



2005 Development Agenda

February 2005

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2005 Development Agenda

DTCC Enterprise-wide Activities

Business Continuity

Continue to implement new remote data processing and operational recovery capabilities; advance other business continuity efforts.

By the end of the second quarter, DTCC will complete the implementation of its recently announced out-of-region business operations center supporting critical operations functions for DTC, NSCC and FICC. Staffing of the site is well underway. Limited operations at the remote site began in December 2004, and additional functions will be migrated in phases throughout the first half of 2005 so that the site is fully operational by mid-year. With this remote business operations site fully operational, DTCC will have in place an “active/active” operating model for all critical business functions, with aspects of these functions supported routinely each day at all DTCC operating locations. As previously announced, the depository’s physical certificate processing functions will not be supported at the remote operating site.

DTCC brought its remote data processing capabilities live in 2003 and today these capabilities routinely support most data processing functions for DTC, NSCC and FICC. Building upon progress made in 2004, some remaining additional data processing functions will be backed up at the remote data processing sites during 2005.

The most significant changes provide for back-up of a few remaining core FICC applications, to be completed by the third quarter. In 2004, FICC successfully deployed into production at DTCC’s remote data processing sites the Real-Time Trade Matching (RTTM) system for government securities, the GSD netting and settlement systems, the GSD General Collateral Financing (GCF Repo®) service as well as the MBS Electronic Pool Notification (EPN) service. In 2005 the Fixed Income group will implement all remaining core services at the remote data processing sites, providing complete out-of-region resiliency and meeting regulatory requirements for core clearing as outlined in the Federal regulators’ Interagency Sound Practices paper. This will include full RDC capabilities for the Corporate and Municipal Debt Securities and Unit Investment Trusts RTTM, Mortgage-Backed Securities (MBS) RTTM, MBS Clearing and Cross-Margining as well as all support services. The implementation of FICC’s remote data processing capabilities is being conducted in a manner to minimize the impact on participants, but its impact may vary based on a participant’s current interface with FICC.

Telecommunications for participants connected to DTCC’s Securely Managed and Reliable Technology (“SMART”) complex are now routinely routed through each of DTCC’s data processing locations, providing an ongoing test of participants’ ability to communicate with all of these data processing sites.

To enhance business continuity efforts for FICC, NSCC and DTC, DTCC is required to maintain a record of clients who have successfully tested connectivity from their own back-up sites to DTCC, and we will be reporting the results to our regulators as requested. During Q1, Relationship Management will be contacting those firms who are required to test with these subsidiaries, but have not yet done so. To schedule a test of back-up connectivity to the DTCC data centers, clients who have SMART connections to DTCC should contact our Participant Interface Planning group at 212-855-1482. FICC or NSCC clients who still connect through SIAC should contact SIAC at 212-383-HELP to arrange for connectivity tests. DTCC has

recently filed with the Securities and Exchange Commission for approval of a proposed schedule of fines for those participants required to conduct these annual tests who fail to do so.

Clearing Corporation Insourcing

Continue to migrate technology support services from SIAC to DTCC.

DTCC successfully insourced data processing support for NSCC applications from SIAC's Shared Data Center to DTCC's data center complex in 2004. For 2005, insourcing efforts are now focused on FICC applications. All core FICC systems and supporting infrastructure are planned to be insourced to DTCC by year-end.

The insourcing effort will permit DTCC to realize significant cost savings over time, and will also provide for a consistent business continuity and data recovery plan for all DTCC subsidiaries.

As with the NSCC insourcing project, customers will not be required to make any changes in connection with the initial migration of these services into the DTCC data centers, but certain changes will be required to ensure continued connectivity in the event of a serious regional disaster. These changes are described in the following section.

Communications Upgrades

Continue to improve service availability and business continuity through telecommunications upgrades designed to further reduce vulnerabilities.

DTCC's focus on participants' communications capabilities will continue in 2005. This program covers the migration of participants' communications with clearing applications to upgrade business continuity plans, the retirement of legacy and proprietary file transfer and messaging technologies, the replacement of Participant Terminal System (PTS) with Participant Browser Services (PBS), and the consolidation and upgrade of existing network connections. The overall program consists of three parallel initiatives:

1. Migrating from legacy networks

As DTCC completes the insourcing effort for clearing corporation data processing functions, all customers must make changes to their own procedures for the transmission and receipt of clearing corporation data and communication connectivity. This is intended to ensure enhanced availability and recoverability of all clearing corporation services in the event of a regional disaster. DTCC's principal emphasis in 2005 will be on completing the reconnection of customers to the newly re-hosted clearing applications, in order to achieve mandated BCP capabilities for DTCC's clearing services.

This initiative involves the migration of these connections to DTCC's own SMART network or to a SMART connection through SIAC's Secure Financial Transaction Infrastructure ("SFTI") from the legacy Broker and Access networks supported by SIAC. (The completion of this migration will permit the retirement of those legacy networks.) In October 2003, DTCC announced that the target date for completing this migration was the end of 2004, and noted that participants who continued to utilize Broker or Access network connections beyond that date would be expected to fund their portion of any additional costs incurred for continued support of those legacy networks.

Given their other commitments in 2004, most customers of clearing services are still in

the process of migrating their application interfaces from these legacy networks to SMART or SFTI. Most customers continue to work diligently to achieve this goal, and the BCP and cost implications associated with this initiative make it imperative that all customers complete this work as their highest-priority objective. DTCC has determined that, because most customers are continuing to work toward this objective, charges for the use of SIAC legacy facilities will not change at this time. DTCC will continue its close monitoring of individual customers' efforts and will, of course, respond to regulators' inquiries regarding the status of individual customers with respect to the BCP standards this initiative addresses.

Additional information about this phase of the initiative will be available in Q2; DTCC also expects to announce at that time when it will begin charging the support costs for the legacy facilities (currently estimated at \$20 million annually) to those customers who have not completed their migration off these networks.

2. Retiring legacy interface technologies

DTCC's long-term program – announced in June 2000 – to retire proprietary or legacy interface technologies is nearing completion:

- (a) Customers using RJE or NJE facilities to transfer data via DataTrak and AutoRoute must convert either to the File Transfer Protocol (ftp) or to the Sterling Commerce product Connect:Direct (formerly known as Network Data Mover or NDM) as they reconnect to DTCC's clearing applications over SMART or SFTI.

Status: This work is proceeding with the migration initiative (described above) and accounts for much of the unanticipated complexity many customers have experienced in altering their applications to access clearing services via SMART or SFTI.

- (b) Customers using the DTCC-proprietary Mainframe Dual Host (MDH) synchronous transaction interface must convert to Websphere MQ by the end of 2005.

Status: The majority of MDH users report conversion programs are underway.

- (c) Customers transferring files to and from the depository using the DTCC-proprietary CCFUser interface must convert to ftp or Connect:Direct ("NDM") by the end of 2005.

Status: Many firms have completed the conversion, but we believe a majority of CCF users are still in the exploratory stage, without concrete plans at this writing. Customers needing support or assistance with this effort should contact DTCC's Participant Interface Planning Group at 212 855-8989.

- (d) Depository customers must rollout Participant Browser Services to all users of PTS by year-end 2005.

Status: To date some 100 customer firms have enabled PBS for at least some of their operations. The number of PBS users has more than doubled in the past six months, as has the number of transactions submitted through PBS. Firms without programs in place should initiate them and contact their Relationship Manager for support.

As noted, DTCC's principal focus in 2005 will be completing the migration initiative associated with the retirement of the Broker and Access networks (which would include the work associated with 2(a) above). While DTCC anticipates continued progress on the other efforts (i.e., 2(b) through 2(d)), the migration initiative and the associated transition of file transfer activity discussed in 2(a) will take priority.

3. Consolidating and/or upgrading SMART and/or SFTI network connections.

DTCC's SMART strategy has also focused on ensuring that each DTCC customer provisioned adequate network capacity in the SMART network (or in SFTI for clearing corporation applications) to meet their aggregate requirements for access to *all* DTCC products and services. Overall progress to date has been very good, with almost all customers completing any network capacity upgrades needed to support this program.

Any customers that have not yet established sufficient SMART or SFTI capacity to satisfy new requirements should immediately contact their Relationship Manager to initiate this work.

Summary

DTCC and its customers have achieved very good progress toward these conversion goals, although completing all of them in 2005 remains a challenge. It is clear, however, that individual users of these facilities – and the industry at large – will realize significant benefits in terms of usability, cost, and improved BCP capabilities by converting these aging, proprietary interfaces to their replacement technologies. DTCC encourages all users to continue work toward all of these objectives, so long as their projects to reconnect clearing applications to SMART or SFTI retain highest priority.

DTCC will continue monitoring progress toward all of these objectives. Future quarterly updates to this document will address progress and any changes to any parts of the program.

For further information, contact your Relationship Manager or Michael Vellecca at 212-855-5678 or mvellecc@dtcc.com.

Billing Modernization

Continue to implement a new billing system, retiring legacy systems.

In 2004, DTCC implemented a new billing system and made available PDF and spreadsheet versions of NSCC and DTC invoices.

In 2005, DTCC will convert many of the invoice types issued by DTCC that were not part of the 2004 conversion of DTC and NSCC invoices, beginning with DTCC Learning. Self-service registration for invoices via e-mail and for invoices through SMART/Search will be rolled out to customers in Q1.

Further information is available from Carin Avogardo (212) 855-1534 or cavogardo@dtcc.com.

DTCC Deriv/SERV

Expand the scope of the OTC derivatives trade confirmation and matching service to include richer features and more product types.

Initiatives planned for 2005 focus on achieving the market objectives identified in the International Swaps and Derivatives Association's strategic plan, issued by the DTCC Operations Committee in December 2003. Prompted by concerns about market participants' inability to cope with rapidly increasing OTC derivatives volumes, the strategic plan established target dates, culminating at the end of 2006 for standardization and automation of key processes with respect to trade confirmation, cash flow matching and settlement, cross-product netting and portfolio reconciliation.

In 2005, DTCC will continue to enhance the core Credit Default Swaps (CDS) platform. Anticipating further growth in electronic trading, DTCC will place top priority on building an automated communications capability to broker platforms. Delivery is targeted for Q2. Additional templates for CDS options and index options, total return swaps and contracts for differences (CFD) are anticipated by Q3. Also, there will be several enhancements to security authentication and authorization processes phased in throughout 2005 to provide a simpler approach to the acquisition and administration of secure Digital Certificates, as well as more granular provisioning of authorization levels.

Following the successful implementation of trade matching capabilities for equity options, trade matching services will be implemented in 2005 for equity swaps, including total return and variance swaps. Implementation is expected by mid-year. Requirements for supporting simple option strategies for OTC derivatives inclusive of call/put spreads, collars, caps, strangles, straddles, and averaging will be defined in Q1 with implementation expected in Q3.

Additional work will be completed in 2005 to extend the suite of payment services developed for Credit Default Swaps in 2004. New capabilities will be added including the accommodation of new products (e.g., non-standard credit default swaps, various types of interest rate swaps, and others). An integrated multi-asset-class solution to settlement of payments for OTC derivatives will be added, including sophisticated matching of payments using data from the trade matching services. The service will provide real-time results on incoming payments data with an integrated communications facility to assist in resolving reconciliation breaks. The service will also integrate storage and publication of customer Standing Settlement Instructions with a fully integrated netting approach. These features will be implemented on a phased basis throughout 2005.

For additional information on Deriv/SERV products, contact Macrina DiGregorio at 212-855-1668 or mdigregorio@dtcc.com.

Equity Clearance and Settlement

Clearance and settlement development efforts reflect industry interest in ensuring processing reliability, establishing a forward-looking technology platform and furthering industry progress on STP. Equity clearance and settlement systems initiatives include the following:

Market Trade Input and Output

*Obtain trade input in real time from certain **Qualified Special Representatives (QSRs)**/**Electronic Communications Networks (ECNs)** and regional marketplaces.*

DTCC continues to work with QSRs/ECNs as well as regional marketplaces to convert their input to real-time. ArcaEx is on schedule to be the first regional marketplace to convert, in Q1. With the inclusion of ArcaEx, more than 70% of DTCC's equity transactions will be received in real-time. In addition to regional marketplace input, Omgeo has agreed to provide DTCC Prime Broker trade data in real-time by Q3. The submission of real-time input will not impact participants' systems.

After ArcaEx is implemented, DTCC plans to provide additional morning multi-cycle output for our Regional Interface Operation (RIO) trade recording application. Participants will be advised by Important Notice when to adjust for the additional RIO multi-cycle output.

Further information on DTCC's trade input efforts is available from Hank Belusa at 212-855-5693 or hbelusa@dtcc.com.

Canadian Dollar Settlement Service

*Develop a system to facilitate the settlement of Canadian dollar transactions between **DTC** and **Canadian Depository for Securities, Ltd (CDS)** participants.*

DTCC is working with CDS to expand the existing CDS/DTC transaction interface to support the processing and settlement of Canadian dollar transactions. Currently, the CDS/DTC transaction interface allows participants to process cross-border transactions in U.S. dollars only.

The proposed Canadian dollar settlement link will allow participants to settle Canadian dollar transactions directly through DTC, reducing transaction costs and eliminating problems with inventory bifurcation, where positions in a single security are held in both a participant's DTC account and its custodian's CDS account. Development is underway and service launch is planned for Q3.

Additional information regarding Canadian dollar settlement is available from John Abel at 212-855-8434 or jabel@dtcc.com.

SMART/Track

Expand this automated communications and tracking facility to include new services and to enhance existing functionality.

SMART/Track is an automated communications facility that centralizes communications among multiple parties for the processing and/or tracking of securities notifications – such as securities loan recalls, corporate action liability notices and buy-ins – using multiple mechanisms including MQ messages, file transmissions and web-based terminal submission. For some SMART/Track applications, the real-time status of notifications that the user has sent or received

can also be monitored. SMART/Track offers participants the benefits that result from automating manual processes and establishing standards for communicating information. It reduces message delivery risk for participants through confirmation notices and audit trails. The tracking component and the searches and sorts provided for some SMART/Track applications help participants manage their business in an automated and timely manner.

In 2005, DTCC will expand SMART/Track both to enhance existing functionality and to offer new services:

- The SMART/Track for Corporate Action Liability Notification Service, launched in 2004, will be enhanced by year-end to include the ability to export data from the service to an Excel file for internal use at a participant and a supervisory workflow approval process – permitting supervisors at firms to approve and transmit notices or reject them and route them to staff for further action automatically. A master sign-on capability will be developed to allow firms with more than one membership number to access liability notice data for multiple numbers. The enhancements will also include the ability to process notices relating to securities with security identification numbers other than CUSIP numbers (e.g., ISIN or SEDOL numbers) as well as provide a CUSIP search capability.
- SMART/Track for Buy-Ins will replace the buy-in functionality available on the Participant Exchange (PEX) service and provide an automated communication vehicle for the creation, transmission, processing and tracking of CNS and non-CNS buy-in notices. It will enable participants to better manage their exposure to open buy-ins. Participants will be able to view the status of an open buy-in and accept or reject a buy-in notice. Participants will also be able to transmit an extension for a non-CNS buy-in and re-transmit a buy-in execution notice to CNS. DTCC will work with the Securities Industry Association's Ad Hoc Buy-In Committee to finalize the business requirements in early 2005. SMART/Track for Buy-Ins is targeted for implementation by year-end.
- SMART/Track for Agent Lender Disclosure will help participants address certain requirements proposed by the Securities and Exchange Commission that agent securities lenders (such as custodian banks) provide identification data for their principals (the custodian bank's clients participating in its securities lending program) to broker/dealer borrowers. This service will be similar in functionality to SMART/Track for Stock Loan Recalls in that it will provide interoperability between 1) agent lenders and broker/dealers that are using different vendors to process their principal/agent lender data, and 2) a communications facility for those agent lenders and broker/dealers that want to transmit data directly to a counterparty. The role of SMART/Track will be limited to transmitting periodic and daily data files of principal/agent lender data between counterparties via the FTP file transfer format: SMART/Track will not edit or process any of the data in the files. In addition, DTCC has been asked to create and maintain a table of unique identification numbers for principal lenders that are not routinely assigned them through normal processes. Agent lenders will use these unique identification numbers within their periodic and daily data files. To accommodate this request, DTCC will build a database that agent lenders will be able to query via a web-based front end to determine, based on a match of data elements, if a principal lender already has a unique number. If one does not exist in the database, the system will generate a number.
- SMART/Track will be expanded to enable participants to submit dividend claims to NSCC's Continuous Net Settlement system. This will replace the current time-consuming

and difficult-to-track process whereby participants submit CNS dividend claims by facsimile transmission and U.S. mail. Through a SMART/Track application, participants will be able to transmit CNS dividend claims as well as receive information regarding those claims. Automating dividend claim processing through SMART/Track will make CNS dividend claim processing more efficient and will provide participants with an audit trail for CNS dividend claims.

Further information on SMART/Track can be obtained from Margaret Koontz at 212-855-5695 or mkoontz@dtcc.com.

Continuous Net Settlement (CNS)

Implement initiatives to enhance the buy-in and stock loan processes, providing increased CNS system efficiency.

Enhance buy-in process.

The CNS Buy-In execution notice input functionality will be expanded to notify “short” participants electronically of their liability through SMART/Track in the second half of 2005.

The CNS system will also be enhanced to accept buy-in re-transmittal notices (24-hour buy-ins). CNS will be able to receive next-day buy-ins and pass liability to “short” participants. Participants will enter buy-ins through the new buy-in application on SMART/Track and “short” participants will receive liability notification through SMART/Track for Buy-Ins. This new capability is planned for the second half of 2005.

Additional information is available from Vinny Mc Devitt at 212-855-5694 or vmcdevitt@dtcc.com.

Expand fully-paid-for account to accept stock loan recalls.

DTCC will be reviewing with participants active in the securities lending business whether NSCC’s “fully-paid-for account” functionality should be enhanced to accommodate stock loan recalls between broker/dealers, resulting in the automation of this manual process and reduction of buy-in exposure to the borrower, and supporting compliance with the Securities and Exchange Commission Rule 15c3-3 by establishing a good control location for the lender. In addition, DTCC will discuss the proposal with the SEC to determine its view of the fully-paid-for account as a good control location for stock loan recalls and whether any interpretive guidance on Rule 15c3-3 would be needed. Contingent upon this research and SEC input, implementation of this enhancement would be scheduled for Q4.

Contact Edlyn Meringolo for additional information at 212-855-5697 or emeringolo@dtcc.com.

Enhance browser-based CNS input capabilities.

Browser-based CNS input capabilities will be augmented to provide, at the point of entry, accurate editing of CNS data, including CNS exemptions and priorities. CNS data will be collected real time and edited at the point of submission so that participants will know, when entered, if their data is accurate and accepted by CNS. Participants will be able to see their projected CNS positions for the following day, which will allow them to issue buy-in,

reorganization, segregation exemption and priority instructions accurately. Development will begin during Q4 with implementation planned for the first half of 2006.

Additional information is available from Vinny Mc Devitt at 212-855-5694 or vmcdevitt@dtcc.com.

Enable settlement of non-standard trades in CNS.

Currently, non-standard trades such as cash trades, next-day trades and seller's options are reported on trade contracts but are not passed to the Trade Repository Processing (TRP) system or to CNS for settlement. This enhancement, targeted for the second half of 2005, will provide the capability for TRP and CNS to handle non-standard trades. Participants will have to indicate on their trade input whether the specific non-standard trade should go to CNS. This feature will allow participants to settle more trades through CNS. During Q1, DTCC is working with the industry to refine further the business rules.

Information about non-standard settling trades in CNS can be obtained from Elena Staloff at 212-855-5699 or estaloff@dtcc.com.

Index Share Processing

Provide greater flexibility in distributing portfolios as well as greater flexibility in creating and redeeming Exchange Traded Funds (ETFs).

Consistent with ETF market place trends, DTCC is finalizing enhancements to the index share process to provide for next-day create and redeem instructions, process actively managed ETFs and simplify negative cash reporting. DTCC will also provide additional data fields on the domestic and foreign portfolio composition files including, for example, the number of shares outstanding and the dividend amount per ETF (index share or receipt).

Customers receiving the portfolio composition files as well as broker/dealers and index receipt agents who engage in creating and redeeming ETFs must modify their processes consistent with any index share process changes. During Q1, DTCC will publish specific information regarding the portfolio and create/redeem modifications.

Further information on DTCC's index share processing effort can be obtained from Hank Belusa at 212-855-5693 or hbelusa@dtcc.com.

Reconfirmation and Pricing Service (RECAPS) processing

Update the RECAPS service to modernize its processing infrastructure and enable product expansion.

The RECAPS service permits participants to reconfirm and re-price "aged" fail items periodically to identify any problem transactions and ensure that older fails continue to be monitored. Since its development 15 years ago, there has been no significant modification for this SEC-mandated service, which provides net capital relief through this reconfirmation and re-pricing process. DTCC is currently working with an ad-hoc industry group to determine any needed new system features and to expand RECAPS functionality to accommodate additional product types. Features being considered include a new database design, a real-time adjustment process that includes acknowledgment of advisories, and same-day settlement for supplemental processing. Additional information will be provided as the requirements are determined. Preliminary estimates are for implementation in the first half of 2006.

Further information is available from Peter Inguanta at 212-855-5696 or pinguanta@dtcc.com.

Inventory Management System (IMS)

Implement new transaction management capabilities for settlement.

IMS provides participants with the ability to customize how their deliveries should be processed if they recycle for insufficient position. Currently, IMS will recycle deliveries in the desired order – set by the “recycle profile” established by the participant – but the system will attempt to complete each transaction (even if it must override the recycle profile ordering to do so).

In Q3, IMS functionality will be expanded to provide two additional recycle profiles. These new recycle profiles will permit increased control over a participant’s deliveries by processing the deliveries in strict profile order or by holding all of a participant’s deliveries in the desired profile order until a specific transaction release or global release instruction is provided.

In addition, IMS will offer participants the ability to route the deliveries they input to IMS for authorization based on predetermined profiles. A user will be able to create a profile by asset class and, within asset class, by input source (e.g., only deliveries submitted by Participant Browser Service (PBS) input). The user will also be able to determine, based upon input source, which delivery types (all valued, all free, only under/over valued deliveries) should be authorized. This enhancement also will be implemented in Q3.

Contact your Relationship Manager or John Kiechle at 212-855-3900 or jkiechle@dtcc.com for additional information.

Settlement Input Redesign

Update legacy code supporting all settlement-related input systems to facilitate system efficiency and the development of service enhancements.

During 2005 DTCC will continue the redesign of the depository’s settlement input systems. This settlement input redesign project, scheduled to begin a phased implementation in 2005, will overhaul the legacy code currently supporting all settlement-related input systems, and create a consistent methodology for accepting, editing, enriching, and applying business rules to all input transactions. The redesigned system will employ a single, standardized, table-driven transaction editing and cutoff process for all settlement transaction types. The redesign will simplify the transaction input systems, reduce system maintenance costs, and allow new services to be implemented more quickly and less expensively. This implementation will not require participants to do related development work.

Additional information is available from John Abel at 212-855-8434 or jabel@dtcc.com.

Account Transaction Processor (ATP) Redesign

Initiate a multi-year redesign for the DTC core books and records processing system.

The ATP system is the core processing system for all transaction activity affecting participants’ security positions held at DTC. ATP processes all DTC transactions related to security movements, including NSCC’s Continuous Net Settlement transactions. The ATP system also checks all transactions versus systemic risk management controls and other business rules.

This multi-year ATP redesign initiative will increase the system's flexibility for existing processing and add new functionality permitting real-time settlement and bulk pledging. Its enhanced functionality provides DTCC with the ability to expand its services domestically and internationally with increased speed to market.

In 2005, DTCC will define the project scope, review existing business requirements, determine new business requirements and perform a technology assessment to define a highly reliable platform and system architecture for this volume-intensive and mission-critical application.

Additional information is available from John Kiechle at 212-855-3900 or jkiechle@dtcc.com.

Automated Customer Account Transfer Service (ACATS)
ACATS continues to expand its participant base and introduce non-traditional asset types relating to the account transfer process.

There are four principal ACATS initiative for 2005:

ACATS/Insurance Processing Services (IPS) Pilot and Production Rollout

During Q4 2004, DTCC migrated the ACATS/IPS interface for participant testing of mainframe and PC Web Direct components. Nine pilot firms, including three insurance carriers, have signed up for the pilot. Participant testing is scheduled to run through March 2005.

ACATS/IPS production is scheduled for April 2005. All ACATS members will be required to make modifications to the fixed or variable record length output file formats as identified in NSCC Important Notice A5868, P&S 5438 dated July 29, 2004. An Important Notice reviewing all mandatory changes and testing details was distributed on January 10, 2005. In addition, participants who will utilize the service are required to make both input and output file modifications.

The Participant Information Efficiency Report (PIER) will be modified to provide participants with statistical information on ACATS/IPS transactions. PIER will include information on incoming/outgoing IPS items, carrier acknowledgements and rejects and the top participating carriers for each firm. The PIER modifications are scheduled for Q2.

Further information is available from Bill Kapogiannis at 212-855-5667 or bkapogiannis@dtcc.com.

ACATS Nonstandard Transfer Enhancements

The Securities Industry Association's Customer Account Transfer Division has identified requests for enhancements to expand the functionality of ACATS partial transfers. These include a modification of the editing criteria for required mutual fund and option data fields when requesting a Partial Transfer Receiver (PTR) and modifying the full/partial indicator data field for PTR transactions. These modifications are scheduled for Q3.

PIER will also be modified to report nonstandard transfer activity. A new section will be developed to provide participants with statistical information on partial transfers (PTR and PTD),

reclaims (RCL), fail reversals (FRV), mutual fund clean-ups (MFC), residual credits (RCR) and custody redelivery (CRD). This new section will report settled, rejected and purged items for all ACATS nonstandard transfers types. The PIER modifications are scheduled for Q2.

Contact Bill Kapogiannis at 212-855-5667 or bkapogiannis@dtcc.com for additional information.

Cost Basis Reporting Service (CBRS) PC Web Direct Enhancements

Enhancements to PC Web Direct for CBRS allow participants to 1) send to NSCC a variable-length data file and 2) enter data directly on screen via PC Web Direct for CBRS. This will allow participants who communicate via PC Web Direct access to send and receive CBRS data. Implementation of these enhancements is scheduled for Q1 and Q2 respectively. Participants who wish to use PC Web Direct for CBRS must have their digital certificates enhanced to allow for CBRS access. An NSCC Important Notice is being issued in February detailing these enhancements, including participant testing details.

Additional information is available from Robert Yodice at 212-855-8024 or ryodice@dtcc.com.

Enhance ACATS Eligibility and Pricing Processes

DTCC's review of necessary enhancements to ACATS processing through CNS has expanded to include all ACATS eligibility and pricing processes. The review of ACATS processes was completed in January. The DTC pricing and eligibility process review is scheduled for completion in Q1. Enhancement of all ACATS eligibility and pricing processes is planned for Q3.

Further information about ACATS enhancements can be obtained from Robert Yodice at 212-855-8024 or ryodice@dtcc.com.

Fixed Income Clearance and Settlement

Mortgage Backed Securities (MBS) Central Counter Party (CCP)

Develop a pool netting service for MBS products to further advance the CCP initiative.

Implementing a CCP for MBS will provide customers with significant operational benefits including streamlined processing and enhanced netting and settlement, principally through the related re-engineering of the trade life cycle for MBS. In addition, acting as CCP for MBS will permit the Fixed Income Clearing Corporation (FICC) to provide customers with common risk management across government and mortgage-backed securities, as well as the opportunity for anonymity through blind brokering for MBS transactions and maximized balance sheet relief for financing transactions.

The Fixed Income group plans to implement these MBS CCP services on a “phased in” basis, with pool netting as a first step. Pool netting requirements will be formulated in conjunction with an MBS working group, which is anticipated to convene in Q1. The completion of development and testing are planned for 2006.

Interactive messaging specifications for participants to support both pool information submission as well as specified pool trades will be published in Q4. Participant development will be required in early 2006 to support a pool netting service.

For information regarding this effort, please contact Dennis Paganucci at 212-855-7626 or dpaganucci@dtcc.com

RTTM / NSCC Interface – Fixed Income Transaction System (FITS) Elimination

Replace major internal interfaces.

In conjunction with the implementation of RTTM for Corporate and Municipal Debt Securities and Unit Investment Trusts (CMU), RTTM will also replace all major internal interfaces to downstream CMU processes. During 2004, the Fixed Income group successfully implemented the first direct interface between RTTM and the Trade Repository Processing (TRP) system, which in turn feeds CNS and Balance Order settlement.

During 2005, the Fixed Income group will focus on replacing the remaining internal downstream FITS processing streams with feeds directly from RTTM to the risk management and billing systems as well as replacing end of day Machine Readable Output (MRO).

This implementation, while transparent to participants, will enhance STP efforts and provide for real time feeds to those applications in the future. FITS elimination will provide approximately \$2 million in cost savings annually.

The elimination of the FITS backend systems is targeted for Q2.

For information regarding this effort, please contact Ed Fanning at 212-855-7623 or efanning@dtcc.com.

Implement Interactive Messaging for Netting

Expand interactive messaging capabilities to support netting and settlement for GSD products.

ISO-based, real time interactive messaging provides a common message format and a single pipeline for all fixed income products. Messaging currently in place supports trade capture and matching functionality.

In 2005, the Fixed Income group will complete its suite of interactive messages for the GSD business by implementing interactive messaging for netting and settlement. Participants will have the ability to receive funds settlement, risk management and clearance information on a real-time basis using our standard message protocol. This messaging expansion positions FICC to offer same-day settlement capabilities and enhanced repo processing in the future.

Publication of participant specifications is targeted for Q2, and support for participant testing is targeted for availability in Q4.

For information regarding this effort, please contact Melanie Sterman at (212) 855-7614 or msterman@dtcc.com.

General Collateral Financing (GCF Repo®) Enhancements

Expand GCF products to include corporate commercial paper and Treasury Inflation-Protected Securities (TIPS).

GCF Repo® allows active trading among eligible GSD netting members in general collateral repos based on rate and term without requiring intra-day trade-for-trade settlement on a DVP basis. (Standardized CUSIPs are used to specify the acceptable type of underlying collateral.)

In 1999, trading between GSD netting members settling at different clearing banks (“inter-bank” GCF Repo) was suspended due to risk-related concerns expressed by the Federal Reserve Bank of New York regarding the impact of large dollar amounts moving between the two member clearing banks. As a result of these Fed concerns, restrictions were imposed limiting trading to those participants who use the same clearing bank. This restriction dramatically reduced liquidity. In 2005, the Fixed Income group will convene a working group during Q1 to begin to develop a proposal to resolve these trading restrictions.

In addition, an assessment of the potential for two new GCF products, corporate commercial paper and TIPS, will be completed in Q3. The benefits of including these new security types in the GCF service include 1) providing members with greater flexibility when assigning GCF Repo collateral to their open positions at end of day as well as 2) bolstering members’ balance sheet relief in accordance with relevant accounting pronouncements (FIN 41). The addition of these new security types has been endorsed by The Bond Market Association and reviewed with GSD’s two clearing banks. FICC will seek approval at the FICC Membership and Risk Management Committee meeting during Q1 to initiate the requisite rule filing.

For information regarding this effort, please contact Susan Tysk at 212-855-7612 or stysk@dtcc.com.

Automated Re-netting of Fails
Enhance GSD services to support fail re-netting.

The existing netting process for Government Securities focuses on “new” trading activity and does not include re-netting of failed settlement obligations from previous days. The exclusion of failed settlements can result in participants having obligations with FICC on both the short and long side of the market. When this situation occurs, any offsetting transactions where the CUSIP, par and settlement amounts are the same are automatically “paired off.” This helps to reduce settlements on both sides of the market but it does not completely address the prior-day failed settlement obligations.

In 2005, the Fixed Income group will define the business and functional requirements necessary for a process to re-net failed obligations, on an automated basis, for all Government Securities Division netting members.

Business requirements for this initiative will be completed during Q1. All participants should assess the impact of Machine Readable Output (MRO) revisions on their internal systems. During Q2, updated MRO specifications will be published. Participant coding changes, where applicable, must be completed by year-end.

For information regarding this effort, contact Dave Cosgrove at 212-855-7688 or dcosgrove@dtcc.com.

Institutional Settlement Advancement
Implement Sponsored Membership Model.

In 2003, the Fixed Income group published a white paper addressing issues surrounding STP for institutional settlement. The paper delineates multiple complementary strategies for resolving institutional STP issues, as well as for maximizing netting of the dealer side of institutional trades. It is available at www.dtcc.com under the “Thought Leadership” tab.

In 2004, the Fixed Income group, with the support of an industry working group, initiated research into the potential for these models to provide balance sheet relief and concluded that participants view balance sheet relief as a critical benefit.

In 2005, FICC will implement the Sponsored Membership Model. This initiative introduces a new FICC membership category to support buy-side participation and supports balance sheet relief for repurchase agreements executed between certain well-capitalized banks and their institutional custody clients. Implementation is planned for Q3, subject to SEC approval.

Also in 2005, the Fixed Income group will perform the analysis associated with expanding the Sponsored Membership Model to include dealer sponsors. Along a separate but related path, the Fixed Income group will analyze a two-tiered membership structure for FICC as discussed in the white paper. The two tiers would accommodate the respective needs and requirements of sell-side and buy-side participants.

Information regarding this effort is available from Susan Tysk at 212-855-7612 or stysk@dtcc.com.

Auto Funds Debit

Implement process to automate funds settlement.

The Fixed Income group will introduce an automated process for funds-only settlement obligations due to and from the Government Securities Division (GSD). The introduction of “auto debit” will eliminate the potential for late funds settlement, enhance the workflow at the participant level and will support an enhanced risk management process by allowing the execution of an earlier funds transfer process by FICC.

This “auto debit” process will leverage the Federal Reserve’s Net Settlement Service used daily to support DTC and NSCC settlement to facilitate the automated payment and collection of funds for FICC.

Milestones planned during 2005 include the completion of business requirements in Q2, completion of an interface to DTCC’s NSS implementation in Q3, testing targeted to begin in Q3 and implementation in Q4.

This initiative will not require any development effort by customers; legal agreements, however, will need to be established between the participants, their respective clearing banks and FICC.

For information regarding this effort, please contact Dave Cosgrove at 212-855-7688 or dcosgrove@dtcc.com.

Repo Substitutions Enhancements

Provide increasingly efficient repo substitution processing.

By automating processes, FICC processed an unprecedented number of collateral substitution requests for repurchase agreements on September 30, 2004.

During 2005, the identification, development and implementation of operational modifications will further enhance the efficiency of the repo collateral substitution process. The methodology for substitutions at an industry level is expected to change as a result of this initiative and will be completed in multiple phases.

Benefits include reduced risk associated with up to billions of dollars in exposure by eliminating unmatched security positions at clearing banks. The reduction of the unmatched security positions will reduce the daylight overdraft costs associated with FICC’s financing the original collateral until the replacement collateral allocation process is completed.

In response to industry requests, the following three initiatives will be completed this year:

- Provide participants with a “Pair-off” report, to identify potential offsetting substitutions. Participants will be notified when the report is available in the report center, targeted for the end of Q1.
- Provide participants with the ability to allocate collateral to forward starting General Collateral Repo trades in advance of the repo start date by Q3.
- Implement the initial phase of the enhanced substitution model to allow brokers to notify FICC of the substitution notification without the simultaneous notification of the replacement collateral. Testing is targeted to begin in Q3 with Q4 implementation.

Any participant development efforts will be identified during Q1.

During 2006, the flow of substitution information from broker/dealers to FICC will be further evaluated, with the potential objective of eliminating broker intermediaries from this information exchange process.

For information regarding this effort, contact Susan Tysk at 212-855-7612 or stysk@dtcc.com.

Money Market Instruments (MMI)
Develop hybrids processing automation.

To reduce payment risk exposure associated with manual processing for 2,600 non-standard MMIs, this initiative addresses participants' interest in automating the manual processing for these hybrid instruments. These non-standard MMI instruments, presently experiencing dramatic growth, include a variety of features, including extensions or exchanges, call and put features with special terms, pre-payables or renewables.

This effort will help mitigate financial exposure associated with late or incorrect payments. For the 12 months ending September 2004, investor claims to Issuing/Paying Agent (IPA) banks totaled approximately \$100,000 on the \$500 million principal amount outstanding for these hybrid instruments. In addition, there is reputational risk and the potential for financial exposure to IPAs resulting from processing errors. Automation will also reduce manual processing and its associated costs for both participants and DTCC.

Business analysis, functional design and requirements will be completed in 2005 with deployment anticipated for 2006. Participant impact will be identified during the analysis phase.

For additional information, contact Javette Laremont at 212-855-7612 or jlaremont@dtcc.com.

Asset Services

Global Corporate Action (GCA) Services

Enhance the efficiency, coverage and global footprint of the GCA Validation Service to meet the needs of additional customers.

GCA Validation Service streamlines the initial capture and data reconciliation of corporate action announcements, providing high quality, comprehensive and timely data to its clients.

DTCC will continue to focus on client acquisition in 2005, expecting a number of new firms to join the service. As this service matures, DTCC will concentrate its development efforts to improve internal operational efficiencies. In early 2005, a new ISO 15022 publication file will be developed to facilitate client take-up, specifically to address requirements for clients located outside of the United States. DTCC will work towards expanding this offering to additional markets through alliances with service providers and redistributors.

For additional information, contact your Relationship Manager or Warren Eastman at 212-855-5663 or weastman@dtcc.com.

Develop an automated mechanism to allow participants to process corporate action instructions to DTC via a computer-to-computer interface.

DTCC has proposed a technical solution as an accelerated alternative to the Corporate Action re-engineering initiative for ISO 15022 processing of corporate action notification from and instructions to the depository.

To accelerate development, the solution leverages existing messaging components and utilizes existing CCF formats. Communication can be in the form of file transfer or MQ via DTCC's SMART network. DTCC is working with industry committees including the Corporate Actions Division of the SIA and the Association of Global Custodians to finalize the specifications and the development timetable. DTCC expects to implement these capabilities later in the year. Updates will be provided during 2005.

Contact Lorraine Morrison at 212-855-5310 or lmorrison@dtcc.com for additional information.

Corporate Action Systems Reengineering

Redesign systems consistent with the strategic goals of risk mitigation, cost reduction and streamlined processing.

DTCC outlined a series of key initiatives in its 2003 position paper *Transforming Corporate Action Processing* aimed at lowering risk, reducing cost, streamlining processing and improving customer disclosure in the corporate action process.

The achievement of these objectives necessitates the reengineering of DTCC's systems that support the handling and processing of corporate action events (reorganization, redemption, and periodic income/dividend payments). The objective of this multi-year reengineering initiative is to achieve absolute processing efficiencies by integrating more than sixty legacy subsystems

into a single streamlined platform designed to accommodate existing and emerging global corporate action event announcements, eliminate the use of contra-CUSIPs, support payments in multiple currencies, handle international security identifiers and incorporate industry standards.

This reengineering initiative will encompass both the Corporate Action and Underwriting functions of the depository and will be tracked and reported separately. DTCC looks to finalize the Corporate Action development agenda by mid-year after completion of the business requirements definition effort currently underway. Plans call for the commencement of technical specifications by Q2 with the goal of completing this phase by year-end.

One of the critical goals of the development is the incorporation of and adherence to industry standards. Although these capabilities will be inherent in the new system, discussions with various industry associations has prompted DTCC to “jump start” this effort with our legacy systems. As discussed above, DTCC will sponsor a development effort to provide interfaces for and support of ISO 15022 messages for instruction processing.

DTCC will take numerous steps to ensure open communication about the project development. To ensure that the requirements under development reflect the needs of our participants, DTCC is sponsoring discussion forums in Q1, reviewing the project scope, planned changes to DTC processes and their potential impact to the firms (such as the elimination of contra-CUSIPs). The feedback from these forums will be integrated with the system requirements prior to finalization. A guidance committee, representing a cross-section of the DTC participant base, will meet on a quarterly basis to monitor the progress of the project. Status reports will be published periodically to keep customers aware of progress and highlights will be included in the quarterly Agenda updates.

Further information concerning the reengineering initiative is available from Christopher Wyle at 212-855-1298 or cwyle@dtcc.com.

Underwriting Systems Reengineering

Redesign systems to improve the underwriting process consistent with the strategic goals of risk mitigation and cost reduction.

DTCC is developing a system redesign, leveraging modern technologies and addressing the special challenges of new issues processing. Using participant input, DTCC is working to improve the efficiency of the underwriting process, enabling straight-through processing.

This redesign is occurring in concert with the corporate action systems redesign described above. The underwriting process makes securities depository-eligible and feeds essential asset servicing information to the depository’s Security Master File. Both the underwriting and corporate action initiatives benefit from parallel development efforts.

Along with streamlining the workflow and reducing manual intervention, the intent is for the underwriting system redesign to capture additional information essential to support global securities and the downstream servicing of increasingly complex securities. The new system will incorporate emerging issuance and reference data standards, as identified by industry groups.

Completion of the business requirements definition effort is underway. User acceptance testing is expected in mid-2006 and no participant impact is likely, other than front-end interface training. The new system is targeted for implementation by Q1 2007.

Further information concerning the reengineering initiative is available from Jeffrey Katz at 212-855-3909 or jkatz@dtcc.com.

Complex Securities Servicing

Establish best practices and performance metrics for the handling of complex securities.

During 2004, significant progress was made regarding streamlining the processing of income and redemption payments associated with more complex instruments such as structured securities, with agents increasingly contributing announcements directly to DTCC via newly developed interfaces. This progress resulted in a 20% reduction in late announcements and post-payable adjustments, although these areas still represent significant cost and risk to the industry. In the case of post-payable adjustments, the majority is submitted during the month after the payable date involved, but a few adjustments can still be received more than two years after the payable date.

DTCC will continue to address the challenges of servicing structured securities by working to improve further industry performance in late payments and post-payable adjustments. DTCC will update the 2003 Collateralized Mortgage Obligation white paper to include accomplishments to date, issues that continue to face the industry and recommended steps to address the challenges. Working with the Corporate Actions Division of the SIA and the Association of Global Custodians, DTCC will establish a forum to review issues, and identify best practices and performance standards for payment announcement and adjustments. DTCC will continue to report progress on this initiative periodically, with updates included in the quarterly Agenda reports.

For additional information, contact Christopher Wyle at 212-855-1298 or cwyle@dtcc.com.

Immobilization and Dematerialization

Improve transfer-processing efficiencies and reduce vault holdings in defunct issues.

Working with industry groups including the Securities Industry Association and the Securities Transfer Association, as well as with regulator support, DTCC will continue to make progress to immobilize and dematerialize physical securities certificates.

DTCC will continue its efforts to expand Direct Registration Service (DRS) eligibility and to eliminate continued certificate issuance for Withdrawal by Transfer (WT) processing. By Q3, the depository plans to implement a new DRS Profile Surety Program. Under this new program, users may opt for higher surety coverage of \$25 million per transaction, easing processing and reducing risk for DRS users.

DTCC will continue to work with the New York Stock Exchange, the American Stock Exchange and the Nasdaq Stock Market to support these markets' consideration and adoption of requirements that listed issues be DRS-eligible, increasing the number of DRS-eligible issues to over 8,000 issues. This ongoing effort has received support from regulators and industry groups.

The SIA, with the support of DTCC, has begun discussions with Delaware legislative representatives to update provisions in Delaware corporate law that require the routine issuance of securities certificates.

DTCC will continue to expand participation by transfer agents and participants in the Paperless Legal program. This program eliminates the cumbersome and costly documentary forms for non-routine transfers, commonly referred to as legal transfers. In 2005, working with industry groups, the depository will expand the program to include 90% of all such legal transfers, and will work with participants so that this paperwork is no longer included on deposits submitted to the depository.

Working closely with many of the highest volume transfer agents, DTCC is pursuing the “truncation” of all deposited transfer certificates at the depository. Under the proposed process, the depository would transmit full certificate level detail to the agents, along with the potential for the transfer agents to retrieve images of the certificates. After the agent approves or rejects the transfer, the depository would destroy the certificate on behalf of the agent. It is expected that this process will greatly reduce processing costs and transfer rejects, while improving transfer turnaround.

Additional information is available from Joe Trezza at 212-855-4400 or jtrezza@dtcc.com.

Restricted Securities

Continue to implement new services to streamline the lifting of restrictions on securities.

Enhancements to the first phase of a set of restricted securities processing changes, introduced in 2004 with eight users “beta testing” the web-based product, will continue. The goal is to offer a straight-through processing solution for restricted securities by year-end as well as a method to truncate physical securities at the depository by 2006, alleviating the need to move restricted securities to transfer agents.

The service provides a negotiability and documentation review of the deposit, images certificates and paperwork and delivers physical certificates to the transfer agent. For more information on DTC’s family of restricted services, please refer to <http://www.dtcc.com/restrictedservices> or contact your Relationship Manager.

Additional information is available from Joe Trezza at 212-855-4400 or jtrezza@dtcc.com.

Network Services/Technology

Participant Browser Services (PBS)

Complete the transition of all remaining green-screen terminal interfaces (3270 applications) to a graphical user interface.

This project completes the conversion of the legacy Participant Terminal System (PTS) user interface to the browser-accessible web pages of PBS. Remaining functionality will be developed and tested with selected customers in the first half of 2005, to be followed by a general rollout. DTCC will also work with customers to transition PTS users to the new browser applications, helping them realize the benefits of improved navigation and menus as well as the elimination of codes and acronyms – all focused on easing their training burden.

A new browser-based interface to PTS tickets will eliminate customer dependency on SNA printers. This feature will be piloted with selected customers in Q2.

Customers that are interested in using PBS should contact their Relationship Manager or Michael Vellecca at 212-855-5678 or mvellecc@dtcc.com.

SMART/Search for Archived Reports

Provide expanded functionality for depository and clearing corporation customers using this online report archive service.

SMART/Search provides firms with streamlined access to years of historical transactional reports from DTCC's repository, eliminating the need to make multiple PINS inquiries. Users can log in to SMART/Search for Archived Reports to view past activity, positions and settlement information. Customers can have search results reported in multiple formats, including viewing directly online within the browser, via file download, email link or by email attachment.

During 2005, the service will provide additional depository reports, new format types and reports previously available via PC Web direct. Equity Trade Contracts and ACATS reports will be accessible via SMART/Search in Q1. In the future, delivery of this information via PCWeb Direct will be eliminated. An Excel download feature will be available in Q1.

Customers interested in gaining access to SMART/Search should contact your Relationship Manager.

Message Delivery System Replacement

Upgrade message communication to customers.

DTCC currently sends up to 13 million messages each day to customers throughout the world via the Message Delivery System (MDS), which encompasses a series of custom applications that have evolved over the past 20 years. These are targeted for a technology update to establish standardization and to control legacy application expenses.

This development will provide substantial benefits including reducing dependency on specialized skills for maintenance of legacy applications, providing a flexible multi-platform messaging capability, reducing future efforts needed to develop new messaging applications, supporting industry standard message formats/types (e.g., ISO 15022), and developing an

alternative to current Systems Network Architecture (SNA) ticket printing to allow for the eventual elimination of printed tickets in favor of a browser-based solution.

A pilot test is planned for Q2 focused on the development of a model that gives customers control over which messages are to be received with flexibility in format and location. Replacement of existing ticket printing technology is expected by year-end. DTCC will work with customers to integrate the new technology into their business processes.

Additional information is available from Michael Vellecca at 212-855-5678 or mvellecc@dtcc.com.

Customer Self-service Capabilities

Enhance the DTCC customer service experience by improving customer support functionality for DTCC browser based products.

Customers will benefit from planned enhancements that increase online customer support information and self-service features. A new DTCC portal to be introduced in Q2 will house new customer service features and initiate a migration to single sign-on and simplified credentials issuance for all browser-based products. New automated registration and entitlement authorization functions will allow customers to manage employee profile administration capabilities consistent with emerging industry and government compliance requirements.

Beginning in Q2 and continuing through year-end, DTCC browser-based products will be converted to a new common web application development framework. These changes will standardize the various customer interfaces, providing an easy to view consistent “face” for DTCC information.

Additional information is available from Fran Lapinski at 212-855-8925 or flapinski@dtcc.com.

Risk Management

During 2005, risk management initiatives underway will continue and, as appropriate, will be expanded. DTCC will run stress tests (assessing how effectively our risk management practices can control risks in extreme market scenarios) as well as utilize back testing (validating how effective risk management decisions made prior to a particular settlement day were in controlling the risks actually experienced on that day) to confirm that margin and clearing fund contributions are at the appropriate levels to protect the financial industry.

The use of a consistent collateralization methodology, Value at Risk (VaR), will be expanded across the clearing corporations. Although this change will not have any systemic impact on participants, the adoption of the new models will change the calculation of components of the required Clearing Fund deposit. Steps planned during 2005 include implementing VaR for NSCC-eligible fixed income securities (corporate and municipal debt securities and Unit Investment Trusts) and building the appropriate models for the GSD and MBSD businesses of the Fixed Income Clearing Corporation with implementation in 2006.

Late in the year (currently anticipated for November), DTCC will implement several changes to margining procedures. Among other matters, these changes will establish new procedures for collecting required Clearing Fund deposits earlier in the day. In addition, T+3 marks to the market and VaR charges for NSCC-eligible fixed income securities will be included in determining the overall Clearing Fund requirement. The ability to post and collect multiple same-day margin calls will be implemented, in case same-day settling activity and/or severe market movements necessitate several special intraday margin calls. All of these changes will require SEC approval. DTCC expects to release an Important Notice with more details on these changes by mid-year.

DTCC will also implement revisions to the procedures for advising participants of daily changes to Clearing Fund requirements, replacing today's manual procedure with automated notification through the PC Web interface; this change is targeted for Q4.

DTCC also plans to begin in 2005 work toward implementing consistent market pricing mechanisms across all its subsidiaries and a consistent approach towards collateral accepted to satisfy clearing fund requirements. The first initiative will involve the development of a unified system for handling market price information and distributing it to appropriate applications in the subsidiaries (e.g., risk systems in the clearing corporations, the settlement risk management control systems in the depository); the first phase of this initiative will focus on DTC and NSCC, and the first implementations (standardizing market price data feeds across the subsidiaries) will occur during the year (these changes will not affect participants).

A separate initiative involves the restructuring of the Clearing Fund components to standardize the forms of acceptable collateral across DTCC's clearing corporation subsidiaries. These changes will have to be approved by the SEC, and will not affect participants until 2006.

DTCC is addressing operational risk – the risk of loss, including reputational harm, resulting from inadequate or failed processes, people and systems, or from external events – by applying tools across the organization and focusing company-wide attention on this effort. A Risk and Control Self Assessment (RCSA) process will be completed for every high-risk business area at DTCC and will be updated semi-annually.

Further information on stress and back testing efforts as well as the VaR methodology can be obtained from Jiping Guo at 212-855-5755 or jguo@dtcc.com. Information regarding the RCSA process is available from Eileen Robbins at 212-855-5770 or erobbins@dtcc.com.

Distribution Services

Mutual Fund Services

Address opportunities consistent with the needs of the mutual fund industry.

Fund/SERV and Fund/SPEED enhancements

Support industry efforts to develop solutions to respond to regulatory issues.

During 2005, a major priority will be to continue to develop solutions that address the issues of late trading, market timing and breakpoint calculations. Some of this year's mutual fund releases are likely to include system enhancements consistent with recent regulatory proposals, although specifics cannot be determined pending final regulatory decisions.

- **Mutual Funds Breakpoints.** Modifications to our Fund/SERV, Networking and Profile services will continue in 2005. Client Data Share is a 2005 initiative for Mutual Fund Services that includes passing social security number information to help funds and firms determine the proper breakpoints. This initiative will also facilitate maintaining the firm's books and record keeping requirements.

The Mutual Funds group at DTCC will be working closely with the Securities Industry Association's Operations Committee and the Broker Dealer Advisory Committee of the Investment Company Institute in support of the initiative to achieve broad coverage of fund descriptive information in the Mutual Funds Profile database. This initiative will aim to have most funds' critical information incorporated into Profile so that it can become the centralized source of this information for the industry as a whole. Additional information regarding this effort is available from James Kiernan at 212-855-5662 or jkiernan@dtcc.com.

- **Late Trading.** DTCC is participating in industry efforts to prepare solutions to the SEC's Q4 2003 release proposing steps to address the recently publicized instances of "late trading" abuses. While DTCC shares the view expressed by some industry members that certain proposed solutions to this problem appear to negatively impact mutual fund investors' flexibility in making investment decisions, DTCC is prepared to modify its Fund/SERV system to provide a centralized "time stamping" facility for order submissions. DTCC is also prepared to respond to other potential solutions and will provide whatever functionality is deemed necessary by the industry. Action on this item will await a final proposal from the SEC.

Alternative Investment Products

Provide increased standardization and automation for alternative investment products

DTCC is leading an alternative investment products steering committee to identify potential opportunities for automation and standardization in the alternative investment industry. This can include registered and non-registered investment products and hedge funds. Automation opportunities exist for new account processing, purchases, redemption/tender offers and commission processing.

Additional information will be provided in future quarterly agenda updates and any questions can be addressed to Linda Yee at 212-855-5612 or lyee@dtcc.com.

Insurance Services

Continue to expand product offerings to support Straight Through Processing (STP) for annuities and life insurance. STP is a major goal for the insurance industry as defined by industry organizations including the Securities Industry Association (SIA), the National Association for Variable Annuities (NAVA) and the Association for Cooperative Operations Research and Development (ACORD).

InsurExpress

Provide participants access to an integrated workflow for processing multiple carrier insurance products.

Leveraging DTCC's infrastructure and established network of connectivity, InsurExpress integrates key insurance industry service providers to support communications between insurance companies and participant distributors of insurance products, providing all necessary functionality for life and annuity application processing.

During Q1, DTCC will implement system changes necessary to modify the original InsurExpress business model to provide additional flexibility and choice in accommodating a variety of service providers and intermediaries. Product launch with a pilot group of distributors and carriers is planned for Q2.

In-force Transactions (IFT)

Expand functionality based upon industry requirements and input.

Insurance Services will build on the 2004 ACATS for Insurance and IFT initiatives. IFT-Phase 2 will include functionality defined by the SIA Insurance Advisory Panel such as fund reallocations/transfers, withdrawals, automatic reinvestment programs, systematic withdrawal programs and demographic changes. Meetings with an industry advisory group will begin during Q2.

Appointment Repository

Assess the development of a repository to be used to validate representative appointment authorizations.

Early development is underway for an industry repository and/or messaging hub to support the validation of representative appointment information at point of sale. This product is to be used by solution providers and distributors to ensure that the sale of annuities and life insurance is compliant with state regulations by validating that the licensing and appointment requirements are achieved. Discussions with potential users are underway during Q1 and development is subject to industry validation and commitment to adoption.

Policy Replacement Processing service

Develop a policy replacement processing service including a money settlement component for the movement of insurance and annuity contracts between carriers.

Transferring the cash value of an insurance contract from one carrier to another for the purchase of life insurance or annuities is a manual and time-consuming process. The implementation of an automated and standardized replacement processing service, including a money settlement component, will reduce operating overhead for insurance carriers and increase

end user customer satisfaction. Development is subject to industry validation and commitment to adoption, which will be sought by the end of Q3.

For information on the above initiatives, contact Randi Gordon at 212-855-5654 or rbgordon@dtcc.com or John Ziambras at 212-855-5651 or jziambras@dtcc.com.