Warehouse

Credit Event Processing

Record-keeping and Reporting

Payment Calculation or Payment Matching
(Depending on record type)

Payment Netting

← **Backloading**
(Contracts prior to Warehouse Launch)

CLS Bank

Settlement Members