



**The Depository Trust &  
Clearing Corporation**  
55 Water Street  
New York, NY 10041-0099

February 12, 2008

Dear Colleague :

DTCC has long utilized Six Sigma methodology to measure and improve a wide variety of business processes and procedures that directly affect how we serve customers. These efforts are helping to reduce expenses, reduce risk for the industry, and improve the overall operating effectiveness for both DTCC and its customers. The end goal, of course, is to continue raising the bar on customer service and satisfaction.

Our use of Six Sigma and other quality metrics to measure our processes has helped transform DTCC and its subsidiaries into a more nimble and flexible customer-centric organization – and DTCC’s customer satisfaction scores over the last four years have evidenced your recognition of our commitment to quality.

In the effort to further grow efficiencies and quality in DTCC processes and ultimately bring even greater benefits to the industry, we are now moving to extend our quality program externally, seeking opportunities to partner with our customers as well as with industry servicers, agents, vendors, and other data providers to deliver further quality improvements. Through these partnerships, we are looking to facilitate and accelerate the resolution of defects and errors that occur in mutually related processes.

As part of this spirit of partnership, we plan to share with customers and vendors our “sigma” rating system that we’ve used for several years that identifies the performance levels of various transaction processes in our Asset Services business. A sigma rating measures the number of defects that are observed to occur in the measured process for a given volume level over a defined period of time. The higher the defect rate in a process, the lower the sigma number. The goal, of course, is to raise sigma levels over time to the optimal levels possible for each process –

*Subsidiaries:*  
*The Depository Trust Company*  
*National Securities Clearing Corporation*  
*Fixed Income Clearing Corporation*  
*DTCC Deriv/SERV LLC*  
*DTCC Solutions LLC*

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levels, incidentally, that can serve as industry benchmarks for the best practices that we all aspire to achieve and maintain.

Each month, DTCC measures sigma levels for a variety of transaction processes, including those for underwriting, redemptions, dividend and interest payments, and reorganization announcements. The sigma levels evaluate the accuracy, quality, and timeliness of these processes, and different sigma levels measure these factors in different ways – an “internal” sigma level measures the impact on the process of defects identified as originating within DTCC, an “external” sigma level measures the impact on the process of defects identified as originating outside DTCC (e.g., as the result of bad input by an agent or a service provider), and an “overall” sigma level measures the performance of the process generally, without distinguishing between the sources of the defects. Over the course of 2008, DTCC plans to begin publishing all sigma ratings for each of the measured processes, so that by year-end these metrics for all of the measured processes will be published.

As the first step in this process, DTCC will focus on the processing of periodic principal and income payments on structured securities issues through DTCC’s subsidiary, The Depository Trust Company (DTC). DTCC will launch an external sigma program focusing on DTC’s interactions with the paying agents for these issues. In this first phase, DTC will work with those paying agents that handle the highest volume of structured securities. We want to share our Six Sigma experience with these agents, partnering with them to continually improve our mutually related processes.

In conjunction with this, DTC will soon publish a structured securities “report card,” which will highlight agent and customer efficiency data points, including sigma levels for timeliness and accuracy. These sigma levels will reflect the overall process performance as well as internal sigma levels for DTCC and external sigma levels for agents and their service providers.

DTCC believes that focusing on these sigma levels will help drive improvements in these processes, and drive appropriate investments to lower the costs associated with poor quality in the handling of these payments. This “cost of poor quality” has considerable consequences, and applying resources to raise the sigma level can help reduce it considerably. The appropriate sigma level depends on the process involved. In some cases, a goal of near perfection – a rating

of “six” sigma, which translates to 99.9997% accuracy – is desirable (for example, a sigma level of four would mean that the nation’s post offices would lose a combined total of some 12,400 letters each hour or that pharmacists would incorrectly fill over 124,000 prescriptions written each calendar year). In other cases, that level of perfection may set too high a target, but, even in these cases, raising sigma levels from their current state still helps drive the “cost of poor quality” down. In the specific case of DTC’s processing of structured securities transactions for customers, the 7,500 post-payable adjustments processed last year on such transactions (due to defects caused by DTC, paying agents or downstream servicers) translates into a 4.11 sigma level, and negatively affected about 300,000 investors.

So it is clear that raising sigma levels will have a dramatic effect not only on our business but also on customer expectations. The better a process functions, the more successful the business becomes. The six sigma metrics we plan on introducing for structured securities will enable all of us to focus on our processes to improve the overall efficiency and service to our customers.

As we begin to roll out our sigma ratings program, we look forward to working with our customers and our service providers to drive further efficiency, quality and continuous improvement in DTCC processes. This, ultimately, will benefit all of us as well as the industry at large. And, for DTCC, that defines a successful business.

The first distribution of metrics will occur next month and will be available on our DTCC websites. For all questions on the DTCC Quality Program, please contact Cheryl Lambert, Managing Director of Asset Services/Business Reengineering and Quality, at (212) 855-3600 or at [clambert@dtcc.com](mailto:clambert@dtcc.com). Participants can also contact their respective Relationship Manager for more details.

Sincerely,

John Colangelo  
Managing Director, Operations & Quality  
DTCC