

## New Initiatives in 2003

### DTCC Deriv/SERV: Reducing Risk

**Challenge** . . . As volumes in over-the-counter derivatives continued to see double-digit growth, a need to automate the confirmation and matching process became essential to reducing operational risk. Confirming trades for complex instruments such as credit default swaps manually averaged three weeks, and could take as much as 90 days.

**Initiative** . . . Using its existing infrastructure and 30 years of experience in developing matching systems for cash market clearance and settlement, DTCC began working with major dealers in September 2002 to develop the first automated confirmation system for credit default swaps, the fastest growing area of OTC derivatives. The system, which was launched just nine months later, in July 2003, immediately attracted the participation of most of the top dealers in such swaps, and by year-end 2003, 11 of the top 15 organizations in the world were using the system for almost all their trades with the other users.

**Impact** . . . The system provides a real-time match for trades in single reference entity credit default swaps, and automatically suggests possible matches for transactions where terms do not agree. This allows firms to focus on exception areas and correct them quickly, sometimes within hours of trade submission. Trade matching also helped set the stage for additional services to be rolled out, such as quarterly cash flow matching and reconciliations. This positions DTCC to support the strategic plan issued in December 2003 by the International Swaps and Derivatives Association Operations Committee, which calls for automating the matching of all OTC derivatives by the end of 2005 and the automating and netting of payments by 2006. In early 2004, DTCC also introduced a payment reconciliation system for credit default swaps that will take a major step toward payment netting in the future. Additional OTC derivatives services will also be rolled out by DTCC in 2004.

## What We Deliver

### Core Clearance and Settlement Services

#### Equities

Automated Customer Account Transfer Service (ACATS)

CNS Stock Borrow

Collateral Loan Service

Commission Billing for Listed Equities

Correspondent Clearing

Custom Index Share Processing

Index Share Processing

Money Market Instrument Processing

Position Segregation Service

Reconfirmation and Pricing Service

Settlement

Trade Reporting and Confirmation

Underwriting Service

#### Fixed Income

Real-Time Trade Matching/RTTM Web

GSD Net Settlement Services

MBSD Clearing Services

DVP Repurchase Agreements Services

GCF Repo Services

Risk Management Services

Auction Takedown Service

Executing Firm Services

Cross-Margining Services

Electronic Pool Notification Services

### Asset Services

Custody & Safekeeping

Deposit Services

- Branch Deposits

- Legal Deposits

- Reorg Deposits

- Restricted Deposits

Direct Registration Service

Dividend Services

- Cash and Stock Dividends

- Dividend Reinvestment

- Forward Splits

- Optional Dividends

- Principal & Interest Payments

Global Tax Services

- Domestic Tax Reporting

- International Tax Relief

- U.S. Tax Withholding

Networking for Equities

Reorganization Services

- Conversions, Warrants and Rights

- Final Distributions (Maturities, UIT Termination, CMO Paydowns, Liquidations)

- Mandatory Exchanges

- Mergers

- Name Changes

- Redemptions (Full, Partial and Lotteries)

- Reverse Splits

- Voluntary Reorganizations (Tenders, Exchanges, Puts)

Withdrawals

## How We Deliver

# Securely Managed and Reliable

## Who We Serve

Clearing Broker/Dealers

Correspondent Broker/Dealers

Custodians

Banks

Mutual Fund Companies

Insurance Carriers

Investment Managers

Issuers

Other Central Securities Depositories

Independent Financial Planners

Independent Broker/Dealers

## SMART: Enhancing Access

**Challenge . . .** While DTCC's network has existed in an ever-evolving form for three decades, the company has particularly worked for the past three years to enhance the range of products and services it can support to meet the changing needs of markets and customers. On 9/11, the network continued to operate, demonstrating its resiliency in supporting customers during the crisis. However, with the lessons learned from 9/11, DTCC believed the network could be strengthened.

**Initiative . . .** In 2003, the technology network which serves as the backbone of DTCC's entire operation was significantly enhanced and appropriately renamed, Securely Managed and Reliable Technology (SMART). Efforts this past year included expanding the use of Internet technologies, continuing the transition to industry-standard telecommunications and modernizing DTCC's data center operations. The network is highly resilient, self-healing and can be managed from multiple locations. In addition, DTCC expanded SMART beyond depository services to provide the network's world-class capabilities to clearing services for equities, fixed income, mutual funds, insurance and derivatives services.

**Impact . . .** SMART is capable of carrying trade data from virtually every U.S. marketplace including the New York Stock Exchange, Nasdaq, The American Stock Exchange, the regional U.S. exchanges and many of the world's fast-growing electronic communications networks (ECNs). As an integral part of DTCC's processing complex, SMART now links DTCC with most trading parties in the U.S., providing secure, end-to-end connectivity support for all post-trade clearance, settlement and information-based services. Through SMART, we can offer customers an integrated suite of secure, managed network functions and capabilities, with access to more than 60 specific services. This complete solution, which effectively leverages customers' investments in their own networks and systems, provides a tremendous level of certainty, security and cost controls in transacting complex business activities.

**DTCC understands that helping lead the transformation in financial services requires:**

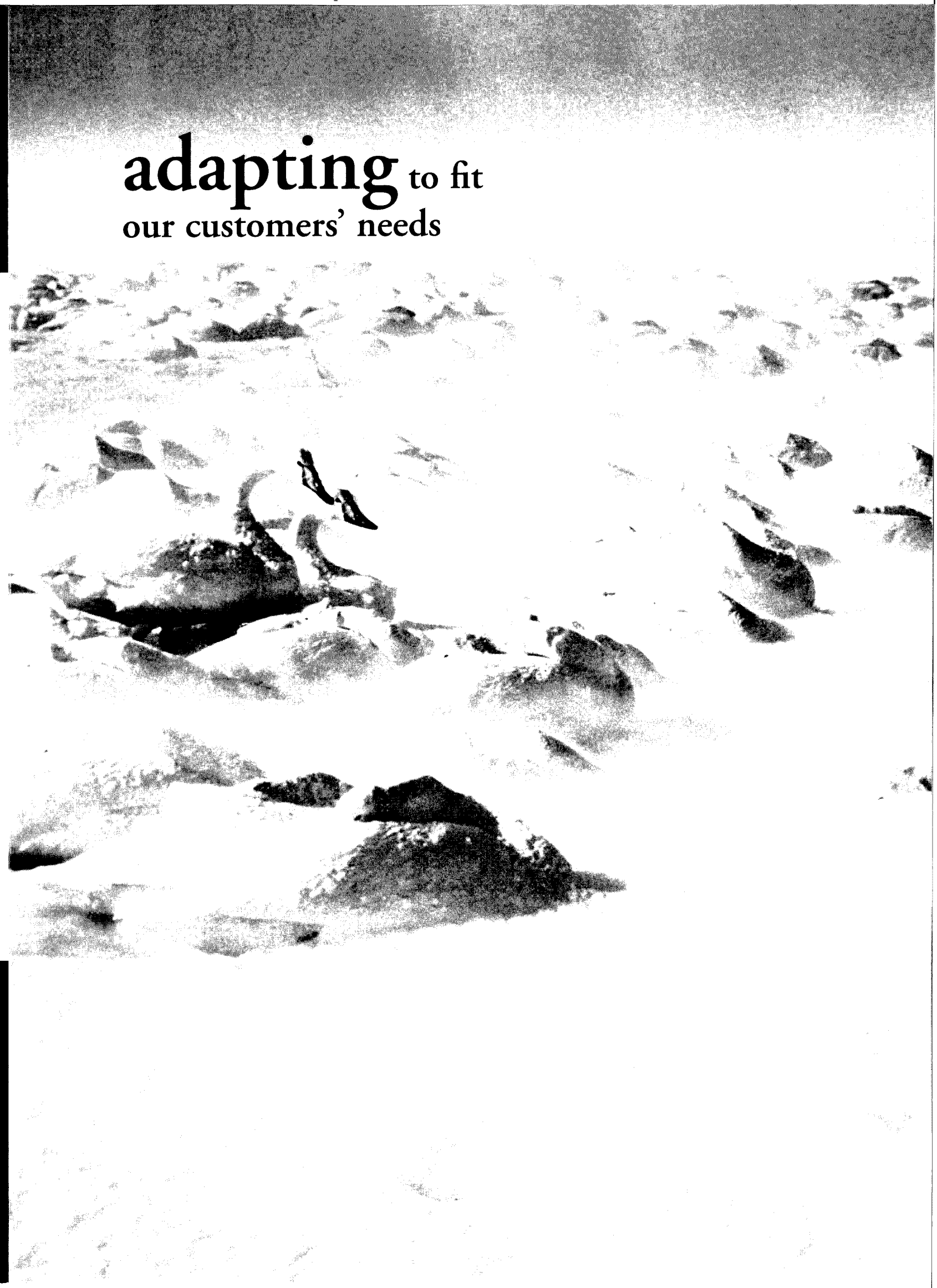
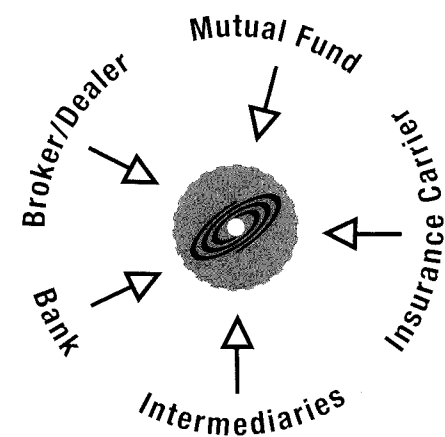
**An In-depth Knowledge** of the issues challenging our customers, including the accelerating competition and drive toward consolidation, growing regulatory demands, the increasingly diverse and complex nature of risk, intensifying pressures on revenue and costs and the globalization of markets.

An ability to **Leverage Core Capabilities** of highly resilient, secure and flexible technology coupled with a proven track record for automating and creating standardized processes to increase efficiency, reduce risk and enhance economies of scale.

**A Customer-Centric Approach** that focuses on developing outsourcing solutions with a consultative, collaborative approach, being quick-to-market and helping shape solutions that not only reduce costs but also help expand and grow revenue.

# adapting to fit our customers' needs

The power of a **Networked Community** that links virtually all trading parties, lowering cost and expanding access to new markets through a growing range of DTCC services captured in the pages that follow.



## Distribution Services

### Mutual Funds

ACATS-Fund/SERV Interface  
Commission Settlement  
Defined Contribution Clearance & Settlement  
Fund/SERV®  
Fund/SPEED<sup>SM</sup>  
Mutual Fund Profile Service  
Networking  
Transfer of Retirement Assets  
Global Update  
Offshore Fund Processing

### Insurance

Annuity Applications  
Asset Pricing  
Commissions  
Financial Activity Reporting  
Licensing and Appointments  
Positions and Valuations  
Subsequent Premiums  
InsurExpress<sup>SM</sup>

## Information-Based Services

Corporate Action Repository  
Cost-Basis Reporting Service  
Credit Default Swaps Matching Service  
European Pre-Issuance Messaging (EPIM) Service  
Global Corporate Action Validation Service  
Global Corporate Action Messaging Service  
Legal Notice System  
Participant Browser Services (PBS)

Payment Reconciliation for Credit Default Swaps  
Pre-Issuance Messaging Service  
SMART/Mover  
SMART/Messaging  
SMART/Search for Archived Reports  
SMART/Source  
SMART/Track for Stock Loan Recalls  
Vendor Data Services

# Technology – SMART Network

Third-Party Administrators

Intermediary Service Providers

Service Bureaus

Issuing Agents

Paying Agents

Transfer Agents

Exchanges

Markets

Electronic Communications Networks

Hedge Funds

Data Only Vendors and Members

Trust Companies

## Clearance and Settlement

### TRADING ACTIVITY CONTINUES TO RISE

Total transactions handled by National Securities Clearing Corporation (NSCC), which clears and settles all equity, corporate and municipal bond trading in U.S. markets, jumped 17% in 2003 to 4.8 billion transactions from 4.1 billion transactions in 2002. The total number of shares traded on the New York Stock Exchange and Nasdaq dipped slightly for the year, but trading activity never slowed down. The average number of daily transactions flowing through NSCC in 2003 rose to 18.9 million transactions each day from an average of 16.2 million daily transactions in 2002.

*DTCC pushed forward on STP initiatives to provide greater efficiencies, deliver innovative technology solutions and mitigate risk.*

DTCC must always have the capacity to handle spikes in volume smoothly and reliably. Handling NSCC's peak processing day on June 6 was no exception as trading on the exchanges surged to 4.9 billion shares, creating a transaction volume of 26 million. This was more than 38% higher than average daily transactions for the year and 5% more than the previous peak volume set in 2002.

Total value of transactions processed by NSCC rose to \$81.2 trillion in 2003 from \$80.8 trillion in 2002.

In its role as the world's largest central counterparty, NSCC guarantees the completion of all trades it handles and nets trades to a single position for each security for each broker. It also nets the financial obligations involved to a single money position for each broker. This process dramatically reduces the number of settling transactions, the number of securities movements and the number of trade obligations requiring financial settlement, which reduces operational risk and frees up considerable capital for the financial services industry.

On the peak volume day in 2003, for example, NSCC reduced the value of obligations requiring financial settlement by 97%, to \$13.3 billion from \$465.3 billion.

DTCC's depository handled 225.2 million book-entry deliveries in 2003, up slightly from 224.3 million deliveries in 2002. Value of the deliveries was \$105.7 trillion, up by 2%.

### CONSOLIDATED SETTLEMENT AND STP

Leading the industry transformation toward straight-through processing (STP) was a major priority for DTCC in 2003. DTCC pushed forward on a number of STP initiatives to provide greater efficiencies and innovative technology solutions and to mitigate risk. These included the consolidation of the settlement reporting systems of The Depository Trust Company (DTC) and NSCC. The new platform streamlines the settlement reporting process and provides a single point of entry for customers and their settling banks to access settlement obligations for both DTC and NSCC.

In another move to streamline settlement, DTCC introduced a new "transaction look-ahead" feature that significantly reduces transaction blockage in the settlement process due to risk management controls. "Look-ahead" reduces blockage by linking receives and delivers in debt instruments, most notably money market instruments. Prior to "look-ahead," a customer's net debit cap — a risk management control ensuring that DTCC has sufficient liquidity to cover settlement in the event of a default — could delay the settlement process and require the customer to send in intraday funds.

**PUTTING CNS INTO REAL TIME** In another major initiative, DTCC continued to move its Continuous Net Settlement System (CNS) toward STP by completing phase I of the CNS rewrite, combining and adding new trade information to the Consolidated Trade Summary. This report provides each customer with a summary of its trades — both buys and sells — by exchange, and with one final net and money figure. New information on the summary included complete balance order information, which had previously been distributed in separate reports. Balance orders are obligations that are not CNS-eligible and must be settled outside the system. The second half of the rewrite, to be implemented by mid-2004, will enhance CNS to operate in a

real-time rather than multi-batch environment. This will include netting trades intraday and updating settlement activity as it occurs.

**REAL-TIME TRADE SUBMISSION** The shift to real-time trade submission is part of DTCC's strategy to help lead the industry to straight-through processing for faster, more efficient processing and settlement. Should the market be disrupted for any reason, such as the August 14-15 blackout in the northeast U.S., real-time trade submission helps ensure that the number of executed but unsubmitted trades are kept to a minimum — or eliminated. Once a trade is executed in real time, it is submitted to DTCC almost immediately for clearance.

In July 2003, Nasdaq became the third major organization to begin submitting trades for clearance and settlement in real time, joining the New York Stock Exchange and American Stock Exchange.

With the major markets submitting in real time, DTCC receives about 55% of all its trades in real time. By working with regional stock exchanges and the electronic communication networks (ECNs), DTCC anticipates that it will receive almost 70% of its daily trade data in real time by late 2004.

Adding to its real-time capabilities, DTCC replaced its end-of-day trading reports to customers with new intraday, multi-batch reports — a major move needed if DTCC and customers are to move ahead on STP. Customers now receive trade information in multiple cycles throughout the day, enabling them to reconcile trading positions earlier than ever before. The new intraday trading information also helps DTCC handle growing trade volumes, especially during peak volume days, and enables it to manage risk more effectively.

**AUTOMATING THE UNDERWRITER** DTCC's depository continued to streamline the submission process for underwriters in 2003 by adding new STP capabilities to its processing system. In addition to enabling underwriters to submit documents and information for new issue eligibility electronically, the straight-through processing system now provides an e-mail notification system that supplies the underwriter with immediate feedback and confirmation of the submission. The system, which handles new issue submissions for most security types, also was expanded in 2003 to include money market instruments (MMIs).

In another step toward STP for the underwriting of fixed income securities, DTCC worked with The Bond Market Association on a study to help make the current municipal bond underwriting process more efficient.

In 2003, the depository processed underwriting distributions for a record 39,067 new issues, worth \$2.8 trillion, including 20,870 municipal issues, the largest single underwriting area. DTCC's depository handles the initial processing and distribution of new issues to brokerage firms from lead underwriters of new issues and payment of cash for those issues. The depository handles processing of more than 99% of all municipal issues in the United States.

**ENHANCED RISK CONTROLS** Managing risk across the corporation has always been a top priority for DTCC. In early 2003, DTCC and The Bond Market Association issued a white paper targeted at reducing settlement risk associated with money market instruments. Many recommendations have already been implemented, including a change permitting a customer to direct an intra-day payment to

**Should the market be disrupted for any reason, real-time trade submission helps ensure that the number of executed but unsubmitted trades are minimized or eliminated.**

fund a particular MMI issuer's obligations, reducing the randomness in the application of credits to outstanding debits. DTCC also eliminated next-day matched reclamations for MMIs, a process which delayed settlement finality. In addition, a new system for issuing and paying agents (IPAs) enables them to track their net position on money market activity issues on a real-time basis. This facilitates the IPA's assessment of monetary risk and vulnerabilities associated with its redemption funding and other activities throughout the day.

DTCC will continue to enhance MMI functionality to both strengthen customers' controls over the intraday risks within the system and to streamline processing in 2004. Additional controls that will be in place by the first half of the year include the ability to better align the processing of maturity presentments with the processing of related issuance credits during the course of the day, providing for closer correlation of customers' net exposure.

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## Transferring Cost-Basis Information

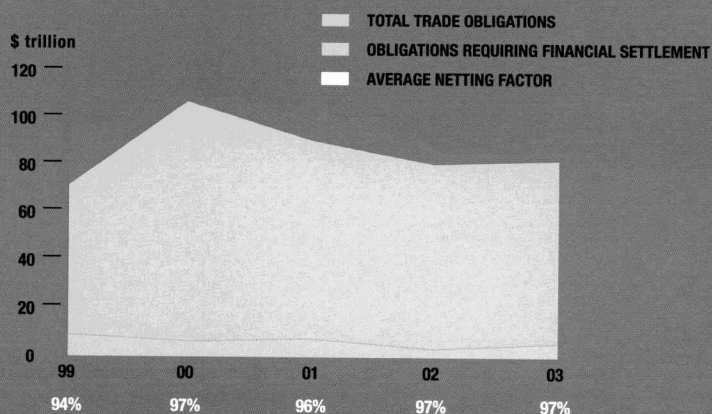
Millions of customer accounts worth billions of dollars are routinely transferred from one financial institution to another each year. It's easy, quick and efficient. A number of banks and most broker/dealers use DTCC's Automated Customer Account Transfer Service (ACATS) to make the transfers. What was not so easy was tracking down the cost-basis information left behind in account transfers — vital information that customers needed for financial reporting purposes. Until now, that is.

In 2003, DTCC introduced a new companion service to ACATS — the Cost-Basis Reporting Service (CBRS) — that for the first time automates the transfer of this information between ACATS users. CBRS helps financial firms service customers more effectively by making cost-basis information an integral part of current customer asset records that can be transferred with the account assets.

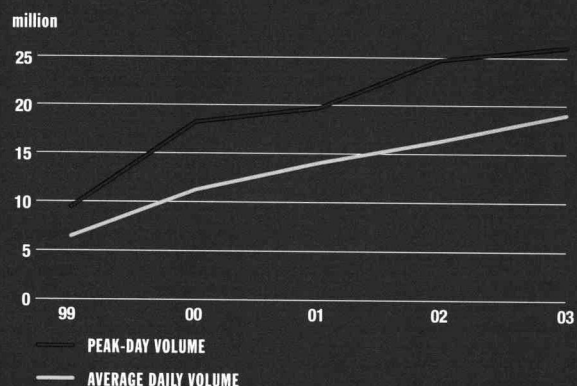
Before CBRS, it often took hours, even days, to track down this information and make it part of a customer's account. CBRS keeps the time and expense required for such transfers to a minimum and helps eliminate errors that can result from the manual inputting of cost-basis data.

By the end of 2003, an average of 30,000 to 35,000 cost-basis records were being processed daily. All major ACATS users are expected to be using CBRS this year.

### NSCC NETTING



### AVERAGE DAILY NSCC TRANSACTION VOLUME vs. PEAK VOLUME



## Asset Services

More than 30 years after its quiet beginnings as a certificate processing and safekeeping service, DTCC's custody and asset services business today is a massive, technology-driven processing operation with tremendous horsepower.

2003 was another record-setting year. DTCC's depository (DTC) processed \$2.2 trillion worth of reorganization, redemption, dividend and interest payments, a 20% jump over the nearly \$1.9 trillion in 2002.

At year-end 2003, \$24.6 trillion worth of securities were on deposit and 2.3 million securities issues were depository-eligible — mostly in book-entry form. Today, the roster of eligible securities types includes equities, corporate and municipal debt, collateralized mortgage obligations (CMOs), exchange-traded funds, commercial paper and many other instrument types. International issues, including American and Global Depository Receipts and global bonds, represent 11% of the overall value, and issues from more than 100 countries and territories are DTC-eligible.

To service these securities, DTCC deals with some 4,000 paying agents around the world. One of the most active businesses involves processing dividend and interest payments. In 2003, the value of

### **DTCC is promoting the adoption of standards and usage of global market best practices to facilitate STP for corporate actions.**

these payments rose above \$1.2 trillion, up 15% from \$1.1 trillion the prior year, while the number of payments processed increased 5% to a record 3.4 million from more than 3.2 million. Disbursements on CMOs and other structured securities also climbed, due in part to low interest rates and the high level of mortgage refinancings. The average principal and interest disbursements for a monthly payable date in 2003 grew to \$35.7 billion, a 37% increase from \$26 billion in 2002.

Another of DTCC's principal Asset Services businesses involves handling reorganization transactions, such as tender offers, mergers and conversions,

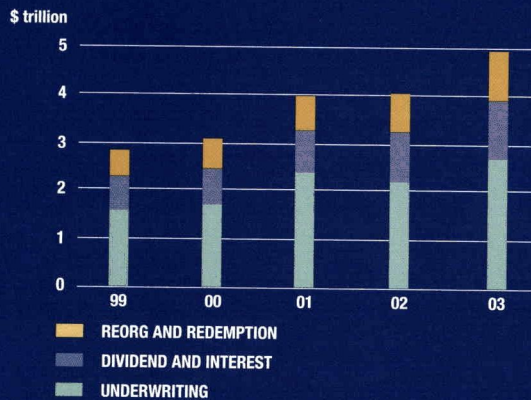
as well as redemptions and calls. These transactions, which are known collectively as corporate actions, are among the most complex and challenging transactions in the securities business globally due to the variety of event types, diversity of procedures and lack of standard practices. In 2003, the depository processed more than \$1 trillion in payments for these events, up 28% from \$808 billion in 2002.

To galvanize the industry toward greater efficiency and stronger risk management for corporate actions, DTCC issued a white paper to the industry in 2003, calling for a series of best practices and describing specific initiatives. DTCC outlined its commitment to promote the adoption of standards and usage of global market best practices to facilitate straight-through processing for corporate actions. Several enhancements to announcement and payment processing were made in 2003 to improve payment allocation for corporate action events on DTC-eligible securities.

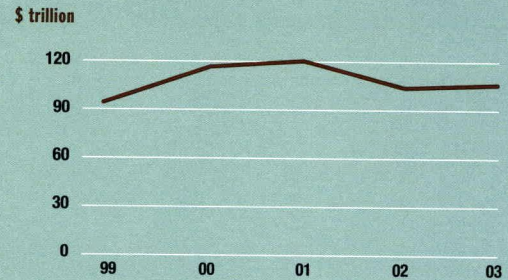
Other DTCC corporate action initiatives focus on automation to cut down on manual, error-prone processes. In 2003, DTCC launched the GCA Validation Service<sup>SM</sup>, which provides an accurate, standardized source of announcement information globally (see New Initiatives section). The 2004 launch of the GCA Messaging Service<sup>SM</sup> will automate another link in the processing chain — the communications of event notifications and election instructions to streamline processing among custodians, investment managers and broker/dealers worldwide.

To further support its efforts to promote standards and bring greater automation to the industry, in 2003, DTCC embarked on the early planning stages of a major multi-year project to reengineer its corporate action processing systems. The objective is to integrate multiple existing subsystems into a single processing platform to eliminate redundancies and inefficiencies, reduce capacity requirements and offer greater operational flexibility. This includes accommodating international processing capabilities, such as multi-currency, ISO 15022 corporate action message standards and international numbering systems.

### DEPOSITORY ASSET SERVICING



### BOOK-ENTRY DELIVERIES



## Progress on Dematerialization

Physical securities certificates are becoming symbols of a bygone era in the United States. Almost from its very inception more than 30 years ago, DTCC's depository has been working in lockstep with the industry to get rid of certificates and move to a book-entry environment.

DTC's success at immobilization and now dematerialization has reduced its physical processing volumes and staffing requirements. The total number of paper certificates held by DTC at year-end 2003 was 4.6 million, down from 25 million certificates more than a decade ago.

One of the initiatives helping to make progress in the move to dematerialization is the Direct Registration System (DRS). DRS lets investors hold securities positions in their names in statement form on the transfer agent's or issuer's books. In 2003, the number of book-entry accounts reached 37.5 million, more than double the 16 million accounts in 2000.

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reaching  
toward higher standards

## Fixed Income

**TRANSFORMING FIXED INCOME** Since the Fixed Income Clearing Corporation (FICC), one of DTCC's newest subsidiaries, was created in January 2003, the company has pushed hard to bring customers the benefits first envisioned with its formation. DTCC established FICC by merging Government Securities Clearing Corporation (GSCC) and MBS Clearing Corporation (MBSCC).

Operating in what, from a dollar-value point of view, is the world's largest securities marketplace, FICC is bringing greater synergies, cost reduction and efficiencies to the post-trade processing of fixed income instruments. Equally important, FICC is implementing straight-through processing (STP) for this market by creating a common technology platform, uniform standards for messaging, reporting, netting and settlement, coordinated cash and mark-to-market flows and optimized cross-margining.

**FICC NUMBERS GROW** Last year was another banner year in processing fixed income transactions. Overall, government securities volume rose 17% to over 20 million transactions, reflecting \$529 trillion in value, from 17 million transactions in 2002. Included in this increase are netted repurchase

*In its first year of operation, FICC brought greater synergies, cost reduction and efficiencies to the post-trade processing of fixed income instruments.*

agreements (repos) which rose 22% to \$268.6 trillion in 2003, compared to \$220.4 trillion in 2002. Repos are transactions in which one party sells securities to another and, at the same time and as part of the same transaction, commits to repurchase equivalent securities on a specified date in the future and at a specified price.

As a result of FICC's decision to temporarily shift General Collateral Finance repos (GCF repos) from interbank to intrabank settlement among its participating members, the total value of GCF repos dropped this year to \$37.2 trillion from \$46 trillion in 2002. GCF repos allow dealer members to freely and actively trade general collateral throughout the

day. FICC is working with the industry to implement satisfactory solutions to the Federal Reserve payments system risk issues posed by interbank GCF repos.

FICC's central counterparty role in U.S. government securities and its netting service substantially reduce risk and bring certainty to this market, as some \$2.1 trillion in buy/sell, repo and GCF trades enter the net on average each day. Of this, about \$1.5 trillion, or 71%, was settled each day through netting.

In 2003, the mortgage-backed securities market also set records, as individuals continued to take advantage of low interest rates to purchase homes or refinance mortgages. The total dollar value of mortgage-backed transactions processed rose to almost \$68 trillion from more than \$50 trillion in 2002. The current face value processed through the Electronic Pool Notification (EPN) service reached over \$12 trillion, compared to over \$8 trillion in 2002. EPN, the industry standard for pool notification for mortgage trades, is a real-time electronic communications network through which buyers and sellers transmit mortgage-backed transaction pool information more quickly, efficiently and reliably. Corresponding EPN messages processed hit over 1 million compared to 870,000 in 2002, while the number of pools delivered grew to more than 13 million from over 10 million in 2002.

During 2003, FICC enhanced its EPN platform, including expansion of bandwidth capabilities, to ensure the company could continue to provide the capacity, performance and reliability to meet the needs of its growing Mortgage-Backed Securities Division (MBSD) membership.

### **CLOSING IN ON REAL-TIME TRADE MATCHING**

In 2003, real-time trade matching, or RTTM, continued to be FICC's most important and groundbreaking initiative. With the phased rollout of RTTM capabilities for corporate and municipal bonds and unit investment trusts (UITs) in 2004, NSCC and FICC will complete an unprecedented, multi-year effort to bring RTTM to all highly traded fixed income instruments.

The technology was first pioneered by GSCC for government securities in late 2000, and was later

introduced to other fixed income instruments in a powerful demonstration of synergies accompanying the creation of FICC. Today, 97% of all government securities trades are submitted to RTTM interactively. This reflects an average daily value of approximately \$1.8 trillion. Furthermore, RTTM for mortgages, which was introduced by FICC in late 2002, gained significant traction in real-time submission by members in 2003. By December 2003, 67% of MBS transactions representing 65% of total December par value was submitted in real time.

RTTM is, of course, a core requirement for building a straight-through processing infrastructure for the fixed income market. RTTM, which utilizes standardized interactive messaging, enables FICC to maximize the volume of fixed income trades that match on trade date, mitigating settlement risk associated with uncompleted trades.

RTTM's interactive messaging function will also help NSCC fixed income customers comply with a new reporting requirement by the Municipal Securities Rulemaking Board (MSRB) for both street side and customer trades. The rule will require submission of municipal trade prices within 15 minutes of their execution beginning early in 2005. In addition, NSCC and FICC announced in 2003 that they'd support an interface to the National Association of Securities Dealers' Trade Reporting and Compliance Engine (TRACE) for the real-time reporting of corporate bond transaction prices.

**PROVIDING SOLUTIONS** As always, FICC worked closely with the industry in 2003 to offer solutions to business challenges. Major initiatives included FICC's two white paper proposals, the first on bringing STP to institutional settlement for U.S. government trades, and the second on extending central counterparty capabilities to mortgage-backed securities transactions (see page 11 for more details). FICC has formed working groups with its members and industry organizations to evaluate and refine these proposals.

In addition, FICC made a number of improvements to its existing products, including the GCF repo service. For example, FICC implemented an enhanced margining process for Treasury and agency general collateral finance repo transactions, based on actual collateral pledged for such transactions. The new margining process will result in more accurate and often lower margin requirements and improved risk management for members.

The service also continues to expand the pool of acceptable collateral to encompass other types of instruments to provide ever-greater sources of liquidity and opportunities for a more favorable balance sheet presentation for members. In April 2003, FICC began accepting Ginnie Mae fixed-rate mortgage pass-through securities and has recently received SEC approval to add adjustable-rate mortgage pass-through securities.

FICC also led an industry effort in 2003 to reduce the number of aged fails that were part of "round robins" or chains of unsettled trades, that plagued the May-issued 10-year Treasury note. FICC steps included conducting seven special re-nets to help reduce fails and facilitate orderly settlement, and designing a process to identify round robins.

**RETURNING VALUE TO CUSTOMERS** In 2003, FICC's Government Securities Division (GSD) was particularly proud to distribute its first rebate for its customers of \$6 million last August, followed by another rebate for the second half of 2003 of more than \$14 million. The combined rebates of over \$20 million represented the benefits

**Rolling out RTTM for corporate and municipal bonds and UITs, NSCC and FICC will complete an unprecedented effort to bring RTTM to all highly traded fixed income instruments.**

of higher productivity and reduced operational costs that FICC was able to pass on to customers. The GSD rebates are in addition to the regular monthly rebates and interest passed through to MBSD members, which last year totaled over \$57 million.

**ENHANCING RISK MANAGEMENT AND CONTINUITY PLANNING** Creating a centralized organization for all fixed income processing has benefited not only DTCC and FICC business initiatives, but also their risk management and continuity planning platforms. The two companies and the Securities Industry Automation Corporation have been working to manage the migration of fixed income systems into DTCC's multiple data centers. The objective is to reduce costs, increase operational flexibility and provide consistent business continuity planning capabilities across all DTCC subsidiaries.

## Rolling Out a New Web-Based Interface for Fixed Income Trades

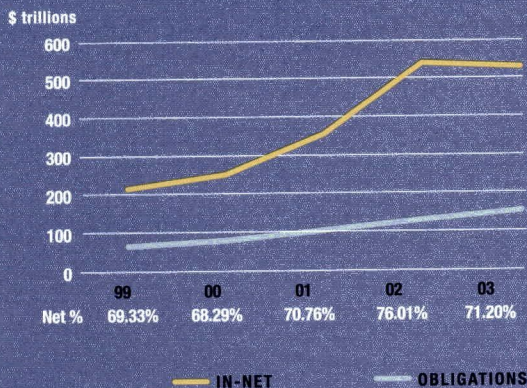
As part of its conversion to RTTM for fixed income customers, FICC will introduce RTTM Web, a new Web-based trade entry and trade management service for fixed income products that gives customers a better approach to processing through innovative and cost-effective technology.

Using a series of interconnected windows and sophisticated query tools, members can obtain real-time status information for all transactions received and/or updated by the RTTM system. RTTM Web will also provide for retrieving and viewing intraday, end-of-day and historical print image reports.

The service is being phased in initially for mortgage-backed securities, but will, ultimately, include all fixed income trades. FICC is working with NSCC to introduce RTTM Web in mid-2004 for corporate and municipal bonds and Unit Investment Trusts that they clear and settle. RTTM Web for U.S. government securities will then follow.

### U.S. GOVERNMENT SECURITIES

Dollar value in-net and dollar obligations requiring settlement



### MORTGAGE-BACKED SECURITIES

Par value and Par value requiring settlement

