



SDA... All My Troubles Seem So Far Away

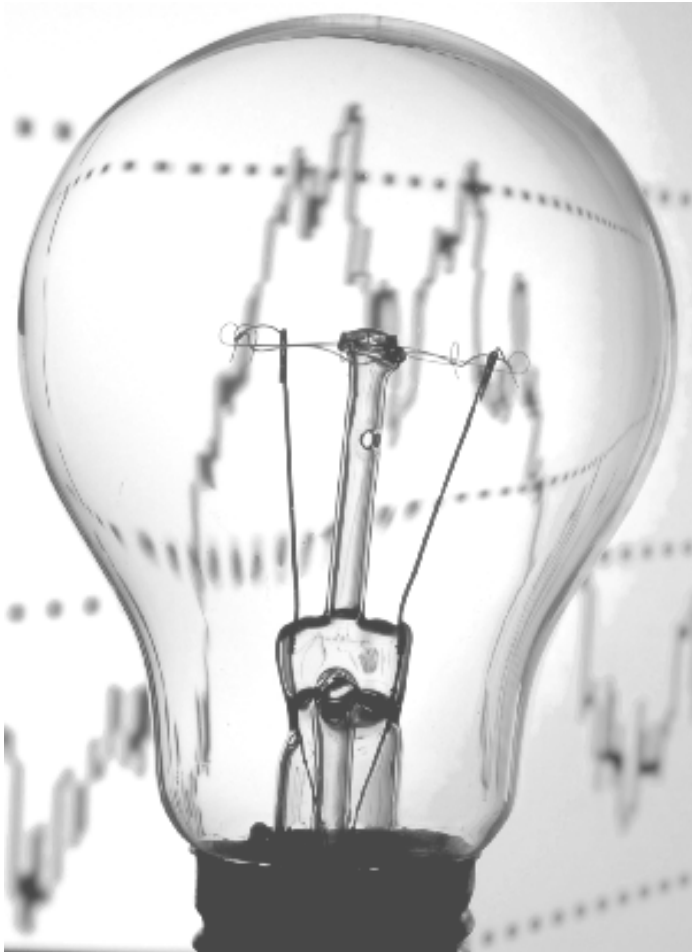
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16th Annual Industry Forum & Vendor Show
March 21-24, 2010 Boston, MA



Introduction – Same Day Affirmation

- **Current Situation**
 - 11% of Trades Not Affirmed Prior to Settlement
 - 95% of Trades Settle on Time
 - Primary Reason for Fails is Securities Lending Inventory Shorts
- **Goal**
 - More Efficient Processing with Less Risk

Is Same Day Affirmation the Answer?



SDA Discussion Points

- Mandate matching/affirmation vs. establishing a best practice
- Central matching/affirmation vs. bi-lateral
- Matching/affirmation on trade date or only prior to settlement
- Impact of shortened settlement dates on match/affirm timing
- Focus on the outliers, not on the 89% already affirmed



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The Case For Same Day Affirmation

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Faster Trade Affirmation: The Issue/Opportunity

- The financial crisis has focused attention on risk mitigation and operational efficiency
 - Window of Opportunity for post-trade processing
 - Renewed focus on operational and settlement risk
 - Ability to attract resources to operational functions
 - Reactivated the SDA debate
- Areas of general agreement (?) re: trade affirmation
 - It's better to affirm than not to affirm
 - U.S. reclaim rates declined
 - The sooner one affirms, the better
 - Canada fail rates declined
 - There is room for improvement
 - U.S SDA Rates = 36%
 - SDA should be a global best practice across asset classes
 - OMG has embraced SDA
 - In a T+2 settlement cycle, SDA becomes critical
 - Under consideration in the EU



Faster Trade Affirmation: The Issue/Opportunity

- Areas of debate re: trade affirmation:
 - SDA will not happen without a mandate
 - Economic misalignment – trying to achieve long term benefits through short-term expenditures
 - It's hard to change long-established behaviors – even if they are sub-optimal
 - A mandate forces the allocation of necessary resources to Ops functions
 - Mandatory affirmation prior to settlement is the better objective
 - Eliminate Delivery Orders for unaffirmed trades
 - Impact at DTCC? Impact on settlement rates?
 - Mandatory affirmation prior to settlement can't happen without higher levels of SDA?
 - 11% of TradeSuite confirms remain unaffirmed at settlement



SDA – Investment Manager View

Jeffrey T. Zoller

Vice President, T. Rowe Price Associates, Inc.

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SDA – Investment Manager View

- **Benefits**

- Better data, faster
 - Accounting processes (NAV calculation)
 - Demands of overseas clients for notification of “confirmed” deals
- Securities lending recalls
 - Reduces the opportunity for a recall fail

- **Challenges**

- Batch processes for sending confirms (broker/dealer)
- Majority of trades are executed on the close
 - Evening staffing to support exception resolution



SDA – Investment Manager View

The biggest hurdles that must be overcome in making SDA anything more than a best practice...

- What's the big deal?
 - The US (equity) market is perceived as being mature; highly automated
 - My fail rates are low
 - "I have other priorities"
- We can't quantify the issue
 - "89% of trades are not affirmed, yet 98%+ settle on time
 - ...and what portion of those fails are due to broker shorts and recall fails???
 - DTC/FED can't readily produce fail metrics

So how do we convince folks that this is a good idea?



SDA – Broker/Dealer View

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Vice President, Goldman Sachs & Company

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SDA – Broker/Dealer View

- **Affirmation/Matching Benefits**
 - General industry agreement on the benefits, if used properly

- **Affirmation/Matching Issues**
 - Industry affirmation rates have not changed since the introduction of T+3 settlement
 - Unaffirmed trades generally settled by the broker/dealer and custodian by giving DTC a delivery order (DO) through a manual process
 - Firms must devote time and resources to tracking down affirmation, taking time away from resolving those items that are truly exceptions
 - Some participants auto-affirm all U.S. trades without comparing or matching because the U.S. settlement rates are so high
 - Process reduces the effectiveness and meaningfulness of the affirmation process
 - Late DK's of affirmed trades
 - Some affirmed trades do not settle
 - SDA does not address some of these issues
 - Improved metrics are required to evaluate the impact of each issue



SDA – Broker/Dealer View

- **Alternative Ideas to Address Affirmation/Matching Issues**
 - Mandate affirmation/matching as a condition of settlement
 - Do not mandate the timing of affirmation/matching
 - but best practice should be SDA
 - Minimize the use of DO's for unaffirmed trades
 - Disparate views across the industry regarding the use of a regulatory mandates
 - Code of practice with economic incentives/disincentives
 - Code of practice should be based on an agreed optimal post-execution process
 - The intent of the economic incentive/disincentive is to discourage inefficient behavior, and to provide incentive to adherence to code of practice



SDA – Custodian View

Russell Stamey

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Northern Trust Company



SDA – Custodian View

- **Current Problems**
 - Process dependent on instruction efficiency and timing
 - Daily valuation & accounting
 - Intraday client reporting
 - Securities lending
 - Corporate actions
 - Cash management
 - STP and fail issues persist (small % but big volume)
 - Costs are not easily defined and lack transparency



SDA – Custodian View

- **Possible Solutions**

- Increase focus on unmatched trades
- Awareness around the costs of manual processes and failed trades (are these apparent in client fees)
- Pursuit of a shortened settlement cycle, dependent on mandatory matching and T+0 best practice

- **Considerations**

- Do the results justify the expense? ... what is the end goal?
- Can we reach the goal absent regulatory mandate?
- Is the time right to act? ... Can we afford not to?



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