



DTCC Officially Opens Tampa Center, a Key Component of Business Continuity Strategy

By Rosalie Jenkins

DTCC officially opened its new Southern Business Center (SBC) in a special ceremony on March 16, hosted by DTCC Chairman and CEO Jill M. Considine and attended by a number of elected officials and representatives from the private sector.

A major purpose of the event, also attended by over 250 current employees of the new SBC, was to recognize the [continued on page 4]

PBS Gains More Converts

Number of Users, Transactions Processed Through PBS Grows

By Crystal Bueno

With the ambitious goal to convert all customers from the former Participant Terminal System (PTS) to the new, online Participant Browser Services (PBS) by year-end 2005, DTCC's Network and Internet Services recently reported that monthly PBS usage among customers who have made the switch to the new system continues to grow at a significant rate – to 27 % in February 2005 compared to an average monthly rate of 14% in 2004.

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Networking Service Expanded



JP Morgan chooses DTCC's GCA Validation Service



A Conversation on Mutual Fund Services

DTCC's Networking Service Expanded To Support Direct Accounts

Supports Breakpoints Task Force Recommendations by Providing Wider Access to Customer Account Information *By Karen Gregory*

In its continuing rollout of enhancements to provide the mutual fund industry with tools for greater operational transparency and to support regulatory recommendations surrounding breakpoints, DTCC launched its Networking for Direct Accounts in March. This marks an expansion of Networking, one of DTCC's flagship Mutual Fund Services. All are provided by DTCC's National Securities Clearing Corporation (NSCC) subsidiary.

Breakpoints are sales charge discounts given on purchases of front-end (load) mutual funds to customers who meet certain investment levels. Direct accounts are fund accounts held in an investor's name at a fund company. Frequently, investors also use a broker/dealer or other distributor for additional fund investments. If the distributor – called the “broker of record” – is not aware of the customer's direct accounts with the fund company, those investments will not be reflected on his or her books and records.

“The lack of information at the distributor level has made it difficult to accurately calculate breakpoints on these accounts,” said Ann Bergin, managing director, DTCC. “We've been able to enhance the functionality of Networking so that fund companies can use the service to provide distributors with additional information that will allow them to better comply with regulatory requirements. As a result, customers' direct accounts can be linked with their other fund accounts, and full breakpoints can be applied.”

In its July 2003 report, the Joint NASD/Industry Task Force recommended that Networking, as well as NSCC's Fund/SERV® and Mutual Fund Profile Service be used to help solve the overall breakpoint problem. Its Recommendation L, in particular, suggested that Networking

could assist in providing “the broker/ dealer firm with information on holdings carried away from the broker/dealer but for which that firm is the broker/dealer of record.”

A special subcommittee of an Investment Company Institute task force worked with NSCC to identify all the information on direct accounts that fund companies need to provide distributors, as well as to map out the record layout

“...fund companies can use the service to provide distributors with additional information that will allow them to better comply with regulatory requirements.”

changes required so that Networking can accept this new information.

How Networking Works for Direct Accounts

Since its introduction in 1988, Networking has been considered the industry standard for exchanging mutual fund customer account-level information between fund companies and distributor firms. Because it is a centralized and standardized service, this information appears identically on the records of both sides of fund transactions.

In “regular” Networking, a distributor firm establishes its accounts on the books of the fund company, and the firm handles many of the reporting responsibilities for the account. With direct accounts, the fund company maintains and controls these accounts and passes along to the distributor firm information needed to comply with recordkeeping requirements.

By changing Networking's format to accept fund account numbers in lieu of brokers' account numbers (BINs) and Rights of Accumulation (ROA) numbers, which are assigned when a group of accounts is combined, distributor firms can now receive:

- Fund conversion files – that establish direct accounts held at the fund, including changes to branch and rep, name and address, as well as Social Security and Rights of Accumulation numbers.
- Activity files – that include changes in share balances.
- Position files – for the closing balance of each direct account as of a specific date.
- Dividend processing – that include dividend and capital gain information and associated closing share balances, reinvested share quantity, and any withholding information.

DTCC's Breakpoint Work Began in 2004

Throughout 2004 and continuing into 2005, DTCC pursued an aggressive series of breakpoint-related initiatives, including:

- Breakpoint Compliance Solution;SM a streamlined, automated one-time full-data upload of security information for funds.
- A central database for breakpoint linkage rules within Mutual Fund Profile Service.
- A dictionary of common definitional standards related to the terms associated with breakpoints.
- Enhancements to Fund/SERV in the form of new codes and indicators, enabling fund companies to transmit and receive information necessary to identify and apply proper breakpoints on transactions, and requiring sales loads paid on transactions to be stated in percentage terms. @

JP Morgan Securities Chooses DTCC'S GCA Validation Service

By Lisa Argento

JP Morgan Securities, Inc. has chosen DTCC's Global Corporate Action (GCA) Validation Service to drive automation and straight-through processing for its corporate action announcements.

The GCA Validation Service provides a centralized source of "scrubbed" information about corporate actions, including tender offers, conversions, stock splits, and nearly 100 other types of events for equities and fixed-income instruments traded in Europe, Asia-Pacific and the Americas. The service delivers comprehensive and timely information, helping to reduce operational losses, optimize front-office trading and streamline operations for financial institutions worldwide. It is provided through Global Asset Solutions LLC, a DTCC subsidiary.

"DTCC's 30-plus years of experience processing corporate actions, combined with the GCA Validation service centers in Europe, Asia and North America, were important factors in our decision to go with this service," said Joseph M. Liguori, vice president, Investment Bank, JP Morgan Securities, Inc. "The GCA Validation Service will enable us to simplify our operations globally, giving us a single source for all corporate action announcements, eliminating manual, redundant processing."

JP Morgan Securities, Inc. joins a number of other major global

financial institutions using the GCA Validation Service, including Credit Suisse First Boston.

"We're seeing growing interest in the GCA Validation Service as many leading broker/dealers, banks, investment managers and hedge funds are planning to begin using the service over the next several months," said James Femia, DTCC managing director and head of the Global Corporate Action business. "Given the increasing volume of corporate actions in the marketplace, the service fills a real need for a single source of information."

In 2004, DTCC's depository subsidiary processed a record \$2.3 trillion worth of corporate actions for its customers.

Corporate actions are one of the last significant areas of risk associated with largely manual and non-standardized processing in the securities industry. According to a 2004 study sponsored by DTCC and conducted by Oxera, an economics consultancy in Europe, the risk from just one complex corporate action event could run into tens of millions of euros for individual securities firms – and multi-billion euros for the global securities industry.

Editor's Note: For more information on the GCA Validation Service, please contact Warren Eastman at (212) 855-5663 or [@weastman@dtcc.com](mailto:weastman@dtcc.com).

1,000 Companies Now Issue Shares Electronically

By James Conmy

What do companies as diverse as AFLAC, Abercrombie & Fitch, eBay, Halliburton, Mc Donald's, Procter & Gamble and Whirlpool Corporation all have in common?

One thing: they all issue their shares to investors electronically. All these companies, and roughly 1,000 others, now participate in the securities industry's "book-entry" Direct Registration System (DRS).

DRS passed a milestone in February when the number of companies participating in the program rose to more than 1,000 – an increase of 43% in the last year alone.

DRS totally eliminates the costs of issuing, processing and storing paper equities certificates by allowing companies to issue their shares electronically.

Shareholders, who can register their ownership either directly with the issuing company or with the company's transfer agent, also can avoid the problems and risks of dealing with and looking after paper share certificates.

DRS gains momentum

"We're really beginning to generate some momentum for DRS," said Joe Trezza, senior product manager for DTCC's depository.

DRS was launched in 1996, but only in the last few years has it finally begun to gain widespread acceptance as companies realize the savings from not having to issue, file and look after paper certificates for all their shareholders. The New York Stock Exchange and other markets have also changed their listing requirements to

allow listed companies to issue book-entry shares through DRS.

Nearly all the companies using DRS also issue paper shares, Trezza conceded, but they're increasingly asking their shareholders and brokerage firms to avoid paper and make use of DRS instead, because it saves them administrative costs and ensures that the shares cannot be lost or stolen.



Roughly one out of seven companies listed on the New York Stock Exchange and Nasdaq now offers its shareholders DRS.

"I expect this figure to increase substantially over the next few years," Trezza said. "The program is definitely getting its legs." @

Tampa Center Opens *Continued from cover*

role that Florida, Hillsborough County Commission and Tampa officials played in DTCC's decision to choose Tampa for its SBC location. To underscore DTCC's enthusiasm at locating in Tampa, all employees wore bright orange T-shirts that read "Tampa Is My Home" to greet the invited guests. This theme was echoed on posters and banners that decked the SBC lobby, where employees and guests gathered for the ceremony.

"What's very special about our coming here," said Considine, in her remarks to the gathering, "is how folks at the state, county and local level – and especially the private sector – pulled together to convince us that this is where we should be. Tampa, as you may know, is an Indian word meaning 'sticks of fire.' Well, lots of people were sticks of fire in helping to bring DTCC to Florida."

Considine stressed that opening the SBC represents a new chapter in DTCC history. The new SBC is a key component of a larger business continuity strategy that DTCC has undertaken since Sept. 11, 2001 to safeguard the certainty and

resiliency of the nation's financial services system.

Since last December, DTCC has been able to complete settlement of securities trades in U.S. markets at this new facility, which it has called a "critical part" of its network of which it has multiple operating centers and numerous backup capabilities all throughout the country.

Considine said that, while on Sept. 11 DTCC continued to operate without disruption and settled trades involving billions of dollars, the company "learned some lessons that day.

"One is the need to further decentralize our workforce," she said, "so that we don't have all our brain power – our skilled employees – in one geographic location.



Assisting DTCC Chairman and CEO Jill M. Considine (third from left) in the ribbon-cutting ceremony at the SBC are, from left, Dr. Pam Dana, Director of Florida State Tourism, Trade & Economic Development, Tampa Mayor Pam Iorio and Kim Scheeler, president of the Greater Tampa Chamber of Commerce

because of its knowledgeable workforce, local power and telecommunications infrastructure, affordable housing, diversity, educational resources, good medical facilities, accessible airports and reasonable cost of living.

"My hope is that opening DTCC's office today marks the start of continued growth and expansion here in Tampa for years to come. We are not a transient company," Considine said. "We are here in this community to stay. And we expect our employees will be active contributors to the community...good citizens...willing volunteers...and participants in local universities as both students and teachers."

Some 400 employees, ultimately, will staff the SBC by the end of 2005. In keeping with DTCC's strong commitment to diversity in its workforce, nearly 60% of the current SBC employees represent minority groups and more than 40% are women.

At the opening ceremonies, Considine also singled out several officials for recognition.

"Governor Jeb Bush and Lt. Governor Toni Jennings were both real champions of our move, and we greatly appreciate the personal interest they took in this effort," Considine said.

She also thanked Ken Hagan, the Hillsborough County commissioner representing

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Carey Thanks Hillsborough County Commissioners

DTCC also made a special effort to recognize the efforts by the Hillsborough Board of County Commissioners to bring the Southern Business Center (SBC) to the Greater Tampa area.

Since the Board was in session the day of the SBC opening ceremony and most members were unable to attend, Kevin Carey, DTCC's Chief Administrative Officer, was invited to address the Commission during its afternoon proceedings.

Carey presented DTCC certificates of appreciation to each commissioner and told them that DTCC wanted to thank each one for playing "such a critical role in bringing us to Tampa... Clearly, the opening of our new facility reflects the strategy and planning for sustained economic growth that the Commission has developed for this region. You deserve congratulations for that."

Carey also expressed hopes that the SBC opening marks the start for DTCC of continued growth and expansion in Tampa for years to come. Noting that DTCC expects to employ about 400 people at the SBC by year-end, Carey said, "but I don't see that as the end of the story. I think it's the beginning. We're proud to be here, and grateful for the foresight and leadership you demonstrated in helping us get here."

PBS Gains More Converts *Continued from cover*

DTCC's Network and Internet Services group tracks not only the number of distinct PBS customer accounts and the number of individuals at each firm that are logging on, but also, more importantly, how many transactions are now being processed through PBS.

New PBS Screens in Production

At the same time that DTCC's Relationship Management and Telecommunications groups are working to get customers signed on and up to speed with the new system, the Network Services team is working to complete the transition of all remaining PTS "green-screen" 3270 terminal interfaces to the graphical user screens of PBS.

The most popular PTS functions were transitioned to a graphical user interface in the early pilot of PBS in 2003. However, because there are so many unique green screens to convert for the full production version – including some 3270 applications determined to be used only rarely in a customer's day-to-day business, but nonetheless, must be available in the new PBS design – DTCC is using advanced Web tools to speed the transition of the interfaces. Instead of manually rebuilding each PTS screen into a PBS-ready design, these tools help automate the conversion process, recreating the new Web pages much more quickly – and exponentially cheaper.

"Operationally, this approach has been transparent to our users, but technically, it's been a great innovation," said Dan Thieke, PBS product manager. "We're very close to completing all pages, which is all the more reason for customers to convert as soon as possible. All the old PTS functions will soon be ready and available under PBS."

Customers Weigh In on PBS

DTCC has also been reaching out to

customers throughout this multi-year PBS initiative to ensure users' concerns are addressed before PTS is finally retired, said DTCC Group Director Mike Vellecca.

Vellecca said that meeting with a working group of customers and PBS users every two weeks has given the developers a good indication of what people like about the system and what additional features and enhancements customers would like to see.

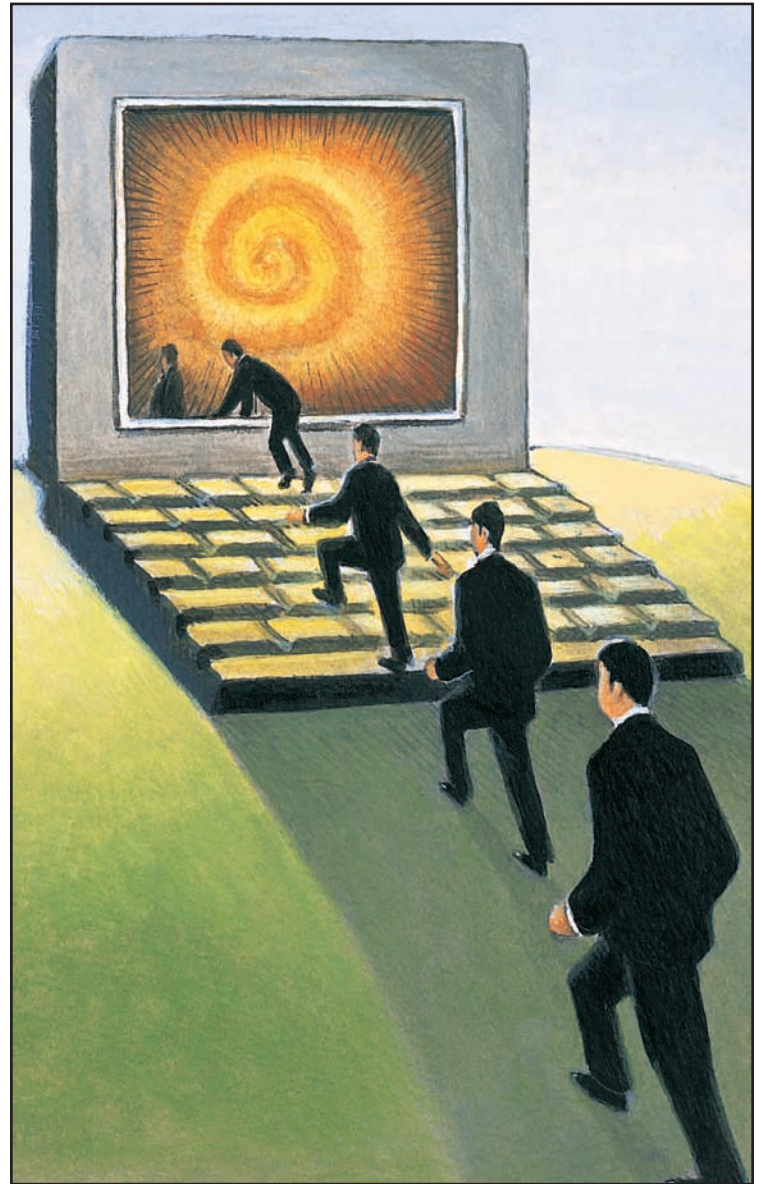
"The feedback we've received to date indicates customers especially like the dropdown menus and the general ease of use," he said. "Users have told us they're happy that they won't need a lot of training on PBS, or need to memorize acronyms and codes like in PTS, because this new application is much more intuitive."

One particular new feature customers have requested is a browser-based interface to PTS tickets, which would eliminate a firm's dependency on special printers. Vellecca said this ticket feature is one that DTCC plans to pilot with selected customers in the second quarter.

The Network and Internet Services group has also been soliciting customers' feedback in a more formal way, through

the use of in-depth interviews with clients and focus groups.

The focus groups, which were held in mid-March, brought together specific PBS users from various firms – senior managers, direct users, line managers and technical users – to talk about their experiences with the application. Vellecca



said the insights gained from these focus groups would both guide future product enhancements as well as help DTCC make it easier for firms to transition to the new application.

Editor's note: Customers interested in learning more about PBS should contact their Relationship Manager or Dan Thieke at 212-855-4162 or dthieke@dtcc.com. @

A Conversation on Mutual Fund Services

By Karen Gregory

Mutual fund assets rose to more than \$8 trillion at year-end 2004, a positive result for an industry that experienced increased scrutiny and attention through much of the year. Managing Director Ann Bergin, who oversees product development, relationship management and international activities for DTCC's Mutual Fund Services business unit, recently sat down with @dtcc to discuss some of the challenges the industry is facing and DTCC's role in helping solve those issues.

@dtcc: *Let's start with late trading and market timing.*

Assuming that a rule is adopted as proposed with a 4:00 p.m. close at either the fund or NSCC, what are we prepared to do?

Bergin: Internally, we've completed an assessment and know what it's going to take to change our technology to support the hard 4:00 close. Fund/SERV® would be enhanced to include a time stamp and a capability to enrich orders after market-close to include information unavailable before that. For our participants, it will mean changes in the way they do business, as they would be required to submit their trade files earlier in the day before the market closes. We're working with both the retail and retirement markets to be certain that we are able to accommodate their different business models.

@dtcc: *Let's suppose that another alternative to the hard 4:00 p.m. is adopted. How would that alter DTCC's plans?*

Bergin: There are discussions going on in the industry, one of which calls for the underlying trade instructions to have a time stamp attached by an independent third party. Those instructions would then be processed and/or aggregated by an intermediary or administrator, and forwarded to the fund through Fund/SERV after 4:00 p.m., and the technology would ensure that the trade instructions are not compromised. If a solution like that is ultimately adopted, it would require corresponding functionality in our system.

Because these solutions are not necessarily exclusive of one another, we expect we would build support for any and all trading models that the SEC believes are the best ways to protect the market from late trading and market timing abuses.

@dtcc: *The breakpoint issue seems to have died down somewhat. Does that mean the industry has solved the problem, or considers it less-than-critically important?*

Bergin: Not at all. It's still a critical issue and is recognized as such. We began rolling out a series of enhancements to several of our services last year, after the Joint NASD/Industry Task Force on Breakpoints made their final recommendations, some of which relied on Fund/SERV and Mutual Fund Profile.

We added functionality to Fund/SERV to enable funds to transmit and receive information necessary to identify and properly apply breakpoints, and added a front-end load indicator. And in December, we made another change to allow sales loads to be stated in percentage terms and reflected on trade confirmations.

The task forces recommendations had a greater impact on Profile. We added to the Security Issue database breakpoint linkage rules, a dictionary of common definitional standards, and a real-time inquiry mechanism, which the NASD will be using to provide its members with inquiry access to the fund security information residing in Profile. We also came out with NSCC's Breakpoint Compliance SolutionSM, which is a one-time full-data upload of security information for funds.

What's satisfying for us is knowing that there's a growing recognition all around that Profile is a highly valuable tool. Both the ICI (Investment Company Institute) and the SIA (Securities Industry Association) have been urging their members to use Profile's databases to comply with regulatory recommendations.

But looking beyond the breakpoint issue, Profile has tremendous potential in the future for all types of security information. As a central data repository, it greatly reduces the burden on the funds to individually update each of their trading partners on security information, distribution declarations and processing capabilities.

@dtcc: *DTCC recently withdrew from SEC consideration a rule to have a service for Separately Managed Accounts (SMAs). Why?*

Bergin: The review and approval process at the SEC was taking a long time. It got to a point where we felt we had a responsibility to those firms we were working with to take another approach. Remember, we've been working closely with members of the Money Management Institute since they first approached us two years ago. So, what we're doing now is looking at other delivery options.

There remains a strong level of support in the industry for us to continue work on launching this service. SMA assets under

management continue to grow. Without the introduction of a centralized and standardized communications and processing hub, such as those we've created for the equity, fixed income and fund industries, the SMA market will continue to experience operational inefficiencies and risk, ultimately impeding the growth of this high-potential market.

@dtcc: What else is your business unit pursuing?

Bergin: A few months back we convened an external steering committee to look at alternative investments, such as hedge funds, funds of hedge funds, commodity pools and managed futures, among others. Not only have these investment products caught the attention of the public, but they also represent a growing slice of investors' portfolios.

Working with the steering committee, we're gaining a thorough understanding of the operational issues the industry is facing, and then we'll pinpoint areas where we can increase efficiencies and decrease operational risk and costs.

@dtcc: For example ...?

Bergin: For example, we'll be looking at automating functions that are similar to those we automated for the mutual fund community in the 1980s, such as setting up new shareholder accounts, processing initial and subsequent purchases and tender offers, and money settlement. There are a lot of issues involved, but, here, again, is a real opportunity for the industry to modernize its processing systems so firms can trim expenses and position themselves for future growth.

@dtcc: Would you comment on the global funds markets. Do you see any possibilities of DTCC being further involved any time soon? In February, FEFSI (now named the European Fund and Asset Management Association) announced two new reports calling for standardized messages and a pan-European processing passport that would also standardize essential information on individual mutual funds, which seem to be steps in the right direction.

Bergin: They certainly are, and it's a good start. But the industry still lacks effective automated processing solutions to support

an open market. Some of the ideas that Prometheé proposed in the special report that DTCC sponsored two years ago [*Bridging the Funds Divide*] are beginning to win converts, but the market has not yet coalesced around industry-wide cross-border solutions. We fully understand what would be necessary for the market to trade in an open architecture environment, and, in fact, we tested a concept that we believe is right. However, there are so many differences among the individual domestic markets that the level of cooperation needed to embrace broad-based solutions just does not exist at this time, particularly in Europe. The market isn't ready for it.

So, we'll continue to support our clients and, through operational efficiencies, help them expand their businesses in the global asset markets.

@dtcc: How have Mutual Fund Services' volumes been tracking?

Bergin: Volumes were up across the board at year-end. Our daily average of Fund/SERV transactions was about 400,000, vs. 345,000 in 2003. In the first six weeks of this year, that figure was roughly 490,000, but we typically get a bump up at the beginning of the year, and then volumes level off.

We are processing a significant number of transactions through our Defined Contribution Clearance and Settlement Service, and that business continues to grow. We have some very large TPAs (third party administrators) and TPA aggregators as customers, and they've found the service to be tremendously efficient.

@dtcc: Will your other core service, Networking, be affected by the drive toward more trading and account information transparency?

Bergin: Very much so. In fact, we launched Networking for Direct Accounts on March 19 to support regulatory recommendations surrounding breakpoint information (See story, page 2). The service supports five levels of account reporting, and it's flexible enough to include new functionality within each of those levels. So we can continually enhance it to provide the necessary transparency to meet new requirements, such as tracking redemption fees on short-term trades.

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“There’s a growing recognition all around that Profile is a highly valuable tool for much more than just breakpoint information. There are two other similar databases. I think it has tremendous potential in the future.”



Ann Bergin

Schedule of Requirements for Participant Financial Reporting Now Available on Web Sites

By Steve Letzler

DTCC has developed a new, quick and easy reference tool on the Web to assist participant firms in meeting the requirements to submit their financial information to DTCC.

The rules and policies of the DTCC clearing agency subsidiaries, including The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), and both divisions of the Fixed Income Clearing Corporation (FICC), require members to submit certain financial information on a regular basis within specific timeframes. Meeting the established deadlines is particularly important for firms to avoid the imposition of penalties.

Participants indicated that it was difficult to determine which reports had to be submitted and when. In response, DTCC developed a concise Financial Reporting Submission Schedule for each subsidiary, categorized by participant type, which lists the financial reports required from each type of participant, as well as the submission deadlines for those reports.

These schedules have been posted on each clearing subsidiary's Web site. Participants should click on "Member Financial Reporting Requirements" under the "Key Links" section of www.nsc.com, and the home page

at www.ficc.com of the Government Securities Division and the Mortgage Backed Securities Division, to access the schedules. For DTC members, the schedule is under "Key Links," "Rules, Reporting, Fees" and "Member Financial Reporting Requirements."

"We want to ensure that all participants have the information they need to comply with DTCC's reporting requirements," said Jane Klueger, director, DTCC's Office of Corporate and Regulatory Compliance. @

www.nsc.com
www.dtc.org
www.ficc.com

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the district in which DTCC is based, for his work in bringing DTCC to Tampa. In addition, Considine extended special thanks to Dr. Pam Dana, director of Florida State Tourism, Trade & Economic Development, Tampa Mayor Pam Iorio, Enterprise Florida, and the Greater Tampa Chamber of Commerce, who was represented by Kim Scheeler, president. Several participants were invited to say a few words to the gathered employees.

Dr. Dana commented that "in Wall Street circles, DTCC is considered by its peers as one of the top companies. This plants the seed that Florida is a place that's conducive to business, especially for high-end financial services operations." Chamber President Scheeler called DTCC a "catalyst" that would bring more high-skill, high-paying financial services jobs to Tampa.

In addition to these and the many other individuals instrumental in bringing

DTCC to Tampa, Considine stressed that another strong Tampa selling point is the many programs in place to provide incentives to attract companies to the state.

She cited tangible benefits these programs bring such as helping to increase the economic base, expand job opportunities and retain the intellectual talent nurtured in local colleges and universities.

"Sometimes these benefits get lost in the publicity of a move," Considine said. "Yet they all underscore the public policy considerations for communities and states as they look to the future. We're proud to be part of your community. And we hope to make you proud of us." @



DTCC Chairman and CEO Jill M. Considine with SBC Employees.

FSSCC Identifies Critical Concerns for Financial Infrastructure Protection in 2005

By Crystal Bueno

The Financial Services Sector Coordinating Council (FSSCC) recently issued an action agenda identifying the five most critical concerns for protecting the nation's financial infrastructure in 2005.

In the report, *Protecting the U.S. Critical Financial Infrastructure: An Agenda for 2005*, FSSCC emphasized its continued support, through the extended reach of its member firm network, of coordinated efforts to strengthen the resilience of the U.S. financial system to potential disruptions such as terrorism, natural disasters or cyber attacks.

The five critical issues identified are:

- Strengthening the financial system's core components by implementing the rigorous standards of the Interagency Sound Practices paper;
- Creating a more structured and coordinated approach to testing efforts;
- Promoting industry-wide standards for business continuity and resilience;
- Expanding the membership of the Financial Services Information Sharing and Analysis Center (FS/ISAC);
- Identifying and testing critical interdependencies between financial services and other sectors.

"To one extent or another, all private sector organizations are working to strengthen backup operations, test telecommunications networks, and simulate emergency events and crisis response," said Donald F. Donahue, Sector Coordinator and Chairman of the FSSCC, and Chief Operating Officer of DTCC. "This 2005 action agenda focuses energy and attention on the vital continuing issues."

Sharing "Suggested Practices"

As one of the five critical issues, FSSCC is encouraging the affected financial services firms to complete efforts to implement the rigorous standards of the Interagency Sound Practices paper issued April 2003.

While the Interagency paper focuses primarily on the recovery of critical clearing and settlement processes among certain firms, including DTCC, FSSCC members agreed that the knowledge developed by these firms as they comply with the paper could be of great benefit to a broader industry audience.

"Affected firms are expected to complete their preparations to comply with the Interagency paper by the end of 2006," said Donahue. "We believe there is significant value in having these affected firms coordinate and share their 'suggested practices' and lessons learned with a wider audience of financial services sector firms."

Testing BCP Readiness

Another critical issue for 2005 involves industry efforts to test business continuity preparations. "Testing efforts are costly," noted Donahue, "so firms have to leverage

the most effective approaches and focus on the most significant issues, rather than trying to test too much."

A significant industry testing effort during the year will involve concurrent tests scheduled for mid-October, coordinated by the Futures Industry Association, the Securities Industry Association and The Bond Market Association, all FSSCC members.

Next Steps for the Agenda

The 2005 Agenda, available on FSSCC.org, is intended to promote a dialogue between FSSCC, the financial services sector and the public sector counterparts on how these issues should be prioritized and how they should be pursued. FSSCC is planning a series of meetings in 2005 to galvanize support and build consensus on the action steps to fulfill the 2005 Agenda objectives. @

DTCC Talks With Customers

DTCC executives continue to be at the forefront of industry issues, as they undertake a variety of speaking engagements in the coming weeks. Here are some of the upcoming conferences where they will be speaking.

April 27–29, Eighth Annual Conference of Central Securities Depositories

Donald F. Donahue, chief operating officer – Co-chairman and speaker

May 3, Financial Services Information Sharing and Analysis Center

Donald F. Donahue, chief operating officer – "Cyber-vulnerability"

May 4, Securities Industry Association (SIA) Operations Conference

Donald F. Donahue, chief operating officer – moderator of "DTCC – The Road to 2010" panel, in discussion with the following DTCC executives:

- **Pete Axilrod**, managing director, Business Development/Research and Development
- **Jeff Ingber**, managing director and general manager, Fixed Income Clearance and Settlement
- **Susan Tysk**, managing director, Research and Development
- **Janet Wynn**, managing director and general manager, Deriv/SERV, Asset Services and International

Other DTCC speakers at the SIA Conference are:

- **Ann Bergin**, managing director, speaking on mutual funds
- **George Perretti**, managing director, Corporate Infrastructure Contingency Planning, Information Technology Service Center – speaking on BCP Priorities
- **Lori-Ann Trezza**, vice president, Operations Administration – speaking on "Corporate Actions – The New Efficiencies"
- **Edlyn Meringolo**, vice president, Product Development and Marketing – speaking on "Account Transfers"

May 23, International Securities Industry Practitioners Symposium (ISIPS) conference, London

Warren Eastman, vice president, Global Account Team – speaking on "Global Corporate Actions."

Oct. 23–26 Bank Depository Users Group (BDUG) Conference

Rick Macek, executive managing director, Risk and Finance, and chairman, Omgeo – keynote speaker

Companies Close Wall Street Vaults, Outsource Custody to DTC

By James Conmy

Northern Trust Company has decided to get out of one aspect of its business in New York City – the costly and time-consuming process of handling physical securities. As a result, it now has a large, controlled effort under way to gradually transfer its inventory of marketable securities, which it has long held in its New York City vault, to the custody of DTCC's depository facilities.

Every business day, employees at Northern Trust's Wall Street offices scrupulously close out their files on some 400 or so securities. The securities are then transported to The Depository Trust Company (DTC) where they are examined, checked off against a master list and deposited back into DTC for safekeeping.

By the time the vault transition is complete, sometime in the second quarter, Northern Trust will have emptied its New York City vault of some 25,000 securities with a market value in excess of \$100 million – and transferred them all to DTC.

Physical Securities Engineering

“Centralizing our certificates at DTC is the first step in a larger effort to reengineer the processing of physical securities bank-wide to take advantage of advances in information technology,” said Robert Sturgis, the Northern Trust vice president leading this effort. The ultimate goal, he said, is risk reduction, as well as leveraging DTC's strong operating and technological platform. “Over time,” Sturgis said, “we think it will bring us savings and improve processing time.”

It's also the direction the industry is headed, according to Art Joblanski, the



Michael Sacaccio of Northern Trust prepares to close the company's New York City securities vault for good. Helping him with the transfer of securities to DTC is a Northern Trust team of (clockwise from top) Robert Sturgis, Steve Sorge and Violet Moseley.

Northern Trust executive who oversees the company's New York offices. “Everybody is trying to do away with, or at least immobilize, paper securities as much as possible,” he said.

Outsourcing Custody

Northern Trust isn't the only company in the queue to offload physical securities to DTC. Swiss American Securities, Inc., has already completed testing in order to begin shipping securities from its New York City vaults to DTC. Jeffries & Co., based in northern New Jersey, is also conducting tests prior to shifting its inventory of physical securities to DTC as well.

“We're aggregating physical securities here at DTC to help the industry eliminate the need to maintain numerous secure areas and to gain economies of scale for the servicing of the assets involved,” said

Kirk Matthews, DTC product manager.

Northern Trust's Sturgis also said eliminating their New York City vault space reflected changes in the way Wall Street functions and in the requirements the exchanges had established for maintaining physical securities. “It's a new era,” he said.

One reflection of the change is that, not far from Northern Trust's vault, another old vault now has a new life. It's a bar and lounge called Vine, where people dance among the old safe deposit boxes and newlyweds hold wedding receptions.

Editor's Note: Customers interested in learning more about transferring physical securities to DTCC should contact their Relationship Manager or Kirk Matthews at 212-855-5684 or kmatthews@dtcc.com. @

DTC, NSCC, FICC Make \$57M In Year-End Refunds to Customers

By Steve Letzler

Three subsidiaries of DTCC made year-end refunds totaling \$57 million to customers. The Depository Trust Company (DTC) refunded a total of \$42.9 million for 2004. That included the year-end refund of \$38.7 million plus monthly dividend, interest and reorganization investment income refunds of \$4.2 million. Although not accounted as part of these refunds, DTC participants also received about \$11.5 million of interest income on their cash deposits to the DTC participants fund in 2004.

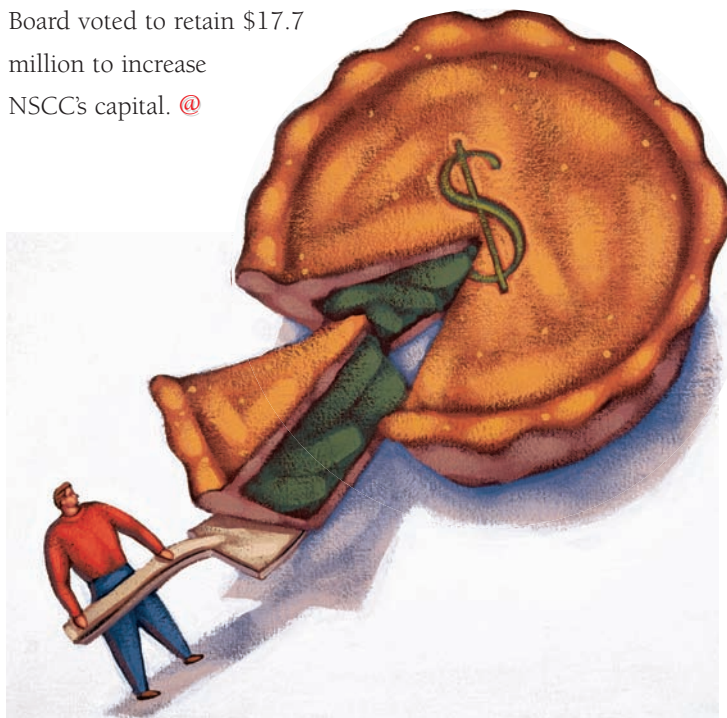
National Securities Clearing Corporation (NSCC) participants got a \$4.1 million year-end refund in addition to the \$36.7 million they received in monthly discounts during 2004. Of the \$4.1 million year-end refund, mutual fund users of Fund/SERV, NSCC's principal transaction service for mutual funds, received monies equivalent to 50% of excess net revenues generated from mutual fund services during 2004 (approximately \$1.9 million) and the remaining \$2.2 million was distributed to other NSCC participants on a pro-rata basis, based on total fees eligible for discount during 2004. NSCC participants also received back about \$31.5 million of interest income on their clearing fund cash deposits in 2004.

Fixed Income Clearing Corporation (FICC) participants in the Government Securities Division (GSD) received a year-end refund of \$13.9 million for the second half of 2004. Added to the \$10 million refund issued in August, GSD customers received a total of \$23.9 million in refunds during the year.

Participants in the Mortgage-Backed Securities Division will receive a \$0.7 million year-end refund in addition to the \$39.9

million of monthly discounts received during 2004. FICC participants also received \$9.5 million of interest income on their cash deposits to the clearing fund in 2004.

According to Ellen Fine Levine, DTCC's chief financial officer, this year's refunds were negatively impacted due to additional expenses associated with the establishment of a new Southern Business Center and one-time insourcing costs associated with assuming the responsibility for processing NSCC applications. In addition, the Board of Directors of DTC voted to retain \$35.6 million before taxes to increase DTC's capital and pay the preferred stock dividend. At NSCC, the Board voted to retain \$17.7 million to increase NSCC's capital. @



A Conversation *Continued from page 7*

It's proven to be tremendously useful to the market in reconciling customer-level account information between funds and distributors, and I believe it will continue to play a vital role in supporting the various account reporting models that exist today, or new ones that may be necessary in the future.

@dtcc: *How important will business continuity be in 2005?*

Bergin: Business continuity planning will continue to be front and center for funds, for distributors, and for us. DTCC has a very well-thought-out BCP plan and focus, and that continues to evolve in order to stay steps ahead of real and hypothetical vulnerabilities. We broadened the capabilities of our SMART network, which is the backbone of our operations and will

ultimately link together virtually all of our customers. We've installed geographically dispersed data centers and operations centers where customer activity is routed on a daily basis. The entire system has tremendous safety, security and redundancy.

@dtcc: *Are there any other issues in 2005 that are particularly important to you and your team?*

Bergin: We're going to be driving an effort to dig deeper into our customers' businesses and their operational and transactional needs. If we have a handle on their future strategies, and where they see their companies expanding five or more years in advance, we can start addressing those trends now. It's taking responsiveness to another level. @

SIA Division Asks Exchanges to Mandate Liability Notification Service

By Edward C. Kelleher

Industry spokespersons are asking the New York Stock Exchange (NYSE), Nasdaq and the American Stock Exchange (Amex) to require members to use DTCC's automated SMART/Track Corporate Action Liability Notification Service in lieu of the current manual process that broker/dealers and banks use to communicate corporate action liability information.

In a recent letter to the NYSE, the Corporate Actions Division of the Securities Industry Association (SIA), along with the association's Straight-Through Processing (STP) Corporate Actions and Legal & Regulatory Subcommittees, recommended that NYSE members begin using the automated notification service since it "will result in a tremendous benefit for the securities industry and investors."

The Division will approach Nasdaq and Amex with the same request.

DTCC's corporate action liability notification service automates the creation, delivery and tracking of corporate action liability notices. Corporate action liability notices are sent when a firm owes securities to another firm or counterparty during a voluntary corporate action such as a tender offer. The notification alerts the delivering broker/dealer or bank of its failure to deliver the securities and notifies the firm that it will be held liable for the proceeds of the tender offer.

The letter, signed by John J. Wagner, president of the SIA Corporate Action Division, reported that his corporate actions subcommittee "conducted a comprehensive review over the past two years of the securities industry's processing of corporate action liability notifications."

The letter noted that subcommittee members, including representatives from custodian and corporate trust banks, broker/dealers, utilities and self-regulatory

organizations, "all...strongly endorse the recommendations offered in this letter.

"Our review of the corporate actions liability notification process demonstrated that it continues to be one of the most challenging, least standardized processes in our industry," Wagner wrote. The problem rests in the fact that the industry "does not have a central system to clearly communicate these notifications" and "transmit them in a standard format that contains all of the critical terms and conditions of the offer."

This failure can lead to "hard dollar losses to member firms and custodians," and further impedes STP. The letter also noted that the 2003 Group of Thirty Report said "corporate actions, across the market, are the major source of financial losses attributable to operational failure."

Adoption of SMART/Track "will aid the industry by standardizing the corporate actions liability notification announcement process, reducing operation risk, contributing to the replacement of the current time-intensive, manual process...and by facilitating the industry's efforts to achieve straight-through processing. Most importantly, this...will reduce the risks, costs and delays currently associated with the processing of corporate action liability notifications for industry participants."

The SIA Division worked with DTCC to develop an electronic method to transmit this information between member firms. DTCC launched SMART/Track Corporate Action Liability Notification Service in a pilot program in November 2004, and it currently has 41 member organizations and 106 individual users.

Other automated services have been mandated by both NYSE and NASD in the past. In 1986, both organizations mandated that its members used DTCC's Automated Customer Account Transfer

Services (ACATS) – which enables broker/dealers, banks and other financial service firms to submit, review and settle account transfers in a standardized, automated environment – for all full account transfers. Last year additional ACATS functions such as partial transfers and reclaims have also been made mandatory. @



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