



**Management Summary
2003 Development Agenda
Q4 Update**

January 2004

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IMMEDIATE ACTION REQUIRED

Market Trade Input

Beginning in April 2004, participants must submit the buy and sell entering broker in their Clearing Correspondent input. This is an additional data element that will be required in all trade recording applications. Failure to submit both the buy and sell entering broker information will result in a rejected trade.

Money Market Instruments (MMI)

Development has been completed to create stronger alignment of maturity presentments (MP) with issuances to enable better control over the financial exposure within the system throughout the day. A change to the default value (currently \$50 million principal amount) used in MP processing may be required to better facilitate alignment. Participants should determine if any such default value modification would require revisions to their current processes. Any participant system revisions should be completed in advance of the February 2004 production implementation.

Real-Time Trade Matching (RTTM) for Corporate and Municipal Debt Securities and Unit Investment Trusts (CMU)

In conjunction with the implementation of RTTM for CMU, NSCC members must ascertain whether their current connections to NSCC services will satisfy connectivity requirements for RTTM. Participant testing is beginning in January 2004, with a production date scheduled for March. At that time, RTTM Web will replace PC Web Direct for fixed income products. To ensure connectivity to RTTM, contact FICC Member Services.

Destruction of Non-Transferable Certificates

On January 2, 2004, a \$1 per month per position surcharge fee was implemented for holding securities positions classified as non-transferable for more than six years. To avoid the fee, customers should request a CUSIP listing of non-transferable securities held in their accounts from their relationship manager to identify those positions that can be removed. Customers can use the PTS Position Removal (PREM) function to remove the applicable positions from their accounts.

File Transfer Applications Conversion

For users currently relying on CCF file transfers using Remote Job Entry (RJE), the conversion to newer and more standardized methods is nearly complete. As previously announced, RJE is being sunset by March 2004. Contact Cliff Testa at 212-855-2690 or ctesta@dtcc.com for information on the status of your firm's migration.

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DTCC Corporate Activities

Business Continuity

Implement new remote data processing capabilities and advance other business continuity efforts.

As noted previously, DTCC's out-of-region capability was certified as operational in mid-year and is now included as part of DTCC's active production environment. DTCC has begun to further expand its business continuity capabilities by routing client traffic on a daily basis to the out-of-region center.

DTCC continues to investigate an out-of-region operations center for its critical operations functions. Operations at this site are scheduled to begin by year-end 2004 and it will be fully operational by year-end 2005.

To enhance DTCC business continuity efforts, DTCC maintains a record of clients who have successfully tested their connectivity to DTCC and will be reporting the results to our regulators as requested. During Q1 2004, Relationship Management will be contacting those firms that are required to test, but have not yet done so. To schedule a test of your connectivity to the DTCC data centers, depository clients should contact our Participant Interface Planning group at 212-855-1482. Clients of the clearing corporations (NSCC, FICC, EMCC) should contact SIAC at 212-383-HELP to arrange for connectivity tests.

Clearing Corporation Insourcing

Continue to migrate technology support services from SIAC to DTCC.

Clearing corporation insourcing will reduce operational costs and increase DTCC's operational flexibility by moving the existing NSCC and EMCC applications running at SIAC to DTCC's data center. DTCC has completed implementation of the execution environments that will host these applications, and application work has begun for the transition. In December, clearing corporation settlement functions were insourced as part of the implementation of the Consolidated Settlement Statement system for DTC and NSCC.

DTCC expects to complete the NSCC and EMCC insourcing project by year-end 2004.

White Papers/Thought Leadership

DTCC has published several forward-looking white papers addressing topics of interest to customers. These publications are designed to stimulate further discussion and build consensus among interested constituents.

Central Counterparty (CCP) for Mortgage-Backed Securities (MBS)

Implement a CCP for MBS transactions.

The Fixed Income Clearing Corporation (FICC) published a white paper in June on the topic of establishing FICC as a CCP for mortgage-backed securities transactions. It is available at www.ficc.com.

Implementing a CCP for MBS will provide customers with significant operational benefits including streamlined processing and enhanced netting and settlement.

During Q4, FICC began to develop business and internal infrastructure strategies to integrate FICC's existing U.S. Treasury and proposed MBS CCP structures into one cohesive product offering. Combining these business lines will reduce development costs and ongoing operating expenses for both FICC and its members. These plans will be finalized in the first half of 2004 and publication of detailed business requirements for the MBS CCP initiative will follow.

**Transforming Corporate Action Processing
Providing a New Level of Risk Management and Achieving Straight Through Processing**
Analyze corporate action processing challenges and identify DTCC's upcoming plans.

DTCC's position paper outlines a strategy to position customers to handle higher volumes, reduce costs and risks, achieve greater levels of STP and provide greater processing resiliency as global markets recover. The paper is available at www.dtcc.com at the "Thought Leadership" tab.

Updates for four initiatives are included in this report: Corporate Action Liability Notices (see SMART/Track section), Global Corporate Action (GCA) Validation Service, Global Corporate Action (GCA) Messaging Service, and Streamlined and Improved Processing for More Complex Instruments (see Structured Securities Redemptions and Paydowns section).

Straight Through Processing (STP) for Institutional Settlement
Consider new capabilities supporting netting of fixed income trades.

FICC published a white paper addressing issues surrounding STP for institutional settlement in May. It is available at www.ficc.com.

The paper delineates multiple complementary strategies for resolving institutional STP issues, as well as for maximizing netting of the dealer sides of institutional trades. Most significantly, the paper describes a new settlement model to facilitate STP of institutional trades by leveraging existing and proposed industry processing models.

During Q4, FICC worked with The Bond Market Association's Asset Management Forum (AMF) to clarify buy side concerns with the white paper and to facilitate engagement of the buy side of the market in this initiative. In December, AMF identified these buy side concerns, and FICC will formally address these early in 2004.

Managing Risk in Today's Equity Markets
Discusses new trade submission safeguards.

In response to comments received on the February 2003 DTCC white paper exploring trade submission practices and potential solutions, NSCC is anticipating amending its trade input procedures by April 2004. When effective, the "entering" broker information in the Correspondent Clearing service trade submission process will be mandatory for the trade input to be accepted. This will end trade compression (in which data from trades on both the buy and sell sides of the market is combined and netted, and the identity of the party responsible for a trade is masked) in the reporting process, enabling the clearing corporation to appropriately evaluate and collateralize risk.

DTCC continues to consider the comments received on the white paper regarding the trade submission practices of internalization and summarization.

Straight Through Processing (STP)

The principal focus of DTCC's 2003 development efforts in clearance and settlement is furthering industry progress toward STP. Equity clearance and settlement systems initiatives include the following:

Market Trade Input

Obtain real-time trade input from Nasdaq, certain QSRs/ECNs and regional exchanges.

Objectives for 2003 in this area have all been completed. DTCC's Relationship Management and Product Management teams will continue to work with regional exchanges, key Qualified Special Representative (QSR) firms and Electronic Communications Networks (ECN) to convert their input to real-time in 2004.

In addition, working with the Securities Industry Association (SIA) and all U.S. equity marketplaces, DTCC has expanded its clearing capabilities to accept and report an entering broker (also referred to as introducing broker) identifier, client order unique ID, and branch and sequence (also referred to as market control) number for all markets. Upon implementation, participants will be required to submit the buy and sell entering broker identifiers as part of their Correspondent Clearing input. Failure to submit both the buy and sell entering broker information will result in a rejected trade.

DTCC also plans to provide for the trade recording of cash, next day and sellers' option trades executed in the OTC and regional markets. A similar service exists for the NYSE and Amex. Both efforts are targeted for implementation by early second quarter 2004.

CNS Redesign

Automate balance order processing and implement changes to Consolidated Trade Summary (CTS) reports.

The first phase of the CNS redesign was implemented in July, providing "one-stop shopping" for balance order information and permitting NSCC to eliminate redundant reporting. The introduction of the enhanced CTS reports as the source for balance order information facilitated the January 2, 2004, phase-out of five separate balance order files and reports (distributed via Autoroute), which occurred on schedule.

The second phase of the CNS redesign will support STP and provide the system with the ability to move to any settlement cycle that is determined in the future. This phase is on schedule for June 2004 implementation. Participant awareness seminars and tests are planned for Q1 2004.

Consolidated Settlement Statement

Create a single settlement statement system for DTC and NSCC.

On December 5, DTCC completed the consolidation of the DTC and NSCC settlement systems. Participants and settling banks now have a single set of settlement-related Participant Terminal System (PTS) functions and reports. In addition, settling banks settle their DTC and NSCC obligations via a single consolidated funds transfer.

SMART/Track (formerly Universal Hub)

Implement initial components of a messaging system for stock loan recall messages and other inter-customer notifications.

SMART/Track will automate the highly manual processes used in the industry for various notifications, including stock loan recalls, corporate action liability notices and buy-ins, and will centralize and standardize these communications.

DTCC completed development in May of SMART/Track services for communicating stock loan recall messages between users of Automated Recall Management Systems (ARMS) and between an ARMS user and a market customer with its own stock loan recall capability. Vendors continue to prepare to test the interoperability of ARMS through SMART/Track; production implementation for the application is expected in the first quarter of 2004.

DTCC is working with the SIA's Corporate Actions Liability Notices Working Group to finalize the functional requirements for the liability notice application on SMART/Track, which includes a tracking as well as messaging component. This application will be implemented in the second half of 2004.

Automated Customer Account Transfer System (ACATS)

Implement a new capability for including cost-basis information on assets transferred through ACATS.

The new Cost-Basis Reporting Service (CBRS) automates the transmission and receipt of cost-basis information on customer assets transferred through ACATS – detailing the account assets at the tax lot level. Currently 15 firms are using CBRS in production mode, following its pilot launch in March 2003. Several additional large ACATS users are committed to production implementation beginning in February 2004. For further information, contact your relationship manager.

Real-Time Trade Matching (RTTM) is a core requirement for STP in the fixed income market. Fixed Income Clearing Corporation (FICC) has multiple RTTM initiatives under way, including:

RTTM for Mortgage-Backed Securities (MBS)

Broaden industry use of RTTM for MBS, aiming for a 100% match rate for trades on trade date.

In September, FICC implemented RTTM version 3.0 for MBS. This new release enables a Web-based user interface to the RTTM system, called RTTM Web for MBS. (See "RTTM Web-Based User Interface" below.)

RTTM for Corporate and Municipal Debt Securities and Unit Investment Trusts (CMU)

Implement RTTM for these transactions.

A principal focus is to promote standardization and integration across all fixed income securities by implementing RTTM and interactive messaging for transactions in NSCC-eligible fixed income securities, specifically corporate and municipal bonds and unit investment trusts.

During Q4, FICC completed Quality Assurance testing for the RTTM application. Also, FICC released RTTM training-related material including: RTTM Timeline, RTTM Web User

Guide, Revised New Service Bulletin and initial RTTM training session via WebCast, all of which are available on www.ficc.com.

Participant testing will begin in January 2004 with a live date targeted for March 2004. This implementation includes replacing the NSCC Fixed Income Transaction System (FITS) matching engine with RTTM and the introduction of RTTM Web for CMU (see “RTTM Web-Based User Interface” below).

In conjunction with the implementation of RTTM for CMU, NSCC members must ascertain whether their current connections to NSCC services will satisfy connectivity requirements for RTTM. Firms should contact FICC Member Services to obtain assistance and review their options to achieve connectivity to RTTM for CMU.

RTTM Web-Based User Interface

Provide a Web-based user interface for both trade capture and trade reconciliation that will support all the fixed income RTTM systems and serve as a single point of entry for all fixed income trades.

RTTM Web provides sophisticated search capabilities and statistical reporting, and allows users to readily identify exception items designed to facilitate the trade reconciliation process through a series of interconnected windows and query tools.

In September, FICC implemented RTTM Web for MBS. During Q4, FICC hosted a successful pilot program with 18 MBS member organizations to evaluate the functionality of the new Web-based application. Given the success of the pilot, FICC will roll out the RTTM Web for all MBS members in early 2004.

Standards defined for the RTTM Web for MBS are being used to develop RTTM Web for Government securities and for the RTTM Web for CMU system. RTTM Web for CMU will be available for participant training and testing in January 2004 and will replace the existing PC Web Direct for these trade reports in March 2004.

RTTM-Based Price Transparency Reporting ***Support industry price transparency initiatives.***

DTCC will offer a simplified solution to impending regulatory reporting requirements for price transparency in the fixed income markets.

RTTM for CMU provides this solution so that customers can submit a single messaging record to serve as both a trade matching and trade regulatory reporting vehicle. FICC published an Interactive Messaging specification for CMU in 2003, available on www.ficc.com.

In response to industry demand, DTCC has agreed to support a real-time price reporting interface between RTTM and the NASD's Trade Reporting and Compliance Engine (TRACE) for corporate bond reporting. On November 26, NSCC issued an Important Notice that stated its intention to support this interface between RTTM and TRACE for corporate bonds. NSCC and the NASD will work together to conduct further analysis prior to publishing the specific functionality of the link and proposed timing. In the interim, NSCC will continue to support the existing link to TRACE. DTCC continues to work with the MSRB to support similar reporting procedures for municipal securities transactions.

Asset Servicing

Global Corporate Action (GCA) Validation Service

Implement a new service to validate corporate action data against primary source and custodian information.

The GCA Validation Service provides a centralized source of “scrubbed” announcement information for a broad range of corporate actions on investment assets globally.

This service has processed more than 1.6 million announcement records, created over 800,000 composite records (comparison between sources) and delivered over 250,000 of these in approved and final status to the clients. Two service centers, in London and New York, research and validate global corporate action announcements, operating across time zones throughout the week for processing client and vendor information and generating six intra-day output files.

A custodial verification capability, allowing subscribers to confidentially compare the GCA Validation Service composite records with corporate action information from their custodial banks, became operational in December. Firms interested in learning more about the service can contact their relationship manager.

Global Corporate Action (GCA) Messaging Service (formerly Global Corporate Action Hub)

Implement a service to automate and track standardized communications about corporate actions between custodians and investment managers.

The GCA Messaging Service is a cost-effective, real-time business tool that links custodians and investment managers, the parties involved in corporate action processing. The service, which uses industry-standard messaging, is easy to deploy and helps manage communication risk through standardized ISO 15022 formats and automated message delivery and by providing an electronic audit trail.

The service was implemented in production in December. Firms wishing to participate in the pilot program can contact Ann Vece at 212-855-3210 or avece@dtcc.com or John Mullaly at 212-855-4134 or jmullaly@dtcc.com.

Destruction of Non-Transferable Certificates

Adopt procedures permitting the depository to reduce the number of non-transferable physical certificates held in its vaults.

DTCC is proceeding with a program to image and destroy certificates of certain classes of non-transferable issues that have been deleted from customers’ position statements. The period of time before a non-transferable issue would be considered for destruction is six years.

DTC filed a rule change with the SEC in June to establish the new service, and SEC approval is pending. Upon SEC approval, an Important Notice will announce the details. Included will be a start date for the destruction of certificates in a specific security that all participants have removed from their account using the PTS Position Removal (PREM) function.

In addition, a surcharge for holding securities positions classified as non-transferable for more than six years increased to \$1 per month per position, as of January 2, 2004. To avoid this fee, customers should request a CUSIP listing of non-transferable securities held in their accounts

from their relationship manager to identify removable positions. Customers can use “PREM” to remove the applicable positions from the accounts.

Structured Securities Redemptions and Paydowns

Pursue new efforts to improve the processing of redemptions and paydowns on structured securities.

Significant progress has been achieved to automate and standardize the receipt of information related to structured securities (asset-backed issues and collateralized mortgage obligations). Six key agents are currently utilizing the new standardized file layout to transmit automated announcement information to DTCC, with automated rate information comprising 32% of the volume on the peak day of November 25. Two additional large agents began to use the automated format as of the end of Q4. As more agents begin using the standardized file layouts to transmit automated announcement information to DTCC, participants will benefit from more timely and accurate notifications.

Network Services/Technology

Online Report Archive (SMART/Search)

Expand online archive information for depository and clearing corporation customers.

Usage of the SMART/Search production pilot, released in June, has expanded to approximately 40 firms, and 300 individuals at those firms. Broader access to customers will be available in Q1 2004. This new, browser-based service gives customers access to a vast amount of archived report data useful for historical research efforts.

SMART/Search initially focuses on depository reports associated with activity, settlement and position information. The service will provide an alternative to costly on-site information retention. No action on the customer’s part is required beyond working with DTCC’s Relationship Management group.

File Transfer Applications Conversion

Continue the transition to new standardized technology messages and protocols.

This initiative continues to migrate customers from older and proprietary communications methods (CCF and MDH) to newer and more standardized methods like Connect:Direct (Network Data Mover, NDM), File Transfer Protocol (FTP) and IBM Messaging/Queuing (MQ) Series. We completed user conversion off the CCF Jr. and CCF BTAM applications (permitting these protocols to be discontinued). The conversion of users currently relying on CCF file transfers using Remote Job Entry (RJE) is projected to be complete by the end of March 2004.

These migrations eliminate the support burden that the older technologies represent. Contact Cliff Testa at 212-855-2690 or ctesta@dtcc.com for further information on the status of your firm’s migration.

Billing Modernization

Implement initial phases of enhanced capabilities for customer billing.

DTCC has begun to replace its legacy billing systems with a standardized approach based on commercially available billing technology – providing timely, electronic invoice distribution that is more understandable and more easily reconciled with a customer's records of activity with DTCC subsidiaries.

The invoices produced by both NSCC and DTC are now available to all customers for delivery via e-mail. Distribution of DTC invoices, in the form of an e-mail attachment similar to NSCC electronic invoice delivery, became available during August. As of November, 16% of DTC invoices were being electronically delivered. Increased levels of DTC electronic invoice distribution are anticipated coincident with the implementation of a new billing system in Q3 2004.

A revised fee schedule document that is simpler to read and easier to correlate to the line items on customer invoices will be completed during January 2004.

PBS Inquiry

Offer the ability to access non-transaction descriptive information (e.g., corporate action data) to non-traditional customers.

Released into pilot during December, this product allows customers not currently served by PTS/PBS to access non-transaction information related to corporate actions and security descriptive data in a browser format.

Four information vendors and money managers are piloting the service. It is anticipated that the front and middle offices of customer firms will also utilize this product upon its release. This general availability will be offered in Q1 2004.

Risk Management

Money Market Instruments (MMI)

Implement MMI system revisions to provide enhanced risk controls.

DTCC continues to make progress on delivering key components that enhance MMI functionality and address risks. During Q4, development was completed to create stronger alignment of maturity presentments (MP) with issuances to enable better control over the financial exposures within the system throughout the day. After the completion of testing and SEC approval, implementation is targeted for February 2004.

A change to the default value used in MP processing may be required to better facilitate alignment. The value is currently \$50 million principal amount and it may be necessary to lower this amount. Participants should determine if any such default value modification would require revisions to their current processes. Any participant system revisions should be completed in advance of the February 2004 target date for production implementation.

Also planned for Q1 2004 is the creation of a new Issuing and Paying Agent (IPA) PTS function to allow IPAs to control the allocation of credits to issuers from their settlement

accounts. These enhancements are described more fully in DTC Important Notices B#5311 and B#5336, issued October 17, 2003.

Internal Improvements to Risk Management Systems

Continue to convert internal risk systems to real-time processing; consider modifications if timing of the clearing corporation guarantee changes.

The STP modifications to the equity clearance and settlement systems require comparable modifications to DTCC's risk management capabilities. The new real-time risk management system, IMPACT, will be fully operational for intraday use early in Q2 2004. The system will automatically monitor and flag risks as they develop from trading patterns, giving DTCC a better opportunity to monitor potential clearing risks and thereby better manage NSCC's role as a central counterparty.

Also, DTCC continues to assess modifications to its risk management applications and any related effects on its members. Research on accelerating the NSCC trade guarantee to midnight of T+1 has been deferred to evaluate major clearing fund requirement formula components. None of the above requires action by our members at this time.

Change to EMCC Guarantee Timing

Consider modifications to the effective time of the clearing corporation guarantee.

The SEC approved a rule filing that allows EMCC to modify the time when it novates transactions by performing an afternoon and morning clearing fund calculation with payments due from members after each calculation – thereby eliminating the "look back" feature. The change was effective in Q4.

Novation now occurs after margin requirements are received from both sides to the trade. Under the new process, EMCC requires members to submit trades earlier on trade date. This reduces the corporation's risk by only guaranteeing those trades for which collateral has been received.

Additional Development

DTCC Deriv/SERV (formerly OTC Deriv/SERV)

Introduce OTC derivatives trade confirmation and matching service.

During the fourth quarter, 10 major dealers went live with the trade confirmation and matching service. Most firms are utilizing the computer-to-computer interface, but several have gone live with the newly released spreadsheet upload capability. The initial release provides automated confirmation and matching services for credit default swaps. This service supports real-time matching of two-sided trade input, as well as affirmation of one-sided input with FpML messages.

The electronic trade confirmation and matching process replaces existing paper-based confirmations with the same legal effect. Initial confirmation rates have exceeded expectations and are providing participants with operating efficiencies and a reduction in operating risk.

Also in this quarter, 12 dealers participated in a proof of concept for payment reconciliation services. Most credit default swaps have standardized quarterly payments. Using

the Deriv/SERV matching engine, DTCC has introduced a reconciliation service for these quarterly payments. Over 90% of payments cycled through this service were matched or listed as close matched, significantly reducing breaks and outstanding payment reconciliation time.

Tax

Achieve compliance with the Jobs and Growth Tax Relief Reconciliation Act of 2003.

DTCC continues to enhance its affected tax products to comply with the requirements of the Jobs and Growth Tax Relief Reconciliation Act of 2003. In November, the enhanced Domestic Tax Reporting product (DTax), a database of year-end tax reclassification information used for Form 1099 tax reporting, was released. It includes new fields for qualified dividends and post-May 5 and pre-May 6 capital gains as required for legislative compliance.

During Q1 2004, DTax content will be expanded to provide participants with information on qualified dividends paid in 2003 on American Depositary Receipts (ADR's).