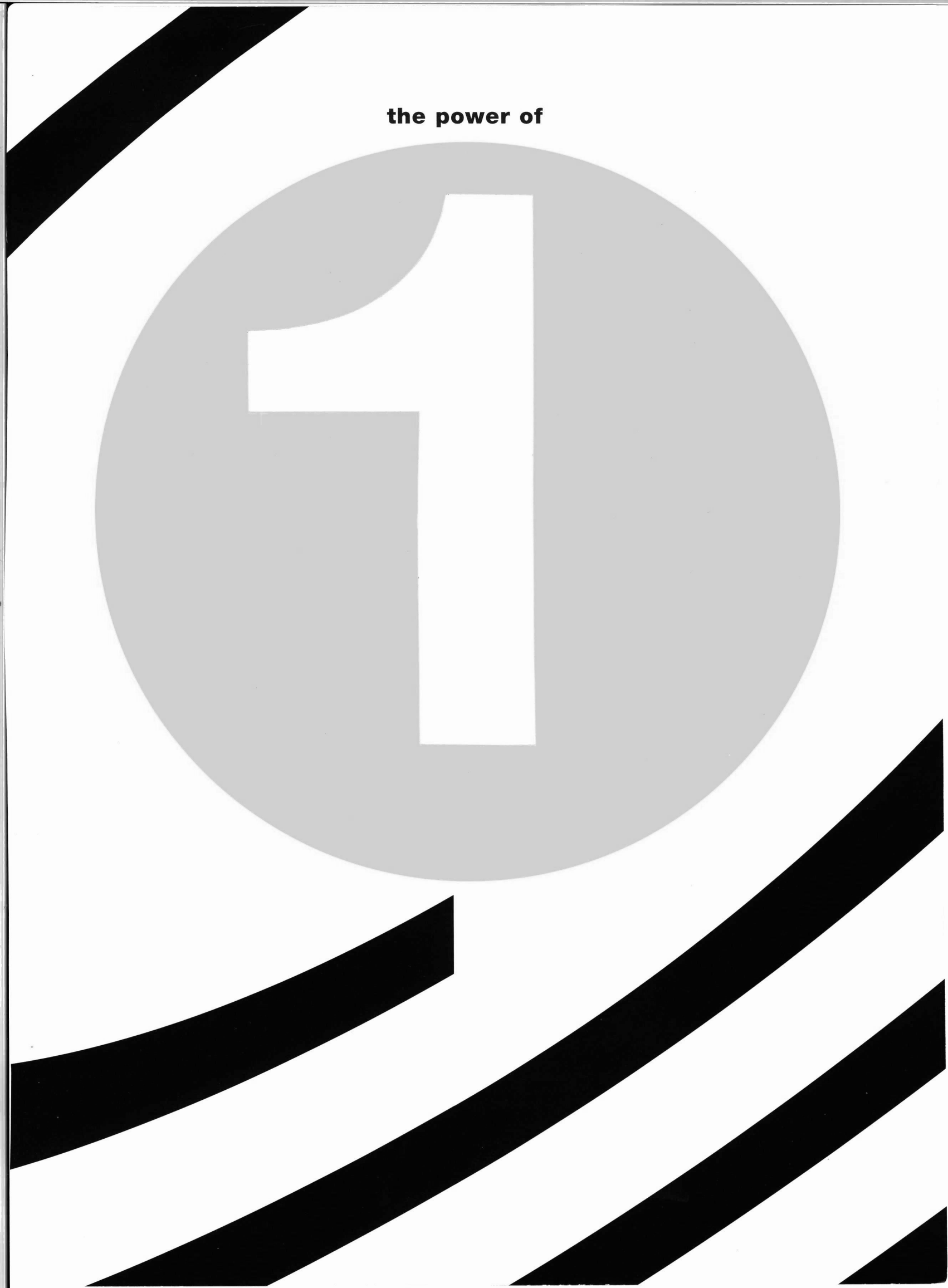
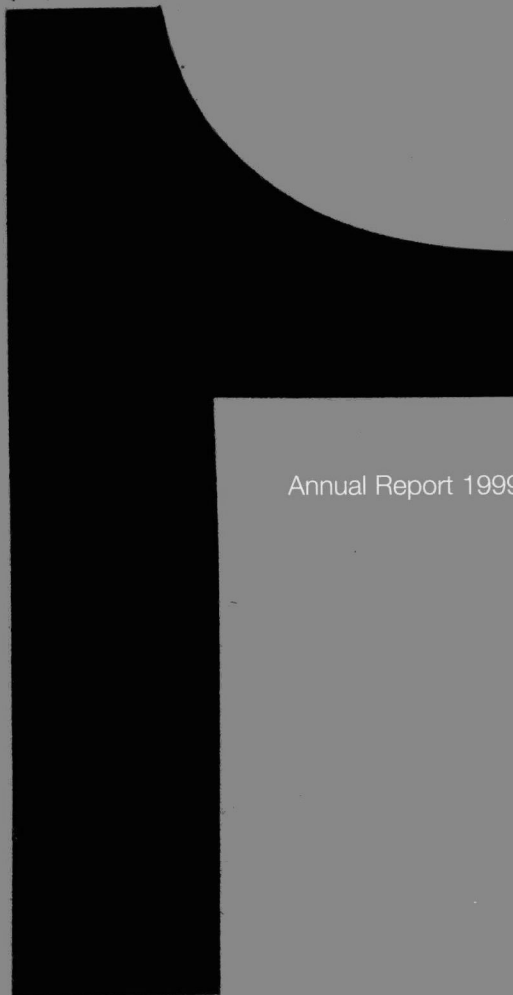


**the power of**



The Depository Trust & Clearing Corporation



Annual Report 1999



The Depository Trust & Clearing Corporation (DTCC), established in 1999, is a new holding company that brings together two major service providers to the financial services industry, The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC). Together, they are the primary infrastructure for the post-trade processing of equities, bonds, UITs, mutual funds and insurance transactions in the U.S.

**Our purpose**  
is to help grow  
the world economy  
by furthering the  
development of low-  
cost, efficient capital.

**Our mission** is, by 2005, to  
be the provider of choice  
worldwide for invest-  
ment servicing solutions  
through leadership,  
innovation and  
technology.

**of**  
**the power**

### **Introduction**

Throughout history the power of one idea has both inspired and challenged us to push beyond what we know and toward a world of infinite possibilities. Great thinkers don't begin within the normal boundaries of knowledge. They embrace a vision — a premise of what's possible — and then take from the world of existing thought to build toward a new definition of reality.

As we begin the new millennium, we have an opportunity at DTCC to define ourselves beyond the original charters of DTC and NSCC. Like many of the visionaries featured in this year's Annual, we may not know all the details of how to achieve our goal. But their vision reminds us of what truly distinguishes and differentiates any individual or company in a rapidly changing environment. Ultimately, it will be the power of our ideas.

**Dear Stakeholder:**

**V**ision is about thinking beyond the current wisdom. It requires us to accept the possibility of ideas and new directions, even when the details on how they will be achieved are not immediately apparent or

clear. We began 1999 with such a vision—and it is now embodied in the new mission for DTCC.

Our theme for this year's annual, "the power of one," reflects the importance that innovation and new ideas will play in distinguishing our new organization as we face future industry challenges.

We have chosen to feature six visionaries, each of whom in their own right provides inspiring stories about how perseverance and commitment to an idea have helped change the course of the world.

The world of financial services is changing at an accelerating rate of speed, as technology literally transforms the very nature of how our business is conducted and the fundamental definition of what financial services will be in this new century. And this change, just like the industrial revolution, will unalterably affect all of us.

The question confronting us is whether we will wait for events to unfold or whether we will seize this exciting opportunity to chart a new direction. We began in 1999 by announcing our plans to integrate the National Securities Clearing

Corporation and The Depository Trust Company. For more than 24 years, these two companies have worked cooperatively to provide automated, centralized and standardized technology solutions and risk management procedures that have brought about safety, soundness and certainty to post-trade processing and custody in the U.S.

A diminishing number of us in the industry can recall firsthand what it was like during the paperwork crisis of the late 1960s, when the marketplaces were closed one day a week just to catch up with the paper from 10-million-share trading days. But the efforts of NSCC and DTC not only prepared us for the tremendous volumes we handle today, they also represent an unparalleled business case study of how an industry worked together to ensure confidence in the integrity of financial markets.

Now, once again, we are confronted with a new set of challenges. Transaction volumes continue to climb, already reaching 18.1 million transactions for the clearing corporation on a single day in April 2000. This is up from the peak volume of 9.3 million in 1999 and 6.3 million in 1998. The good news is that even with the marketplaces exceeding 2 billion shares on 31% of all trading days in 1999, the systems supporting clearance and settlement performed flawlessly. Through netting, the clearing corporation reduced the number of obligations requiring settlement by 97% for the year, reducing risk and freeing up trillions in capital.

The depository, likewise, processed an 18% increase in institutional trade confirmations to 250 million in 1999. Book-entry deliveries associated with this

"The power of one," reflects the importance that **innovation and new ideas**

will play in distinguishing our new organization as we face future industry challenges.



Jill M. Considine Chairman, President and CEO

trading activity reached \$94 trillion, up from \$74 trillion in 1998. In addition, the depository handled nearly \$1.6 trillion in corporate underwritings based on the steady flow of IPO activity, and we provided a wide range of dividend, reorganization and redemption payment services for the nearly \$23 trillion in assets held in custody.

From a business perspective, on a combined basis, DTCC raised \$771 million in revenue in 1999, up 16%. We returned a record refund of \$106 million and \$46 million to customers of the clearing corporation and depository, respectively. In addition, we reduced certain discountable fees by \$31 million, the sixth year that fees have been reduced. The efficiency of the U.S. clearance, settlement and custody model is most evident in the clearing corporation's processing cost for an equity transaction, which is now 8.6 cents compared to a high of 80 cents in the late 1970s.

While the challenge of overcoming Year 2000 systems changes may seem like yesterday's news, the experience only underscores the degree of preparation and commitment we gave this task over three years. The effort involved thousands of dedicated professionals at the depository, the clearing corporation, the Securities Industry Automation Corporation (SIAC) and across the industry. No one should underestimate the potential consequences had we done anything less. And everyone should take stock in the unique way this industry and the Securities Industry Association (SIA) tackle issues, whether it's T+3, same-day funds, Y2K, decimalization, extended trading hours, straight-through processing or the eventual move to T+1.

During 1999, we completed preparation for the industry move to decimalization and initiated work to prepare our systems and risk management procedures for extended trading hours. However, the cautious tone about switching to decimals by the marketplaces is a recognition of the unknowns associated with the growth in message traffic that will tax our current systems' capacity. This concern is further compounded by volume growth expected in after-hours trading.

Over the next three years, we see an unparalleled set of new challenges for us—and for the industry. Trading is likely to continue for almost 20 hours a day on major markets. We project we'll be averaging more than four billion shares per day (which may be higher according to the marketplaces). We'll be clearing trades in markets domestically and globally in a processing window much narrower than the current 17-hour period. And to challenge us even further, we'll be doing



**Executive Leadership Team, L to R:**

*(back row, standing)*

Richard B. Nesson, Richard W. Myers, Jr.,  
Charles R. Taylor, Karen L. Saperstein,  
Michael A. Agnes, Steve M. Labriola,  
Kevin P. Carey

*(middle row, seated)*

Robert J. McGrail, Richard R. Macek,  
Stuart A. Fishbein, Stuart Z. Goldstein

*(front row, seated)*

Donald F. Donahue, Dennis J. Dirks,  
Larry E. Thompson, Ellen F. Levine

Over the next three years, we see

an unparalleled set of **new**

**challenges** for

us — and for the industry.

all of this in decimals, with straight-through processing and T+1 settlement, and in a real-time environment.

Some, if not all, of these events are likely to become reality in the next 36 months. And so from our perspective,

the integration of DTC and NSCC has become more than simply achieving a single team, a single strategy and a single gateway to U.S. markets. The internal process we completed in 1999 has fundamentally restructured

the organization around an aggressive vision of the challenges we face and the leadership role DTCC must play. Our Board and our customers have welcomed this change as consistent with their need for solutions that are quicker to market, increase efficiency and connectivity, reduce technology investment and minimize new areas of risk.

In 1999, DTCC established a number of internal interdisciplinary working groups to analyze issues associated with moving the industry to T+1, to review the entire DTCC complex's technology architecture and to develop an Internet strategy.

DTCC has worked closely with the SIA, Thomson Financial, The New York Clearing House and others on an industry

white paper distributed in December 1999 outlining a new institutional processing model for T+1. DTCC also initiated a separate effort in 1999 to complete a white paper by the second quarter of 2000 spelling out specific action steps we'll take and are needed by the industry to achieve straight-through processing and T+1 settlement. Even before the white paper was released, DTCC started reconfiguring TradeSuite and modifying systems to increase intra-day trade processing.

During 1999, we also conducted a review of the combined technology infrastructure for the depository and clearing corporation, including the requirements for rewriting the Continuous Net Settlement (CNS) system. Our goal is twofold: to establish a game plan for providing real-time, uninterrupted, around-the-clock systems capabilities and to emphasize adhering to technology standards and common protocols that reduce customer development and maintenance expense. A summary of our plans in this area will be distributed to the industry by mid-year 2000.

We are also exploring new ways to use the Internet. For example, we're looking to expand the depository's Participant Terminal System (PTS) capabilities by delivering services via a Web portal. The clearing corporation has already had great success in this regard with PCWeb Direct, an Internet-accessible application now supporting six equity and bond services. In 2000, the clearing corporation will be expanding this Internet delivery channel by extending it to include our entire family of mutual fund services. This effort will not only extend our reach to mutual funds, but it will also provide the technology platform for automating communications with thousands of the

financial planners, independent broker/dealers and small banks, who have become a major source of new fund sales.

On the risk management front, we've enacted several procedural changes in 1999 to help move towards risk-based margining for members of the clearing corporation. We also completed efforts to further integrate risk management systems. These changes will strengthen our surveillance of a firm's financial health and increase the flexibility of our Collateral Management System (CMS). With CMS, customers can now more effectively review, replace and transfer cash collateral among the various participating clearing corporations and the depository.



David M. Kelly,  
President and CEO of NSCC

As cross-border investing continues to grow and capital markets in the United Kingdom, Europe, Latin America and Asia consolidate, DTCC will face increasing competition. Technology will level the playing field, and the size of our franchise will give way to a basic truth about financial markets: capital will flow to markets where risk is best managed, price is most competitive and efficiency is greatest.

Our success in meeting this challenge will in part come from our ability to seize

Our success will in part come from  
our ability to **seize the**  
**initiative** and broaden  
the reach of our services through  
strategic partnerships.

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the reach of our services  
through strategic partner-  
ships and alliances. During  
1999, we've made this  
an active part of our  
operating philosophy in  
every aspect of our business  
activities. Based on our  
efforts working with the

SIA, Thomson Financial and The New York Clearing House on T+1, we're looking for other opportunities where we can work together. We believe this type of collaboration and willingness to partner solutions,

here in the U.S. and with central securities depositories worldwide, will be critical as the industry strives to achieve global straight-through processing.

Over the past year, Directors serving on the Boards of DTCC, DTC and NSCC have played a key role in successfully shepherding the integration of the clearing corporation and the depository. We recognize that Directors take on an extra burden of responsibility beyond the pressures of their day-to-day activities. We wish to thank each of them—and the firms they represent—for their valued guidance and support.

We'd also like to reiterate our thanks to David M. Kelly, President and CEO of NSCC, who retired in February after a 17-year career of stellar service to the industry. Dave's leadership in nurturing the growth of NSCC, GSCC, ISCC and EMCC will serve as a lasting legacy. We wish him well in his retirement.

Lastly, I'd like to pay tribute to our employees. In the midst of major organizational and culture changes associated with the integration of NSCC and DTC, they have worked very hard to ensure customers did not experience any disruption in service and we kept our commitments on major initiatives like Y2K.

As we begin a new year, we are energized by our progress. We embrace the future with excitement and a recognition that DTCC's potential for contributions to the financial services industry is truly limitless.

Jill M. Considine  
Chairman, President & CEO

# A world of opportunity



**India:** move to  
paperless trading



# Building on

**\$23 trillion** in custody assets  
Maintain and service

**250 million** institutional trade confirmations were processed

Processed **\$70 trillion** in broker-to-broker equity and bond trades in 1999

Through netting the clearing corporation reduced the number of obligations requiring settlement by **97%**, or **\$67 trillion**.

Our experience in developing innovative and highly reliable technology solutions and risk management processes can contribute new ideas in a changing market environment. Our goal is to create meaningful partnerships and alliances with other service providers as we move into the new century.

Our **values** define the culture, leadership style and business philosophy that DTCC will be guided by in all its activities and decisions.

**Integrity and Trust** We will conduct our business activities with unwavering high standards of honesty, professionalism and ethical behavior to earn the trust of employees and customers.

**Quality and Excellence** We are committed to excellence in every aspect of what we do. We will utilize management tools such as continuous process improvement to achieve world-class quality and productivity.

**Employee Focus and Respect** We recognize that a motivated, high performing, result-driven, loyal, and diverse employee population is our most valued asset.

thinking differently

# DTCC

**Innovation** We will seek to expand our business and increase the loyalty of our customers by leading the industry with highly flexible, functional and creatively designed products and services that solve both customer specific and general industry requirements.

**Teamwork** We will provide thought leadership and create value for our customers and the industry through collaboration, communication, and a shared sense of commitment to common goals.



# OUR SUCCESS

Customers in  
1999 delivered **\$94**  
**trillion** in securities  
through the depository's  
book-entry system

In 1999, the depository  
processed **\$1.3 trillion** in  
dividend, interest and  
corporate reorganization and  
redemption payments.

Transactions processed  
by DTCC represent **75%**  
of world equity capitalization

Supports  
**\$982 billion**  
in mutual fund  
transactions

## Ensuring capacity and certainty in trade processing

For the financial services industry, 1999 may prove to have been a watershed. More people bought and sold more securities in more markets than ever before. From New York to Bombay, from London to Sydney, the surging tide of trade volume driven by demographic changes, the

adoption of new technology, the rapid implementation of new Internet-based strategies, and a strong current of consolidation—all these forces are transforming the industry. Some of the changes already taking place will reverberate for years.

In the United States,

more than 270 billion shares changed hands on Nasdaq in 1999, and 204 billion shares traded on the NYSE, up 34% and 20% respectively over 1998. The American Stock Exchange also came roaring back, with 8.2 billion shares traded, reflecting the growing interest in trading baskets of securities called SPDRs.

The mechanics of trading were also stretched in 1999. More customers placed orders via the Internet, more traders executed orders via alternative electronic trading systems, more exchanges went all electronic and more trading took place after hours.

It was against this challenging background that The Depository Trust Company (the depository) and National Securities Clearing Corporation (the clearing corporation) were brought together under a new umbrella—The Depository Trust & Clearing Corporation (DTCC). While each organization has a distinct role and risk profile, and will operate separately, the synergies offered by the integration will help DTCC to address the significant issues facing the securities industry.

During 1999, the clearing corporation handled a record \$70 trillion in broker-to-broker trading activity, up from nearly \$45 trillion last year. Total volume climbed to 1.6 billion transactions, a 69% jump from the prior period. In 1999, the average number of shares per transaction was 1,032 shares.

While the clearing corporation handled 6.3 million transactions on an average trading day in 1999, the real significance is that this average used to be last year's peak day volume. The combined trading volume on Nasdaq and NYSE exceeded 2 billion shares on 78 trading days in 1999 (31%), compared to five days in 1998.

The clearing corporation must have the capacity to handle whatever volumes the markets experience. On the peak day in 1999, the clearing corporation processed more than 9.3 million transactions, an increase of 48% over the average daily volume of 6.3 million.

Unique to the clearing corporation is its guarantee that a trade will be completed once it is reported back to a customer as compared—meaning both sides agree on all the terms of the trade—after midnight of T+1. Until securities transactions are settled and payment is made, the clearing corporation shoulders considerable risk. For market participants, however, the corporation's guarantee assures certainty that a trade will be completed even if the counterparty to the trade fails.

The clearing corporation is able to mitigate risk by netting down or reducing the number of trade obligations requiring financial settlement. Of the nearly \$70 trillion in transactions entering its Continuous Net Settlement System in

Not only have we created certainty in handling spikes in trading volume, but through **trade netting** we have greatly reduced risk and enhanced efficiency for member firms.

# about the future

# road

The impact of new technology, coupled with growing interest in cross-border trading volume, is forcing us to alter our traditional role from **an industry “utility”** providing a narrow range of necessary services....**to become an aggressive thought leader** that articulates issues and proposes solutions bringing greater efficiency, lower cost and reduced risk to the industry.

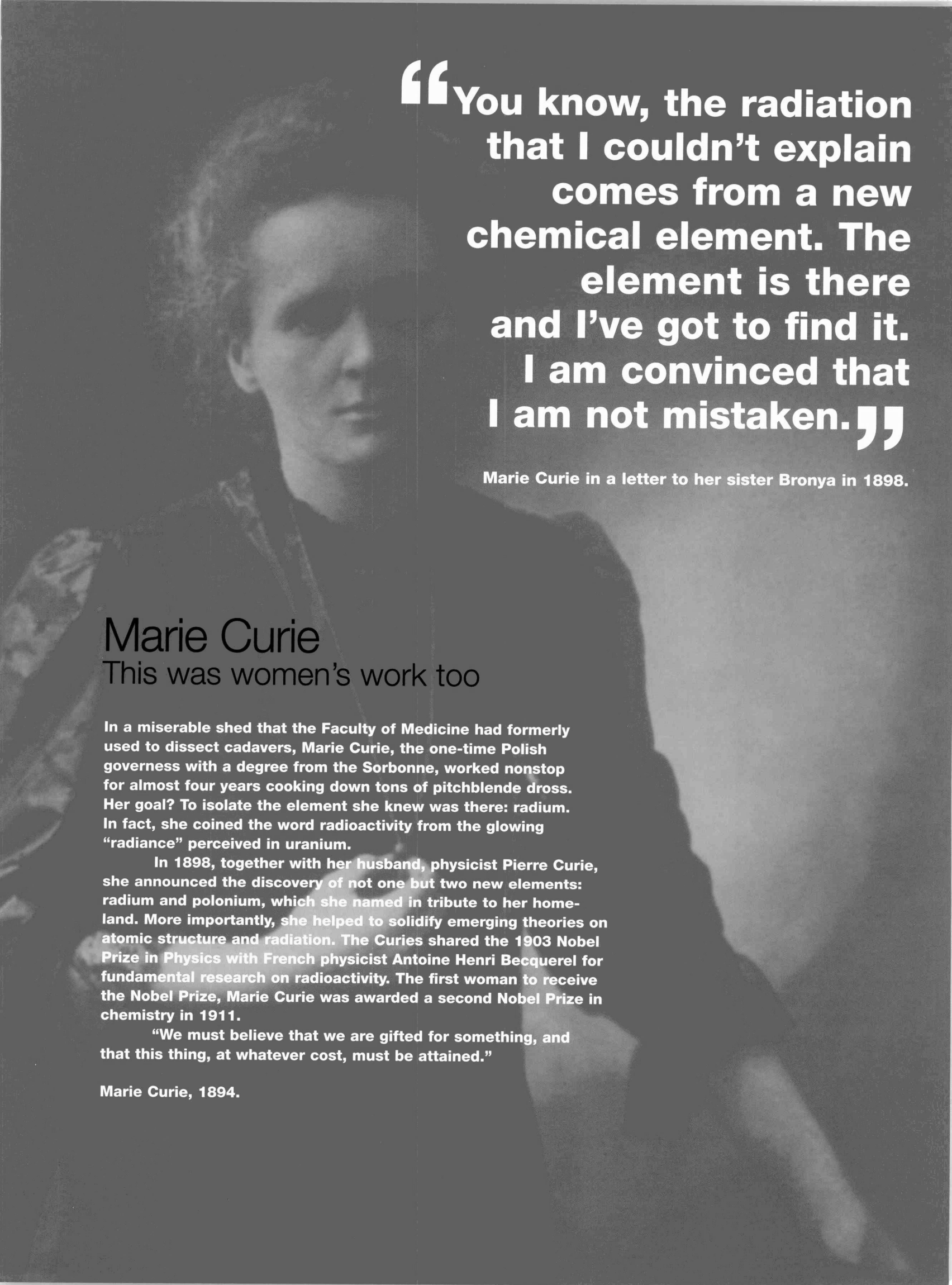
The competitive pace and structural pressures facing today's financial services industry demand that we change our approach **from a business that is reactive.... to a business that anticipates customer needs and is quick to market with solutions.**

Since technology now allows our customers to do business anywhere, we need to change **from a domestic company.... to a business with a global outlook** capable of serving customers wherever and whenever they transact business throughout the world.

In order to keep up with the dynamic of the industry and the issues propelling it, we need to transform ourselves **from a consensus-driven organization....to a decisive organization** that seizes on trends almost before they happen....divines needs before they're discovered... and proposes solutions that exceed expectations.

To offer our customers effective, competitive services worldwide, we need to **move beyond our “made in the U.S.A. label”....to pursue strategic partnerships and alliances** with businesses all across the globe.





**“You know, the radiation that I couldn’t explain comes from a new chemical element. The element is there and I’ve got to find it. I am convinced that I am not mistaken.”**

Marie Curie in a letter to her sister Bronya in 1898.

## Marie Curie

This was women’s work too

In a miserable shed that the Faculty of Medicine had formerly used to dissect cadavers, Marie Curie, the one-time Polish governess with a degree from the Sorbonne, worked nonstop for almost four years cooking down tons of pitchblende dross. Her goal? To isolate the element she knew was there: radium. In fact, she coined the word radioactivity from the glowing “radiance” perceived in uranium.

In 1898, together with her husband, physicist Pierre Curie, she announced the discovery of not one but two new elements: radium and polonium, which she named in tribute to her homeland. More importantly, she helped to solidify emerging theories on atomic structure and radiation. The Curies shared the 1903 Nobel Prize in Physics with French physicist Antoine Henri Becquerel for fundamental research on radioactivity. The first woman to receive the Nobel Prize, Marie Curie was awarded a second Nobel Prize in chemistry in 1911.

“We must believe that we are gifted for something, and that this thing, at whatever cost, must be attained.”

Marie Curie, 1894.

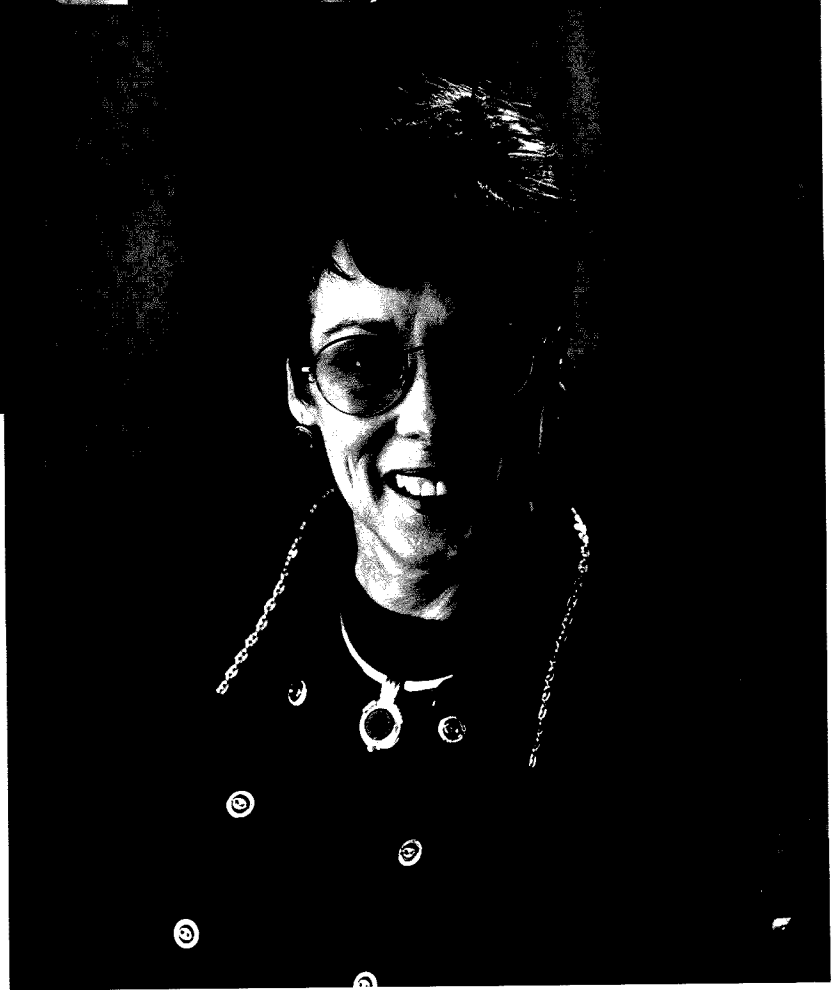
Gary Dedilectis Senior Vice President & Director,  
Capital Markets Services, First Union Corporation



Dominick F. Antonelli Chairman of the Board, Roosevelt & Cross Incorporated



Mark Kirby Head of Legal Affairs, CRESTCo Limited



Diane L. Schuenehan First Vice President &  
Senior Director, Asset Management Operations, Merrill Lynch

1999, the clearing corporation netted 97%, which means more than \$67 trillion in payments did not have to change hands. The value of netting to risk reduction is particularly clear on a peak trading day. On December 17, 1999, when the clearing corporation handled peak-day transactions valued at \$498 billion, netting reduced this financial obligation to about \$30 billion—or 94%. A cross-endorsement program with the depository allows both organizations to offset credit and debit obligations of

On the risk management front,

we initiated stronger

## membership standards and

capital requirements to

reflect the higher levels of

trading volume.

member firms. On the peak trading day, this program further reduced the final payment obligation yet again to \$16 billion.

The depository, meanwhile, also had to absorb a record volume of trades in 1999 by institutional investors buying and selling large blocks of securities.

Ownership of securities by institutional investors reached 59% in 1999. The total number of institutional trade confirmations processed through the depository's TradeSuite family of services rose by 17% in 1999 to more than 250 million.

TradeSuite automates the comparison of an investment manager's allocations with his or her brokers' trade confirmations. It also automates the exchange of post-trade messages and supports easy, accurate settlement processing among trading counterparties and their settlement banks. In effect, TradeSuite has become a central messaging and settlement hub between the buy and sell side of institutional trades, enhancing connectivity between these trading parties and speeding settlement. TradeSuite represents DTCC's efforts to help move the industry toward straight-through processing.

Through strategic partnerships with technology firms supplying systems support, the depository has extended the

reach of TradeSuite to an ever-larger community of investment managers.

During 1999, these partnerships included SS&C Technologies, Inc., SunGard Portfolio Solutions and Global Investment Systems Ltd. (GIS).

Higher equity trading volume, plus continued growth in the number of money market instruments, prompted a 22% increase in the value of 1999 book-entry deliveries. For the year as a whole, participants delivered \$94 trillion in securities through the depository's book-entry system. The actual number of deliveries was also up, rising 15% to 189 million.

On behalf of its numerous customers, the depository now holds in custody and services almost \$23 trillion in securities. These securities represent 83% of all the shares of companies listed on the New York Stock Exchange, 72% of the shares listed on the Nasdaq Market, 91% of the principal outstanding corporate debt listed on the NYSE, and a similar high percentage of most issues listed on Amex and other regional exchanges.

Although the clearing corporation's procedures differ from those of the depository, the goals and similarities of the two organizations far outweigh their differences. In 1999, the cooperation and coordination behind the successful transition to year 2000 (Y2K) illustrates the logic of combining the two organizations under DTCC.

Y2K passed with so few problems and such little fanfare that it's already slipping from memory, which was precisely the aim

**Average Daily Transactions Processed by the Clearing Corporation**

