DTCC Deriv/SERV

The Preferred Solution in Derivatives Post-Trade Processing

Keeping 'gold' trade records 'gold'

Date: 9th October 2006

Version: 2.3

1   Background

What does it mean to keep a "gold" record "gold" in the Trade Information Warehouse?

Prior to the warehouse trades confirmed in Deriv/SERV are only a record of each transaction between the parties, and do not form an up-to-date trade record which can be reconciled with your own books and records.

Once the warehouse is live, trades which are fully registered and receive a DTCC TRI, become an up-to-date trade record, derived from each confirmed business transaction (such as a New trade, or post trade event like a partial termination or assignment), and represent the *primary record of the trade* over and above any records held by the parties to a trade.

This trade record is what is commonly referred to as the "golden copy", the Deriv/SERV Operating Procedures (the legal documents defining the way Deriv/SERV operates) state that in the event of a dispute, it is this golden copy which defines the state of a contract at any point in time.

From the day the Warehouse goes live (referred to as the 'inception date'), therefore, all firms must ensure that these records are kept up-to-date, in order that the goal of using the Warehouse to hold the accurate positions of all credit contracts is met.

Subsequently when the Warehouse is fully integrated with a settlement platform, the cash movements derived from these trade records will only be correct, if the trade records is kept "gold" and up-to-date.

1.1   Business practices

The cases below will require all Deriv/SERV customers to cooperate and apply the same procedures noted below for submission or documentation of the business transaction, otherwise the Warehouse will not be kept up-to-date.

1.2   Note

Warehouse Inception Date (WID) = the date the warehouse goes live.

2   Which transactions are registered in the Warehouse?

This has an easy answer once the Warehouse has been up and running for a while.

➢ Any new trade confirmed on the Deriv/SERV matching platform will automatically be registered in the Warehouse.

Also,

➢ Trades submitted to the Trade Confirmation tool before the Inception Date, but not confirmed until after the Inception Date, will also be registered in the Warehouse.

This means that some trades with a Trade Date prior to the Warehouse Inception Date will be automatically registered in the Warehouse once fully confirmed.

In addition,

➢ All contracts confirmed through the Backload module and all subsequent events matched and relevant to those back-loaded trades in Deriv/SERV will also be in the Warehouse.

3   What about other types of transactions e.g. Increase, Amendments, Partial and Full Terminations? Do they automatically go in to the Warehouse?

3.1   Where the original trade was confirmed *prior* to the Warehouse inception date

➢ An increase, amendment, full or partial termination, full or partial assignment of trades that were confirmed prior to the Inception Date will not have any effect on the Warehouse or the Current State Trade Record.

3.2   Where the original trade was confirmed *after* the Warehouse inception date, or back-loaded

➢ Post-trade events will update the Warehouse Current State Trade record to reflect the most up-to-date state of the contract due to the post-trade event.
  o An increase, amendment, full or partial termination, full or partial assignment, will affect the Current State Trade Record, and are regarded always as "in the warehouse"

4   How will Full Assignments be registered in the Warehouse?

The answer to this question depends on two things: 1) was the original trade registered in the Warehouse, and 2) are all three parties participants in the Warehouse. All three parties to an assignment must be participants or all legs of the Assignment will not be registered in the Warehouse. (They can't submit the assignment in the first place if any of the three aren't Deriv/SERV users)

For reference in the sections below, note:
SI = Step In = Transferee. SO = Step Out = Transferor. RP = Remaining Party.

4.1   Case 1:   Original trade not in Warehouse and all parties are participants

The SO(Stepping Out) – RP (Remaining Party) leg of the Assignment will be confirmed on Deriv/SERV but will not be registered in the Warehouse. This is not a continuing contract and so does not need to be tracked. (This is likely to occur frequently in the first few weeks after the Inception Date of the Warehouse, as trades done in the 2 months prior would not be resident in the Warehouse UNLESS firms had backloaded them.) The SI (Stepping In) – RP leg of the assignment would be registered in the Warehouse since this is a new contract and will have an ongoing life.

Submission:	**Fully electronic by all parties to Deriv/SERV**
RP-SO (old transaction):	**Confirmed but no effect on Warehouse**
RP-SI (new transaction):	**Registered and active in the Warehouse**

4.2   Case 2: Original trade in the Warehouse and all parties are participants.

In this instance all legs of the transaction would be registered in the Warehouse. The SO-RP leg would terminate the original transaction, and the SI-RP leg would be established as the ongoing contract.

Submission:	**Fully electronic by all parties to Deriv/SERV**
RP-SO (old transaction):	**Is No further contractual obligation**
RP-SI (new transaction):	**Registered and active in the Warehouse**

4.3   Case 3: Original trade confirmed on Deriv/SERV prior to Warehouse inception and SI is not a user

If the Stepping In party is not a user of the Warehouse, then the SO-RP parties should submit an EXIT to the Trade Confirm system, and the resulting new transaction between the SI and RP would be documented on paper. No messages or statuses from the Trade Confirm system would be registered to the Warehouse. This case will be increasingly unlikely, as the community of users of Deriv/SERV currently exceeds 600.

Submission:	**Assignment on paper by all three parties**
RP-SO (old transaction):	**Do nothing – no need to update Confs**
RP-SI (new transaction):	**Do nothing - trade is outside the Warehouse**

4.4   Case 4:   Original trade on paper and Stepping Out party is not a participant

The SO-RP leg of the Assignment should be done on paper. The SI-RP leg should be entered into Deriv/SERV as a backload trade. Once confirmed it will progress automatically into the Warehouse.

Submission: **Assignment on paper, back-load the RP-SI leg**
RP-SO (old transaction):   **Nothing – it's on paper**
RP-SI (new transaction):   **Back-load so registered and active in the Warehouse**

4.5   Case 5:   Original trade on paper and neither Stepping Out or Stepping In party is a participant

The entire assignments process would be completed on paper. No record would be created for the Warehouse.

Submission: **Assignment on paper**
RP-SO (old transaction):   **Nothing – it's on paper**
RP-SI (new transaction):   **Nothing – it's on paper**

4.6   Case 6: Original trade in Warehouse but Stepping In party is not a participant

This is an increasingly low probability situation. Since the entire Assignment can not be confirmed on Deriv/SERV, the SO-RP parties must submit an Exit to DTCC. This will remove the transaction from the Warehouse, and allow the ultimate assignment to be confirmed.

**Submission:**   **RP-SO, submit an Exit, do the Assignment on paper.**
RP-SO (old transaction):   **Exit suspends processing, essential for settlement**
RP-SI (new transaction):   **Nothing – it's on paper**

5 How will Partial Assignments work in the Warehouse?

As with full Assignments, the answer to this question depends on two things: 1) was the original trade registered in the Warehouse, and 2) are all three parties participants in the Warehouse. All three parties to an assignment must be participants or all legs of the Assignment will not be registered in the Warehouse.

5.1 Case 1: Original trade not in Warehouse but all parties are participants

The SO(Stepping Out) – RP (Remaining Party) leg of the Partial Assignment will be confirmed on Deriv/SERV but will not be registered in the Warehouse. In order to get both legs into the Warehouse the original trade needs to be backloaded.(This is likely to occur frequently in the first few weeks after the Inception Date of the Warehouse, as trades done in the 2 months prior would not be resident in the Warehouse UNLESS firms had backloaded them.) As with full assignments, the SI (Stepping In) –RP leg of the assignment would be registered in the Warehouse since this is a new contract and will have an ongoing life.

> **Submission:** **Fully electronic by all parties to Deriv/SERV**
> **RP-SO (old transaction):** **Confirmed but no effect on Warehouse (must be back-loaded)**
> **RP-SI (new transaction):** **Registered and active in the Warehouse**

5.2 Case 2: Original trade in the Warehouse and all parties are participants.

In this instance all legs of the transaction would be registered in the Warehouse. The SO-RP leg would partially reduce the original transaction value, and the SI-RP leg would be established as an additional ongoing contract.

> **Submission:** **Fully electronic by all parties to Deriv/SERV**
> **RP-SO (old transaction):** **Original contract in the Warehouse reduced by partial value**
> **RP-SI (new transaction):** **Registered and active in the Warehouse**

5.3 Case 3: Original trade confirmed on Deriv/SERV prior to Warehouse Inception Date and SI is not a user

If the Stepping In party is not a user of the Warehouse, then the SO-RP parties should submit an EXIT to the Trade Confirm system, and the resulting new transaction between the SI and RP would be documented on paper. No messages or statuses from the Trade Confirm system would be registered to the Warehouse. This will be an increasingly infrequent situation as the Deriv/SERV community exceeds 600.

> **Submission:** **Assignment on paper by all three parties**
> **RP-SO (old transaction):** **Do nothing – no need to update Confs**
> **RP-SI (new transaction):** **Do nothing - trade is outside the Warehouse**

5.4 Case 4: Original trade on paper and Stepping Out party is not a participant

The SO-RP leg of the Partial Assignment should be done on paper. The SI-RP leg should be entered into Deriv/SERV as a new trade. However, unlike a Full Assignment it would not automatically progress to the Warehouse. To move into the Warehouse, the original trade needs to be backloaded into the Warehouse.

> **Submission:** **Assignment on paper, back-load the RP-SI leg**
> **RP-SO (old transaction):** **Nothing – it's on paper**
> **RP-SI (new transaction):** **Back-load, so registered and active in the Warehouse**

5.5   Case 5: Original trade on paper and neither Stepping Out or Stepping In party is a participant

The entire assignments process would be completed on paper. No record would be created for the Warehouse.

Submission: **Assignment on paper**
RP-SO (old transaction):   **Nothing – it's on paper**
RP-SI (new transaction):   **Nothing – it's on paper**

5.6   Case 6: Original trade in Warehouse but Stepping In party is not a participant

This is an increasingly low probability situation. Since the entire Partial Assignment can not be confirmed on Deriv/SERV, the SO-RP parties must submit an Exit to DTCC. These parties must also backload the RP-SO leg with the reduced notional, as there is no "reduce" transaction which could be used bilaterally.

Submission: **RP-SO, submit an Exit, Assignment on paper.**
RP-SO (old transaction):   **Exit suspends processing, essential for settlement**
RP-SI (new transaction):   **Nothing – it's on paper**

6   Trade reconciliation with the Warehouse

The Warehouse includes a report which provides trade data for all live trades within the Warehouse for a specific account. This report "Daily Full Position Reconciliation File" is available for all customers, either delivered automatically over-night for the start of business each day (direct to your computers), or else requested from within the Deriv/SERV web application for delivery on a one-off basis overnight and downloaded straight onto your PC.

Most dealers are putting in place an automated reconciliation between their own systems, and the Warehouse. *We recommend that you also put in place a periodic reconciliation (whether manual or automatic), as it is imperative that your records remain synchronized with those of the Warehouse.*

The output of the reconciliation will result in break items which will require resolution either by modifying their own records, or through bilateral action with the other party to the trade contract.
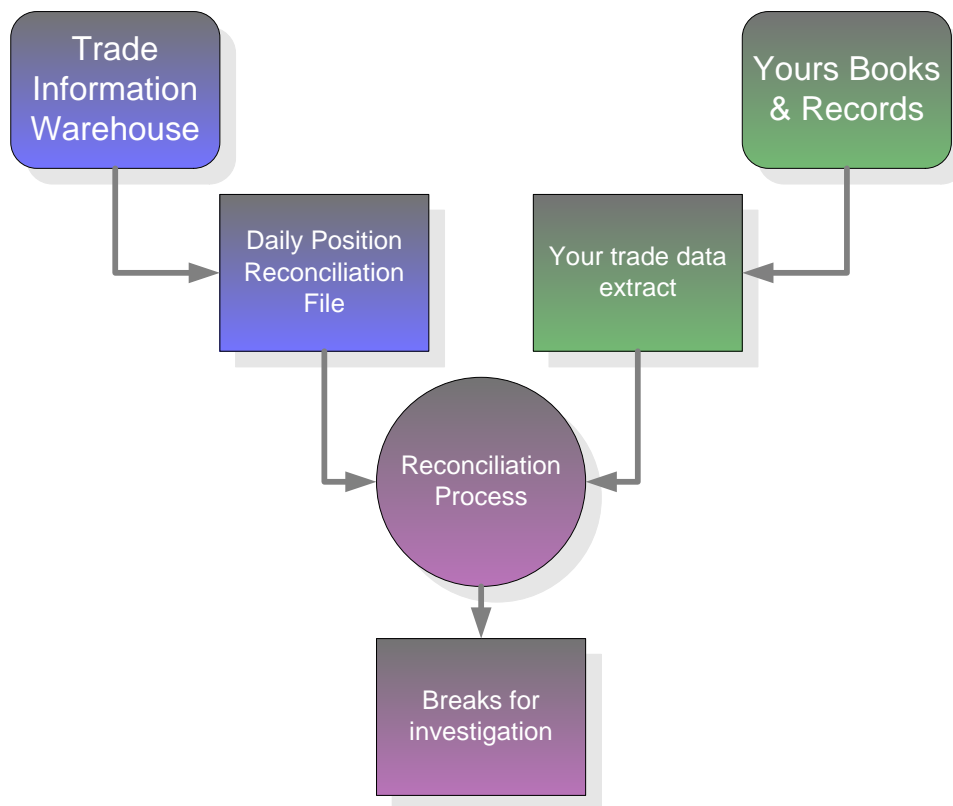
How could my records be out-of-sync with the Warehouse?

Any firm who uses the spreadsheet upload or Affirmation options will need to ensure that any change to a trade record in their own systems generates the appropriate transaction submission to Deriv/SERV.

Should a firm change their trade record in their own books and records system, such as the notional counterparty, any economic field, or the underlying reference entity, they can easily find that the Warehouse "gold" record does not reconcile to their own. In this case it will be necessary to use the appropriate transaction in Deriv/SERV to update the Warehouse (such as a Partial Termination or Amendment) and re-match with their counterparty.

6.1 Requesting the reconciliation report

To receive the Daily Full Position Reconciliation Report, click Reports→Reports Request, and decide which accounts and products you want included in the report, click Submit, and the report will be available the next day to download.

The screen looks like this:

END