



2007 Development Agenda

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DTCC 2007 Development Agenda

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 agenda, one of many ways DTCC keeps the industry informed, provides a useful vehicle for participants to see what's coming down the road, including actions they must take to ensure readiness for enhancements and 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. As in 2006, DTCC is combining its 4Q 2006 update with this year's Development Agenda as a way to reduce duplication in these documents.

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.

DTCC Enterprise-Wide Activities

Customer Access

Participant Browser Services (PBS)

Make PBS 2.0 available to all firms and sunset PBS 1.0

PBS 2.0 is available to a limited number of pilot firms and provides all of the information and functions that are available via the Participant Terminal System (PTS), plus several additional functions not available on PTS including Inventory Management System and Canadian Dollar Settlement. Customers need to implement networking changes in order to access PBS version 2.0. During the first half of 2007, DTCC will roll out PBS 2.0 to all users of the existing system and will initiate the sunset of PBS 1.0.

In support of the extensive Corporate Actions and Underwriting Systems Re-engineering initiatives (see below), DTCC projects that all or nearly all PTS users will require access to PBS no later than January 1, 2008. We encourage customers to consider this in developing their 2007 plans. For additional information, contact John Bautz at 212-855-1330 or jbautz@dtcc.com.

Common Data Transfer Services (CDTS)

Reengineer the communications facilities for the interactions between customer data transmissions and the DTCC applications that process the contents of those transmissions

DTCC is reengineering its "computer-to-computer" communications facilities to address issues with the interactions between DTCC's legacy communications applications and the processing applications, to sunset many of these legacy communications applications and their associated support burdens, reduce code complexity and eliminate dependencies that slow enhancements to applications. The result will be a more reliable and more easily manageable facility, with improved cost-effectiveness and maintainability.

In 2006, DTCC completed the development of a new subscription system for internal use only. In 2007, DTCC will initiate the migration of legacy processing applications such as the Data Transmission Facility system onto CDTS. There are potential application/customer changes, which DTCC will discuss in an Important Notice to be published in Q1. For more information, contact John Bautz at 212-855-1330 or jbautz@dtcc.com.

URL Consolidation

Provide single location for customers to access DTCC web-based applications

As DTCC offers an increasing number and variety of web-based application systems, a single entry point for user access that is cost-effective and easy-to-use is required. As a result, DTCC will provide a single, unified, secured location (URL) for customers to access these applications, while more rigorously identifying individual users and their transactions.

DTCC is planning to complete development in January 2007, with a Q1 deployment. For more information, contact John Bautz at 212-855-1330 or jbautz@dtcc.com.

Improvements to DTCC Application Registration

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

In response to concerns and suggestions from customers, we are planning improvements to our user registration process that will make it more comprehensive, easier to use and more reliable. Development is targeted to be completed in Q2 with deployment beginning in Q3. For more information, contact John Bautz at 212-855-1330 or jbautz@dtcc.com.

Common Runtime Environment (CRE)

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

DTCC has completed its deployment of the remaining PCWeb applications onto the Common Runtime Environment. ACATS, AccuBasis (the cost-basis reporting service), Direct Clearing Specialist, OTC Clearance, LENS, Security Positions Reports and several Mutual Fund Applications; Offshore Funds Calendar, Networking, Global Update, Fund/SERV, Profile II and Fund/SPEED were among the applications deployed onto the CRE framework in Q4 2006. The CRE uses shared hosting, which comprises clustered web servers and applications servers within DTCC's data centers. Shared hosting allows DTCC to utilize its infrastructure more efficiently, thus greatly reducing the cost of deployment and support of its web applications. For more information, contact Marc Berliner at 212-855-1341 or mberliner@dtcc.com.

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 surpassed its 2006 goal for customer account activation. The average cycle time for "guaranteed" services is now 6.4 weeks and the average cycle time for non-guaranteed services is 7.6 weeks. This is a 73% and 68% improvement from Q1 2006. 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 Q4 2006, DTCC finished the work required to replace a large portion of the NSCC legacy billing system and to direct the processing of transactions to use the new billing infrastructure. DTCC is currently analyzing billing rules and processing in order to replace the remaining DTC legacy billing processes in Q2. Also planned for Q2 is the development of a new application, which will provide enhanced billing transaction input and adjustment capabilities for all DTC and NSCC. For more information, contact 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 Q4 2006, DTCC successfully launched its Trade Information Warehouse, creating a centralized and secure global infrastructure for the post-trade processing of over-the-counter (OTC) derivatives. Release 1 of the Warehouse delivered a comprehensive trade database initially for credit derivatives, containing the "official legal record" for all contracts eligible for automated Deriv/SERV confirmation and a central support infrastructure that automates and standardizes post-trade processes (such as payments, notional adjustments and contract term changes) over the life of each contract. Contracts executed on and after November 11, 2006 have populated the Warehouse upon matching. Since the Warehouse must also contain information regarding earlier contracts, firms will be using a "backloading" process to enter and match the details of these trades. Firms have begun this process through the Pre-Backload (testing) and Backload environments and are currently uploading trades into both environments. Firms will continue this effort throughout 2007.

Also in Q4 2006, Release 2 of the Warehouse was migrated to the UAT environment. This release supports the calculation of cash-flow payments for contracts that are fully matched in the Warehouse (so-called "gold" records) and will perform a parallel comparison with the existing Payment Service (which matches scheduled payment obligations submitted by the firms). Firms will complete testing of this functionality in Q1, and it will be migrated to production by March. Additional 2.x releases are planned for testing in Q2 and Q3 and production in Q3. These releases will provide for the automated calculation of all Warehouse payments including those impacted by credit events.

Further developments in the Warehouse in 2007 will include delivery of Release 3, which will automate the processing of payments on "gold" records through a link with CLS Bank; release 3 is currently scheduled for implementation late in the year.

The Interest Rates platform was significantly enhanced to support the full post-trade life cycle events: amendments, full/partial terminations, full/partial assignments, extension of support to cover 26 floating rate indices. This suite of functional enhancements provides the standardization that the Credit platform currently supports. To better clarify those scenarios that can be interpreted differently among the users, DTCC created with the industry a 'Recommended Practices' reference document that provides a guideline for those scenarios. The number of rates participants continues to grow and the majority of the dealers trading in rates have signed up with Deriv/SERV. Currently, there are over 50 active accounts and volume increased substantially in Q4 2006. Full assignment messages are currently in test and will be migrated into production in Q1. DTCC is actively working with the industry to prioritize plans for the remainder of the year to supplement the product coverage already available.

DTCC continued to work closely with the industry in Q4 2006 to enhance the depth and breadth of automated support for OTC Equity Derivatives, as well as progress the development of Master Confirm Agreements. Requirements have been completed on Asia Ex-Japan (AEJ) Options and Swaps templates. These will cover both share and index trades, and will be implemented in production in Q1. Additionally, templates for Japan Variance Swaps have been developed for late Q1 implementation. DTCC Swaps templates for Japan are currently anticipated in Q2 pending finalization of requirements by the industry.

In Q4 2006, the volume in Deriv/SERV's payment reconciliation service continued to expand. The volume increased by 17% from the previous quarter, with an overall match rate of 99.03%. The affirmation interface was implemented, which provides a more streamlined workflow for

some dealers and their lower-volume buy-side firms. Over 30 buy-side firms used the affirmation tool to reconcile and automatically create matched payment instructions with their dealer counterparties. For Q1, the industry has recommended that the PayRec application be leveraged for the matching of float payments associated with asset-backed securities settlement. This would provide an expedient remedy to the current industry issue of matching these payments. A pilot group for this initiative will be activated in Q1.

The AffirmXpress application, which supports trade checkout functionality, continues to be tested by several dealers. DTCC has documented additional enhancements and refinements based on feedback from the interdealer brokers and is targeting these for Q1 implementation.

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

A real-time MQ link with Omgeo (to accept settlement instructions in ISO 15022 format as soon as the related trade confirmations are affirmed) was successfully implemented on December 2, 2006. DTC Important Notice ([B#: 0259-06](#)) pertaining to the link was distributed to participants in November.

In addition, delivery instructions on institutional trades affirmed between noon on T+2 and noon on settlement date are now being routed by Omgeo real-time to the Inventory Management System (IMS). These late affirmed items are not processed without participant authorization. For more information, contact Steve Wasserman at 212-855-3270 or swasserman@dtcc.com.

Settlement Aggregation

Investigate and define requirements for potential improvements to the institutional trade settlement process

The proliferation of trading vehicles has led investment managers (IMs) to change how they process block trades. IMs have begun to break up block trades and route pieces of them to various executing brokers to take advantage of trading algorithms, anonymity and best execution. This change has led to an increasing number of institutional deliveries.

At participants' request, DTCC and Omgeo are working with industry representatives to streamline the processing of block institutional trades, as well as "flip" the broker/dealer side of institutional trades into Continuous Net Settlement (CNS) to create efficiencies and provide fail reduction opportunities.

The primary goals of this project are for DTCC, working with Omgeo, to create a capability that would net the broker/dealer side of TradeSuite trades in CNS on the individual trade level; and permit the "aggregation" of multiple deliveries to or from a custodian for the same institutional account, security and settlement date. During Q1, DTCC will form a working group on this project and develop a conceptual design. DTCC expects to initiate development on this project later in 2007. For more information, contact John Kiechle at 212-855-3900 or jkiechle@dtcc.com.

Account Transaction Processor (ATP) Redesign

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

In 2007 DTCC will complete the technical design, which includes the logical and physical data models, the application architecture, including platforms, hardware and software requirements for each of the main application components: web interface, event handler, command processor, workflow manager and accounting engine. DTCC will also complete a proof-of-concept build of key components of this volume-intensive and mission-critical application.

The ATP system is the core processing system for all transaction activity affecting participants' security positions held at DTC. The ATP system also checks all transactions versus systemic risk management controls and other business rules.

This multi-year ATP redesign initiative will increase the system's flexibility for existing processing and will provide support for new applications, such as bulk pledging and transaction linkage, as industry needs dictate. These system enhancements will provide DTCC with the ability to expand its services domestically and internationally with increased speed to market. The new system will also enable DTCC to migrate from technology that will have limited support in the future. For more information, contact Julie Krill at 212-855-5906 or jkrill@dtcc.com.

Market Trade Input and Output

Support all U.S. Exchanges, Alternative Trading Systems (ATS) and Electronic Communication Networks (ECNs) in complying with the SEC's Reg NMS implementation while continuing to obtain trade input in real-time

DTCC continues to provide reliable and robust systems that support every U.S. market center. Real-time trade submission provides for business continuity and the reduction of operational risk, the support of Straight-Through Processing efforts, the ability to analyze potential risk earlier (risk mitigation) and earlier member firm trade reconciliation.

A rule filing is pending with the SEC that calls for the real-time submission of all locked-in trade input within nine months from approval. The International Securities Exchange, Boston Stock Exchange and ArcaEx have joined the NYSE, Amex, NASD/Nasdaq's TRF and Omgeo (Prime Brokerage) as submitters of real-time trade input. Remaining exchanges and ECNs will need to modify and then test their input to a real-time MQ-based message format. For more information, contact Hank Belusa at 212-855-5693 or hbelusa@dtcc.com.

SMART/Track

SMART/Track is an automated communications facility that centralizes communications for processing and/or tracking securities notifications using multiple mechanisms including MQ messages, file transmission and web-based terminal submission. Current applications on SMART/Track include Stock Loan Recalls, Agency Lending Disclosure, Corporate Action Liability Notifications and Buy-ins.

SMART/Track for Buy-Ins

Enhance SMART/Track for Buy-ins to provide additional automated functionality

SMART/Track for Buy-ins provides an automated communication vehicle for the creation, transmission, processing and tracking of CNS and non-CNS buy-in notices. It replaces the buy-in functionality that was previously available on the PTS Participant Exchange (PEX) service. The CNS and non-CNS buy-in functionality on SMART/Track for Buy-ins was implemented in stages beginning in November 2005 with CNS buy-in executions. In 2006, DTCC implemented CNS buy-in intents, orders and CNS retransmittals for 24-hour CNS buy-ins as well as functionality to enable participants to enter and track their non-CNS buy-ins and MSRB closeout notices.

In November 2006, DTCC disabled the non-CNS buy-in and MSRB closeout functionality on PEX (PEX functions 1 through 13) and SMART/Track became the only vehicle for transmitting broker-to-broker buy-ins and MSRB closeout notices.

In 2007, DTCC will enhance SMART/Track for Buy-ins to provide additional functionality that will further automate the buy-in process and support straight-through processing so that participants are better able to manage the buy-in process. Possible enhancements include an

automated accept/reject functionality, export capabilities, a non-CNS execution capability and additional sort functionality.

SMART/Track for Corporate Action Liability Notification Service

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

DTCC implemented a link between its SMART/Track for Corporate Action Liability Notification Service and the CNS system in Q4 2006. This link allows participants to use SMART/Track to instruct CNS that they plan to participate in a voluntary corporate action event for a security being processed through CNS. Following a transition period that is expected to run through the end of February 2007, DTCC will disable the CNSR function on the PTS system that participants currently use to notify CNS of participation in a voluntary corporate action event. SMART/Track will be the only way for long participants to notify CNS that they plan to participate in a voluntary corporate action event for a security being processed in CNS. During the transition period, participants are encouraged to submit their CNS liability notices using SMART/Track.

In November 2006, the New York Stock Exchange filed with the Securities and Exchange Commission proposed changes to NYSE Rule 180. Upon approval, NYSE Rule 180 will be modified to require, among other things, that NYSE members use the automated liability notification system of a registered clearing agency when issuing liability notifications in connection with certain securities transactions. Currently, the SMART/Track for Corporate Action Liability Notification Service is the only such service available. Accordingly, in anticipation of SEC approval in January 2007 of the proposed changes, participants that are also members of the NYSE will need to register for the SMART/Track for Corporate Action Liability Notification Service.

Enhance CNS Buy-In Process

Expand input processing for CNS buy-in order notices through SMART/Track to provide, at the point-of-entry, editing of CNS buy-in data, modifications or cancellations

DTCC is planning enhancements to the CNS buy-in process through the PBS network that will allow participants to view their current CNS buy-in activity that requires actions such as delivery of securities to CNS. Implementation is planned for Q4. This will assist participants in determining if they are still liable for a CNS buy-in. Additionally, DTCC will eliminate CNS buy-in reports and all CNS buy-in activity will be available only through SMART/Track. For more information on CNS buy-in, please contact Vincent Mc Devitt at 212-855-5694 or vmcdevitt@dtcc.com.

For more information on any of these SMART/Track initiatives, please contact Margaret Koontz at 212-855-5695 or mkoontz@dtcc.com or Ashik Ramkalawon at 212-855-3558 or aramkalawon@dtcc.com.

International Clearance and Settlement

Update systems to support non-U.S. dollar transaction processing, allowing DTCC to support proposed mergers of European and U.S. trading platforms

The core NSCC and DTC transaction processing systems will be expanded to accommodate trades originating from non-U.S. marketplaces, including trades not in U.S. dollars (e.g., trades in euro originating from the NYSE Euronext platform following the anticipated NYSE Euronext

merger). NSCC's trade input and trade netting facilities will be enhanced to accept non-U.S. dollar trades from new or existing trading platforms. DTC's transaction input, processing and settlement facilities will be enhanced to allow transaction processing and settlement in non-U.S. dollars.

Updating NSCC and DTC's systems to support non-U.S. dollar transaction processing will allow DTCC to support mergers of U.S. exchanges or markets with exchanges based outside the U.S. Project specifications are scheduled for distribution in Q1 and implementation of the service is scheduled for Q2. For more information, contact John Abel at 212-855-8434 or jabel@dtcc.com.

Continuous Net Settlement

Enable Settlement of Non-Standard Trades in CNS

Provide the capability for participants to include non-standard (cash, next day and seller's option) trades in the Trade Repository Processing system and CNS for settlement

DTCC received SEC approval on November 27, 2006, to implement non-standard trades into CNS. Currently, non-standard trades such as cash, next-day and seller's option trades are reported on trade contracts and intra-day output but are not passed to DTCC's Trade Repository Processing system or to CNS for settlement. In 2007, DTCC will include these trades in CNS to obtain the benefits of netting and guarantee as well as reduce the manual intervention necessary to process these types of trades. In addition, DTCC will allow participants to exclude these 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.

DTCC is targeting implementation for the end of Q1. DTCC will issue an Important Notice describing the exact implementation date and testing requirements by the end of January 2007. Information about non-standard settling trades in CNS is available from Robert Yodice at 212-855-8024 or ryodice@dtcc.com.

Enhance CNS Reorg Process

Address liability issues on Reorganization activities affecting CNS positions

DTCC plans to enhance the CNS Reorg process to display on SMART/Track potential liability, final liability, preliminary protect, final protect and the CNS Reorg information report and send final liability to participants in real time after CNS recycle completes. Implementation is planned for Q4. Today this information is only available via print image reports.

For more information on these CNS enhancements, contact Vincent Mc Devitt at 212-855-5694 or vmcdevitt@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 were implemented Q4 2006. Participant testing began in the Participant Service Environment on November 13, 2006.

Automate Mutual Fund Transfer of Assets

Expand ACATS and mutual fund services to automate the transfer of assets with Mutual Fund companies

DTCC plans to expand ACATS and mutual fund services to automate the transfer of assets with Mutual Fund companies. This expanded functionality will provide brokers, banks and mutual fund companies with a standard method to transfer positions with one another and increase processing efficiencies by eliminating the manual-intensive process and paperwork required to complete the transfer. These modifications are scheduled for Q4.

Shorten ACATS Transfer Cycle

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

In accordance with plans developed through work with an industry committee in 2006, DTCC plans to condense the ACATS transfer process by removing 3 days for full account transfers and 1 day for partial transfers, reducing these cycle times to 3-4 days and 3 days respectively. This will improve customer service and satisfy clients' desire to complete transfer requests in a more expeditious manner. These changes are scheduled for implementation in Q4 with participant testing beginning in Q3.

Account Information Transmission (AIT) Service

Provide participants with a secure and standard method of exchanging customer data during conversion events

The new AIT service, to be implemented in various phases throughout 2007, will provide a standard mechanism to transport customer data to eliminate the potential for lost data and provide member firms with a secure facility to exchange information with each other. DTCC is targeting for Q1 "phase 1" of this effort, in which participants can utilize DTCC as the common "hub" for data transport in current proprietary formats (name and address information, positions, balances, etc). Phase 2 involves standardization of conversion file formats and is preliminarily expected to be implemented in Q4.

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

Settlement Communication Enhancements

Interactive Night-Cycle Processing

Support real-time night cycle output

DTCC began to provide real-time 15022 messages of deliveries in the night cycle in October 2006 and distributed a DTC Important Notice ([B#0118-06](#)) with further details. Real-time night cycle output for 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 (described above). For more information, contact John Kiechle at 212-855-3900 or jkiechle@dtcc.com.

Deliver Order Input Extensions

Enhance participants' ability to be more interactive with the Settlement systems

Currently, DTCC's system runs in batch mode at night and real-time submission of certain types of transactions is not possible during this timeframe. For this reason, DTCC offers two types of Deliver Orders: Day DOs, which can be submitted beginning at 3:00 a.m. ET until 6:15 p.m. and are processed upon receipt by DTCC; and Night DOs, which can be submitted between 5:00 a.m. to 8:00 p.m. and are processed in batch mode in the night cycle. The current cutoffs prevent participants from submitting deliver orders while the night cycle is running. DTCC will be modifying its system to remove this restriction, thereby allowing participants to submit DOs at any time, with this change targeted for Q3. Night DOs will not be affected by this change. This enhancement will allow participants to react to night cycle receives by submitting deliver orders in real time. For more information, contact Julie Krill at 212-855-5906 or jkrill@dtcc.com.

Memo Segregation Input Extensions

Enhance Settlement systems to support participant input of Memo Segregation instructions in the night cycle

Currently, DTCC allows participants to submit instructions to protect customers' fully-paid-for securities through the Memo Segregation facility between 3:00 a.m. ET and 6:30 p.m. DTCC will expand this input/cutoff window in Q3 to allow participants to process Memo Segregation movements virtually 24 hours a day. This change will give participants additional time to input their segregation instructions, eliminating the need to follow special procedures, such as withholding deliveries from being processed, due to the current input restrictions. This enhancement is consistent with DTCC's goal of promoting the use of the night cycle and will offer participants the ability to complete a greater number of night cycle deliveries at the reduced fees. For more information, contact Julie Krill at 212-855-5906 or jkrill@dtcc.com.

Federal Reserve Pledges via Automated Input

Accept automated input of pledge feeds from participants to support an increasing need for collateral at the Federal Reserve

In 2006, DTCC and the Federal Reserve built an automated interface that allows participants' deposits and withdrawals processed through DTCC's Collateral Loan function to flow directly into the Federal Reserve's collateral system. As a result, the process for moving DTC-eligible securities in and out of the Federal Reserve System and U.S. Treasury's collateral accounts became much more efficient. Prior to this change, the Federal Reserve limited the number of pledges participants could process. Because of this imposed Fed limit, DTCC only permitted participants to submit Fed pledges manually via the Participant Terminal System (PTS). Now that the collateral loan interface between DTCC and the Fed is automated and the Fed pledge limit has been removed, DTCC will enhance its input systems to allow participants to submit Fed pledges through automated inputs (MQ and ISO) in addition to PTS. This enhancement, scheduled for implementation in Q3 will further streamline the pledge process to the Federal Reserve. For more information, contact Julie Krill at 212-855-5906 or jkrill@dtcc.com.

15022 Message Formats for Settlement

Provide an interactive environment for input and output by using global message standards

DTCC is expanding its use of 15022 message formats to include settlement-related transactions to increase standardization and to support the transition away from proprietary message formats. The 15022 messages are recognized as a global standard and will increase DTCC's ability to offer enhanced functionality such as linking offsetting receive and deliver instructions.

By Q2, DTCC will offer participants the ability to send or receive settlement-related transactions and IMS commands for payment orders and deliver orders via 15022 messaging. Real-time input and output in ISO format for all other settlement-related transactions and commands are targeted for availability by Q4. For more information, contact Javette Laremont at 212-855-2414 or jlaremont@dtcc.com.

Repo and Stock Loan Tracking Enhancements

Reduce participant exposure to processing errors and improve service

DTCC is revising both the repo and stock loan tracking process to reduce counterparty submission of erroneous reason codes for these transactions and to improve the overall service. To facilitate timely reporting, DTCC will require repo and stock loan parties to proactively reconcile the memo entries recorded in DTCC's systems regarding open contracts with their "in-house" positions. DTCC will also make a change to close out repo and stock loan positions when the CUSIP matures. These modifications are targeted to be in production by Q3.

Based on feedback from participants, DTCC developed on-demand training for the repo tracking system and stock loan problem resolution and will make available these sessions for interested participants. For more information, contact Javette Laremont at 212-855-2414 or jlaremont@dtcc.com.

Fixed Income Clearance and Settlement

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

Develop a series of initiatives designed to provide MBS CCP services

In 2006, DTCC issued a paper entitled "A Central Counterparty for Mortgage-Backed Securities: Paving the Way," describing the multi-phased approach for the introduction of CCP services to the mortgage-backed securities marketplace. The benefits of MBS CCP services include:

Guaranteed Settlement – FICC will provide members with a performance guaranty upon comparison.

Pool Netting Service – Elimination of redundant securities movements while facilitating existing MBS trading strategies whereby firms need to see collateral flow. The "smart" netting algorithm will minimize the number of securities movements while at the same time limiting the cost of carry associated with building up the number of securities required to settle larger net settlement positions.

Expedited Return of Margin Collateral – Because settlement will be conducted through the clearing corporation, collateral will be returned to firms on a more timely basis, without the need for the Notification of Settlement process.

Cost Savings to Members – The implementation of the new pool netting services may result in cost savings for participants stemming from eliminated transaction processing fees and operational costs. Further savings will be derived from reductions in fail costs and collateral costs (due to common margining, quicker return of margin collateral, etc.).

The first phase of this project is to provide matching services for Specified Pool Trades to enable MBS clearing members to submit specified pool trades for matching at the time of execution. DTCC has completed this development and internal testing for this functionality will continue throughout Q1. Participant testing is also now available and DTCC encourages members to test these Specified Pool Trade messaging changes with the Mortgage-Backed Securities Division (MBSD) in Q1 with implementation scheduled for Q2.

Subsequent to this implementation, DTCC will proceed with an enhancement to Specified Pool Trade Matching. With the enhancement, Real-Time Trade Matching (RTTM) will calculate final money of Specified Pool Trades and re-price trades pending matching and settlement based on updated factor information received from agencies. This functionality, anticipated to be implemented in Q3, is viewed as a precursor to pool netting and will provide participants with enhanced up-to-date information regarding the value of their pending trades. The application is expected to be ready for delivery to the Participant Test Region in early Q2. Functionality to be introduced in this stage was identified to participants in a New Service Bulletin in Q2 2006 and related messaging specifications were published in Q3 2006.

The second phase is to allow for Pool Substitutions via the Electronic Pool Notification (EPN) system using a single message. DTCC completed development and testing of a rewritten EPN system which includes this Pool Substitution capability in Q4, 2006. The rewritten EPN system was deployed to QA on December 18, 2006, to begin internal user acceptance testing. DTCC issued FICC Important Notice [MBS174.06](#) detailing Disaster Recovery changes in the new EPN System in Q4 2006. Participants are encouraged to review changes to the disaster recovery process and to plan to complete their internal development in time to begin testing the Pool Substitution capability with MBSD in late Q1. Implementation is targeted for late Q3.

The third phase for introducing MBS CCP services includes the introduction of a CCP Pool Netting service, which will allow MBS clearing members to net pool obligations stemming from TBA Netting, TBA Trade-for-Trade (TFTD) activity and Specified Pool Trade activity (if desired) to arrive at a single net position in a particular pool. Upon the implementation of this phase, MBSD will be the guarantor and settlement counterparty for all pool obligations. This phase is anticipated to be ready for user testing at the end of Q4.

For more information, contact Dennis Paganucci at 212-855-7626 or dpaganucci@dtcc.com.

Auto-Debit Capability for MBSD members

Use the Federal Reserve National Settlement Service (NSS) to automatically collect and pay out MBSD participants' daily Cash-Only Settlement obligations similar to the process currently employed by DTC, GSD and NSCC

MBSD has targeted January 18, 2007, for the second and final release of Auto Cash Settlement with all cash settlements being processed via NSS beginning January 19, 2007. All programming, coding, systems unit testing and business User Acceptance Testing for both phases were completed in Q4 2006. In order to accommodate a parallel production period, the first phase was released into production on December 1, 2006. MBSD is sponsoring a six-week parallel production with all cash settling banks, which commenced December 4, 2006.

Automating the cash-only settlement process mitigates risk as FICC would have greater assurance of receiving owed monies on a timely basis and will eliminate the operational burdens associated with monitoring collection and disbursement of cash settlements and reduce the need to levy late fees for late cash settlements. For more information, contact George Parasole at 212-855-7670 or gparasole@dtcc.com.

Government Securities Division

Enhanced Repo Collateral Substitution Processing

Completion of substitution process enhancements

DTCC has designed a solution to support a "hard close" deadline for processing repo substitutions. DTCC will issue a letter to SIFMA in Q1 detailing the proposal and seeking industry buy-in to move forward. Implementation is anticipated for March 2007.

DTCC will also implement an enhancement to allow members to process repo substitution requests on a "one-to-many" basis. This enhancement is targeted for implementation in mid-2007. For more information, contact Dick Betts at 212-855-7461 or rbetts@dtcc.com.

RTTM Web for the Government Securities Division

Implement the final phase of the RTTM Web project, which will support real-time submission and full trade management capabilities for GSD

GSD's new RTTM Web will provide participants with a more user-friendly and intuitive trade management tool, which is consistent across all fixed income products. In addition, participants will access RTTM Web through an enhanced security layer, enabling users to access all RTTM products (including Mortgage-Backed Securities and Corporates, Municipals and UITs) with a single user ID and password. This project is currently in the build phase and is scheduled for completion by the end of Q1 with internal testing in Q2 and user acceptance testing in Q3.

DTCC is planning for a Q4 implementation. For more information, contact Bart Schiavo at 212-855-7590 or bschiavo@dtcc.com.

Fixed Income Prime Broker Netting

Provide member firms with the ability to match and net U.S. Treasury cash and repo trades done pursuant to a prime broker arrangement

Today, the majority of prime brokers settle U.S. Treasury trades on behalf of their hedge funds against the executing broker trade for trade via the Fed. There is little to no pre-settlement trade comparison between the prime and executing brokers leaving any problems to be discovered at settlement. Given the proliferation of hedge funds and their increased activity in U.S. Treasuries, prime brokers want FICC to provide an automated trade comparison vehicle for these trades to mitigate settlement risk. Additionally, trade for trade settlement is operationally inefficient and costly. Netting in FICC can provide increased efficiency.

In Q4 2006, DTCC convened an industry working group and made significant progress in defining requirements to support the matching as well as netting of prime broker trades in Treasury securities. As a result, GSD will make enhancements to RTTM to provide prime brokers the flexibility to "match only" or "match and net" trades at both the customer and the product level (i.e., cash versus repo). DTCC plans development in Q1 with a target implementation date of Q2. DTCC will be publishing specifications and submission instruction to firms in Q1 to support any development effort necessary. For more information, contact Lisa Meiselman at 212-855-1207 or lmeiselman@dtcc.com.

Support same-day settlement for Corporate, Municipal and UIT (CMU) products

Build an intraday link to the Trade Repository System (TRP)/CNS for CMU products

In order to reduce participant risk and improve cashiering capabilities, settlement of certain CMU "as of" trades will be accelerated by a day. When implemented, settlement of these CMU "as of" trades will be made consistent with equity "as of" same-day settlement processing and will appear on the Supplemental Consolidated Trade Summary along with equities.

In Q3, eligible "as of" CMU trades that match by 11:30 a.m. ET, on or after a trade's settlement date, will be forwarded to the CNS or non-CNS settlement systems on the same day. Participants should review internal processing and determine if CMU "Settlement Disposition Messages" should be received and processed in preparation for same day settlement of CMU "as of" trades. For more information, 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

DTCC will continue MMI development efforts in 2007 to help mitigate financial exposure associated with late or incorrect payments on these issues. There are more than 2,500 non-standard or "hybrid" MMIs whose unique features create substantial risk and cost for industry participants.

The first phase of automating MMI hybrids processing focused on “exchangeable” and asset-backed MMIs, to enable issuing and paying agents (IPAs) to identify these unique MMI features during issuance. In addition, enhanced capabilities to the payment systems will offer improved levels of automation for tendering exchangeable MMIs.

Phase one development is completed and available for participant implementation and testing. Select IPA banks and corresponding broker/dealers will need to modify their interfaces with the Pre-Issuance Messaging system and related record layouts by Q1 to accommodate the new automation. The deployment date is targeted for the first half 2007 upon SEC approval.

The next phase of development will validate industry requirements beginning in Q1 for MMIs with features that provide for extensions, prepayments, calls, and puts. For more information, contact Javette Laremont at 212-855-2414 or jlaremont@dtcc.com.

RTTM Enhancements

Build an intraday interface for RTTM to obtain municipal bond “when issued” security information from the New Issue Information Dissemination Services (NIIDS) and make RTTM CMU processing more efficient

Upon implementation of DTCC’s NIIDS in Q3 (see page 22), RTTM will have access to timely security master information for municipal “when issued” securities, as provided directly from the underwriters. RTTM will leverage this information to facilitate real-time trade reporting in such transactions to the Municipal Securities Rulemaking Board (MSRB). MSRB has stated that its three-hour exemption from the 15-minute reporting rule for certain when-issued trades will expire on January 1, 2008. Internal testing of the RTTM interface to obtain NIIDS data will occur in Q2 and Q3 with implementation targeted for late Q3.

Additionally, DTCC is planning to split RTTM CMU processing queues from a single one to three (one each for participants, MSRB and NASD) in Q3. Splitting the RTTM queue within DTCC will make RTTM processing more efficient. Participants will not be required to make any communications changes on their end. For more information, contact Ed Fanning at 212-855-7623 or efanning@dtcc.com.

Risk Management

Integrating Subsidiary Systems

Standardize clearing fund methodology and model assumptions across DTCC's clearing corporation subsidiaries.

Value at Risk (VaR)

The necessary development efforts to implement the VaR methodology in the calculation of FICC clearing fund requirements for GSD were completed in Q4 2006 and, subject to SEC approval, DTCC will implement in Q1. DTCC reviewed 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 concentrating on an MBSD VaR model. DTCC will research the feasibility of an enhanced model to accommodate offsetting activities in organizations that are members of both FICC Divisions during 2007.

MBSD VaR

MBSD will be applying an industry standard VaR model using "state of the art" techniques compliant with the International Organization of Securities Commissions recommendations and other regulatory requirements. DTCC's Quantitative Risk Team is developing an MBSD VaR model recommendation for 'plain vanilla' VaR. DTCC will review the MBSD change with customers in Q4 via Important Notices and customer forums. DTCC expects the MBSD VaR model to be in test in Q4.

For more information, contact 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 has developed and discussed with participants a standard set of rules governing the forms of collateral that will be acceptable for the clearing funds of its subsidiaries. DTCC submitted the rule filing to the SEC for this change in Q4 2006. Subject to SEC approval, the formal implementation will take place in 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. For more information, contact Jisun Burton at 212-855-5760 or jburton@dtcc.com.

Credit Risk Enhancements

Research possible changes to the Credit Risk Rating Matrix model used by DTCC to increase the monitoring of participants with 'weak' ratings

The Risk Management Department is examining model assumptions used in DTCC's Credit Risk Rating Matrix (CRRM). The CRRM is a quantitatively driven assessment of the financial strength of participants across the DTCC complex. The possible changes to the model assumptions will increase the transparency of the rating system. Participants will benefit from the increased transparency as participants are placed on surveillance pursuant to ratings assigned from the matrix. Those participants assigned a "weak" rating will be placed on a "Watch List" where they will be more closely monitored by DTCC. Participants placed on the Watch List may be subject to higher clearing fund requirements and/or requested to submit additional financial reports

and/or data. DTCC is scheduled to complete this research in Q2 with implementation in Q4. No customer systems changes are required. For more information, contact Marie Rey at 212- 855-5790 or mrey@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 continues on schedule. The reengineered platform will create an integrated platform that embeds straight-through processing benefits for US and global securities, from origination through maturity.

Via direct e-mail campaigns, DTCC publications and relationship management team members, DTCC has been asking customer firms to enroll designated point personnel (via the reengineering web site) to receive ongoing project updates. Please review this initiative with your staff and assign resources to aid in your awareness of this project, our progress and the benefits of this endeavor on your corporate action processing. DTCC continues to update the dedicated reengineering Web site <http://www.dtcc.com/reengineering/index.html> with news release, presentations and session scheduling.

Corporate Actions Reengineering

Redesign the Corporate Actions system

DTCC is currently undertaking a major initiative to 're-engineer' how it delivers and processes corporate actions. The goal is to create an integrated, common platform based on industry standards for corporate actions through the complete asset servicing lifecycle: announcements, entitlements, instructions, payments and processing status.

This effort will improve our service to the industry by offering increased flexibility and increased functionality. The project will replace aging legacy systems that are increasingly difficult and expensive to maintain and will also replace all of the existing publication files with new message types, in ISO 15022 format and XML format. Firms that have not already adopted the ISO 15022 standard or firms that do not support XML will need to re-program and re-map for new ISO 15022 and XML file formats.

The major changes are as follows:

- Creation of a Unique Event ID: Each event will include a unique reference number that will be maintained through out the entire lifecycle of the event.
- Elimination of 'Function Codes': A new set of corporate action event types will be used throughout DTCC, common across DTC 'announcements', 'processing' and GCA VS. All 'Function Codes' and GCA VS event types will be eliminated.
- New announcement 'structure': All events will be presented as a single announcement. Each event may have multiple options and each option may have multiple payouts. This new structure will hold regardless of the number of options, payouts, or DTC services that apply.
- Elimination of 'Contra-CUSIPs': Currently, DTCC segregates positions for participants that have submitted elective instructions by using a 'contra-CUSIP' number, or by using a

predetermined reorganization account (RRG). The new announcement structure will eliminate the need for contra-CUSIPs and RRG accounts will be used exclusively.

- New Data Elements: New data elements will provide additional definition to announcements and processing of Corporate Actions at DTCC.
- New Field-Level 'Status Flags' for Announcements: The majority of event-specific fields will include a flag to indicate the processing status of each field - for example, 'complete' or 'incomplete'.
- Improved Use of Text: New and specific text blocks will provide key information to provide additional clarity to the event - for example, a 'Terms' textbox, and an 'Option Text' textbox.

In Q4 2006, DTCC released the first version of the file format specification documents, covering new event types, all underlying fields, and associated ISO 15022 / XML tags. DTCC will undertake weekly Webinar training sessions and complete the "comment period" for the message format specifications during Q1

In Q2, DTCC plans to release of the second version of the message format specifications, taking into account feedback from the "comment period" including list of all "required" / "optional" data elements for all event types and the mapping, at the field-level, from legacy DTC and legacy GCA VS to the new field names. Additionally, DTCC will release of the "migration strategy" defining a detailed timeline of how DTCC will begin implementing the new system. This strategy will include steps customers and interested parties will need to take to ensure adequate testing and preparation for the migration to the new system and details of what, if any, support DTCC will provide to existing legacy files once full implementation of the new formats occurs at the end of 2009.

In Q1 2008, DTCC will start publication of the new announcement files to GCA VS customers for early testing, and in Q2 2008, start publication of the new announcement files to DTC customers for early testing. DTCC will complete the development of all components of the Corporate Actions "re-engineering" project by summer 2008, aiming at a "phased" implementation beginning early in 2009. For more information, contact Lorraine Morrison at 212-855-5310 or lmorrison@dtcc.com.

Underwriting Systems Reengineering

Redesign the underwriting system, addressing the special challenges of new-issue processing

The code for Deliverable 1 of the new Underwriting System is completed and internal User Acceptance Testing began in December 2006 and will continue through Q1.

DTCC has published the final Underwriting Direct Transmission File Layout and Specifications (the New Issue Information Dissemination [NIIDS] file) in fixed record format. Communication testing with static data for NIIDS data recipients using FTP or MQ started in December and will continue through Q1. End-to-end testing with data providers and data recipients is scheduled for Q2.

Working groups established to review required data elements for the municipal, corporate, equity, collateralized mortgage obligations/asset backed securities and retail CDs products continue with representation from underwriting firms, DTCC and SIFMA. DTCC continues to interface with industry firms including participant underwriters and clearing firms, service

bureaus and information service providers to confirm that external users are taking the necessary steps to ensure their readiness for the system implementation in 2007.

DTCC is in the process of designing an online training program that will include robust help functionality with systemic look up features built into the underwriting web application. The course structure is complete and learning content identified, with a prototype scheduled for completion in Q1.

Pilot testing with individual underwriting firms will begin in June 2007. Plans are to have underwriters use a test region to parallel test the new system. The pilot underwriters will enter new offers in parallel with the current environment they use to submit their issues (PUND, WUN or hard copy). The actual roll out will begin with the internal underwriting department users in July 2007. Following that, external users will be phased in by product type with municipal issues being the first product to be transitioned. For more information, contact 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 for DTC-eligible securities

DTCC has defined customer-oriented 'service standards' for content, timing and accuracy of each event. DTCC will distribute these service standards to the Asset Services Advisory Board in Q1 for comment. DTCC plans to implement the service standard in Q2 and start to track and report the resulting metrics in Q3.

In addition, as part of the larger Corporate Action 'Re-engineering' project, DTCC is harmonizing all of the DTC function code event types and underlying data fields. (The key impacts, deliverables and milestone dates are included in the Corporate Actions Reengineering project description.) For more information, contact Daniel Thieke at 212-855-4162 or dthieke@dtcc.com.

Global Corporate Action Validation Service (GCA VS)

Provide customers' front and back offices with validated or "scrubbed" corporate action announcement information, for global events

On an annual basis, GCA 'scrubs', validates and publishes corporate action information on nearly one million securities from over 160 markets according to daily Service Levels. The 'Service Level Agreement' comprises numerous measures including coverage, timeliness and accuracy and combines them into a single, blended metric that consistently exceeds the overall target of 99.0%.

In Q3 2006, DTCC successfully completed the migration of the GCA VS core "scrubbing" application to a new IT platform. The new system, which has been named "WAVES" (Worldwide Announcement, Validation and Enrichment System), allows the service to effortlessly scale as the number of clients increases while improving customer service and processing performance. WAVES improves customer service by permitting the configuration of announcement requirements at the event, market and security type level and improving exception management and vendor corporate action event matching logic. Performance is increased via improved processing times for vendor and client data files and scalability for GCA VS client growth.

In response to client requests for GCA VS to increase its scope, the service will start to publish all US fixed income 'scheduled payments' during Q1. The scope of 'scheduled payments' will cover interest payments, principal payments and maturities and these will be available as three new event types within the GCA VS feed. DTCC expects the volume of scheduled payments to be well over 500,000 per month and those that match the customer's SOI will be made available to GCA VS clients as a publication option. DTCC will look to supplement these with U.S. events on structured securities (i.e., Collateralized Mortgage Obligations, Asset-Backed Securities and Variable-Rate Demand Obligations) during the latter half of 2007.

In addition, as part of the larger Corporate Action 'Re-engineering' project, DTCC is harmonizing the way it classifies all corporate action event types across its platforms and the data fields included in announcements. (The key impacts, deliverables and milestone dates are included in the Corporate Actions Reengineering project description.) For more information on GCA VS, contact Chad Richman at 212-855-2023 or crichman@dtcc.com.

Complex Securities Servicing

Continue efforts to ensure more timely rate announcements and reduce post-payable adjustments on Collateralized Mortgage Obligations (CMOs) and Asset-Backed Securities (ABS) issues

DTCC, in conjunction with SIFMA, and a group of transfer agents, underwriters, loan servicers / master servicers, major broker dealers, and custodians convened in early December 2006 to present findings and discuss next steps for three working groups: 1) Diagnostics 2) Servicer/Agent file protocol and 3) Principal post payable adjustments. The diagnostic working group confirmed that the complexity of the deal structure and/or modeling deficiencies often make it impossible for rate information to be made available to DTCC any earlier than payable date. The group concluded that the structured securities product should be classified into two categories – those that can meet DTCC's Operational Arrangement (OA) requirements mandating earlier publication of rate information and those that cannot.

There was no significant interest expressed in the second working group to pursue a standardized file protocol for communication of rate information between agents and servicers.

DTCC presented the following recommendations:

- Make the payable date two days later (while holding all other timeframes constant) to allow additional time for the parties in the chain to disseminate rate information. The group agreed that implementing this recommendation would take considerable time and further discussions are required.
- Categorize ("segment") structured securities into two groups – those that can meet OA requirements and those that cannot. At Underwriting, require an attestation from the issuer and paying agent that the deal structure allows for compliance with the OA.
 - o For new issues that cannot meet OA requirements, apply a significant exception-processing fee to the underwriter.
 - o For new issues that can meet OA requirements, monitor for a one-year period and if rates are late, apply an exception-processing fee plus a disincentive fee to the underwriter for improper analysis.
 - o Issue agent report cards and set a standard for percentage of issues with rates on time, thus charging performance fees to agents under the standard.

- Post-payable adjustments
 - Eliminate principal post-payable adjustments over 30 days old. If this proposal is adopted, there will be no financial impact to the parties involved. The principal payment adjustment will be passed to the next month's payable date.
 - Continue to allow interest post-payable adjustments, but consider an exception-processing fee against agents for items over 30 days old.

DTCC established working groups to review the feasibility of delaying the payable date two days and to segment existing structured securities into two groups by identifying the types of deals that would be segmented into each group. DTCC will prepare for discussion a draft of the attestation required by paying agents/issuers at the time of the underwriting and present it to the appropriate SIFMA committee. DTCC will also draft revised OA language incorporating the evolving recommendations around accuracy and timeliness including the question of principal post-payable adjustments.

DTCC will solicit comments on these recommendations from various industry groups (DTCC's own Operations Advisory Committee, SIFMA, BDUG) and will continue to update the industry on the progress made by the Structured Securities working groups via this development agenda and other DTCC publications. For more information, contact Robert Hensey at 212-855-5133 or rhensey@dtcc.com.

Immobilization and Dematerialization

Working with customers, industry groups, including the Securities Industry and Financial Markets Association and the Securities Transfer Association, as well as with regulators, 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 November 2006, DRS WT statement requests had risen to 21% of all WTs on average, up from less than 5% for all of 2005.

The SEC approved in July 2006 rule filings by the New York Stock Exchange, the Nasdaq Stock Market, NYSE Arca and the American Stock Exchange 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. The regional exchanges have filed similar rule changes for DRS as a listing requirement, which are still pending approval. DTCC filed a rule change with the SEC 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. Currently, DTCC is discussing the filed rule change with the major industry groups, including the Securities Transfer Association and the Corporate Shareholder Services Association.

Paperless Legal Transfers

Working with the Securities Industry and Financial Markets 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 exceeded the goal of 95% for 2006, with over 97% of issues now eligible for the Paperless Legal Program.

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

Strengthen procedures for compliance with OFAC regulations on certificate processing activities

DTCC implemented the new OFAC certification requirement for U.S. participants creating deposits via Computer-to-Computer Facility (CCF) expectancy files in Q4 2006.

In 2007, DTCC will be expanding its OFAC screening and certification programs to comply with OFAC's regulations for products and services where DTCC receives ownership and/or identity information for business or financial transactions that it facilitates in part or wholly. DTCC will provide more information to participants in a Q1 Important Notice regarding the scope and/or requirements for the OFAC screening and certification programs. For more information, contact 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

This project, originally due for implementation early in 2007 has been canceled for the near future due to issues within the transfer agent community. For more information, contact 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

Mutual Fund Services is continuing to educate participants on the use of the Standardized Data Reporting (SDR) functionality, which was implemented in Q3 2006 to support SEC Rule 22c-2 to standardize and automate the request and transmission of shareholder trading information for positions that are held in omnibus accounts. DTCC participated in an SDR panel session at the National Investment Company Service Association (NICSA) conference in November and is scheduled to participate in another NICSA panel in January. In addition, Mutual Fund Services and Insurance Services are participating in an Investment Company Institute/National Association for Variable Annuities working group to determine how SDR can be utilized by Insurance Companies. For more information, contact Barbara Simon at 212-855-5658 or bsimon@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

The Managed Accounts Service (MAS) standardizes and streamlines the electronic communication of data between sponsors of managed account programs, investment managers, and service providers. The objective for 2007 is to generate increased utilization of the service by continuing to work with primary sponsors, investment managers, service providers and industry focus groups. Increased utilization of MAS will provide the managed accounts industry with standardization and increased processing efficiency, which will reduce errors, costs, and operational risks and bring scalability to support current volumes and future growth.

The system for MAS was implemented into production in November 2006. DTCC has been working with Citigroup (Smith Barney's Consulting Group and Global Transaction Services) to facilitate its rollout and utilization of the service. DTCC has also been working with the Money Management Institute to promote industry standards through the use of MAS.

DTCC will continue to work with Citigroup effort to launch the MAS. DTCC intends to target other primary sponsors, along with independent and regional broker dealers, as well as Investment Managers directly or through major service providers. DTCC will also continue to participate in the Money Management Institute's industry committees to establish data and processing standards for the managed accounts industry. For more information, contact Paul Bucaoto at 212-855-5671 or pbucaoto@dtcc.com.

Alternative Investment Products (AIP)

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

Currently, the alternative investments industry is highly manual. With increasing interest and transaction activity, many firms and funds are having difficulty managing the volume. DTCC worked with a pilot committee of leading firms and funds in the alternative investments marketplace to build an automated and standardized service for the industry. The AIP platform will facilitate transaction and paper workflow automation in standardized data layouts. The

benefits include centralized data exchange, straight through processing, a central settlement process, improved reconciliation and position reporting, increased security for sensitive investor information, timely transaction and valuation reporting, automated commissions processing, elimination of physical paper exchange and reduced stale account information. This service will require a SEC rule filing, which DTCC will initiate in Q1.

Business requirements were finalized in Q4 2006 and the service will be rolled out in two phases for partner testing. Development for the first phase was completed in 2006 and will be available for partner testing Q1. The functionality included in the first phase is security profile and announcements, purchases, subscriptions, redemptions, tender offers and exchanges.

The second phase, which includes the paper workflow process, position reporting, account maintenance, commissions, billing, activity, distributions and settlement, will be rolled out in Q2 for partner testing. Production implementation is scheduled immediately after partner testing is complete.

Efforts to secure additional pilot members will continue in 2007. For more information, contact Keisha Bell at 212-855-2888 kbell@dtcc.com or Linda Yee at 212-855-5612 lyee@dtcc.com.

Profile Security Issue Database Redesign

Redesign the Security Profile database of Mutual Fund Profile Service II (Profile) to facilitate data entry and retrieval of mutual fund security information

This project entails creating Web screens to support a new relational hierarchal database for input by funds, developing new record layouts for mainframe users, creating new XML schemas, enhancing reporting capabilities for funds and firms, providing new AutoRoute/web reports of future effective data, creating a help feature on web screens with access to the Data Dictionary and converting existing data to the new hierarchal structure.

Redesigning the Security Issue database will enhance the usability of Profile as an operational utility for rules based processing and regulatory compliance for firms and funds.

Working with the ICI Profile Steering Committee and industry members, a new data dictionary was approved in late October. New web screen and mainframe development is in progress. DTCC is targeting Q1 for release of an Important Notice containing and new record layouts. The conversion process will begin in Q1. Implementation is tentatively scheduled for Q2. For more information, contact Rita Gribben at 212-855-5677 or rgribben@dtcc.com.

Insurance Services

Fund Transfers

Create a standardized, automated process for distributors to capture, track and supervise rep-initiated fund transfer transactions to comply with state and federal regulatory requirements

Originally scheduled for development and pilot in 2006, this project was postponed to 2007 due to industry and participant reprioritization. During 2006, the Fund Transfers working group expanded the scope to include a rep-initiated position inquiry and a rider or feature modification option so the business and technical requirements had to be revised. In Q4 2006, the SIFMA Insurance Panel re-established this project as the top development priority for 2007.

This project is intended to improve the overall user (rep) experience by automating and mainstreaming the fund transfer process with increased levels of service for the distributors and the customers. This service will increase the number of "In Good Order" fund transfer transactions sent to the carriers and will create of an audit trail for all the steps completed within the fund transfer process to meet compliance requirements. This project will be built using an ACORD XML messaging standard and utilize DTCC connectivity to ensure privacy and security.

DTCC plans to finalize technical requirements, implementation guide and pilot participants during Q1 with development expected to begin in Q2 and pilot testing in early Q3. Full production launch is projected for late 2007.

Attachments

Build a facility to address regulatory requirements to establish an electronic exchange of imaged documents, signatures and forms during the pre-sale, new business and post issue process

Recent regulatory developments have established a need for the annuity industry to have the capability of an electronic exchange of imaged documents, signatures and forms during the pre-sale, new business and post-issue process. The industry has asked DTCC to build a stand-alone process for handling these items as attachments to the core messaging. This process will leverage the infrastructure that will be developed for the Fund Transfers project and allow for the linkage of attachments to existing messages. The development of an attachment handling process is one of the key deliverables of the National Association for Variable Annuities STP initiative. This project will be built using an ACORD XML messaging standard.

This new service will eliminate paper exchange of information and enables STP when signatures or original documentation is required for otherwise automated processes. Additionally, firms should realize savings from reduced mailing costs and increase levels of service to distributors, carriers and customer through the expedited document processing. Automation of this process will create an audit trail and eliminate lost paperwork.

DTCC will complete business and technical requirements by Q2, with development in Q3 and pilot testing in Q4. This project will follow the Fund Transfers project.

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 has deferred development of this initiative to 2008 due to changing industry priorities.

For more information on these Insurance Services initiatives, contact Randi Gordon at 212-855-5654 or rbgordon@dtcc.com or John Ziambras at 212-855-5651 or jziambras@dtcc.com.