

**A Presentation by Ann Bergin, Managing Director and General Manager,
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DTCC: OUR ROLE IN THE EVENTS OF 2008

Thank you, Kathleen.

Good morning everyone. Happy new year, and let's all hope for a bigger upside in 2009!

I'm delighted to have the opportunity this morning to give you a perspective on DTCC's role in the global marketplace.

Let me begin with a brief background on our structure, the role we play in the broad U.S. securities markets, and our businesses. And then I'll give you an update on what we're doing to support mutual funds and other areas of the wealth management markets.

STRUCTURE

Our structure at DTCC is rather unique. We operate on a user-owned model, which means that if you use our services, you are a part owner. Revenues, in excess of cost, are rebated back to our members on a pro-rata basis. So, as volumes increase, our actual per-transaction costs are reduced.

In 2008, we posted two of the largest fee reductions in our history. And for our fund customers alone, these reductions meant more than \$30 million in lower fees and rebates.

OUR BUSINESSES

For those of you who are not terribly familiar with DTCC, you may be surprised to learn that we provide services that cover just about every asset class.

Our subsidiaries process all the broker-to-broker trades for U.S. equities, corporate and municipal bonds, and unit investment trusts. We clear and settle U.S. government securities and mortgage-backed securities. We record money market and commercial paper transactions. We streamline the processing of syndicated commercial loans. And we've brought STP to the insurance industry.

In the area I manage, Wealth Management Services, we've expanded beyond mutual funds to include managed accounts and alternative investment products.

VOLUMES

Our overall volumes can be difficult to comprehend.

The Madoff scandal is estimated at \$50 billion. Henry Paulson asked Congress for \$700 billion. And the national debt is close to \$11 trillion. These are big numbers, but they're not all that hard to comprehend.

At DTCC, we talk about quadrillions! A quadrillion is a 1, followed by 15 zeroes. It's the number of miles it would take to travel from the earth to the sun ... 11 million times. And it is just half the number of dollars we settled on behalf of our clients last year.

I could spend the next half hour musing over all kinds of figures that excite our folks to no end ... but I'll spare you that this morning.

EUROPE

Overseas, our EuroCCP subsidiary provides the same clearing, settlement and risk oversight in Europe that we provide in the U.S. EuroCCP is now active in 14 markets, and we're making a push to take on clearing responsibilities from other exchanges on the continent.

And Omgeo, a joint venture with Thomson Reuters, offers trade confirmation services to more than 6,000 global investment managers, broker/dealers, custodian banks and hedge funds in 42 countries.

Our proposed merger with LCH.Clearnet will create the world's leading clearing platform for a diverse range of asset classes, and result in greater efficiencies for both organizations – largely from technology savings and economies of scale. Most importantly, for the first time, both the U.S. and Europe will be supported by a common infrastructure.

DERIV/SERV

Finally, Deriv/SERV has had a major, positive, impact on the CDS market during the past several years. Processing CDS's had traditionally been tremendously manual– and unconfirmed trades had become a critical risk issue. We created a platform to automate the process – and we now match and confirm 95% of the contracts traded worldwide.

We then developed a Trade Information Warehouse to keep track of all the details related to CDS, from confirmation to final payment.

At the time, of course, we couldn't have known that the Warehouse would be called on to handle the wind-down of credit events for such storied names as Lehman Brothers, Fannie Mae, Freddie Mac, and Washington Mutual. For Bear, alone, we moved 150,000 open CDSs to JPMorgan Chase in 48 hours. This would have been a nightmare if every one of those contracts had to be modified individually!

In the face of the most dramatic economic disturbance of our lifetime - our infrastructure remained steady. In fact, we were able to wind down more than \$500 billion in trades left open

when Lehman fell. We worked quietly and methodically – around the clock – to get it done, with no disruption to the market.

We did have to take some measures to guard the system against stresses to our financial resources, but those resources held. And the safety and soundness that you count on us to deliver was maintained.

This, I would offer, is a powerful illustration of what this infrastructure has brought to the industry.

We all learned some hard lessons. So if we're ever faced with a similar challenge, or one even more destabilizing, we'll be better and faster at handling it.

THE WORLD HAS CHANGED

In the wake of all that has happened, there's no question that the global capital markets are forever changed, and this is only the beginning. As we look ahead, we can safely say that we're entering a new and very different era for our industry.

NEW REGULATIONS

We can argue ...speculate ... and debate why and how the prevailing regulatory market structure failed. But it is quite clear that it did fail. And profoundly so. And we now have to undertake the challenge of putting in place a new one - with controls that will allow us to regain the confidence of the investing public.

And that's an environment of far more regulatory scrutiny than the securities markets have experienced in their history.

As the incoming head of the SEC, Mary Schapiro certainly has her work cut out for her. I heard her speak recently about the need to start from a blank canvas and create a new market regulatory structure that will prevent future abuses. That is an enormous undertaking – one with implications that will last a lifetime.

So, what can we look forward to? I don't know if anyone can really say. It would seem to me that there will be tighter regulations that will focus on preventing, versus policing, fraudulent practices. We may see merged regulatory bodies – or even new ones all together.

It's also quite likely that regulations will become increasingly global. European regulators have launched a broad initiative to look into their supervisory architecture to make it stronger, and they're also in talks with the SEC about mutual recognition of rules and supervision.

TRANSPARENCY

All of this points to the need for greater transparency on how traded instruments are assembled and how they function. The structure of some collateralized debt obligations, for example, has proven to be so opaque that unraveling them starts to look like a job for the guys on CSI.

I would suggest that this new level of heightened transparency cannot be delivered by any organization other than one that is a trusted, neutral partner. And that's the very thing we bring to the securities markets and the post-trade world.

MARKET STRUCTURE CHANGE

Another looming issue is how global clearance and settlement will be structured in the future. The independent silos created in Europe are no longer feasible. The model is woefully out of date, and it doesn't support a global marketplace of free trading.

Here in the States, we have NASDAQ talking about introducing a second clearing platform. To us, this suggests a return to the 1970s, when each of the U.S. regional markets maintained its own clearing and depository business, an environment that was fractured, complex, and tremendously expensive.

At DTCC, we wonder about NASDAQ's proposal. We're just not convinced they have given adequate thought to the value a single infrastructure brings to the financial risk management benefits ... which is why our subsidiaries were built in the first place!

With competing infrastructures, central counterparties would no longer be able to look across all markets to evaluate risk on a system-wide basis. They simply won't be seeing all the trading activity taking place. And that information, that clear window to trading activity, is one of the most powerful risk-management weapons in our arsenal.

To understand a book of business, manage the risk and monitor the exposure from a central vantage point is critical to the stability of our financial markets.

This became abundantly clear when Lehman's positions had to be unwound. Because we had a comprehensive view of their portfolio, we were able to manage out of the positions with minimal market impact.

So, we'll see how NASDAQ plays out ... but the industry should be aware of the far-reaching implications of this seemingly simple proposal.

RISK MITIGATION

Let me talk a little more about risk.

There are three types of risk that we address at DTCC.

The first is operational risk. For us, that means system resilience, capacity and recovery at levels that anticipate volumes far exceeding any collective market peak.

Financial risk is another area we closely monitor. For many of our customers, we become the counterparty to their trades. We actually step in to the middle of a trade and guarantee that it will settle.

The third area is credit risk. Every day, we monitor our customers' positions against their collateral on deposit, and then adjust it, depending on market conditions and their portfolio risk. This is a dynamic and ongoing process to make sure that we – and our participants – are covered in the event of a member failure.

MUTUAL FUND SERVICES

OK. On to Mutual Funds.

I'll start with Fund/SERV®. We now process, on average, 860,000 fund transactions a day, which I'm sure was beyond the wildest dreams of those six customers who were our first users.

Some key events figured into Fund/SERV's creation: the shift to money market mutual funds in the 1970s ... ERISA in 1974 ... the Tax Reform Act of 1981 ... Rule 12b-1, which opened the door for new distribution channels ... and the baby boom generation.

All that – plus a tidal wave of new business and systems that couldn't handle the growing volumes – led the fund industry to come to us for a trading solution. Which we created, with Fund/SERV, in 1986.

After Fund/SERV came Networking, which today reconciles information on 95 million shareholder accounts.

And we continued to develop other services as needs were identified, including Commission Settlement ... Defined Contribution Clearance & Settlement, and two asset transfer services that have become mainstays of the industry.

In the Fall of 2007, we relaunched Mutual Fund Profile Service, and it is now filling what had been a great void in our industry – the need for a central repository for all fund prospectus and operational information. Expanding Profile is an ongoing process, as it is with all our services. And we will continue to work with you to tap into its enormous capacity.

Very recently, our board gave us approval to allow foreign investment firms to become direct members of our Mutual Fund Services, and we're now awaiting approval from the SEC.

We've been hearing for years from global firms that fund processing costs are hugely more expensive than in the U.S., and that the systems available to them just don't meet their needs.

So the opportunity to expand our services overseas is very exciting for us, and we look forward to welcoming these firms as our new members.

AIPs AND MANAGED ACCOUNTS

The other two industries we support in Wealth Management Services are alternative investment products and managed accounts. And like all of the securities markets, they have been hit hard.

I would venture, though, that we'll see strong activity when the financial environment starts to stabilize ...because there will still be a huge market of high-net-worth investors hungry for new products ... and there will certainly be a pressing need for operational transparency.

In the AIP world, there are serious issues that need to be addressed, and this has become even more apparent in recent months. Operational complexities and a strained infrastructure cannot support projected growth. And the lack of automation prolongs the transaction process, creates tremendous risk and impedes growth in new distribution channels.

These challenges demonstrate the need for an infrastructure that can connect all industry participants through a one-to-many communications network ... introduce standards and controls ... and provide transparency and consolidated information from a single source. So we stepped in and delivered solutions that address these very issues.

The managed accounts market is one of the fastest-growing segments in the retail financial services industry. 78% of this market has traditionally been controlled by five primary sponsors, although this world order has changed in the last few months – and now, again, only in the past few days.

Today, with sponsors approaching the business in different ways, achieving real scale has become very difficult. Building and operating one-off internal systems have run into the tens of millions of dollars, creating one of the most redundant operating infrastructures of any business in the world – and severely challenging operational margins.

Our Managed Accounts Service is changing all that, and will not only simplify operations, but also make these businesses much more profitable than they are today.

We've also identified an opportunity to make it easier for investment managers to include mutual funds in managed account programs, which we see as a unique benefit of our central role in connecting the securities markets.

We look at these industries – AIP and managed accounts – as important opportunities because the operational problems that existed in your industry some 20-odd years ago are the same ones affecting them today.

CONCLUDING REMARKS

2008 was a tough year for all of us. Paul Schott Stevens of the ICI said recently that this downturn has been much wider, deeper, and more unsettling than any other downturn in many generations.

The ICI reports that the mutual fund industry lost 21% of its assets in five short months as values plunged. At the same time, though, only 4% of the 46 million retirement investors in the U.S. withdrew money from their mutual funds in 2008, and only 3% stopped contributing ... which is a sign of true faith in our industry.

The events in the financial markets last year have radically changed the way investors think about themselves and their environment.

We're dealing with a sophisticated, knowledgeable public facing a new reality. They want answers. They want advice. They certainly are going to be demanding of their financial advisors, and their employers. And they want alternatives.

Not alternatives like a government-run pension plan. And not Social Security, which has become less a part of the answer to retirement funding.

This is a golden opportunity for the fund industry to create innovative products to meet the new and increasingly complex needs of our customers ... and to develop strategies that will deserve the trust and the continuing investments of the American people.

I am not here to tell you what those products or strategies should be. I'm here to remind you of that.

Over the years, we've built a close working relationship with the funds industry. In the months to come, there will be heavy decisions to be made and many things to be done. And in all of this, DTCC will continue to stand solidly behind you.

Thank you.