



2006 Development Agenda Third Quarter Update

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DTCC 2006 Development Agenda Third Quarter Update

Introduction

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

Over the course of the year, priorities and plans change, resulting in acceleration, deceleration or cancellation of specific initiatives. To keep the industry informed of any changes, DTCC issues quarterly updates of this paper that include the status of the project and any new developments. (For detailed descriptions of the development effort, the reader should refer to the original Development Agenda document available at <http://www.dtcc.com/CustomFocus/index.htm>.)

The Development Agenda and its quarterly updates include a progress report 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 its 2004 Concept Release relating to Securities Transactions Settlement.

If you have a question about anything in this document, we urge you to consult your Relationship Manager or the appropriate contact person listed herein.

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. As such, Omgeo OASYS-TradeMatch, Omgeo's real-time central matching solution for U.S. domestic transactions, continues to bring enhanced value to the industry.

In 2006, Omgeo continues efforts directed at bringing greater operational efficiency to the U.S. market. The implementation of a real-time MQ link (to accept instructions in ISO 15022 format as soon as the related trade confirmations are affirmed) remains on schedule for Q4.

Model	Timing	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
Confirm/Affirm Model	Trade Date	20%	21%	19%	21%	18%	17%	18%	16%	15%
	Trade Date + 1	84%	82%	83%	82%	83%	83%	85%	86%	86%
	Trade Date + 2 (AM)	89%	88%	88%	88%	87%	88%	89%	90%	90%
Matching Model	Trade Date	51%	49%	50%	50%	49%	53%	57%	55%	55%
	Trade Date + 1	90%	87%	87%	89%	89%	90%	90%	90%	90%
	Trade Date + 2 (AM)	93%	91%	91%	92%	92%	92%	92%	92%	92%
Blended	Trade Date	28%	27%	26%	25%	26%	25%	27%	25%	24%
	Trade Date + 1	85%	83%	84%	85%	85%	84%	86%	87%	87%
	Trade Date + 2 (AM)	90%	89%	89%	89%	89%	89%	89%	90%	91%

DTCC Enterprise-Wide Activities

Business Continuity

Continue to ensure the highest levels of resilience for DTCC's operations and advance other business continuity efforts

During Q3, DTCC updated the out-of-region recovery guide to assist firms in reconciling transactions with DTCC's out-of-region sites in the event a major disaster impacted DTCC's northeast data processing locations. This guide is a compilation of existing reference materials that provide customers with overviews of the monitoring tools they need to reconcile transactions potentially lost due to the "lag time" in data replication with DTCC's out-of-region sites. The implementation has reduced the "lag time" to less than 2 minutes. FICC applications will be migrated to the new replication technology starting in Q4 2006 and completing in Q3 2007. For more information about the recovery guide, please contact your Relationship Manager.

Expanded Use of ISO 15022 Message Formats

Offer participants the ability to send and receive transactions via 15022 messages

15022 Message Formats for Settlement

DTCC is testing 15022 Payment Order transactions with a pilot participant. Testing will continue throughout Q4. DTCC will also complete the mapping of day Deliver Orders to 15022 message formats and support participant testing in Q4. Participants are encouraged to join this pilot. Additional information is available from Javette Laremont at 212-855-2414 or jlaremont@dtcc.com.

Customer Access

Simplified Sign-On

Enhance DTCC's security framework to reduce the number of IDs required to access DTCC services

DTCC has begun implementation of Simplified Sign-on for NSCC's Continuous Net Settlement System, Commission Billing, Correspondent Clearing Service, Reconfirmation and Pricing Service, Files and Reports, and PIER Reports for the first ten pilot firms. In November, the DTCC Registration Support Group will begin migration for the remaining NSCC's Automated Customer Account Transfer Service, Cost Basis Reporting Service, Direct Clearing System and Mutual Fund Services. Access to all products has been consolidated on the DTCCWebDirect Customer Portal. Additional information is available from Fran Lapinski at 212-855-8925 or flapinski@dtcc.com.

Participant Browser Services

Convert all functions of the Participant Terminal System (PTS) to a graphical interface in the Participant Browser System (PBS) release 2.0

In Q4, DTCC will make PBS 2.0 available to a limited number of pilot firms with general availability targeted for Feb 2007. Once the migration is complete, DTCC will retire PBS v1.0.

Customers interested in using PBS should contact their Relationship Manager. Additional information is available from John Bautz at 212-855-1330 or jbautz@dtcc.com.

SMART/Message Exchange (SMX)

Launch a browser-based SMART Messages service

In Q3, SMART/Messages was made generally available for customer use. This service provides users the ability to view and print selected messages involving events or customer requests and facilitates the secure delivery of messages between DTC and our customers. These messages include deliver and payment orders and the service provides all of the information and functionality currently available via the RPNA function on DTC's Participant Terminal System.

Customers wishing to access SMART/Messages should have their Access Coordinator forward their requests to RMSupport@dtcc.com. These requests should include the RACF ID (PTS/PBS ID) of the customer and a request to add the SMART/Messages entitlement to their user profile. In addition, users will need to have PBS access in order to begin using SMART/Messages. Additional information is available from John Bautz at 212-855-1330 or jbautz@dtcc.com.

Retirement of Legacy File Transfer/Messaging Applications

Sunset by mid-year legacy machine-to-machine interfaces including the synchronous MDH messaging facility and the legacy CCFUser file transfer mechanism

DTCC's planned retirement of these applications, originally targeted for Q2 is pending the migration of a few remaining participants. For additional information, please contact your Relationship Manager.

Common Data Transfer Services

Reengineer the suite of "computer to computer" communications facilities used to handle the interactions between data transmissions with customer computers and the DTCC applications that process the contents of those transmissions

DTCC will communicate a project overview and schedule of deliverables in November 2006. For more information, please contact John Bautz at 212-855-1330 or jbautz@dtcc.com.

SMART/Search for Archived Reports

Access Equity Trade Contracts via SMART/Search

SMART/Search for Equities will be rolled out to a beta group of participants during the month of October. Upon completion of the initial user group trial, the system will be available to any qualified NSCC participant. To request more information please contact Janice DiTore at 212-855-7659 or jditore@dtcc.com. Any clearing firm interesting in utilizing SMART/Search for their Equity Contracts should contact their Relationship Manager.

Common Runtime Environment

Develop a pre-built hosting solution to consolidate DTCC's distributed data and application environment

DTCC has deployed the PCWeb CORE applications: Continuous Net Settlement, RECAPS, NY Tax, Commission Billing, Correspondent Clearing and PIER to the Common Runtime Environment.

A small group of customers has been using these applications since September, and DTCC will be migrating additional customers throughout the Q4 and Q1 2007.

The remaining PCWeb applications, ACATS, Cost Basis Reporting Service, Mutual Fund Applications, Offshore Funds Calendar, Networking, Global Update, Fund/SERV, Profile II, Fund/SPEED, and InsurExpress are on schedule for Q4 completion.

Customer Account Activation

Reduce the cycle time for "guaranteed" services by one-third and reduce cycle time for NSCC Mutual Fund and Insurance Services "non-guaranteed" services by two-thirds

DTCC's Membership and Implementation groups have met their goal for customer on-boarding of guaranteed and non-guaranteed services with results currently at 6.5 weeks and 8 weeks, respectively. Membership and Implementation will continue to streamline and work with internal groups to further improve the on-boarding process. For more information, contact Anthony Pietanza at 212-855-2634 or apietanza@dtcc.com.

Billing System Enhancements

Continue implementation of new billing system, retiring legacy systems

In Q3, DTCC completed the parallel testing and implemented the process developed to replace a large portion of the NSCC legacy billing system and retired the applicable legacy process. The remaining portions of the system will continue to run in parallel, as work progresses to replace the remaining batch processes by Q4. Additionally, DTCC continues to analyze the DTC legacy billing system, and develop plans for replacing the appropriate legacy processes by Q4. Work is also continuing on the development of a new application providing enhanced billing adjustment capabilities.

Efforts to improve the monitoring, reconciliation and balancing of billing transactions continue. DTCC completed the required infrastructure changes for phase 1 of the end-to-end balancing of billing transactions in Q3, with the end-to-end reporting phase scheduled for completion in Q4. Quality control variance reporting and automated notification and distribution of reports are scheduled for completion in Q4. Further information is available from Carin Avogardo at (212) 855-1534 or cavogardo@dtcc.com.

DTCC Deriv/SERV

Expand the scope of the over-the-counter (OTC) derivatives service to include richer features and more product types

In Q3, DTCC continued extensive design and development of the Trade Information Warehouse in conjunction with several working groups from the industry. Release 1, which supports basic contract maintenance and the back-loading module was successfully migrated into the user test environment in mid-September. Firms have begun testing this functionality with a targeted go-live date of November 3. This release of the Warehouse also includes several new fields for the Business As Usual process to assist firms in internal STP throughout the life cycle of trades. Release 2, which provides centralized payment calculations, will immediately follow. Release 3, which supports payment settlement, is in design. In addition, firms continue to use the DTCC Parallel environment to cleanse their existing Credit Default Swaps portfolios in preparation for back-loading into the Trade Warehouse.

DTCC also worked closely with a broad spectrum of the industry in plans to enhance the depth and breadth of automated support for OTC Equity Derivatives. Business requirements for a number of modifications to the current Equity Derivatives platform were completed with a target Q4 implementation date. These field enhancements will enable broader uptake of the current service. Initial requirements have begun on Asia Ex-Japan (AEJ) Options and Swaps templates, which will complete the AEJ offering. A number of firms located in Asia, along with DTCC, have been diligently working with ISDA to amend the current AEJ master for electronic matching. Initial requirements have already been documented for the AEJ Options and AEJ Swaps. The Equities Master Confirmation Agreements & Automation Summit coordinated by DTCC in New York was well attended by the Buyside firms. This summit provided information on the Equity Derivatives Master Confirmation process and the goal of automation to the largest extent possible. DTCC has scheduled a London Summit in October for European and Asian firms.

In September, user testing of the expanded functionality for Interest Rate Swaps commenced. The enhancements comprise support for all post-trade events processing (terminations, amendments and incremental assignment/novation). The production release is scheduled for mid-October 2006 pending successful test results.

DTCC installed the AffirmXpress application, which supports trade checkout functionality, to the production environment in Q3. Additional enhancements and refinements were implemented later in the quarter based on feedback from the interdealer brokers.

Use of DTCC's Deriv/SERV payment reconciliation service continued to expand in Q3. Over 1.8 million payment records were reconciled with an overall match rate of 98.7%. In Q4, a new affirmation interface will be added to streamline some of the dealers' workflow with lower tiered buy-side firms.

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

Equity Clearance and Settlement

Real-Time Link with Omgeo

Implement a real-time messaging link to improve business continuity

The implementation of a real-time MQ link with Omgeo (to accept instructions in ISO 15022 format as soon as the related trade confirmations are affirmed) is on schedule for November 2006. In the real-time environment, participants will have the option of processing their authorizations and exemptions as they do today. As part of this implementation, Omgeo will also route delivery instructions on institutional trades affirmed between noon on T+2 and noon on settlement date real-time to the depository's Inventory Management Services. These late affirmed items will not be processed without authorization, but once authorized, proceed into automated settlement. For additional information, please contact Steve Wasserman at 212-855-3270 or swasserman@dtcc.com.

Interactive Night-Cycle Processing

Permit real-time night cycle output

Interactive Night-Cycle Process supports the ability to provide participants with real-time 15022 messages of their deliveries in the night cycle. DTCC has rescheduled the release from September to late October and will distribute an important notice with further details. Real-time night cycle output of receives into a participant's account will be available in the first half of 2007 in coordination with DTCC's Common Data Transfer Services deliverable. Additional information is available from John Kiechle at 212-855-3900 or jkiechle@dtcc.com.

Market Trade Input and Output

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

DTCC submitted the rule filing to the SEC on March 15, 2006, and intends to implement the real-time submission requirement nine months from when the SEC approves the rule filing. For more information, please contact Hank Belusa at 212-855-5693 or hbelusa@dtcc.com.

Trade Repository Processing System

Expand the capacity of the Trade Repository Processing (TRP) system, which is used to process all equity and certain fixed income securities to 160 million sides per day

These enhancements were successfully implemented into production in Q3 with no impact on participants. For more information, please contact Robert Yodice at 212-855-8024 or ryodice@dtcc.com.

SMART/Track

SMART/Track for Buy-Ins

Provide an automated communication vehicle for the creation, transmission, processing and tracking of CNS and non-CNS buy-in notices

DTCC implemented SMART/Track for non-CNS (broker-to-broker) buy-ins and MSRB closeout notices in Q3 on a test basis. Participants currently submit non-CNS buy-ins and MSRB closeout

notices using Participant Exchange Service(PEX), on the Participant Terminal System. During the test period, participants will continue to submit non-CNS buy-ins and MSRB closeout notices through PEX. Non-CNS buy-in notices and MSRB closeout notices submitted to SMART/Track for Buy-ins during the test period will not be considered live data. When the test period concludes in November, DTCC will disable the non-CNS buy-in and MSRB closeout functionality on PEX (PEX functions 1 through 13), and SMART/Track for Buy-ins will be the only vehicle for transmitting broker-to-broker buy-ins and MSRB closeout notices.

Letters of Free Funds

Investigate the business case for developing an application on SMART/Track to replace the underutilized and limited PEX-based Letters of Free Funds (LoFFs) service

Industry analysis does not warrant the development of a web-based application for LoFFs at this time.

SMART/Track for Agency Lending Disclosure

Implement phase two of this product, allowing agent lenders to send daily capital files for their principal lenders to borrowers

DTCC actively supported the parallel testing efforts for the second phase of the Agency Lending Disclosure project, which involved the transmission of open daily loan files between agent lenders and borrowers. Industry implementation of this phase of the project occurred during Q3.

SMART/Track for Corporate Action Liability Notification Service

Link SMART/Track for Corporate Action Liability Notifications and NSCC's CNS system for voluntary corporate action events being processed through CNS

DTCC initiated development work on a linkage between these two services in Q3. Participants currently notify CNS that they plan to participate in a voluntary corporate action event for a security being processed in CNS using the CNSR function on the Participant Terminal System. When the link to CNS is implemented in Q4, participants will be able to instruct CNS that they plan to participate in a voluntary corporate action event being processed through CNS using SMART/Track for Corporate Action Liability Notifications.

Following a transition period, DTCC will disable the CNSR function on PTS and SMART/Track for Corporate Action Liability Notifications will be the only way for long participants to notify CNS that they plan to participate in the offer. SMART/Track for Corporate Action Liability Notifications will be the central point of access for participants to create/transmit, track and archive all of their voluntary broker-to-broker/bank and CNS corporate action liability notices.

For more information on SMART/Track, please contact Margaret Koontz at 212-855-5695 or mkoontz@dtcc.com.

Continuous Net Settlement

Expand Fully-Paid-For Account to Accept Stock Loan Recalls

Review participant interest in enhancing NSCC's "fully-paid-for account" functionality to accommodate stock loan recalls between broker/dealers

After meeting with several industry groups and participants, DTCC has decided not to provide this service at this time. DTCC will revisit this proposal when the majority of our participants use the Automated Recall Management System (ARMS). Use of the ARMS service is a 2007 goal of the SIA Securities Lending Division.

Enhance Browser-Based CNS Input Capabilities

Provide point-of-entry editing of CNS data, including CNS exemptions and priorities

This product was implemented in August 2006. See NSCC Important Notice number A6290 P&S5860 dated August 18, 2006 for details.

Additional information on these CNS enhancements is available from Vincent Mc Devitt at 212-855-5694 or vmcdevitt@dtcc.com.

Enable Settlement of Non-Standard Trades in CNS

Provide the capability for participants to include trades from CNS settlement on their marketplace input where the trade was executed or their NSCC input

DTCC has revised its target from late Q3 to Q4 to enhance the capability for CNS to accept non-standard trades (subject to SEC approval). Information about non-standard settling trades in CNS is available 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)

DTCC Relationship Management staff continues to reach out to the remaining Authorized Participants and non-NSCC customers to obtain their commitment for completing their systemic modifications to use the new output format. Information regarding testing with the new formats is available in the ETF section of <http://formats.nsc.com/> or by contacting the Enterprise Service Center Hotline at 212-855-1144. Further information on DTCC's index share processing effort is available from Hank Belusa at 212-855-5693 or hbelusa@dtcc.com.

Automated Customer Account Transfer System (ACATS)

ACATS Process Improvements

Expand ACATS functionality to include the creation of new account types for Beneficiary and Roth IRAs; develop new reject codes for non-standard transfer types and expand ACATS reclaim functionality to include mutual fund assets

These modifications are scheduled for implementation in Q4. An NSCC Important Notice (A#6291) detailing these modifications was distributed on August 21, 2006.

Expand ACATS Participant Base

Expand the ACATS participant base to include mutual fund companies as ACATS receive or deliver participants for non-valued transfers of mutual fund positions with broker/dealers and banks

DTCC and the Investment Company Institute have formed an industry-working group to develop a model to automate these transactions. The working group plans on finalizing its proposal by year-end.

Shorten ACATS Transfer Cycle

Work with the SIA Customer Account Transfer Division to review and plan for a shorter transfer cycle

The group has completed its analysis and distributed a white paper in April describing its findings. Based on the group's recommendations, DTCC has tentatively scheduled production of this enhancement for Q3/Q4 2007. DTCC will distribute an NSCC Important Notice detailing the ACATS system modifications in early Q4.

For more information on ACATS enhancements, please contact Bill Kapogiannis at 212-855-5667 or bkapogiannis@dtcc.com.

Account Transaction Processor (ATP) Redesign

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

DTCC remains on target to create the functional design document and finalize the technology platform and system architecture by Q4. Additional information is available from Julie Krill at 212-855-5906 or jkrill@dtcc.com.

Fixed Income Clearance and Settlement

Mortgage-Backed Securities Central Counterparty Initiatives

Develop a series of initiatives designed to provide central counterparty (CCP) services for mortgage-backed securities

In Q2, DTCC issued a paper entitled "A Central Counterparty for Mortgage-Backed Securities: Paving the Way," describing the three-phased approach for the introduction of CCP services to the mortgage-backed securities marketplace. Details on the three projects supporting phase one are detailed below.

Expand Real-Time Trade Matching (RTTM) Functionality to Support Specified Pool Trades

Enable MBS clearing members to submit specified pool trades for matching at the time of execution

Participant Messaging Specifications were issued in Q3 and DTCC will be ready to support participant testing in Q4.

Provide EPN Members with a Pool Substitution Capability

Provide EPN members with a new message allowing them to cancel an existing pool allocation and simultaneously substitute a new one using a single message

DTCC published a New Service Description and Participant Messaging Specifications in Q3. Completion of development and internal testing of the EPN Pool Substitution service is scheduled for Q4. Participant testing will begin in Q1 2007.

Provide a New, Multilateral Pool Netting Service

Develop a CCP Pool Netting service to provide a point-of-trade guaranty and decrease the number of receive and deliver obligations a member must make to effect pool settlement

Completion of business requirements for this service is on schedule for Q4 with the development of the netting and settlement systems scheduled for 2007. DTCC established a Steering Committee for the project in Q2 and regularly scheduled meetings are being conducted to review outstanding business issues.

For information on Mortgage-Backed Securities Central Counterparty Services, please contact Dennis Paganucci at 212-855-7626 or dpaganucci@dtcc.com.

MBS Clearing System Rewrite

Consolidate all MBS screen entry into a single web-based front-end

DTCC amended the User Guides to include a Web Assistant. The User Guides and the Web Assistant, a web training utility, are now available on www.ficc.com. The web assistant, distributed to participants in Q3, provides online help adjusting to new Web screen interface. Implementation of new screens is planned for Q4. For additional information, please contact Bart Schiavo at 212-855-7590 or bschiavo@dtcc.com.

Automated Funds-Only Settlement for FICC members

Extend the use of the Federal Reserve's Net Settlement Service (NSS) for auto-debit to GSD and MBSD participants further leveraging capabilities and standardizing processes

MBSD has made significant progress in the steps necessary to roll out the Auto Cash Settlement service enhancement. The MBSD Auto Cash Settlement process will require coordination between 88 direct MBSD participants, 14 MBSD Cash Settling Banks and across those banks, in excess of 150 selected DDA accounts. Agreements between MBSD and its members are almost 95% complete while three MBSD Cash Settling Banks have submitted all required agreements and documentation.

Internal development is on schedule to support this initiative.

During Q3, MBSD sponsored numerous conference calls with the 14 Cash Settling Banks to further their understanding of the critical role they will play in this process and published two MBSD Important Notices (#MBS107.6 dated July 20, 2006 and #MBS121.06 dated August 17, 2006).

MBSD's next steps include obtaining the remaining participant and cash settling bank documentation, finalizing internal project related requirements and developing and publishing a roll out business plan, which will include participant and cash settling bank parallel in Q4.

For information regarding this effort, please contact George Parasole at 212-855-7670 or gparasole@dtcc.com.

Government Securities Division

Automated Re-Netting of Fails

Reduce participant obligations with FICC on both the short and long side of the market through automated netting of failed obligations from previous days into the current day's netting

The Fail Netting service was implemented successfully for all GSD netting participants in Q3. Beginning on September 22, all failed obligations from prior business days were automatically recycled into the netting process. Output and reports produced on this business day reflected that the failed obligations versus the GSD were no longer outstanding.

For information regarding this service, please contact your relationship manager or Rachel Tyler at 212-855-7613 or rt Tyler@dtcc.com.

Enhanced Repo Substitution Processing

Continue evaluation of the substitution process and implement additional enhancements to ease the process of performing repo collateral substitution with the GSD

Based on participant feedback, DTCC introduced two additional enhancements to the substitution process in Q3. These items include automatically defaulting a generic CUSIP to a substitution request upon initial entry and an intraday view to identify unallocated substitution requests. Functional requirements for the remaining enhancement, the ability to allocate more than one CUSIP to a single substitution request, were completed in Q3.

In Q3, DTCC proposed to The Bond Market Association the “ultimate” solution for repo substitution processing with the introduction of a methodology that allows strict enforcement of substitution deadlines. DTCC will publish an implementation schedule for this “hard-close” solution in Q4. For information regarding this effort, please contact Rachel Tyler at 212-855-7613 or rt Tyler@dtcc.com.

RTTM Web for the Government Securities Division

Implement the second phase of the GSD RTTM Web project, which will support real-time submission and full trade management capabilities in a manner consistent with other fixed income products

DTCC is on schedule for user acceptance testing and participant training in Q4, followed by implementation early in 2007. For additional information, please contact Bart Schiavo at 212-855-7590 or bschiavo@dtcc.com.

Fixed Income Prime Broker Netting

Extend comparison and netting benefits of risk and cost reduction to prime and executing brokers’ trades in U.S. Treasury securities

DTCC is exploring approaches to leverage existing functionality to support the matching as well as (potentially) full netting of prime broker trades in Treasury securities. Prime brokers and executing brokers would submit trade records against one another for comparison (and potentially netting), indicating the respective client with a symbol assigned by DTCC (possibly the client’s Institutional Delivery number). The first phase of this effort involves participants (acting in either the prime or executing capacity) submitting trades for comparison-only. (For example, some participants do currently submit these trades today through GSD’s RTTM system, while others do not; in this phase we would implement a uniform process.). Once this “comparison only” process is implemented (following submission and approval of any necessary rule changes, expected to occur in early 2007), discussion of support for netting would begin with any necessary development effort – anticipated to be minor – to follow.

For additional information, please contact Lisa Meiselman at 212-855-1207 or lmeiselman@dtcc.com.

Fixed Income Institutional Settlement Advancement

Expand Buy-Side Participation

Continue to expand the Sponsored Membership Model with the addition of new sponsored members and by working with existing sponsoring members

Sponsored membership continues to grow with more than 400 sponsored members as of the end of September and an additional large bank working to become a sponsor.

DTCC continues to evaluate a two-tiered membership structure as described in two of its previously published white papers. DTCC shared the results of a preliminary loss allocation model with the MBS CCP Steering Committee at its meetings in July and September. As DTCC continues to review this model, it is also working on defining membership standards and margin rules. For additional information, please contact Adrien Vanderlinden at 212-855-7615 or avanderlinden@dtcc.com.

Integrate FICC Web Infrastructure into DTCC DMZ Environment

Improve information security and reduce cost by migrating FICC web-based applications, including CMU RTTM, MBS RTTM and GSD into DTCC's DMZ

Production roll out is scheduled to occur over six months beginning October 2. The gradual participant migration is designed to insure that the transition to the DTCC DMZ is orderly and without disruptions. For additional information, please contact Bart Schiavo at 212-855-7590 or bschiavo@dtcc.com.

Intraday Link to the Trade Repository Processing (TRP) System

Support same-day settlement by building an intraday link to TRP for Corporate, Municipal and UIT products

DTCC is on schedule to complete development to allow additional intraday batches to be forwarded to the TRP by Q4. Regulatory approval and new Clearing Fund calculation methods will be required before accelerated settlement capabilities (i.e. same day or T+1) are put into production. For additional information, please contact Ed Fanning at 212-855-7623 or efanning@dtcc.com.

Money Market Instruments (MMI) Hybrids Processing Automation

Mitigate financial exposure associated with late or incorrect payments on the more than 2,500 non-standard or "hybrid" MMIs

Phase one development was completed and made available for participant testing in Q3. As a result of recommendations received during the testing period, industry participants have requested a change to the original specification that requires development modification and subsequent testing. Issuing and Paying Agent (IPA) banks and corresponding Money Market broker/dealers will need to modify their issuance message layouts to accommodate the requested revision. DTCC has moved the target date for deployment to Q1 2007. Contact Javette Laremont at 212-855-2414 or jlaremont@dtcc.com for information related to the required modifications.

Risk Management

Strengthening Risk Management

Continue to strengthen and integrate DTCC's risk management systems across its subsidiaries

The proposed rule change for NSCC and FICC's GSD to collect a clearing fund premium relating to a member's ratio of clearing fund requirement to capital will become effective October 16, 2006 for both the GSD and NSCC. Questions regarding clearing fund premium can be directed to Marie Rey at (212) 855-5790 or mrey@dtcc.com.

Integrating Subsidiary Systems

Value at Risk (VaR)

The necessary development efforts to implement the VaR methodology in the calculation of FICC clearing fund requirements for GSD will be completed in Q4 and, subject to SEC approval, implemented in early January 2007. DTCC will complete reviewing the GSD change with customers in Q4 via Important Notices and customer forums. The change will not impact customer systems. Further study in conjunction with customer input is being conducted for the MBSD VaR model and in the feasibility of an enhanced model to accommodate offsetting activities in organizations that are members of both FICC Divisions. Questions regarding the VaR methodology can be directed to Jiping Guo at (212) 855-5755 or jguo@dtcc.com.

Standardizing Clearing Fund Collateral

Standardize the acceptable forms of clearing fund collateral across DTCC's clearing corporation subsidiaries.

DTCC will submit the filing to the SEC for this change in Q4. Subject to SEC approval, the formal implementation will take place in early 2007. Clearing corporation customers may need to modify the composition of their collateral on deposit in one or more clearing corporation clearing funds as a result of this standardization. Questions regarding standardization of clearing fund collateral may be directed to Jisun Burton at (212) 855-5760 or jburton@dtcc.com.

Asset Services

Corporate Action and Underwriting Systems Reengineering

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

The reengineering of DTCC's core systems for securities underwriting and corporate actions processing for the U.S. financial services industry is well underway. The initiative will create an integrated platform that embeds straight-through processing procedures for US and global securities from origination through maturity.

DTCC continues to update the dedicated reengineering Web site <http://www.DTCC/Reengineering> with news releases and key milestone updates throughout the project life cycle. Project plans for both corporate actions and underwriting, outlining a list of tasks and time line for Registration, Analysis, Planning, Migration/Testing and Training, have been developed and are also posted on the Web site. Comprehensive data element files for underwriting have been completed and will be available shortly.

Corporate Actions Reengineering

Redesign the Corporate Actions system leveraging modern technology.

The design phase of the project continues on schedule with the next two years spent programming and testing.

The corporate actions outreach program began with a series of meetings with industry groups and customers, seeking input on a variety of topics including dashboard as well as functional requirements for the entire platform. In addition to the reengineering Web site, a newly launched e-newsletter for corporate actions – The SOURCE – will bring reengineering news to customers on a regular basis.

Underwriting Systems Reengineering

Redesign the underwriting system, leveraging modern technologies and addressing the special challenges of new-issue processing

Application development of the Underwriting and New Issue Information Dissemination systems is underway, on time and on budget.

DTCC continues to interface with participants and other industry firms including service bureaus, information service providers, law firms and regulators to confirm that external users are taking the necessary steps to ensure their readiness for the system implementation in 2007. External communication testing with outbound recipients and user acceptance testing of the reengineered underwriting system is on schedule to begin in Q4. DTCC has scheduled external communication testing with inbound vendors for Q1 2007 and full system end-to-end testing with inbound and outbound users for Q2 2007. Pilot testing with individual firms will begin in June 2007 with system implementation scheduled for Q3 2007.

DTCC has incorporated a proposed solution to assist the industry in its efforts to comply with the SEC's "access equals delivery" standards. We are currently meeting with corporate underwriters and their counsel to address liability issues.

Further information concerning the underwriting reengineering initiative is available from Denise Russo at 212-855-3731 or drusso@dtcc.com.

Corporate Actions @Source

Provide customers' front and back offices with a single, definitive source of high-quality, accurate and timely corporate action announcement information

Based on feedback DTCC received during the first half of 2006, DTCC determined that participants preferred to receive the complete universe of announcements from DTCC rather than a tailored publication file based upon their DTC holdings of eligible securities over a rolling 12-month period. Because of that feedback, DTCC has decided to continue to provide the universe of announcements to all participants using the current fee schedule framework for the near future.

DTCC will continue to develop enhancements related to corporate action announcements, such as expanded text for each event, and e-mail notification of late events, both scheduled for implementation in Q4. In addition, DTCC will release customer-oriented service level standards around content, timing and accuracy in October for customer review. Further information concerning the @Source initiative is available from Daniel Thieke at 212-855-4162 or dthieke@dtcc.com.

Complex Securities Servicing

Reduce post-payable adjustments on Collateralized Mortgage Obligations (CMOs) and Asset-Backed Securities (ABS) issues by 10% and the number of CMO/ABS issues on which the rate for the upcoming payment has not yet been announced as of the close of business the day before payable date by 20%

DTCC established a participant working groups as a result of the meeting convened earlier in the year by DTCC and the BMA consisting of CMO/ABS issuers, agents, underwriters and service providers, including the Association of Global Custodians. The diagnostic working group is chartered with analyzing various deal types, asset classes and specific deal features that affect payment processing accuracy and timeliness. The group will document the current practices, data elements and timeframes for all the known (or most prevalent) structures of each security type.

DTCC established a second working group to define the data, file format and communication protocol standards for the information that flows between primary servicers and paying agents. For additional information, please contact Lorraine Morrison at 212-855-5310 or lmorrison@dtcc.com.

Global Corporate Actions (GCA) Validation

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

In Q3, DTCC implemented a new custom built system that will facilitate Corporate Action validation and enrichment. This new platform provides scalability and the technical robustness to support an increasing number of customers and securities, as well as generate significant operational and systemic efficiency. DTCC is now working on expanding event coverage to include Scheduled Interest Payments and Maturities on DTC eligible securities. For additional information, please contact Chad Richman at 212-855-2023 or crichman@dtcc.com.

Immobilization and Dematerialization

Direct Registration System

Working with industry groups, including the Securities Industry Association and the Securities Transfer Association, as well as with regulators, immobilize and dematerialize physical securities certificates

DTCC continued to emphasize its efforts to expand Direct Registration Service (DRS) eligibility and eliminate certificate issuance for Withdrawal-by-Transfer (WT) processing. As of August 2006, DRS WT statement request had risen to 23.2% on average for the year, up from less than 5% for all of 2005. DRS WTs now account for over 80% of all monthly WTs submitted.

In July, the SEC approved a rule filing by the New York Stock Exchange, NYSE Arca, the American Stock Exchange and the Nasdaq Stock Market requiring listed issues to be DRS-eligible, potentially increasing the number of DRS-eligible issues by more than 10,000. Under these new rules listed issues coming to market after January 1, 2007 must be eligible for DRS. Issues presently traded must migrate to DRS by January 1, 2008. During the coming two years, DTCC will be working to facilitate the migration of these additional issuers, and that of their transfer agents when necessary, to the FAST and DRS programs.

On October 12, 2006, DTC filed a rule change with the SEC a rule change to amend the requirements for transfer agents to participate in the FAST and DRS programs. The amended FAST and DRS requirements will standardize insurance and audit requirements, as well as establish minimum requirements to safeguard DTC's book-entry and physical securities assets. These changes will also require agents, as part of their FAST commitments, to comply with regulatory issues, such as OFAC screening and require that transfer agents participate in the Paperless Legals Program.

Paperless Legal Transfers

Working with the Securities Industry Association and the Securities Transfer Association, expand the success of the Paperless Legal Program to encompass more than 95% of issues eligible for deposit at DTC by year-end 2006

DTCC expects to migrate to a process in January 2007, where all participants and transfer agents doing business with the depository will be expected to participate in the Paperless Legal Program. DTCC does not expect participants to submit legal documents for presentations to a paperless legal transfer agent. For a pilot period of 6 months, on an exception basis, DTC will strip the appropriate documents and return them to the participant for these presentations of legal documents. **Effective July 1, 2007, DTC will no longer accept legal deposits for non-Paperless Legal Agent(PLA) transfer agents and will not accept legal deposits with legal paperwork for PLA agents.** These presentations will need to be made ex-DTC. DTCC will reject back to the participant any of the above deposits received with no DTC reject charge. Beginning September 1, 2007, appropriate DTC reject fees will apply.

For more information on DTCC's restricted services, please refer to <http://www.dtcc.com/restrictedservices> or please contact Joe Trezza at 212-855-4400 or jtrezza@dtcc.com.

Compliance with Office of Foreign Assets Control (OFAC) Regulations

Strengthening procedures for compliance with OFAC regulations on certificate processing activities

During Q3, DTC continued to make additional systems enhancements and operational changes to strengthen the procedures for compliance with OFAC regulations. In July, the Securities and Exchange Commission approved changes to DTC's procedures for its Deposit, Custody, and Withdrawal-By-Transfer Services. These changes are based upon guidance from OFAC. In Q3, DTC implemented a new requirement for participants creating deposits via the PTS functions "DAMP" and "RDSP" to provide DTC with an OFAC certification. The certification, which is entered in the PTS function for each deposit, must be provided to create the deposit ticket.

In Q4, DTC will test and implement the new OFAC certification requirement for participants creating deposits via Computer-to-Computer Facility (CCF) expectancy files. The start dates for testing is October 23, 2006 and the implementation date is December 8, 2006. DTC communicated these dates and other details related to this second phase in Important Notice #B0117-06 published on August 31, 2006. Additional information is available from Patrick Mapp at 212-855-3690 or pmapp@dtcc.com.

DTCC's Reduction of Certificate Use

Agent Certificate Verification Program

Eliminate the presentation of deposited certificates to the agents, permitting reliance on certificate detail and images for subsequent processing

Due to other regulatory priorities, DTCC plans to implement phase one of this program in early 2007. The first phase of the program entails allowing participants to verify the validity of certificates earmarked for transfer, prior to presenting the certificate to DTCC or the agent. Additional information is available from Joe Clemente at 212-855-2425 or jclemente@dtcc.com.

Distribution Services

Mutual Funds

Fund/SERV and Fund/SPEED Enhancements

Support industry efforts to develop solutions to respond to regulatory issues

The Standardized Data Reporting functionality, which supports SEC Rule 22c-2 was implemented in Q3. The new functionality, offered through the Networking Service, will standardize and automate the request and transmission of shareholder trading information for positions that are held in omnibus accounts. Mutual Fund Services is continuing to educate participants on the use of the functionality through industry discussions, committee meetings and conferences. In addition, Mutual Fund Services worked with Insurance Services to conduct a Q&A session for Insurance Services participants. Additional information regarding this effort is available from Barbara Simon at 212-855-5658 or bsimon@dtcc.com.

The redesign of the Mutual Fund Profile Security Issue Database as the mutual fund industry standard for operational rules based processing is underway. DTCC has planned the implementation for Q2 2007. DTCC is currently working with the ICI and industry members to re-engineer the Security Issue Database using hierarchical data design. Components include finalizing new security data dictionary and user interface. Additional information regarding this effort is available from James Kiernan at 212-855-5662 or jkiernan@dtcc.com.

Separately Managed Accounts (SMAs)

Establish industry commitment from a user group of primary sponsors and investment managers by Q2 and launch an SMA service in Q4

During Q3, DTCC announced plans to introduce a new service to centralize and streamline the processing of managed accounts. Citigroup, Smith Barney's Consulting Group, and Global Transaction Services, a business unit of Citigroup Corporate and Investment Banking will join DTCC to launch the service, which is open to the full managed accounts industry.

DTCC's Managed Account Services will be ready in November 2006 to support Account Setup, Deposit, Withdrawal, Account Termination and Client Profile Update notifications. Also, XML Schemas have been drafted for the Money Management Institute's (MMI) Version 2 Data Standards, including investment style change, investment manager change, custodian change and corporate action notifications, all of which will be supported in future phases of the service in 2007. DTCC is working with the MMI to promote adoption of the Data Standards through the use of the Managed Account Services. Additional information regarding this effort is available from Paul Bucaoto at 212-855-5671 or pbucaoto@dtcc.com.

Alternative Investment Products

Identify potential opportunities for automation and standardization in the alternative investment industry

The Pilot Committee members met in July to finalize business requirements. DTCC has scheduled the pilot launch of DTCC's AIP Service for Q1 2007.

In addition to the original project scope, DTCC has added an automated paper workflow process to accommodate the exchange of sub-account documentation between counterparties. DTCC

plans to launch the automation of the paperwork process shortly after the Q1 2007 pilot launch of the AIP Service.

The Pilot Committee continues to work on additional requirements to be handled via separate initiatives in 2007. Efforts are continuing to bring additional firms, funds and service providers onto this service. Please direct any questions to Keisha Bell at (212) 855-2888 or kbell@dtcc.com.

Insurance Services

In-Force Transactions (IFT)

Develop a fund transfer process that would enable broker/dealers to provide the required oversight for their broker-initiated trades

The SIA Insurance panel and IFT advisory group determined that due to additional regulatory requirements and shifting distributor internal priorities, a Fund Transfers pilot could not be launched in 2006. During early Q4, IPS will work with interested parties to determine if this is a 2007 priority.

Policy Replacement Processing Service

Develop an automated and standardized replacement processing service, including a money settlement component to reduce operating overhead for insurance carriers and increase end-user customer satisfaction

DTCC is on schedule to implement Policy Replacement Processing and Pending Case status in 2007. IPS is in discussions with key insurance carriers to review pricing and pilot participation.

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