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<u>Via Federal Express</u>

Robert J. McGrail
Executive Managing Director
The Depository Trust & Clearing Corporation
55 Water Street
New York, NY 10041-0099

Dear Mr. McGrail:

Thank you very much for hosting the meeting at your facilities on July 9, 2007 with representatives of the Association of Global Custodians ("Association") to review the status of the Structured Securities Initiative and to discuss ways to mitigate risk associated with late notices on partial calls. Association members appreciate the opportunity to meet periodically with DTCC management on issues of common interest and concern, and we value the dialogue those meetings produce.

With respect to the issues and potential action items relating to late notices on partial calls, Association members are reviewing available information on the incidence, risks and problems encountered and are conferring with other intermediaries about suitable initiatives and remedial approaches. We anticipate re-communicating with you on that matter soon.

This letter primarily addresses issues associated with structured securities. Association members have reviewed DTCC's September 2007 White Paper, <u>Transforming Structured Securities Processing</u> (the "2007 White Paper"), and we set out below for your consideration members' comments on that paper and its recommendations.

<u>*Overall Comment on the 2007 White Paper.*</u> The Association commends DTCC for working with industry representatives to define the range of processing challenges presented by structured securities and to evaluate various incentives and changes in practice that would reduce costs and risks. We think the road map for change that is

set out in the 2007 White Paper, including changes to DTC's Operational Arrangements ("OA"), is workable and likely to influence market behavior in ways that reduce the incidence and severity of processing problems. In particular, it seems likely that publishing paying-agent-timeliness report cards for the intermediary community will stimulate improved paying agent performance. In addition, introducing exception processing fees to underwriters for their non-OA conforming CUSIPs should encourage product originators to take down-stream processing issues into account in structuring these complex securities.

Comments on Specific White Paper Recommendations.

- Changing the OA timeframes for submitting payment rate information is a very positive step that will better correlate the OA requirements with apparent market realities. As the White Paper data confirm, the current OA payment time requirements – two business days prior to payable date coupled with a 7:00 PM cut-off time – are not producing adequately accurate or timely performance. The changes described in the 2007 White Paper seem likely to enable paying agents to provide timelier and more accurate rates, both of which are critical for cash forecasting and related risk management purposes.

At the same time, we think it will be important going forward that DTCC monitor paying agent performance under the new timeframes to assess whether agents simply shift a greater portion of payments to the new cut-off date and time, i.e. later in the overall information cycle. Last-minute reporting en masse could well create new handling problems for intermediaries as well as DTCC. Accordingly, if filing of rate information trends toward last-minute reporting, we think it may be appropriate for DTC to consider additional remedial steps, including perhaps widening the definition of non-OA conforming securities or otherwise adjusting the incentive fee structure.

- Defining non-OA conforming CUSIPs seems very useful. The information DTC can gather based on that definition and the experience under the proposed changes should enable DTC to take additional steps in the future to further improve timely and accurate rate reporting and payments. As one example, the data identified in the 2007 White Paper, coupled with the paper's commentary, reveal that at present no one knows the number of non-OA conforming CUSIPs or the actual trend over time in the structure of new issues.[1] However, the paper suggests that -- once agents begin to review portfolios and confirm their inventory of non-OA confirming CUSIPs – DTC's proposed changes should lead to meaningful numbers over time. We believe it would be useful for DTC, following introduction of its proposals, to track the number of non-OA conforming CUSIPs over time to assess whether the trend declines. If it does not, we would encourage DTC to consider additional steps.

- The 2007 White Paper states, on page 9, that "the aggregate structured securities performance 'exception' monies will be allocated, pro-rata, to the DTC participants for whom DTC processes structured securities P&I allocations." We believe it would be useful for DTC to clarify whether the allocation "pro-rata" will be based on participants' aggregate structured securities positions or participants' positions in non-OA conforming assets. The latter would seem more equitable. Under that approach, the greater share of the allocated funds would go to those participants incurring the increased costs that accompany handling a greater share of non-OA conforming securities.

General Note. In October 2004, the Association conveyed to DTCC its views about the problems and risks encountered in handling structured securities. DTCC's earlier white paper, Structured Securities Processing Challenges (June 2006), identified the Association's initial role in identifying the priority need for a set of structured securities initiatives led by DTCC. It also noted the ongoing role of Association representatives in the discussions and analyses. Members were therefore surprised to see no similar references in the 2007 White Paper; and we point out the omission.

In any case, the Association remains keenly interested in seeing progressive change and heightened performance standards for structured securities products. The Association supports DTCC's efforts to stimulate those improvements and encourages DTCC to continue to play a leadership role in facilitating market-wide discussions and promoting workable solutions in these and related problem sectors.

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[1] The 2007 White Paper, on page 9, expresses DTC's *estimate* that about half of the late-reporting CUSIPs would likely be considered non-OA conforming CUSIPs.

Thank you again for meeting with Association representatives and for considering members' comments on the 2007 White Paper. We value continued dialogue with DTCC on this and related matters. If you have questions, please contact Debbie Mercer-Miller (Citibank -- 212.816.6861) or me (312.861.2620).

Sincerely yours,

Dan W. Schneider
Baker & McKenzie LLP
Counsel to the Association

CC: Donald Donahue
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