Financial Market Infrastructures ...Building Strength and Resilience for the Future

DTCC

The loftier the building,
the deeper must the foundation be laid.

~ Thomas à Kempis, author

DTCC

Securing Today. Shaping Tomorrow.℠

June 2014

Dear Shareholder:

We are writing to share with you important information about proposed changes to DTCC's corporate structure that, if approved by our common shareholders and regulators, will strengthen the company's ability to mitigate risk and better position our clearing agency subsidiaries to carry out their responsibilities as Systemically Important Financial Market Utilities (SIFMUs).

This SIFMU designation by the Financial Stability Oversight Council (FSOC) for National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC) and The Depository Trust Company (DTC) requires these DTCC subsidiaries to meet heightened risk management standards, including new capital requirements. Our plans call for updating our ownership framework and raising additional capital in 2015 for these subsidiaries as they continue to protect the soundness of capital markets, thereby strengthening the resiliency of the financial markets we serve.

We recognize that many financial institutions face a host of similar challenges and that the actions we take may impact our clients. Due to the critical nature of the changes that we are proposing, we are committed to engaging with you and seeking your input and feedback as we advance these proposals. This publication is intended to provide a high-level overview of our plans, to inform you of the various other opportunities you will have to directly discuss specific impacts on your firm, and to answer your questions. In addition, your DTCC client representative is always available to provide information and collect your feedback.

Thank you for your continuing support of DTCC and your valued partnership in helping us maintain a leadership role in protecting the stability and integrity of the global financial markets.

Sincerely,

Robert Druskin
Executive Chairman of the Board

Michael Bodson
Chief Executive Officer & President

INTRODUCTION

In the wake of the global financial crisis, recognition among supervisory authorities and the industry of the critical role that financial infrastructure organizations play in preserving a sound marketplace has increased sharply. Against this backdrop, U.S. and European authorities have concluded that certain of these infrastructure organizations, such as the securities depository and clearing agencies that are part of The Depository Trust & Clearing Corporation (DTCC), are “systemically important” to the capital markets. Among other things, this means these companies are now required to meet heightened financial resource standards to support the risks associated with the activities that flow through their systems.

DTCC is proposing to modify its ownership structure and to raise additional capital to bolster the effective operation of its subsidiaries and to meet regulatory requirements in this evolving market environment.

This publication, which is one component of a broader client engagement plan, provides background for DTCC’s stakeholders on:

- the steps the company is taking to revise and better align its ownership structure to its current business model and client activity;
- the company’s need for additional capital and how DTCC proposes to raise that capital;
- the timetable for these activities, including direct client outreach; and
- the impact that these proposed actions will have on the financial service companies having an ownership stake in DTCC.

NEW FINANCIAL RULES INCREASE CAPITAL REQUIREMENTS

The Dodd-Frank Act, which the U.S. Congress passed in response to the 2008 global financial crisis, coupled with subsequent and recently revised risk management standards released by various regulatory authorities, collectively impose more rigorous capital requirements and operating mandates on the banking and securities industries. They have also heightened regulation of the supporting infrastructure companies that bring greater efficiency and risk mitigation to the marketplace. Under the authority of Dodd-Frank, the Financial Stability Oversight Council (FSOC) has designated DTCC's securities depository, The Depository Trust Company (DTC), and its two clearing agencies, National Securities Clearing Corporation (NSCC) and Fixed Income Clearing Corporation (FICC), as Systemically Important Financial Market Utilities (SIFMUs). These financial market utilities must meet more exacting risk management requirements, including standards related to the level of capital they must hold to protect the functioning of the markets under difficult or extreme conditions.

Capital requirements for DTCC's clearing agencies have recently been proposed in new rules released by the U.S. Securities and Exchange Commission (SEC), their primary regulator.

SIFMUs*	Regulators/Supervisors
National Securities Clearing Corporation	• U.S. Securities and Exchange Commission • The Federal Reserve Bank of New York*
Fixed Income Clearing Corporation	• U.S. Securities and Exchange Commission • The Federal Reserve Bank of New York*
The Depository Trust Company	• U.S. Securities and Exchange Commission • The Federal Reserve Bank of New York** • New York State Department of Financial Services

* FSOC designated DTC, NSCC and FICC as Systemically Important Financial Market Utilities (SIFMUs) under Title VIII of Dodd-Frank (July 2012). With this designation, the Federal Reserve became NSCC's and FICC's prudential regulator.

** Through authority delegated by the Board of Governors of the Federal Reserve System

DTCC: ITS CENTRAL ROLE IN THE SECURITIES INDUSTRY

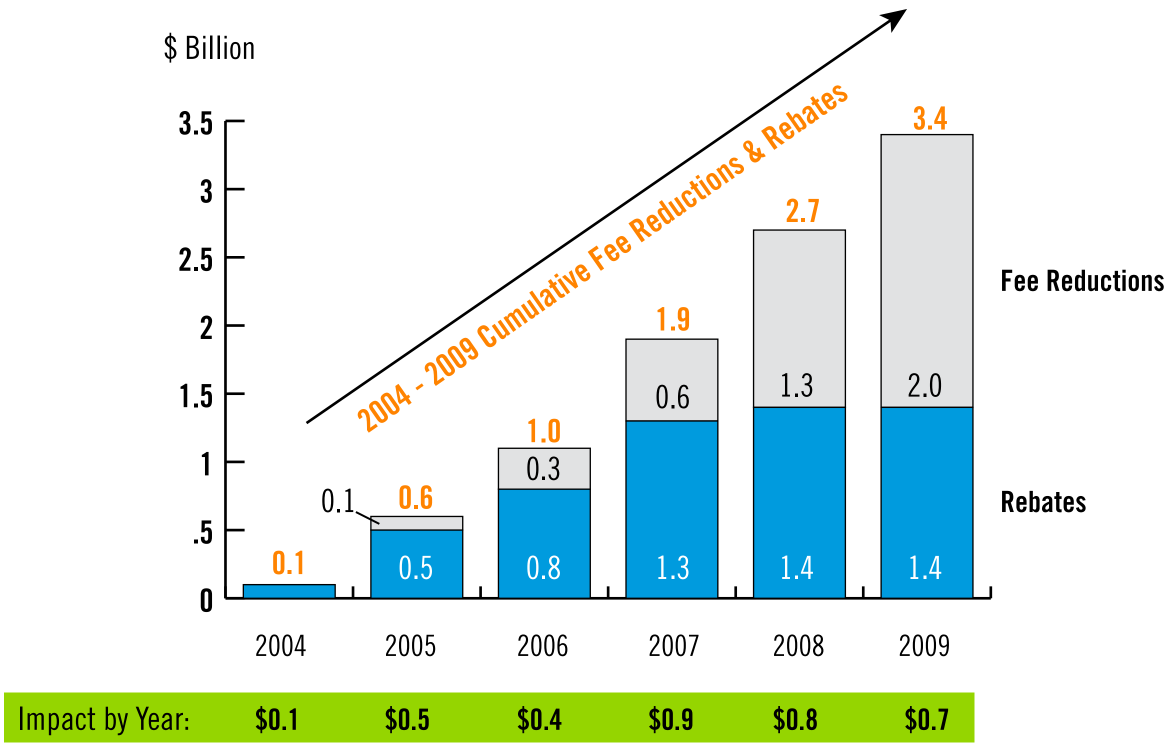
After more than 40 years in business, the family of companies that make up DTCC continues to serve as the premier post-trade financial market infrastructure in the global securities industry. Day after day, these companies protect the safety, stability and soundness of financial markets worldwide by processing trillions of dollars in securities transactions submitted by more than 50 exchanges and trading venues in U.S. and overseas markets. They also:

- track and record contracts in the global derivatives and syndicated loan markets;
- help their clients record, track and navigate collateral requirements;
- bring economies of scale and connectivity to clients' transaction processing; and
- maintain vital data on market participants.

DTCC uses cost-effective automation, centralization, process standardization and market data aggregation to support safety and soundness and increase transparency in domestic and global financial markets.

It's a big job, one that is crucial to risk reduction, cost containment and efficiency for the financial services firms that collectively own DTCC. In short, DTCC is a financial market infrastructure owned and governed by its user members, all of whom commit capital as owners, pay fees for its services and ultimately benefit from the safeguards, efficiencies and risk mitigation that DTCC provides. DTCC calculates that from 2004 – 2009 the company returned to its user members some $3.4 billion in rebates and fee reductions.

DTCC Returns $3.4 Billion (Over $4 Billion in Today's Dollars)



Minor variances in financials are due to rounding.

A HISTORY OF PROVIDING STABILITY AND RESILIENCE

Many in the financial industry know about DTCC from its role as a provider of stability during times of crises. After 9/11, for example, DTCC was able to steady a shaken financial system by clearing and settling trillions of dollars of trades. Following the collapse of Lehman Brothers in 2008, DTCC successfully closed over $500 billion in open trades across multiple asset classes that it had guaranteed or taken responsibility for on Lehman's behalf in the course of its clearance and settlement activities. This brought a significant measure of calm to turbulent financial markets. More recently, when Superstorm Sandy wreaked havoc on the Metropolitan New York area, forcing closure of the stock exchanges and the bond market, DTCC maintained critical operations, seamlessly processing nearly $19 trillion in securities transactions the week after the storm hit, despite significant damage to its lower Manhattan headquarters. And so it has gone with many other crises – the businesses that comprise DTCC have delivered on their core missions, providing safety and soundness to markets, particularly in highly stressed circumstances.

RESPONDING TO TODAY WHILE SHAPING TOMORROW

On April 4, 2014, DTCC's Board of Directors approved a set of initiatives designed to help set the direction of the company. These proposals include:

- updating the current share ownership framework;
- changing the share transfer price formula; and
- providing a blueprint for raising additional capital.

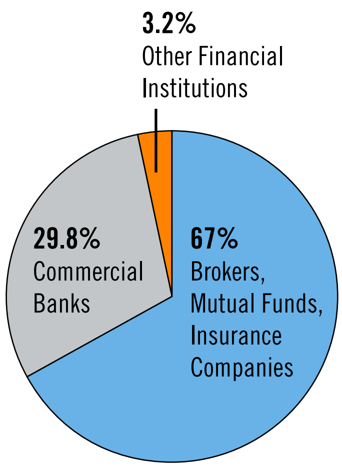
These proposals aim to modernize the methodology of how DTCC's common stock shareholding is calculated so that it more accurately reflects the activity of its members within the clearing agencies, and further, so that the price of its common shares better reflects the true value of the enterprise.

DTCC'S CORPORATE STRUCTURE TODAY

Because DTCC and its clearing agency subsidiaries are organized, capitalized and governed by its member companies, shares in DTCC are not available to public investors. Only companies that use the services of its three clearing subsidiaries – DTC, NSCC and FICC – are owners of its common stock. Currently, DTCC has approximately 315 common shareholders.

This ownership structure has helped support a consistently strong record of fostering greater capital efficiency and risk control while delivering cost-effective operating and processing solutions.

DTCC's ownership is composed of 315 participant shareholders, each a user of one or more of DTCC's wholly-owned, regulated clearing agency subsidiaries.



THE CURRENT COMMON SHARE OWNERSHIP FRAMEWORK

DTCC's current share ownership framework was created nearly 15 years ago when the company's securities depository and clearing agencies were brought together under the DTCC umbrella. Under this framework common shares of DTCC are allocated to both mandatory and voluntary purchaser participants. Mandatory purchasers are generally full-service users of DTCC's clearing agencies and depository services.

Allocation of common shares is based on two factors:

1) 80% according to the fees that members pay to DTCC's clearing agencies for their services; and
2) 20% according to the value of long securities positions that participants may maintain at DTC.

DTCC believes this formula no longer reflects the way the company's members generally use its services today.

THE PROPOSED NEW COMMON SHARE OWNERSHIP FRAMEWORK

The proposed new share ownership framework is based solely on revenues paid to the three SIFMUs – DTC, NSCC, and FICC. The component based on DTC long securities positions would be eliminated. DTCC believes this is a simpler, more straightforward approach to determining share ownership. Additionally, because the fees that participant firms pay to maintain long positions for their trading business are already included in their depository charges, the new formula eliminates any double counting. The Board concluded this approach would be more balanced and consistent for all of DTCC's shareholders and more representative of actual usage.

CHANGING THE SHARE TRANSFER PRICE FORMULA

The Board also approved a change in the calculation of the price for the transfer of common shares, effectively aligning that price to the firm's tangible book value, which DTCC believes more accurately reflects the liquidation value of the company. In contrast, the current common share transfer price formula, created many years ago, is complicated and subject to volatility due to historic concessions to owners of the separate clearing agencies as they came together under the single holding company. This formula no longer reflects the financial requirements of the parties or of the expanded role that DTCC now has in the global marketplace.

A BLUEPRINT TO RAISE CAPITAL

DTCC estimates that it will raise approximately $400 million in new common equity from its current owners – an amount the company believes will enable it to meet the higher capital requirements for the clearing agencies. Issuing new common equity for this purpose will require approval from DTCC's common shareholders, and the proposal will be subject to regulatory approval by the SEC.

As DTCC continues to look towards the future, the Company also wants to have the flexibility to respond nimbly to changes in market conditions. This includes having the ability, if deemed prudent, to return capital to shareholders via mechanisms such as a repurchase of shares. DTCC thus also proposes to clarify its ability to do so as part of its Shareholders Agreement changes.

NEXT STEPS

DTCC's shareholders must approve the proposed changes. A shareholders' meeting to vote on these proposals is being planned for early 2015.

Meanwhile, because the changes DTCC is proposing must be submitted as a rule filing for approval by the SEC, DTCC has also initiated discussions with the Commission and other regulatory bodies.

If the SEC approves the proposal, and if common shareholders approve these changes, DTCC anticipates implementing revisions to the share ownership framework in conjunction with the next rebalancing of its common shares, estimated to occur no sooner than the first half of 2015.

And if approved, DTCC estimates it would also issue the additional $400 million in new common shares during the first half of 2015.

SHAPING TOMORROW

Over the years, the composition of DTCC's client base and how financial firms use the company's services have also shifted. Initially created chiefly to handle clearance and settlement of trading in U.S. domestic securities, DTCC is now a global organization with offices in 23 locations across 15 countries worldwide. Further, DTCC is assuming a more prominent role in the financial markets, providing stability and helping clients meet their regulatory mandates in the most efficient and cost-effective manner possible through its Global Trade Repository and its Omgeo and Avox businesses, as well as its emerging data and collateral management services and other business lines. To the extent DTCC requires additional capital to support these non-SIFMU businesses, the company may in the future seek to raise this capital from other resources. The timing for any other capital-raising effort would follow from DTCC's current common equity raise.

DTCC Business Structure

DTCC Clearing Services are offered through DTCC subsidiaries National Securities Clearing Corporation (NSCC) and Fixed Income Clearing Corporation (FICC). DTCC Settlement and Asset Services are offered through DTCC subsidiary The Depository Trust Company (DTC).

ENGAGING THE SHAREHOLDER BASE

DTCC is acutely aware that many of its shareholders also face similar challenges that may require them to increase their own capital or liquidity resources to meet new regulatory requirements at a time of increased pressure on costs and slower industry growth.

In the coming months, DTCC will execute a comprehensive outreach program to engage clients in more detail about the proposed changes and explain how they would impact individual firms.

In the meantime, DTCC encourages its shareholders to contact their client representatives for more information and material related to the proposed revision of ownership rules and the need to raise additional capital.

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