



2005 Development Agenda

3rd Quarter Update

October 28, 2005

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Introduction

Welcome to the third quarterly update of the 2005 Development Agenda. For those not familiar with this series of documents, please take a moment to read this overview.

Early each year, DTCC publishes a comprehensive list of the major programs it plans to advance over the course of the coming year in an annual Development Agenda. Taking this initiative is one of many ways DTCC keeps the industry informed. In addition, it provides a useful vehicle for industry participants to see what's coming down the road, including actions they must take to ensure readiness for new services. While most initiatives are very much tied to technology development projects, these updates go beyond and cover industry discussion groups, rule filings, contingency programs, etc.

Over the course of the year, priorities and plans can change, resulting in acceleration, deceleration or cancellation of specific initiatives. To keep the industry informed on these changes, DTCC issues four quarterly updates of progress against the original plan. The quarterly updates follow the same sequence as the annual Development Agenda, but will include only those sections where there is something newsworthy to report such as a milestone achieved, "new news" or a change in the anticipated schedule. If you have a question about something not reported on in this document, we urge you to consult the appropriate contact individual listed in the annual Development Agenda – or contact your Relationship Manager.

Finally, beginning in 2005, the quarterly Development Agenda update will include reporting progress on industry uptake of Confirm/Affirm and Matching models. The publication of this information is part of a joint commitment¹ made to the SEC in response to the Commission's 2004 Concept Release relating to Securities Transactions Settlement.

¹ *The commitment was made with DTCC's affiliate Omgeo*

Industry Confirm/Affirm and Matching Rates

In its response to the SEC's 2004 Securities Transactions Settlement Concept Release, DTCC committed to publicize statistics on the industry's continued progress in the rate of Confirmation/Affirmation and Matching of trades in advance of settlement date.

Firms in the industry continue to put attention towards post-trade efficiencies. Omgeo OASYS-TradeMatch, Omgeo's real-time central matching solution for U.S. domestic transactions, continues to bring enhanced value to the industry. Omgeo has brought 37 new users on to OASYS-TradeMatch so far this year, which represents an increase of 28% over the same period last year. Throughout 2005, Omgeo customers using full matching services continue to enjoy trade date affirmation rates as high as 50%, significantly higher than the industry average (year-to-date) of 19% for confirm/affirm users. Furthermore, Omgeo reports that its daily trading volume has risen over the million trades per day mark as of September 2005, which represents a major milestone for its services in the U.S. market.

Omgeo continues efforts directed at bringing new levels of operational efficiency to the U.S. market. Some important product development initiatives that will serve to enhance functionality within OASYS-TradeMatch and TradeSuite will go into production in Q4 2005 and early 2006. These include upgrades that will provide support for third-party software and compatibility with the most current Windows service packs (XP-SP2 and W2000-SP4), enhancements of interest to broker/dealers include processing of To Be Announced (TBA) contracts for Mortgage-Backed Securities (MBS), improved fixed income processing via security type standardization, and intuitive BIA retrieval. Additionally, two SEC-mandated changes will be implemented to comply with Regulation SHO – Rule 203.

Model	Timing	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05
Confirm/ Affirm Model	Trade Date	17%	19%	20%	21%	19%	21%	18%
	Trade Date + 1	84%	83%	84%	82%	83%	82%	83%
	Trade Date + 2 (AM)	88%	88%	89%	88%	88%	88%	87%
Matching Model	Trade Date	57%	50%	51%	49%	50%	50%	49%
	Trade Date + 1	89%	88%	90%	87%	87%	89%	89%
	Trade Date + 2 (AM)	91%	92%	93%	91%	91%	92%	92%
Blended	Trade Date	24%	26%	28%	27%	26%	25%	26%
	Trade Date + 1	85%	84%	85%	83%	84%	85%	85%
	Trade Date + 2 (AM)	89%	89%	90%	89%	89%	89%	89%

Source: Omgeo

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.

In the third quarter, DTCC continued to expand its out-of-region business operations center supporting critical operations functions for DTC, NSCC and FICC. Staffing of the site now approaches 400.

DTCC's remote data processing capabilities today routinely support all critical data processing functions for DTC, NSCC and FICC. During the remainder of 2005, some additional non-critical data processing functions will be added to the back-up program. In addition, all 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 DTCC 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. DTCC will be reporting the results to our regulators as requested. In Q3, as in prior quarters, Relationship Management contacted firms who are required to test with these subsidiaries but had not yet done so. In addition, each subsidiary issued an Important Notice reminding of the need for certain firms to test. DTCC recently received approval from the SEC to implement a proposed schedule of fines for participants who are required test and fail to do 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.

Clearing Corporation Insourcing

Continue to migrate technology support services from SIAC to DTCC.

In 2005, insourcing efforts were focused on FICC applications. All core FICC systems and supporting infrastructure have now been insourced from SIAC's Shared Data Center to DTCC's data center complex, 2 ½ months ahead of schedule.

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 in 2004, customers have not been 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 has continued 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. Network Consolidation and Upgrade

Over 94% of NSCC and FICC data was transmitted directly to/from the DTCC complex over SMART and SFTI in September. A small number of firms continue to transmit the remaining 5% of clearing data through the legacy SIAC network facilities that were originally scheduled for retirement at the end of 2004.

As announced in the Q1 and Q2 Development Agenda updates and in an Important Notice (DTCC notice #Z0016) issued on April 15, 2005, DTCC plans to recover the operating cost of legacy clearing networks from customers still using these legacy networks. **Customers who might still be impacted by this have been advised that beginning in January 2006, continued use of these facilities will result in additional charges of \$5,000 per month.** Charges will be recalibrated at the beginning of each quarter thereafter as each subsequent conversion leaves fewer remaining non-compliant firms to share the relatively fixed cost. DTCC anticipates that charges for non-compliant firms will roughly double each quarter until all customers complete their conversions.

Please contact your Relationship Manager with any questions.

2. PBS Replacement of PTS

Customers continued to adopt the browser-based PBS interface at a rapid rate. Usage increased over 40% in Q3, with almost 3,000 individual users routinely accessing the system.

Responding to customer feedback, DTCC introduced SMART/Messages to PBS in Q3. The SMART/Messages facility allows users to select and view messages in the browser rather than printing them as "tickets" on a PTS printer.

DTCC also introduced PBS Version 2 to a limited number of pilot customers in Q3. Version 2 provides web pages for all PBS content, eliminating the need to use the terminal emulator for the less frequently accessed functions. Initial reaction has been very favorable, and DTCC is increasing the number of firms accessing the pilot. A general release of Version 2 is anticipated in Q1 2006.

Other requested enhancements are scheduled for delivery in 2006 and will be detailed in the 2006 Development Agenda.

Since the technology underlying the legacy terminal system cannot be supported beyond early 2007, customers are urged to focus on getting "PBS-ready." This entails completing any communications changes necessary to permit staff using PTS to access the new browser content,

eliminating reliance on printed tickets, and achieving a level of familiarity with the new interface sufficient to allow each customer to identify any additional functionality it requires in PBS in order to eliminate PTS usage. DTCC welcomes all customer suggestions for capabilities that would ease their transition to PBS.

Customers that are interested in using PBS should contact their Relationship Manager or John Bautz at 212-855-1330 or jbautz@dtcc.com.

3. Retirement of Legacy Server Interfaces

As announced in the Q2 update, sunset dates for legacy machine-to-machine interfaces have been extended in order to allow customers to focus on higher-priority efforts to convert communications for clearing services. Interfaces that have been affected include the synchronous MDH messaging facility (replaced by Websphere MQ) and the legacy CCFUser file transfer mechanism (replaced by ftp or the Sterling Commerce product Connect:Direct, also known as “NDM”). Originally announced for shutdown by year-end 2005, DTCC will continue to support these facilities into 2006. Since the underlying technology on which they rely, however, cannot be supported beyond early 2007, all customers using these facilities must have programs in place to complete conversions as early as possible in 2006. As the number of customers using these facilities decreases, DTCC reserves the right to recover the cost of support and operation from the customers who continue to rely on these legacy facilities, rather than mutualizing costs among all customers.

Additional updates will be made available in future Development Agenda quarterly updates. For further information, contact your Relationship Manager.

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. Invoices for Proxy have been moved on the new billing system and will be available as customers are moved over to the upgraded Proxy service. Conversion of SMART Network invoices has been postponed until Q1 2006.

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

DTCC Deriv/SERV

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

In Q3, DTCC Deriv/SERV continued to focus on enriching the existing product platforms. Allocations and Equities Swaps were added to the core trade confirmation platform. A computer-to-computer transmission capability, transaction linking and SSI (Standing Settlement Instruction) database were added to the Payments service. In addition, DTCC focused on standardizing and automating the key assignments processes with the industry. A standard operating protocol was implemented in early Q3 when 14 dealers and 39 buy side firms agreed to automate their assignments submissions. In early September, more than 75 people participated in an assignments workshop video broadcast between London and New York.

In October, an enhanced workflow tool will be delivered, based on industry direction and requirements. This enhanced GUI will aid large-volume firms in streamlining their resolution of breaks. Also in October, DTCC will support two new derivative indices based on baskets of asset-backed securities index (ABX) and commercial mortgage-backed securities index (CMBX). These transactions will be processed through Deriv/SERV, leveraging the existing CDS Index trade processing.

Also in Q4, message specifications for the new ISDA CDS Matrix will be released to the industry, and work will begin to incorporate this matrix into the Deriv/SERV platform. This will simplify the legal processes for firms to do business with each other.

Business requirements will be finalized for a new Portfolio Reconciliation service, which will bring risk and cost reduction through automation and continuous reconciliation of OTC contracts and key economic terms between market counterparties.

Lastly, DTCC will focus on system performance enhancements, creating a more robust system environment to support the anticipated influx of new customers over the next six months

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 and regional marketplaces to convert their input to real-time. Early in Q3, Omgeo converted all Prime Broker submissions from batch to real-time. ArcaEx is now targeted for conversion in Q4. The Boston Stock Exchange is currently evaluating real-time submission with a preliminary target in the first half of 2006.

After ArcaEx converts to a real-time submission, 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 has been completed, and the system is currently being tested. Service launch is planned for Q4. A copy of the Canadian dollar service guide has been posted to dtcc.com.

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 for Agency Lending Disclosure, which provides a communications link between agent securities lenders and borrowers for the transmission of principal lender data via ftp or Connect:Direct (NDM)file transfer format, was implemented in June. While users can now send production data through SMART/Track, testing facilities will continue to be available. Since the application was launched in June, over 75 agent lenders and borrowers have registered

to use SMART/Track. Additionally, SMART/Track can now assign a unique identifier for principal lenders that do not have U.S. taxpayer identification numbers. Thus far, more than 200 such numbers have been assigned.

SMART/Track for Buy-ins will provide an automated communication vehicle for the creation, transmission, processing and tracking of CNS and non-CNS buy-in notices. Users will be able to notify CNS of CNS buy-in executions, and also to enter CNS intents, orders and retransmittals in late Q4. The service will be expanded next year to include non-CNS buy-ins and MSRB close-out notices.

Enhancements to the SMART/Track for Corporate Action Liability Notification Service requested by the industry were proposed in the 2005 Development Agenda, including a supervisory workflow approval process, export data capability, master sign-on capability and processing of security identification numbers other than CUSIP. As the service continues to be operated as a pilot at the request of the SIA's Corporate Action Division, DTCC will defer implementation of these proposed enhancements until 2006.

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.

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

The 2005 Development Agenda indicated that DTCC would review 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. This enhancement was targeted for Q4.

Discussions on this have been deferred. DTCC will meet with the SIA Securities Lending and Buy-in committees in early 2006 to determine if there is sufficient interest in this product. DTCC will also review the regulatory issues associated with this proposal with the SEC. If appropriate, an implementation would be scheduled in 2006.

Contact Vincent Mc Devitt for additional information at 212-855-5694 or vmcdevitt@dtcc.com

Enable settlement of non-standard trades in CNS.

Currently, non-standard trades such as cash, next-day and seller's option trades are reported on trade contracts but are not passed to the Trade Repository Processing (TRP) system or to CNS for settlement. The capability for CNS to accept non-standard trades is now targeted for Q1 2006 (pending SEC approval). Participants can exclude trades from CNS settlement by indicating the exclusion on their marketplace input where the trade was executed or on their NSCC input if the transactions are eligible for direct submission through Correspondent Clearing or the OTC Comparison System. In preparation for the 2006 implementation, an NSCC Important Notice was issued on September 15, 2005 describing the necessary format

modifications for NYSE and Amex transactions. No modifications are needed in the existing Over-the-Counter, Regional Interface Operation and Correspondent Clearing systems.

Information about non-standard settling trades in CNS can be obtained from Robert Yodice at 212-855-8024 or ryodice@dtcc.com.

Index Share Processing

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

On September 2, an NSCC Important Notice was issued detailing enhancements targeted for implementation on Friday, November 18. The enhancements to the Portfolio Composition Files include:

- Providing Total Shares Outstanding for each ETF and the Dividend Amount per Index Receipt
- Simplifying negative cash reporting
- Adding a new page on NSCC's formats.nsc.com that will list all eligible domestic and foreign ETFs at NSCC
- An upgrade to a DB2 database environment

Customers who utilize the portfolio composition files, index receipt agents who engage in creating and redeeming ETFs, and broker-dealers will need to modify their processes consistent with these enhancements by March 31, 2006. A copy of the Important Notice may be found on www.nsc.com.

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

Inventory Management System (IMS)

Implement new transaction management capabilities for settlement.

IMS provides participants with a number of functions including 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” which is established by the participant.

On October 7, IMS functionality was successfully expanded to provide two additional recycle profiles. These new 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 by the participant.

In addition, IMS offers participants the ability to route the deliveries they input to IMS for authorization based on predetermined profiles. A user can create a profile by asset class and, within asset class, by input source (e.g., only deliveries submitted by Participant Browser Service input). The user can also determine, based upon the input source, which delivery types (all valued, all free, only under/over valued deliveries) should be subject to second authorization.

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

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.

ACATS Nonstandard Transfer Enhancements

PIER has been modified to now report nonstandard transfer activity, complementing existing reports on standard ACATS transfers. The non-standard section of the PIER report will provide participants with statistical information on partial transfers (PTR and PTD), reclaims (RCL), fail reversals (FRV), mutual fund clean-ups (MFC) and residual credits (RCR). This new section will report settled, rejected and purged items for all ACATS nonstandard transfers types. The new nonstandard PIER section was effective with September's ACATS activity, and was distributed to participants on October 7th.

Also, as reported in the last quarterly update, enhancements to the nonstandard transfer functionality will be implemented in Q4. These enhancements will expand the partial transfer receiver (PTR) functionality.

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

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 project scope has been finalized and will focus on a pricing cap on equity and foreign equity positions. This project will be implemented in Q4.

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

Fixed Income Clearance and Settlement

Mortgage-Backed Securities (MBS) Central Counterparty (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 through the related re-engineering of the trade life cycle for MBS. In addition, acting as CCP for MBS will permit FICC to provide customers with common risk management across government and mortgage-backed securities, the opportunity for anonymity through blind brokering for MBS transactions and maximized balance sheet relief for financing transactions. These MBS CCP services will be implemented in phases, with pool netting as a first step.

DTCC established an MBS Working Group in Q1 to work on the details of the MBS CCP service. The MBS working group has recommended that an automated pool substitution feature should be developed for the Electronic Pool Notification (EPN) service as a prerequisite to the pool netting service. The EPN Pool Substitution Service will provide the ability for EPN members to simultaneously substitute cancelled pools with the associated replacement pools via a single message.

DTCC will publish a comprehensive plan for the implementation of pool netting and pool substitution services later in Q4. Members will need to undertake internal development efforts in 2006 to take full advantage of this new functionality.

For additional information, 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 2005, DTCC is focusing 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).

In Q3, the FITS billing interface was replaced with a direct feed from RTTM to DTCC Billing. Also in Q3, NSCC began producing the CMU (Corporates, Municipals and Unit Investment Trusts) Bond Contracts in both machine-readable files and print-image reports. All Datatrak, Autoroute and MQ traffic was insourced from SIAC to DTCC, as were the participant master files. All major RTTM interfaces to downstream CMU processes have been completed. In Q4, remaining FITS interfaces will be decommissioned.

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

Interactive Messaging for Netting

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

The Interactive Messaging program currently provides a common message format and single pipeline for the matching of all fixed income products.

With the next phase of this program, 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.

Participant specifications for the netting of GSD activity were published in June, supporting future enhancements for broker fails, substitutions and fail netting. In Q3, a supplementary document containing message samples was issued to participants. Participants are encouraged to review both the specification and message sample documents located on the DTCC website on the Products & Services menu. Support for participant testing is on target for Q4.

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

General Collateral Financing Repo (GCF Repo®) Enhancements

Expand GCF Repo 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 “delivery versus payment” basis (standardized generic CUSIPs are used to specify the acceptable type of underlying collateral).

In Q2, FICC filed with, and received approval from, the SEC to add TIPS to the GCF Repo service. Implementation occurred in May. In addition, analysis related to adding commercial paper (CP) to the GCF Repo service progressed, and in Q3, a decision was made not to move forward with such a service at this time due to operational hurdles.

For additional information, please contact Ed Leithead at 212-855-7619 or eleithead@dtcc.com.

Automated Re-Netting of Fails

Enhance GSD services to support fail 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.” Automated netting will allow participants to include failed settlement obligations from previous days into the current day’s netting. This will help reduce settlements on both sides of the market.

Machine Readable Output (MRO) specifications to support reporting of netted fail obligations were published in Q2. **Participants should review these specifications, which are available at the DTCC web site (<http://www.dtcc.com/ProductsAndServices/failed/>) and complete their internal development efforts, if any, by December 15, 2005.** Participant testing is scheduled to begin in January 2006, with a full implementation to follow in Q2.

For additional information, 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 delineating several complementary strategies for resolving straight-through processing issues for institutional trades, 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 Q3, FICC implemented the Sponsored Membership Model. This initiative introduces a new membership category to support buy side participation and supports balance sheet relief for repurchase agreements executed between certain well-capitalized FICC members (currently only banks) and their institutional clients.

The Fixed Income Group is continuing 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 described in the 2003 white paper. The two tiers would accommodate the respective needs and requirements of sell-side and buy-side participants.

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

Auto Funds Debit
Implement process to automate funds settlement.

FICC 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 virtually eliminate the possibility of late funds settlement, enhance the workflow at the participant level, and support an enhanced risk management process by allowing the execution of an earlier funds transfer process by FICC.

The “auto debit” process will leverage the Federal Reserve’s Net Settlement Service (NSS), used daily to support DTC and NSCC settlements, for the automated payment and collection of funds for FICC. NSS allows participants in private sector clearing arrangements to exchange and settle payment transactions on a “book entry” basis through reserve account balances.

Implementation is slated for Q4, provided the SEC approves the rule filing made in Q3, and all requisite member agreements are in place.

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

Repo Substitutions Enhancements
Provide increasingly efficient repo substitution processing

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.

In Q1, FICC introduced a “pair-off” report to allow customers to identify potential offsetting forward-starting general collateral repo trades. Pairing off such trades obviates the need for customers to allocate collateral.

In Q2, FICC implemented enhancements to provide participants with the ability to allocate collateral to forward-starting general collateral (GC) repo trades in advance of the repo start date. This new service also offers enhanced netting opportunities in that the start leg will no longer need to be settled outside of FICC. Additionally, participants who allocate forward GC trades will no longer need to cancel and resubmit these trades on start date.

The next phase of substitution enhancements will allow participants to notify FICC of the intent to substitute collateral without simultaneously specifying the replacement collateral. Participant development efforts associated with these enhancements were identified and communicated to participants in Q2 in the New Service Bulletin issued on May 13. Implementation is on schedule for Q4.

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

Money Market Instruments (MMIs)
Develop hybrids processing automation.

There are over 2,500 non-standard or “hybrid” MMIs with unique features (such as extensions, exchanges, call and put features, pre-payables and renewal options) that create significant processing risks. DTCC is focusing its 2005 MMI development efforts to help mitigate financial exposure associated with late or incorrect payments on these issues. The first phase of this automation will be for “exchangeable” MMIs, to permit Issuing and Paying Agents (IPAs) to identify exchangeable MMIs during issuance, which will help streamline subsequent payment processing. In addition, enhanced capabilities to the payment systems will offer improved levels of automation for tendering exchangeable MMIs.

Development was completed in Q3, and the application is currently being tested. DTCC anticipates deploying these first capabilities in early 2006. Any participant development requirements associated with these enhancements will be identified and communicated by Q4.

For additional information, contact Javette Laremont at 212-855-2414 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.

In 2005, the service has made continued improvements to the usability of the browser, which will be visible to the clients in the short-term. In addition, the service also began to align itself with DTCC's wider corporate action re-engineering initiative. The objectives of this longer-term initiative are to widen the product scope to cover all event types, geographies and asset classes, enable clients to process the data without need for manual intervention, allow client to select optional services, such as offering a range of data formats, real-time message-based data, e-mail notification, imaging, and (potentially) offer expanded liability coverage. The planning of these new services will take the remainder of 2005.

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

Corporate Action Systems Reengineering

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

Having completed the business requirements, DTCC continues the Functional Analysis and Design phase of this multi-year effort to reengineer the core depository systems that support the processing of corporate action events such as reorganization, redemption and periodic payments. Once this phase is completed in Q1 2006, application development will commence.

DTCC is creating a Reengineering project-specific web site, linked to the dtcc.com home page (<http://www.dtcc.com/reengineering>). The site will serve as a repository for presentations, documented FAQs with responses, descriptions of service features, and updates about scheduled participant communication forums. This site will be available in Q4.

Further information concerning the reengineering initiative is available from Lori-Ann Trezza, at 212-855-4510 or ltrezza@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 redesigning its underwriting system, leveraging modern technologies and addressing the special challenges of new issues processing. This redesign is occurring in concert with the corporate action systems redesign described above. The new system will incorporate emerging issuance and reference data standards.

The business requirements definition effort is now complete. During Q3, DTCC facilitated eight customer focus groups to review the business requirements, set the groundwork for transition planning, and solicit additional industry feedback. This valuable industry feedback was critical to the effort, and has been incorporated into the functional analysis. The functional analysis and architectural review should be completed in Q4 as planned.

Participant impact from the new system will be significant as underwriters will be required to provide deal announcement data and offering documents electronically. To help soften this impact, DTCC will offer front-end interface training to DTC participants and correspondent underwriters.

As previously reported, user acceptance testing is expected in late 2006, with implementation targeted for Q1 2007.

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

Complex Securities Servicing

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

DTCC continues to address the challenges of servicing structured securities to further improve industry performance in late payments and post-payable adjustments. Post-payable adjustments for complex securities decreased by 6% from Q1 to Q2, largely attributable to the work of an internal task force. The task force focused on identifying sources of errors, streamlining processing, and working directly with the major paying agents to review performance. Work continues with the major paying agents to identify root causes of errors and implementing process improvements where feasible.

The planned update and expansion of the 2003 White Paper “*Examining the Growth of the Collateralized Mortgage Obligation*” will now be delivered in Q1 2006. DTCC is also planning on broadening its collaboration with industry trade associations and participants to further streamline Asset Backed Securities processing.

DTCC will continue to report progress on this initiative in the quarterly updates of the Development Agenda.

For additional information, contact your Relationship Manager.

Immobilization and Dematerialization

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

DTCC continues to work with regulators and industry groups including the Securities Industry Association (SIA) and the Securities Transfer Association to expand Direct Registration Service (DRS) eligibility and to eliminate certificate issuance for Withdrawal by Transfer (WT) processing. In Q3, the depository launched the Profile Modification System Indemnity Insurance Program, its new DRS Profile insurance service. Under this new program, users may opt for higher surety coverage of \$25 million per transaction, thus easing processing constraints and reducing risk for all DRS users.

Discussions continue with the New York Stock Exchange, the American Stock Exchange and the Nasdaq Stock Market to support the adoption of requirements that listed issues must be DRS-eligible, potentially increasing the number of DRS-eligible issues by more than 8,000. These discussions are expected to culminate in December with an SEC rule filing by the markets, including DRS eligibility as a listing requirement.

In August, through an SIA effort supported by DTCC, the Delaware legislature updated provisions of Delaware corporate law that require the routine issuance of securities certificates.

Under the new provisions, issuers can elect to eliminate physical certificate issuance for routine transfers and corporate actions. To date, more than 40 issuers have elected to eliminate securities certificates at the time of transfer, including Microsoft, Intel, Starbucks, Chevron, Xerox and MetLife.

DTCC, working with industry members, has expanded the Paperless Legal Program to encompass 89% of issues eligible for deposits at the depository. This program eliminates the cumbersome and costly handling of documentation for non-routine transfers, commonly referred to as legal transfers. Discussions are under way with the Canadian Securities Transfer Agent Association to have its members join the program in Q4. The addition of the Canadian agents and some high-volume issuers who act as their own transfer agent is expected to increase the coverage of the Paperless Legal Program to 90% of all issues eligible for deposit. DTCC is working with participants to eliminate this paperwork, which is no longer required to be included on deposits submitted to the depository.

DTCC is also seeking to “truncate” certificate processing on deposited securities (permitting DTCC to eliminate the presentation of these physical certificates to the transfer agent, substituting images of the certificates instead). As the first step in this process, DTCC will soon implement a pre-verification process for certificate details. Under the new program, participants can submit files through DTCC to the appropriate transfer agents, confirming that certificates destined for transfer are valid certificates. This process will decrease deposit rejects and improve transfer turnaround. Programming is underway, and a pilot is expected to be available to interested participants and transfer agents in mid-February 2006.

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.

In September, the second phase of the new family of Restricted Securities Services was rolled out as a pilot program. The new Total Processing Solution (TPS) provides a comprehensive service that includes:

- The existing Restricted Deposit Service, which provides the timely transfer of restricted securities into unrestricted shares.
- A web-based database of forms and contacts (e.g., transfer agents and issuer’s council for each issue)
- A web-based tutorial to guide users through the industry standard for “cleansing” restricted shares
- DTCC operational support to actually manage the cleansing process on behalf of users
- A means to monitor the transfer through completion and delivery of the transferred shares.
- An audit trail of all forms and activities which take place through the service.

TPS provides a review of both the negotiability of the certificates and the supporting documents, images of certificates and paperwork, and faster transfer turnaround time frames, providing an end-to-end process for restricted transfers. For more information on DTCC’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

SMART/Search for Archived Reports

Provide expanded functionality for customers using this online report archive service.

The Excel download feature scheduled for release in Q3 has been delayed to Q4 to incorporate additional features that customers have requested. Work is on schedule to release this functionality as SMART/Search Version 3 in November. In addition to the Excel feature, DTCC has expanded text search facilities, simplified navigation for improved usability, and expanded functionality for complex retrievals involving work queues.

Equity Trade Contracts and other clearing reports are being prioritized as part of 2006 plans. Release dates will be announced in next year's Development Agenda.

Customers interested in gaining access to SMART/Search should contact their Relationship Manager. Additional information is available from John Bautz at 212-855-1330 or jbautz@dtcc.com.

Message Delivery Systems Replacement

Upgrade message communication to customers.

In Q3, the migration of customer output from the depository's 25-year-old Message Delivery System to the new SMART/Message Exchange was completed. This milestone eliminates risk by reducing dependency on increasingly rare legacy technology skills in mission-critical applications. It also provides a flexible, multi-platform messaging capability, reducing future efforts needed to develop new messaging applications and serves as the backbone for replacing PTS ticket printers with browser-based technology.

The customer-controlled subscription facility originally envisioned for Q2 is now being reconsidered as part of 2006 plans.

Additional information is available from John Bautz at 212-855-1330 or jbautz@dtcc.com.

Customer Self-Service Capabilities

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

The new DTCC customer portal completed its pilot phase and was formally launched in Q3. This release included new customer service notification features, and initiated the migration to single sign-on and simplified credentials issuance for all browser-based products. New automated registration and entitlement authorization functions allow SMART/Track for Corporate Action Liability Notices, SMART/Track for Buy-Ins, and Restricted Securities Services users to manage employee profile administration capabilities consistent with evolving compliance requirements. Security Position Reports will be available later in the year.

Conversion of browser-based products to a new common web application development framework has begun, and will continue through mid-year 2006. These changes will improve capacity utilization and reliability, and standardize the various customer interfaces across DTCC product offerings.

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

On August 2nd, NSCC issued Important Notice A #6076, P&S #5646 for an enhancement to support Recommendation (L) of the Joint NASD/ Industry Task Force on Breakpoints. This Fund/SERV enhancement, scheduled for December 5, 2005, will allow firms to pass up to 99 social security numbers along with a purchase order. The information will be used to link related accounts for determining breakpoints.

Important Notice A #6084, P&S #5654, issued on August 10th, announced that effective November 14, 2005, new fields and values will be added to MFPS II mainframe, PCWeb Direct, and Fund/SPEED schemas for NASD Inquiry to:

- Clearly define Security Type and Load Type in General Profile,
- Clarify the applicability of other record types in Security Issue Profile, and
- Add more values for Redemption Fee Indicator.

Lastly, in response to SEC Redemption Fee Rule 22c-2 (effective May 23, 2005 with a compliance date of October 16, 2006), DTCC is working with an industry committee to develop an industry solution. A draft Concept Paper outlining systems enhancements in support of the rule requirements has been delivered to the committee for review and approval. The final draft will be presented for broad industry validation in Q1 2006, with product delivery scheduled for Q3 2006.

For more information, please contact Paul Bucaoto at 212-855-5671 or pbucaoto@dtcc.com.

Alternative Investment Products

Provide increased standardization and automation for alternative investment products

DTCC has been working with an advisory committee to develop proposed services for alternative investment products such as hedge funds, funds of hedge funds, managed futures, commodity pools and real estate investment trusts. Based on finalized business concepts, which were agreed by the advisory committee earlier this year, DTCC was able to estimate the cost to build and operate a service to process alternative investment products. Based on this cost structure, DTCC prepared and reviewed a preliminary fee structure with the committee. A sufficient number of firms have indicated an interest in moving forward with the pilot. Development will begin immediately, with pilot user testing anticipated in Q2 2006.

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.

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.

An industry advisory group, with representation from broker/dealers, insurance carriers, solution providers, industry associations NAVA (National Association of Variable Annuities) and ACORD (Association for Cooperative Operations Research & Development), was formed in July and began defining the business and technical requirements for this project. The group has determined that the initial release (currently targeted for late Q2 2006) will support Fund Transfers and will be developed in ACORD XML format.

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 existing insurance contract from one carrier to another when a new life insurance or annuity contract is purchased is a very 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.

The industry advisory group that was formed in Q2 to address this issue continues to work on defining the business and technical requirements for the replacement functionality. In Q3, this effort was expanded to include pending case status inquiry functionality, allowing for the request and delivery of scheduled status updates as well as on-demand status inquiry capability throughout the replacement process. The entire replacement product, including pending case status inquiry, will be developed in ACORD XML format. The drafting of business and technical requirements – a collaborative effort between DTCC and industry participants – should be completed by year-end. As the industry has prioritized the In-Force Transactions initiative ahead of the Policy Replacement Processing Service, actual implementation of this service is not expected before late 2006.

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.