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Leveraging Six Sigma at DTCC to Drive a Customer-Centric Organization

It's my pleasure to talk with you this morning.

I've been asked to brief you on how DTCC is leveraging Six Sigma methodologies and metrics to

- create a customer-centric organization,
- pursue organizational excellence and
- reach higher levels of customer satisfaction.

But in order to do that, let me first give you some background on DTCC and our business, so that you'll have some context for what we did and where we are today.

DTCC overview

For those of you who may not know all that much about us, let me begin by saying that DTCC is the largest financial services post-trade infrastructure organization in the world. Through our subsidiaries, we provide clearance, settlement and information services for equities, corporate and municipal bonds, government and mortgage-backed securities and over-the-counter derivatives.

In a nutshell, we're the people who take over after a trade has been executed to make sure that sellers receive their money and buyers receive their securities. That's what we mean by clearing and settling trades. It's a huge data processing business involving the safe transfer of billions of dollars in securities and funds under tight deadlines every day.

How much money does it involve? Well, last year, DTCC settled securities transactions valued at \$1.5 quadrillion. Essentially, we turn over more than the yearly U.S. GDP every three days.

DTCC is also a leading processor of mutual funds and insurance transactions, linking funds and carriers with their distribution networks. Our longstanding mutual fund service, Fund/SERV, may ring a bell with some of you.

As the central counterparty for most of these transactions, we not only guarantee completion of trades, but we're able to net down or reduce the number of trade obligations requiring financial settlement. In the government securities market, for example, we reduced the number by 76% in 2006, which means we reduced trades requiring financial settlement to about \$207 trillion from \$864 trillion. In the equities markets, our netting percentage was closer to 98%.

In other words, over the course of last year, we freed up more than \$828 trillion of our members' cash—or better than \$3.3 trillion each day. This is money that would otherwise have been tied up in the settlement of all those equity and government securities trades. As a result, we're able to significantly reduce exposure and industry risk—and help firms like yours...and your customers—optimize their capital.

DTCC also manages the largest central securities depository in the world, providing physical and electronic custody and asset servicing for almost 2.8 million securities issues from the United States and over 100 other countries and territories. These issues are valued at \$36 trillion, which is considerably greater than the value

of the gold held in Fort Knox – close to \$100 billion at today's prices .

Our customers include financial firms or trading parties in the U.S. and, increasingly, overseas. We also serve the marketplaces, including the New York Stock Exchange, Nasdaq, the American Stock Exchange, the regional stock exchanges in the U.S., and the alternative electronic trading networks.

And, as just announced a few weeks ago, we also will be providing all clearing, settlement and risk management services through our EuroCCP subsidiary to “Project Turquoise.” This is the ground-breaking development in global capital markets by a consortium of seven investment banks to launch an entirely new exchange for equity trading all across Europe. The consortium's selection of DTCC is a significant milestone for our organization.

What is also unique about DTCC is that we're industry owned. Our customers all take ownership in us based on the volume of business they do with us.

Six Sigma and a changing marketplace

Now that you have a snapshot of our business, I'd like to tell you about how we're using Six Sigma at DTCC and share some insights as to how this methodology and metrics are enabling us to pursue business process excellence.

You don't need me to tell you this is a period of enormous change in the financial services industry. You know that. We're all dealing with accelerating trends, including the globalization of financial markets, trading of more complex instruments, industry consolidation, technology innovation and costs, and changing demographics. And so are our customers.

All our organizations are being challenged by the current environment to constantly reinvent themselves. In truth, the corporate landscape is littered with organizations that fell by the wayside because they lulled themselves into a false sense of confidence.

Such companies didn't keep pace with trends in their industry. They overlooked innovations in technology that were reshaping business requirements. And, most importantly, they failed to ensure they had the capacity and commitment to anticipate and exceed the expectations of customers. But the challenges we face are even more complex, because they require us to be exceptionally good at everything we do — and to continually strive to create added value.

My organization is large in terms of the volumes and the values that we process. But size is no guarantee of success in this changing world. It does not give us added advantage in addressing these global challenges. By comparison to the enormous forces of change we face, none of us is large.

The only constant I see in all of this is the need to listen very closely to customers and respond to their needs for cost and risk control. In a world where the marketplace is changing so fast, this gives us some bedrock on which to stand.

And Six Sigma is part of that bedrock. Six Sigma is an essential tool in helping us navigate in this competitive landscape and meet and exceed customer expectations.

Pursuing business process excellence

Through Six Sigma, essentially, we've changed our company. It has allowed us to introduce a metrics-based approach to assess how we deliver products and services, provide efficiencies, reduce risk and lower costs.

When you introduce Six Sigma methodology into the organization, it's not just about the black and green belt initiatives. The process allows you to develop a broader understanding and awareness among employees of quality and how it affects customers, and ensures that you can drive quality throughout the organization, using Six Sigma tools. Simply put, it allows you to encourage every employee to become a champion of quality.

Our Six Sigma program has made DTCC better, measurably better, in the way we deliver services to our customers, and in the way we perform on a day-to-day basis. At DTCC, “putting customers first” is ingrained in our culture—and it’s at the heart of our business model.

For DTCC, some of the most tangible results of all this are the world-class scores for overall customer satisfaction that we’ve received now for three years running in an independently conducted customer survey. This milestone, which last year was at 91% overall satisfaction -- demonstrates the impact that Six Sigma methodology and metrics are having in our organization.

Introducing Six Sigma to DTCC—a look back

Getting to this point was a journey that began in 1999, following the combining of our two predecessor companies, The Depository Trust Company and National Securities Clearing Corporation, under the DTCC umbrella. The message to our senior management team and our employees was loud and clear. In this increasingly competitive financial services marketplace, even though we operate “at cost,” which means we give profits back to our customers in the form of rebates, discounts and interest, we still needed to retool the organization to operate more like a for-profit company -- driven by metrics, distinguished by an ability to innovate, with bottom line accountability for results.

Back office processing is still a commodity business ... and we could not -- and cannot -- overlook the possibility of global competitors offering a better service at a better price. Essentially, DTCC saw a burning platform that said “change, grow or die.” To achieve this transformation, we felt it was critical to first create an environment that embraced and valued metrics to drive change.

We wanted more than just a tool; we were after a culture that valued Six Sigma’s theory and practice. So in 2000, we began by changing the culture. The first challenge given to our new management team was to implement a 100-day plan, which outlined a series of aggressive goals and deliverables.

Successfully completing this 100-day plan demonstrated to the team, and to our 2,500 employees, that ambitious goals could be achieved in a short timeframe, and in so doing gained support for metrics to create a culture of accountability, strengthen process management and enhance customer service.

Next, we assembled Employee Action teams that were forerunners to our Six Sigma teams. Some 400 employees volunteered to serve on 33 teams, with each team tackling one or more issues to help make DTCC a stronger company and a better place to work. By year-end, there were 150 action team recommendations, and 93% of them were implemented in whole or in part.

Both the 100-day plan and action team experiences gave employees and managers a new level of confidence ... that we could set the bar higher ... and with metrics and teamwork, we could succeed in moving the organization forward.

Six Sigma launches

By 2001, we were ready to launch a full-fledged Six Sigma program, equipped with a new road map, with consistent, quantifiable yardsticks for gauging progress. The effort formalized our use of metrics, employee teamwork and shared learning in order to achieve DTCC’s customer-centric mission.

In our Chairman’s memo to all employees to describe the rollout of Six Sigma, we stressed that all of us would have to commit not just to a new way of working, but to a new way of thinking about working. Six Sigma was not going to be the latest “flavor of the month” but from here on out would be the way we do business every day with our customers.

To help move the initiative along, we created a 17-member Quality Council to oversee the Six Sigma program, consisting of our senior executive team, including the general managers of all our businesses. The Council sets objectives in tandem with the corporate mission and goals, and approves quality initiatives for Six Sigma

implementation.

And to help us embed Six Sigma methodology and metrics deeply into the organization, we established a Quality Office, staffed with professionals trained in Six Sigma, to coordinate and administer the program.

Six Sigma today

Today, we recognize, as do you, if an organization is to stay relevant and competitive – then Six Sigma must reach deeply into the organization. Now, as we approach the seventh anniversary of our Six Sigma program, we are making progress on this front and reaping encouraging results. What are some of them?

Well, in addition to the world-class customer satisfaction scores I mentioned earlier, DTCC has realized more than \$18 million in new revenue and savings since 2001. That figure includes some \$11 million in new revenue, and that's probably the biggest surprise in a program that we originally thought would primarily help save money.

We now have a team of 83 green and black belt leaders trained in Six Sigma techniques...and that number is growing. To date, more than 600 employees have participated in more than 145 Six Sigma projects throughout the company.

Through Six Sigma, we've been able to identify and eliminate steps that confuse and delay our work. We can streamline the way we work so we can do things easier, more efficiently and less expensively. And, perhaps, equally important, we make use of the ideas and efforts of the people who do the work. They can literally tell us how they can do their job better and faster, and we are committed to listening to them and putting their ideas into action.

For instance, two Six Sigma projects last year streamlined the way we bring new customers on board and activate their accounts for each service they choose to use. Our customers, depending on their business, may be required to deposit millions of dollars in collateral with us, so making them a "participant" in each of our services is a fairly complicated and time-consuming process. Up to six cross-functional groups must work together to onboard and activate a customer, performing such steps from careful applicant screening through to master-file activation.

Since the Six Sigma teams set out to improve the processes and make them more efficient, we've cut the time to bring a customer onboard to about six weeks from 20 weeks. This not only makes our customers happier but lets us bring in revenue from their business far sooner than we could before.

As another example, several Six Sigma projects through the years have focused on supporting the securities industry goal to eliminate paper stock certificates and convert them into electronic book entry records, a process known as "dematerialization." Converting stock ownership from paper to electronic records drastically reduces handling costs and risks. And when you hear that industry organizations routinely put the price tag on handling paper securities at about \$350 million a year, you can understand why this issue commands attention.

Because we have had to process so much of this paper over the years, we turned to Six Sigma projects to find ways to cut our costs and improve our processes. Before long, we were able to increase productivity enough to eliminate one of our night shifts and cut some costs. Perhaps more important, though, is that we came out of these Six Sigma projects with strong metrics. We knew much more clearly what our actual handling costs were, and we began to change our pricing to reflect this. Eventually, the industry took notice of this, and its long reliance on paper started shifting in favor of faster and safer electronic record keeping.

Today, as a result of a number of actions, including legislative decisions in several states, paper certificates are finally on their way out. For example, U.S. exchanges now require that all new issues coming to market be made available in electronic format. And companies already listed on an exchange must join the industry's electronic Direct Registration Service by year-end. And there is no doubt that Six Sigma efforts played a piv-

otal role in helping us reduce the number of certificates we have on deposit at DTCC by more than half in just five years. We have gone from 6.85 million certificates in 2001 to 2.9 million at the end of last year."

Six Sigma and employees

To help illustrate how deeply rooted Six Sigma has become at DTCC, we've made a conscious effort to keep it as one of the core components of our employee learning and growth program. As an organization, we strongly believe that those closest to the work must be given the skills to produce a higher quality of service in a limited time frame.

We've formalized a program that incorporates Six Sigma and Quality competencies among our employees through e-learning modules, instructor-lead classes, and practical applications projects. The program covers 18 core disciplines specific to quality and Six Sigma including Six Sigma Change Management, Customer Focus/Voice of the Customer, Six Sigma Process Improvement Methodology –DMAIC and Lean Six Sigma, among others. We've also added Six Sigma skills and experience to the criteria for employee promotions.

And although we understood that mastering every Six Sigma and Quality concept is not applicable to all employees, we do feel it is important for all employees to have a general understanding and awareness of Quality Management. So last year, all employees and new hires were required to participate in Quality Management training. The training provides basic knowledge of quality methods, and the tools and techniques used to create and support defect-free processes.

I'm sure many of you are asking, "is all this necessary—especially when so many of your business units have little contact with external customers." My answer is unequivocally, "yes."

An understanding and awareness of quality management across the organization not only impacts how well we respond to external customers, but how effectively and efficiently we operate as a company. Training our employees on quality methodologies has brought us one step closer to becoming a business process excellence organization. And it's paying-off.

One example is our most recent annual Chairman's Quality Awards program, which recognizes the achievements of our quality teams for outstanding projects in the areas of process efficiencies, customer satisfaction, revenue enhancement/cost reduction and cycle-time reduction.

In 2006, for the first time, all the awards went to projects from areas outside our Operations division, which had provided all winners in previous years. This is amazing to make such a company-wide impact in a relatively short period of time. And it certainly shows our progress in our efforts to embed Six Sigma widely throughout our organization.

An equally important sign of Six Sigma progress throughout the organization is the recognition the company and our Chairman and former CEO Jill Considine received last June from this very organization, WCBF, when it named her Six Sigma CEO of the Year.

What's next?-- a business process excellence organization

As I mentioned earlier, when we initially launched our Six Sigma Quality program, our primary objective was to implement an enterprise-wide strategy that would better equip the company to respond to the increasingly competitive and globalizing financial marketplace.

Now we're applying these performance management tools to drive our organization as we launch Phase 2 of our Six Sigma program. Phase 2 is intended to take DTCC to the next level to help us become a "business process excellence" organization, as we look to become a global service provider capable of offering more products and services to more and more customers.

First off, what does "business process excellence" mean? Well, one thing I'm sure we can all agree upon is that everything a business does can be described in terms of process. The better a process functions, the more suc-

successful the business becomes. Here at DTCC, our model for process excellence is based on two key principles:

1. Our focused ability to understand and align our business processes and measure them against our customers' expectations.
2. Our ability to identify performance gaps and drive continuous improvement through the application of Six Sigma and other process improvement methodologies.

With these principles as the foundation, we've recently implemented a program to use sigma level performance measurement tools throughout the organization. The program is based on the model first introduced in our Asset Services group to measure accuracy and timeliness of performance against customer expectations.

Asset Services provides a broad range of services to the industry including book-entry registration of securities, custody of both domestic and foreign securities, underwriting of new bond issues, including 99% of all municipal issues in the United States, as well as dividend, reorganization and proxy services. The Six Sigma data helped Asset Services identify opportunities for improvement and set business improvement goals for 2007.

We are now using the Asset Services model to establish Six Sigma levels throughout the organization to create baseline data from which we can develop clear-cut targets and goals for each business unit. How are we doing this?

We've asked our Quality Council members to establish at least one Six Sigma-level metric for each key process within their business area. In addition, we're focusing more intently on including metrics that measure Six Sigma levels in our 2007 enterprise-wide Corporate Goals. Our objective is to have employees "stretch" towards levels that they never thought possible – part of our concept of employees as champions of quality.

We are fully committed to the idea that, with proper metrics and targets, we can significantly improve our customer service and lower operating costs and, consequently, even lower fees – something, of course, that's music to the ears of our customers.

As part of our use of metrics, we also have incorporated a companion piece to our annual corporate goals setting process – a Balanced Business Scorecard. As you may know, many Fortune 500 companies have been using Balance Business Scorecards, or other similar tools, for several years now to track corporate performance and monitor direction. And the scorecard continues to prove its value in encompassing our past, present and future performance indicators. For each identified measure, the scorecard shows us how we performed the previous month, where we stand year-to-date, and where we're going.

While I'm still talking about our corporate goal setting process, let me quickly add that along with our Six Sigma program, we also employ a variety of other quality-based programs and strategies to help us achieve our corporate goals, such as the Capability Maturity Model Integration (CMMI) process, Information Technology Infrastructure Library (ITIL) and Stage Gate, an approach adapted by product management to help manage major product development stages to the point of product launch. Bundled together, we are using these various initiatives to chart our progress to becoming a "business process excellence organization".

The voice of the customer

But at the heart of any customer-centric organization is the voice of the customer. Jack Welch, the CEO who led GE to extraordinary success once remarked, "The best Six Sigma projects begin not inside the business but outside it, focused on answering the question – 'How can we make the customer more competitive? What is critical to the customer's success?'"

Well, all of the most successful Six Sigma projects at DTCC begin with listening to the customer – most likely that includes many of the folks in this room. As I've stressed, data-based methods such as our annual customer satisfaction survey help us understand, respond to and anticipate customer needs and concerns.

In fact in the latest survey that I described earlier, our customers gave us world-class ratings not only for over-

all satisfaction but also for other categories, including customer service, transaction processing and commitment to quality. Certainly, our Six Sigma program played a prime role in helping us get to that level.

Closing

I've noted that to date we've saved some \$18 million from Six Sigma deployment throughout DTCC. And there also have been huge benefits from a reputational point of view as well. We believe Six Sigma played a critical role in helping us build a global brand image...or, as the Financial Times refers to DTCC, "the gold standard" for clearance and settlement in the world.

We know that we have many unique challenges ahead, as change spins ever faster – and with less predictability – in our industry.

A year ago, who would have thought that the New York Stock Exchange would merge with Euronext to form the world's first trans-Atlantic marketplace? Or that DTCC would be tapped to support Turquoise, the historic venture I mentioned earlier by the seven major banks that are developing a new pan-European trading platform?

As it happens, before the NYSE announcement of its proposed merger, we already had a team in place, exploring how we could serve the needs of customers and collaborate with others to support any clearing and settlement requirements that may result from possible trans-Atlantic mergers of stock exchanges. And, most recently, we've been at work on how we can support Turquoise. As we take on these new initiatives, you can bet that Six Sigma methodologies and metrics are in the thick of it.

Of course, DTCC is only one of many organizations that are reaping such benefits from Six Sigma. Our organizations, albeit some of us with results on a smaller scale because of our size, are riding the waves from other companies that embarked early on with corporate-wide Six Sigma initiatives. General Electric, Texas Instruments, Allied Signal, Citi, DuPont, J.P. MorganChase, 3M, Johnson & Johnson, and numerous others all have stories to tell us.

Reviewing Six Sigma success in these and other companies, a rich mother lode of best practices, if you will, is valuable to all of us. No one company has all the answers as to how you drive a customer-centric organization. We're all on this journey together. And, that's why conferences like this one are so valuable and relevant.

It's here that we get that rare opportunity to trade information and experience from so many of our colleagues, to take stock of where we are and what's worked – and to come away inspired all over again about where the Six Sigma map can lead us.

So, again, on behalf of all my DTCC colleagues who have helped put us on that map, I'd like to thank WCBF for inviting me to share our Six Sigma story and for sponsoring this important forum on Six Sigma best practices.

Thank you so much! And I'll be happy to answer any of your questions now.