



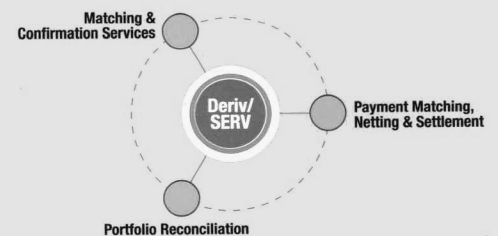
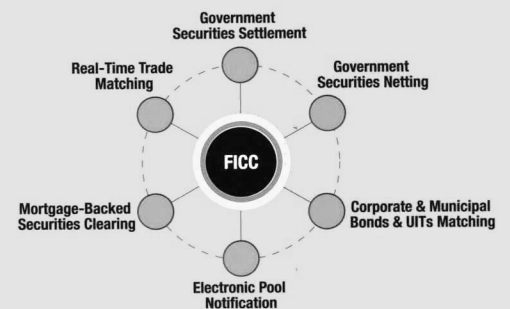
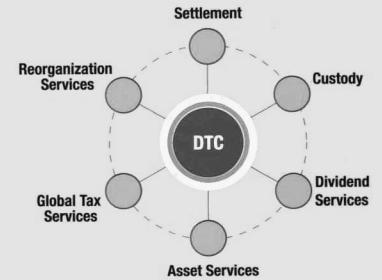
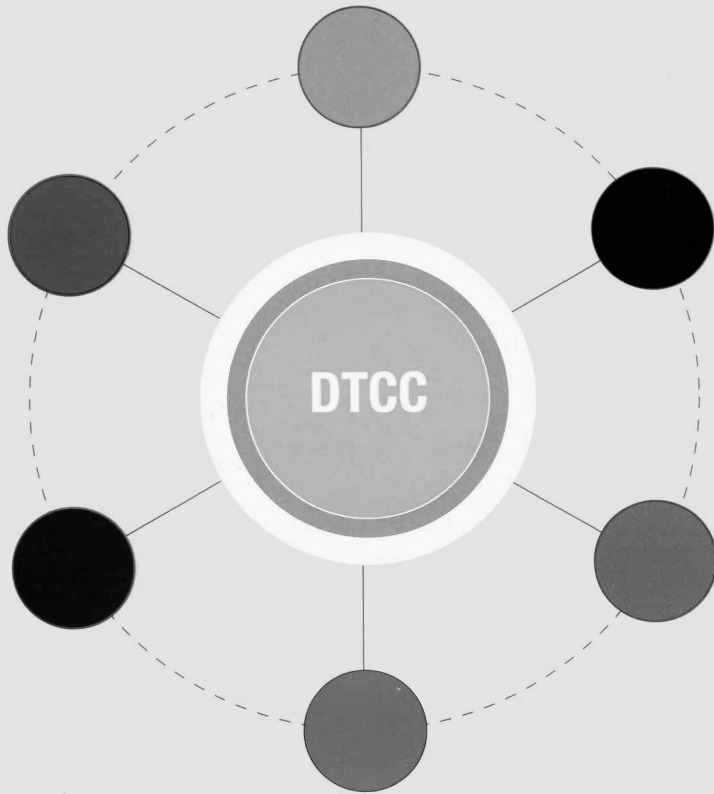
The Depository Trust & Clearing Corporation



What's a quadrillion?



•
Annual Report 2004



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

Our mission is, by 2010, to be the acknowledged world-class provider of servicing solutions to financial markets through leadership, innovation, technology, risk management and strategic alliances.

Our values provide the moral compass by which we operate, binding us together and underscoring our approach to business for all DTCC employees. They include integrity and trust, quality and excellence, customer focus, employee focus and respect, innovation and teamwork.

A quadrillion in mathematics and science is often referred to as 10^{15} . The word itself represents a fixed point of measurement that, **for years, bordered on the unimaginable.**

And yet, today, with knowledge and technology, we are approaching a crossroad where a quadrillion is both measurable and **attainable.**

At DTCC, **in 2004, we crossed this threshold,** completing financial settlement for a quadrillion dollars in securities transactions. Few would have thought this was possible even three years ago.

In this year's annual report, we've chosen to explore the meaning of the word quadrillion. While still difficult to fathom in many fields of endeavor outside of the physical sciences, our natural drive to learn and understand is apt to soon make a **quadrillion** a part of our everyday lexicon.

At DTCC, we've enjoyed a rich history of providing high-quality, reliable and innovative services to the financial services industry, but size alone is not a sole measure of success. Ultimately, our customers will judge us by the **power of ideas** we bring in each of the market spaces we serve.

Our challenge is to think beyond the measurable boundaries of current trends to remain **a thought leader** and **logical solutions provider.**

The question is: **what's next?** For DTCC, reaching a quadrillion is no longer an end point, but a new beginning. There's so much more to do... and the possibilities are endless.

Dear Stakeholder:

Our annual report theme this year, "What's a quadrillion?," is intended to recognize a new threshold DTCC crossed in 2004, settling more than one quadrillion dollars in securities transactions. This milestone certainly highlights the growth that has taken place in the financial services industry and our expanding role in it.

However, we are quick to remind ourselves that success in bringing reliability and certainty to the markets and customers we serve is not an end point, but an ongoing journey.

Big isn't always better. The corporate landscape is littered with companies whose size became an encumbrance and caused them to lose sight of their mission.

At the same time, size can reflect a truly dynamic organization, which has multiple lines of business and highly motivated employees who are dedicated to creating new services and serving new customers.

Five years ago, when DTCC was formed by the integration of DTC and NSCC, we adopted a mission statement that, by 2005, we wanted to be seen as the provider of choice worldwide for investment servicing solutions through leadership, innovation and technology.

This mission statement represented a marked shift in our vision and direction. We needed to focus ourselves not just on the U.S. market, but what was happening globally with our customers. While not losing focus on our core responsibilities in

Overall customer satisfaction **90%***

clearance and settlement, there was a growing recognition that our customers wanted a broader range of investment servicing solutions. With the world of financial services changing at an accelerating rate of speed and technology literally redefining the very nature of our business, we had to decide whether we would watch and wait – or seize the opportunity to define our future.

Even then, our size as the largest post-trade infrastructure organization in the world was no assurance of continued

success. We needed to change our culture to operate more like a "for-profit" company, with the competitive drive to lead, the capacity to be quick to market, the commitment to exceed customer expectations and the bottom-line accountability for results, while maintaining the user-driven governance structure that is tied to our historical roots.

In 2004, our annual industry-wide survey of customers gave us a strong vote of confidence on achieving our mission, with 86% saying they considered DTCC a "provider of choice" and with their overall satisfaction with our services reaching 90%. But rather than settle back, our management team felt it was once again time to renew and expand our mission:

By 2010, to be the acknowledged world-class provider of servicing solutions to financial markets through leadership, innovation, technology, risk management and strategic alliances.

Our new mission statement is intended, once again, to unify our purpose, focus our energy and build on the momentum of the last five years. While many of the drivers of change continue from that earlier period, the speed of consolidation and globalization present even greater opportunities for DTCC to become a logical solutions provider in the financial services industry. In this year's annual report, you'll find a case study to demonstrate this with DTCC Deriv/SERV.

DTCC Deriv/SERV, launched just one year ago, is bringing much needed cost efficiency, risk reduction and speed to the global market for the post-trade processing of over-the-counter (OTC) derivatives. OTC derivatives, which represent a new market space for DTCC, are growing at an explosive pace – and demand for Deriv/SERV is robust. In 2004, we quadrupled our customer base, including most major global dealers in OTC derivatives as well as a growing number of buy-side firms. We developed and brought this new service offering to market within nine months, and it has already broken even within its first year.

DTCC Deriv/SERV demonstrates how we are leveraging knowledge capital and repurposing technology to help entirely new financial sectors to automate, standardize, create greater efficiency, reduce risk and lower cost.



* Highlights from DTCC's 2004 Customer Satisfaction Survey

From a governance and management perspective, let's be very clear. The standard for launching or staying in a business requires that individual businesses be self-sustaining. Even if there's a small group of customers who might benefit, we will insist that a business be financially viable to support its own operation. Our decision in 2004 to close the Emerging Markets Clearing Corporation (EMCC) is an example of this philosophy. EMCC was hugely successful in bringing certainty to the market for Brady Bonds seven years ago, but the market for these instruments declined, transaction volumes dropped and broadening the range of instruments was not an option.

At DTCC, we strive to ensure a business will achieve sustainability through a customer-centric approach that requires customer involvement during the research and development phase of a new service. The days of "if you build it, they will come" are long gone, especially considering the competing demands for finite technology dollars required by DTCC and its customers.

DTCC's involvement in new financial sectors is entirely driven by customers, and trade groups representing customers, who ask us to help automate and streamline those back-office functions that can help mitigate risk and reduce cost. In some sectors, like insurance, we've looked to partner with other service providers to bring economies of scale and seamless processing quickly to market. For customers operating across country borders, we believe developing alliances with other infrastructure organizations will be part of the way we'll help meet customer needs in an increasingly global marketplace.

As a company that operates on an "at-cost" basis, returning excess revenue from transaction fees to our member firms, DTCC is solely focused on serving the needs of customers and safeguarding the integrity of financial markets.

DTCC's Overall Performance

Equity markets continued to expand in 2004, while volumes in the fixed income market posted a mixed record characterized by strong growth in U.S. government securities and a slight downturn in the mortgage-backed sector.

For DTCC, the result was another record-setting year for processing volumes and settlement activity. On a combined

basis, our subsidiaries settled transactions valued at \$1.1 quadrillion, up 22% from 2003. This translates to approximately \$4.5 trillion worth of transactions processed each business day.

The volume of these transactions grew at double-digit rates across most major business segments. For equities processing, volume increased 21%; volume rose 17% for U.S. government securities, though mortgage-backed securities volume declined 4% due to the slowdown in this market; mutual fund volume was up 19%, and insurance services volume for commission, application and premium transactions increased by 19%.

Premier provider of investment servicing solutions 86%

DTCC's fee-based revenue generated \$1.1 billion in 2004, up 11% from 2003. In total, DTCC returned \$219 million in rebates and discounts to customers in 2004. This was down from \$252 million in 2003, due to a decision to increase the amount of capital retained for normal business operations of the subsidiaries.

In another development that signals financial soundness across the organization, FICC joined two of our other subsidiaries, DTC and NSCC, in obtaining a AAA/A-1+ credit rating from Standard & Poor's in 2004.

Unrelenting Focus on Business Continuity

2004 was a year of significant developments in further strengthening DTCC's business continuity program, with emphasis on data capture, resiliency and efforts to create redundancy of operating functions at multiple operating sites.

On the technology front, we completed one of the most innovative projects in our history, working in partnership with EMC Corporation to achieve data recovery over geographic distances and within time parameters previously thought impossible. The success of this effort means that the staff at our multiple data centers can take over data processing from any location to ensure the certainty and reliability of our support. And this capability is tested on a regular basis. In addition, we have safeguards in place to ensure that DTCC would not incur major data loss from any

catastrophic disruption. In recognition of this technological breakthrough, DTCC was named winner of the 2004 Computerworld Honors 21st Century Achievement Award.

The opening of our Southern Business Center (SBC) in Tampa marked a corporate milestone – and completed another in a series of recommendations we made to our Board the month

DTCC rating on Integrity 89%

after September 11, 2001, on further safeguarding the industry's infrastructure. In December 2004, we launched Settlement operations at the SBC and plan to have redundancy of certain key business operations up and running in 2005.

Our Fixed Income Group was added to the DTCC businesses supported by our remote data centers. And our insourcing of NSCC applications from the Securities Industry Automation Corporation (SIAC) is yielding both business continuity benefits and cost savings.

Update on New Services

Our Global Corporate Action (GCA) Validation Service, which we expanded in 2004, automates and streamlines yet another complex and risky industry segment: corporate actions. DTCC has more than 30 years of experience handling corporate actions in the U.S. market, and we developed GCA to help achieve one of the major recommendations of the Group of Thirty for reducing risk associated with these transactions.

Our GCA validation service offers customers an automated solution, providing a standardized source of accurate and timely information for nearly 100 corporate action event types.

In 2004, we extended the global reach of this business, opening a service center in Shanghai to complement our operations in London and the U.S. With almost 900,000 corporate action announcements handled last year, GCA is gaining increasing interest as a logical solution.

Early in 2004, DTCC sponsored the industry's first effort to quantify the risk that corporate actions pose to the global securities marketplace. Conducted by a U.K.-based independent economics consultancy, the study valued the industry's risk exposure at multi-billion euros annually, driving home the need to advance automation in this fast-growing, risk-prone area.

Leading the Industry

Staying ahead of the curve is a high priority at DTCC as we work with customers, industry groups, regulators and, where appropriate, our counterparts in other countries, to advance issues and initiatives that strengthen the financial services industry. Examples of progress in 2004 include:

- Mutual funds. To help customers comply with regulatory requirements and restore investor confidence, we are taking the lead in forging solutions to the issues of breakpoint disclosure, late trading and market timing.
- Straight-through processing (STP). We completed a multi-year rewrite of our Continuous Net Settlement system, bringing real-time capabilities to the clearance of equity trades. We enhanced our Inventory Management System to allow for individual customer profiles for processing instructions on their inventory. And we expanded our Settlement system's "look-ahead" features, reducing net debit cap blockages and the need for intra-day funding by customers.
- Real-time trade matching (RTTM). In the fixed income market, we extended RTTM to cover corporate and municipal bonds and unit investment trusts. This marked the completion of a multi-year initiative to bring RTTM to this market sector, which also includes government and mortgage-backed securities.
- Dematerialization. We stepped up our campaign to eliminate paper certificates, adding new programs, expanding existing ones and enrolling more customers to participate in them. Last year, we reduced the paper securities held in our vaults by another 15%, to 3.9 million certificates.



Sharpening Risk Management

Rigorous risk management is not just a process; it must be ingrained in the culture. At DTCC in 2004, we further embedded operational risk management principles throughout the organization by distributing a detailed policy on risk management to all employees, outlining their responsibilities in identifying and reporting potential exposure.

In addition, we developed an easy how-to guide to empower employees with tools to help identify risk in their own work areas. We reinforced these policies with more formal operational risk assessments that were completed in all high-risk areas within the depository, as well as in other key areas of DTCC.

Commitment to quality 83%

We also completed a series of stress tests to look at how market scenarios and extreme market conditions might impact DTCC subsidiaries and our customers. This assessment of scenarios and actual market conditions is part of an ongoing strategy to protect the industry and the organization, and to ensure the effectiveness of our own risk management systems.

Keeping Customers First

DTCC operates on the principle that the ultimate measure of our success is how well we serve our customers. That is why the overall satisfaction rates reported in our 2004 customer survey results were so gratifying. In addition to world-class scores on overall satisfaction with DTCC, customer ratings were equally strong in a category we deem critical: integrity, which garnered an 89% satisfaction score.

Our Board of Directors

DTCC's Board plays an invaluable role in providing guidance and broad industry perspective, as we look to grow our businesses and enhance our support for customers. We are grateful to our directors – and their organizations – for the time and energy they devote to our activities. We are fortunate that DTCC is able to attract such experienced and diverse talent to our Board.

The People at DTCC

In 2004, we opened our new operating center in Tampa on an aggressive timetable. Thanks to the efforts of many employees, including those enterprising people who decided to move with their families to Florida, this change was achieved seamlessly for our customers. Having a sizable number of staff move to Tampa was vital to ensuring continuity of highly specialized functions, and the willingness of these employees to see change as an opportunity to grow and strengthen the industry epitomizes the spirit of DTCC.

I also want to recognize DTCC's dedicated technology staff, who often work quietly behind the scenes, but are so important to helping us maintain our high standards for systems uptime and technology solutions that are flexible for end-users. Their contributions play an increasingly important role as we continuously strive to improve our service delivery and lower our operating costs.

DTCC employees possess unique knowledge and skills. They also have proven adept at navigating change as DTCC continually reinvents itself to meet the needs of customers and new market sectors. Time and again, our employees have risen to new challenges with enthusiasm, determination and a commitment to excellence. We thank them for their daily contributions.

Jill M. Considine *Chairman & CEO*



◀ Steven Cotton
*Global Corporate Actions,
London*

Toshihide Kawanishi ▶
Information Technology

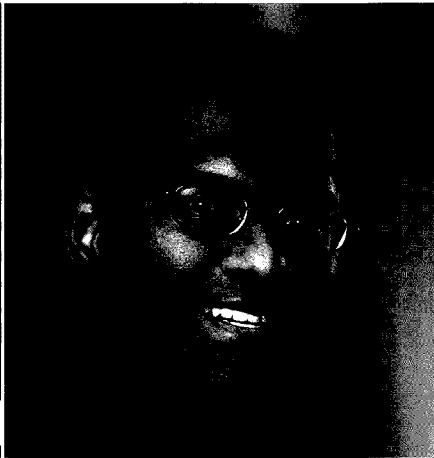
▼ Krishnamurthy Vaidyanathan
Fixed Income



▲ Donna M. Terry
Reorganization



◀ Susan Tysk
*Fixed Income and
New Business Development*



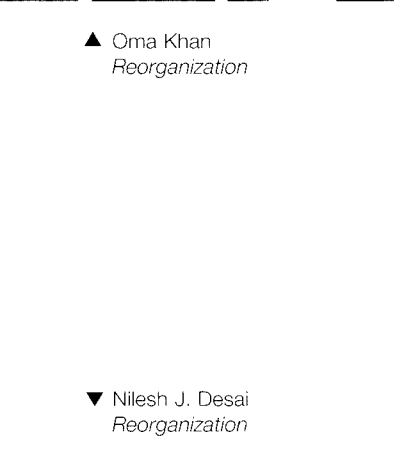
▼ Bill Hodgson
Deriv/SERV, London



▲ Oma Khan
Reorganization



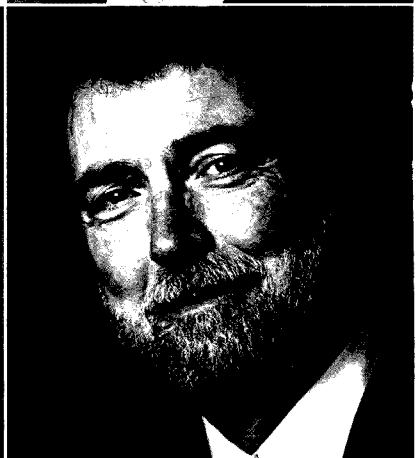
◀ Linda Yee
Mutual Funds



▼ Nilesch J. Desai
Reorganization



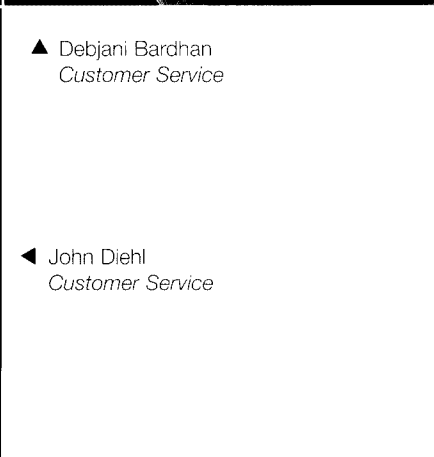
▼ Denise Grant
Mutual Funds



▲ Charles Ryan
Finance



▲ Debjani Bardhan
Customer Service



◀ John Diehl
Customer Service



◀ Bella Zgut
Information Technology

“

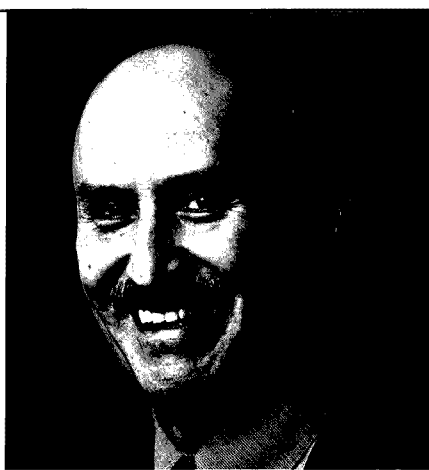
At the heart of any high-performing company is an exceptionally dedicated and talented **team of people.**

”

Jill M. Considine *Chairman & CEO*



◀ Joseph Brennan
Fixed Income Operations



Jose A. Colon ▶
Finance



▲ Lana Macumber
Insurance Services



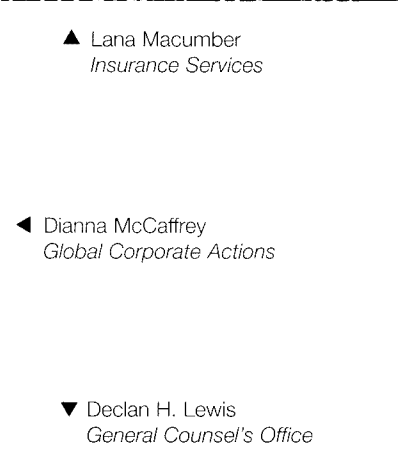
▲ Alex Guevara
Clearance and Settlement



Terri L. Smith-McPherson ▶
Custody Operations



◀ Dianna McCaffrey
Global Corporate Actions



▼ Declan H. Lewis
General Counsel's Office



▼ Virginia G. Holton
Asset Services



▼ Julie Krill
Clearance and Settlement



▲ Victor Rosado
Relationship Management



▲ Michael C. Pasztor
Deriv/SERV



◀ Anthony Capizzi
Tax Information Services



◀ Bernard Till
*International Services,
London*



Why is DTCC the Logical

A Customer-Centric Approach Anticipating and focusing on customer needs is one of the hallmarks of DTCC. We're skilled at shaping solutions for existing and new customer segments based on a broad understanding of issues affecting the global financial community. We are also adept at leveraging trends in IT and telecom to ensure resiliency and business continuity. DTCC is committed to being quick to market with innovative, breakthrough solutions and our strategy is to achieve this goal wherever possible by partnering with other third parties and industry organizations.

A Networked Community What if you could connect to one network and have access to virtually all trading parties in the U.S. for automated data exchange? And once connected, your firm could lower its cost to access an increasingly diverse range of new services offered by DTCC? Our networked community does all this – and more. It also helps manufacturers of financial products reach new distribution channels, which grow revenue.

Flexible and Reliable Technology The biggest expense on a firm's financial balance sheet is for the upkeep and investment required for new technology. At DTCC, we strive to develop solutions that will minimize our customers' cost to access and utilize the service. Our solutions provide flexible operating platforms, recognizing that our customers have diverse processing, information and risk management requirements. We achieve this goal by working closely with our customers throughout the design and testing phase of new services, to partner with third parties and to tailor off-the-shelf software solutions, where these collaborations will meet our high standards of performance and reliability. That's not an easy task when you have thousands of diverse financial organizations to support, but it's also how DTCC achieves critical mass and unrivaled economies of scale.

DTCC's historical mandate from the industry has been to **automate, standardize and centralize** post-trade processing in order to reduce cost and operating risk. We leverage our experience and technology to **solve operating problems** for U.S. and other global markets, and we work closely with international organizations to establish global solutions using international standards and protocols. Our goal is nothing less than **helping to transform financial services**. Our work in developing a successful service for over-the-counter derivatives last year demonstrates our commitment to this goal.

A Case Study: Developing Solutions for a New Industry Sector

1

Assessing the problem

In 2001, growth in over-the-counter (OTC) derivatives exploded, especially in the area of credit derivatives. And with volumes growing by leaps and bounds, delays in manual confirmation and matching of these credit default swap trades were causing risk managers at many dealers many sleepless nights. In a survey done by the International Swaps and Derivatives Association (ISDA), in the first half of 2001 there was about \$631 billion notional amount in credit default swaps outstanding. By the first half of 2002, that amount had risen to \$1.563 trillion. Every year since then, volume has grown at a 40% rate, posing risk to this growing industry segment.

2

Identifying customer requirements

DTCC shaped a response to this highly manual process based on lengthy discussions with our customers in this sector, our strong technology capability and 30 years of experience in confirming and matching trades and reconciling payments in the cash markets. Through an advisory committee of firms involved in trading credit default swaps, and working closely with the ISDA and FpML organization to define key fields and protocols that would be used, DTCC quickly developed a working system that would, for the first time, match and confirm credit default swaps trades in real time. Shortly thereafter, DTCC also launched a payment reconciliation service for those trades.

DTCC Launches Global Equity Derivatives Confirmation Service

The Depository Trust & Clearing Corporation (DTCC) has successfully launched a global OTC equity derivatives confirmation service with five major financial institutions and several other firms, beginning in early 2004 and scheduled to begin using the service shortly. The matching and confirmation service is expected to reduce both the costs and the time and costly manual processing of OTC equity derivatives and is the world's first global confirmation service for derivatives.

DRIVING INEFFICIENCY FROM THE DERIVATIVES ARENA

Real-time processing is streamlining the credit default swaps market, says Robert F. McGrail, Managing Director of New Business Development, Trust & Clearing Corporation. DTCC's new real-time processing service is expected to reduce the time and cost of matching and confirming credit default swap trades.

DTCC Introduces New Payments Service For The Credit Default Swaps Market

The Depository Trust & Clearing Corporation (DTCC) says it is to enhance payment processing services in the OTC credit default swaps market.

Next month, DTCC will launch a central payments database and service - including flexible on-line reconciliation, bi-laterally agreed netting, and ultimately, settlement of netted amounts in multiple currencies - for credit default swaps.

Mary Ambrecht, managing director for Citigroup and head of its derivatives operations, describes the new service as a "game-changer" for the market.

Automation dominates Windy City summit

ISDA hosts industry gathering and champions use of latest technology. Chicago, 5 Apr 2004. Moves to standardise and automate increasingly complex over-the-counter (OTC) derivatives dominated talk at last week's industry conference in Chicago. The debate is at the heart of a battle between Eurex, the fully automated Swiss-German derivatives exchange, and the current market.

OTC Gets an Auto-

The over-the-counter derivatives market is expected to achieve automation and efficiency, its representative International Swaps and Derivatives Association (ISDA) has provided an update.

operational risk associated with OTC trading, where there is often a big lag between trade and confirmation dates. The association also hopes it will drive some of the critical issues on the side of the market.

Solutions Provider?

Proven Expertise DTCC has a well documented and time tested track record for automating and standardizing processes that increase efficiency, reduce risk and lower cost. However, its greatest strength lies in the experienced professionals who pool their knowledge and technical know-how every day to create value for customers – and the industry. Whether it's developing new value-at-risk assessment guidelines or repurposing technology solutions created for one market sector to serve another, DTCC professionals offer the knowledge capital to help financial firms achieve their growth objectives.

A Global Outlook DTCC's customers are financial services firms that increasingly operate across multiple country borders and diverse markets. These customers want and expect us to help them achieve the same level of streamlined efficiency, risk controls and lower costs in their changing business environments. DTCC pursues this goal through thought leadership efforts on global standards and regulatory harmonization, by actively looking for opportunities to collaborate with other infrastructure organizations and by developing services for customers that can address needs in market spaces without borders.

What's a **quadrillion**?

One quadrillion miles is the amount it takes to go the



Introduction

DTCC, the **world's largest** post-trade infrastructure organization, has spent more than 30 years developing and honing its expertise in the confirmation, matching, clearing and settlement of trades in the financial marketplace.

Now it has embarked on a new mission: **automating the matching and confirmation** of over-the-counter derivatives, as well as handling payment, netting and settlement of those derivatives, and in the near future providing portfolio reconciliation services designed to help firms better **manage risk** and collateral, while reducing costs throughout the industry globally.



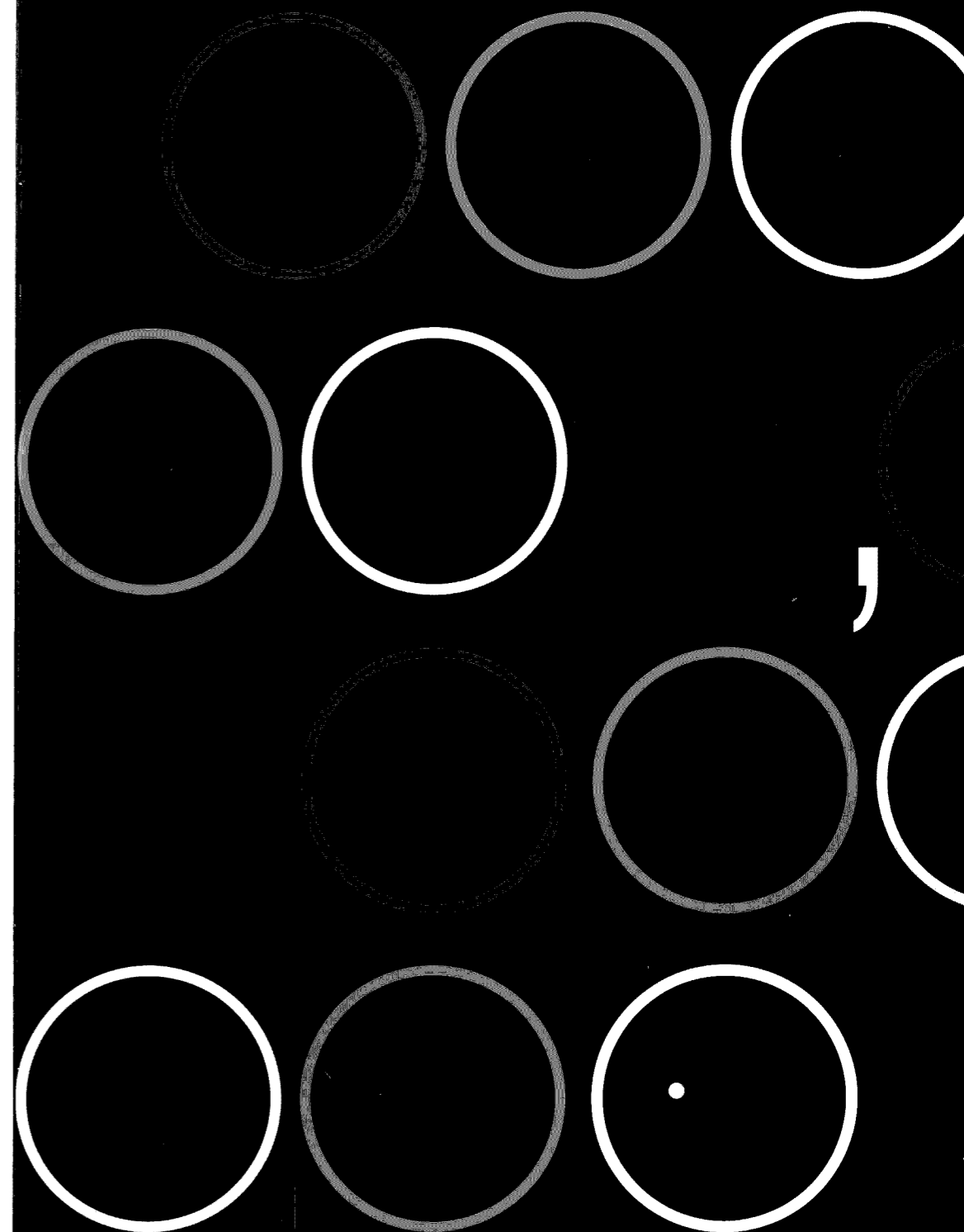
*The Depository Trust &
Clearing Corporation*
www.dtcc.com

For more information:

New York: 1.212.855.1679
London: 44.20.7444.0000

derivserv.dtcc.com

Deriv/SERV



The DTCC Advantage

DTCC is uniquely positioned to offer all these benefits on a worldwide basis:

Resilient Infrastructure

A large, resilient and secure processing infrastructure and network that is available at all times.

Privacy

A long legal history and culture of ensuring the privacy and security of trade data.

Innovation

The technological and financial resources and the know-how to ensure a continuing stream of innovation and new products.

Flexibility

The ability to offer customers several ways to connect to DTCC, from mainframe-to-mainframe interfaces to real-time uploads over the Internet to a browser-based interface, all secure and encrypted, thanks to DTCC-issued digital certificates.

Technical Support

Full-time, 24-hour-a-day/six-day-a-week technical support globally.

Experience

More than 30 years' experience in designing and building matching, confirmation and payments systems that centralize, automate and standardize post-trade processing.

Low-Cost Pricing

DTCC offers services on a "for-cost" basis, rebating or returning any excess money to participants after development costs are recouped.

Leveraging Synergies

After entering a new market, DTCC always looks to leverage our experience, working closely with customers in helping to identify synergies and create other services that can bring greater efficiency, lower costs and further reduce risk.

A Broad Range of Services

DTCC has made the automation and standardization of over-the-counter (OTC) derivatives a top priority, launching a number of services in three areas:

- **Matching and Confirmation Services**
- **Payment Matching, Netting and Settlement**
- **Portfolio Reconciliation (coming in 2005)**

DTCC is rapidly rolling out services to handle these three areas for a wide range of OTC derivatives, including credit derivatives, equity derivatives, and interest rate derivatives, allowing any firm that wants to make use of the latest in automation for post-trade processing to use a single provider.

DTCC currently has matching and confirmation services for credit derivatives (credit default swaps), equity derivatives (stock futures and options), and interest rate derivatives (interest rate swaps and swaptions). Additional services and enhancements are planned for 2005 and beyond.

Flexibility and Security

All of DTCC's matching and confirmation services provide for flexibility in connecting to DTCC.

Three methods are available:

- **Mainframe-to-mainframe connection with MQ Series real-time messaging**
- **Spreadsheet upload feature that allows firms to submit multiple trades in an appropriately formatted spreadsheet over a secure connection through the Internet**
- **Browser-based interface to access and check the status of transactions and view and enter data field-by-field if necessary or desired, through secure connection.**

In addition, DTCC is one of the few organizations in the world that issues its own digital certificates for securing Internet transactions, in addition to requiring use of a high-security encryption browser.

DTCC has round-the-clock technical support available six days a week, and its OTC derivatives services are supported by the same multiple sites and data centers that support U.S. clearance and settlement systems for equities, U.S. government securities, corporate and municipal bonds, mortgage-backed securities, certificates of deposit and other securities.

Working closely with the International Swaps and Derivatives Association (ISDA), DTCC has helped develop international standards that govern the message fields required for many of its matching services. And where necessary, DTCC will seek regulatory approvals related to new services. DTCC's services use the Financial product Markup Language (FpML) as the standard language for all its services.

Payment Matching, Netting and Settlement

DTCC has the capability to handle bilateral netting and payment in multiple currencies. Firms using the credit default swaps matching service can link their scheduled payments to the transaction and change it as necessary whenever they wish. Matches (or mismatches) are reported in real time to customers so they are aware of problems immediately and can correct them.

DTCC offers bilateral netting on a company-to-company basis over its entire range of matching services (credit derivatives, interest rate derivatives, equity derivatives and others as they are introduced).

Portfolio Reconciliation

DTCC, working with the industry, also expects to soon offer a portfolio reconciliation service between participating organizations so that firms' entire portfolios of trades in OTC derivatives between counterparties are agreed upon and that the daily marks, used for collateral purposes, agree.

This service will help ensure that OTC margin calls, which rely on having the correct population of trades and similar "mark to market" calculations, will correctly reflect the required collateral.

Trade Warehouse

DTCC also plans to offer a trade database or "warehouse" in the near future, where trade data can be kept until maturity, and can provide straight-through processing for the life of a trade.



distance from the earth to the sun almost 11 million times.

Clearance and Settlement

While the number of shares traded on the New York Stock Exchange and Nasdaq rose 6% in 2004 compared with 2003, overall trading across all venues climbed more rapidly. Total transactions handled by National Securities Clearing Corporation (NSCC) jumped to 5.8 billion, an increase of 21% from the 4.8 billion transactions processed in 2003. NSCC, which clears and settles all broker-to-broker equity, corporate and municipal bond trading in the U.S., also saw the average number of daily transactions rise to 22.9 million, up by 21% from 18.9 million in 2003.

In 2004, the average number of shares per transaction was 1,247, compared to 836 shares in 2003. NSCC must always have the processing capacity to handle whatever spikes in volume the market may experience. On the peak day of May 10, 2004, the number of transactions increased to 30.2 million – or 32% above the average daily volume. It was the fifth time that the previous peak daily volume had been broken.

The total value of transactions processed by NSCC reached \$100.4 trillion, an increase of 24% from \$81.2 trillion in 2003.

NSCC, through its Continuous Net Settlement (CNS) system, nets down or reduces the total number of trade obligations requiring financial settlement. On the peak processing day in 2004, for example, NSCC reduced the value of obligations requiring settlement by over 97% to \$12.5 billion from \$494.6 billion. The netting process reduces risk and helps to optimize available capital for the financial services industry.

NSCC, through its Continuous Net Settlement (CNS) system, nets down or reduces the total number of trade obligations requiring financial settlement. On the peak processing day in 2004, for example, NSCC reduced the value of obligations requiring settlement by over 97% to \$12.5 billion from \$494.6 billion. The netting process reduces risk and helps to optimize available capital for the financial services industry.

Transformation to STP

Although the move to a shorter settlement cycle has been put on hold, DTCC continues to push ahead on straight-

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

through processing (STP) to further streamline clearance and settlement processing for the securities industry. In 2004, DTCC completed a major four-year effort to move its CNS system into a real-time environment. With the new enhancements, CNS is capable of netting trades intra-day, updating settlement activity as it occurs and allowing customers to view CNS information in real-time. The new database technology provides increased flexibility for future enhancements and is capable of supporting any settlement cycle adopted in the future.



In another STP undertaking, DTCC expanded the use of its “transaction look-ahead” feature to include equity deliver order transactions and valued pledge and release transactions. Initially designed to reduce the number of deliveries of debt instruments blocked in the settlement process because of risk management controls, “look-ahead” reduces blockages by linking receive and deliver transactions. Look-ahead does this by calculating the net effect of offsetting transactions in a customer’s account; it determines if a pending offsetting delivery transaction would permit the transaction to be completed in compliance with risk management controls. When “look ahead” was limited to debt instruments, in September 2004 the average number of items processed each day was 677, valued at \$20.2 billion; three months after the expansion, the number of items processed daily jumped to 2,133 with a value of \$25.6 billion – increases of 215% and 27%, respectively.

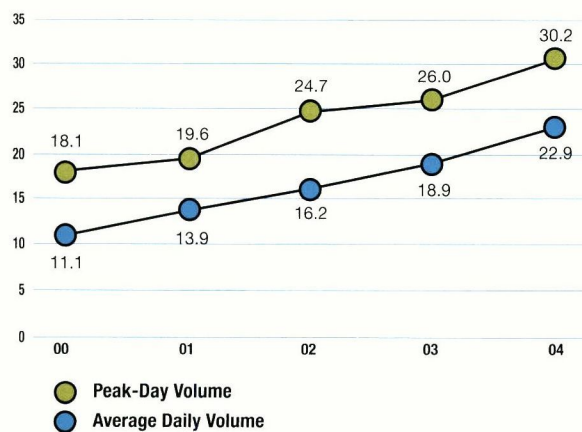
NSCC’s Automated Customer Account Transfer Service (ACATS) – which automates the transfer of customer account information among participating financial institutions, including broker/dealers and banks – continues to enhance account transfers with its Cost-Basis Reporting Service (CBRS). CBRS, first introduced in 2003, enables firms to electronically transfer

cost-basis information from one firm to another with ACATS and is now used by 26 leading financial organizations, including most major broker/dealers. Both the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) mandated in 1986 that its members use ACATS for full account transfers. Last year, both organizations mandated that members use additional ACATS services, including partial transfers and reclaims, which allow the return of an asset after it has been transferred.

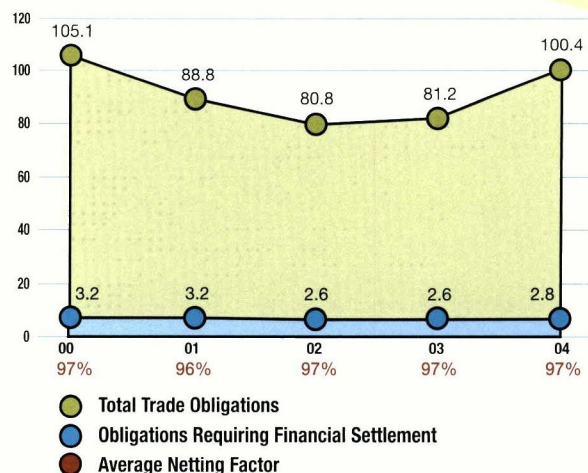
ETF Growth

DTCC continues to work to provide greater flexibility in creating and redeeming exchange-traded funds (ETFs). ETFs, most of which have been developed and launched in the last five years, are essentially mutual funds that trade like stocks and have shown substantial growth in the last year. Assets for ETFs increased by an estimated 47% industry-wide to \$222 billion in 2004 from \$151 billion in 2003. DTCC helped process several new ETFs on the New York and American Stock Exchanges in 2004. In fact, on January 6, 2004, NSCC set a new record by processing more than \$17.1 billion of ETFs. In 2005, DTCC will work with selected broker/dealers and index receipt agents to further streamline processing.

NSCC Average vs Peak Day Volume
(in millions)



NSCC Netting
(\$ in trillions)



Corporate Action Liability Notification Service

Each month, an estimated 15,000 corporate action liability notices come pouring into broker/dealers and banks via faxes and other paper documents. Handling this huge volume of manual, paper-based processing requires ample manpower and increases the risk of errors, missed deadlines and other operational problems.

In 2004, DTCC introduced a service that **automates the creation, delivery and tracking** of corporate action liability notices – all online.

Called **SMART/Track** for Corporate Action Liability Notification Service, this DTC service automates and standardizes the communication process for corporate action liability notices, dramatically **boosting efficiencies and reducing cost and risk**, while providing customers with a complete audit trail. The system automatically populates relevant corporate action information and provides a secure and verifiable message receipt.

Underwriting Sets Record

Just as trading activity continues to climb each year, so do the volumes processed by The Depository Trust Company (DTC), DTCC's depository. In 2004, the depository processed 243 million book-entry deliveries, up 8% from 225 million deliveries in 2003. The value of the deliveries, which include broker-to-broker and institutional transactions, was \$118.8 trillion, up by 12%. The depository also processed underwriting distributions for a record 41,956 new issues, worth more than \$3 trillion. The depository handles the initial processing, distribution and settlement of new issues, with lead underwriters, broker/dealers and banks. More than 99% of all municipal issues in the United States are distributed through DTC.

Settlement figures for DTC book-entry deliveries also hit record levels on November 16, 2004, with 975,807 transactions processed, making it the highest total number of deliveries recorded in a single day. Value of the transactions was more than \$835.7 billion.

To further streamline the launch and underwriting of new securities for customers, DTCC established an electronic repository in early 2004 for prospectuses and offering statements of all the public offerings handled by the depository. The Web-based service, called the Prospectus Repository

System, includes documents on all equity, corporate and municipal offerings submitted to the depository electronically and provides customers with a single location where they can secure – quickly and efficiently – the information needed to introduce new issues to the market.

The depository also processed underwriting distributions for a record 41,956 new issues, worth more than \$3 trillion.

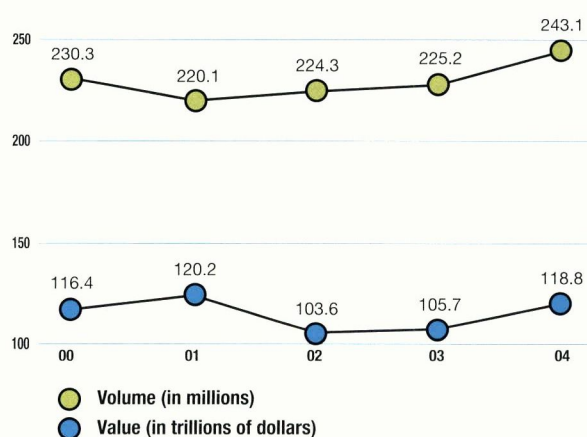
In another step to streamline the underwriting process, DTCC worked with The Bond Market Association on a study to help make the current corporate bond underwriting process more efficient. The study documented the underwriting process, identified participants and their roles and traced the flow of information and functionality involved. This information is being applied to the reengineering of DTCC's underwriting system currently under way.

Enhancing Risk Controls

Along with its STP initiatives, DTCC remains committed to reducing risk and ensuring certainty in all areas of the securities industry. In 2004, DTCC took steps to reduce intra-day money market instrument (MMI) risks by introducing new controls to its MMI settlement system that continuously seek to align credits and debits resulting from the placement and redemption of an MMI issuer's securities. This helps ensure that issuance credits are applied to the issuer's maturity presentments (MP) – money owed to holders of MMIs – whenever possible. Prior to the new controls, the settlement system randomly selected MPs to be presented to the issuing/paying agent (IPA) without any relationship between the presentment and the source of credit. DTCC will continue to deliver key components that enhance MMI functionality and address risk in 2005.

To increase trade certainty, the depository eliminated next-day processing of matched reclamations for all securities in 2004. This follows on the depository's elimination of next-day reclamations for money market instruments in 2003. Reclamations in general, and next-day matched reclamations in particular, impair finality of settlement and prolong the period during which participants and the depository are at risk.

DTC Book-Entry Deliveries



What's a **quadrillion**?



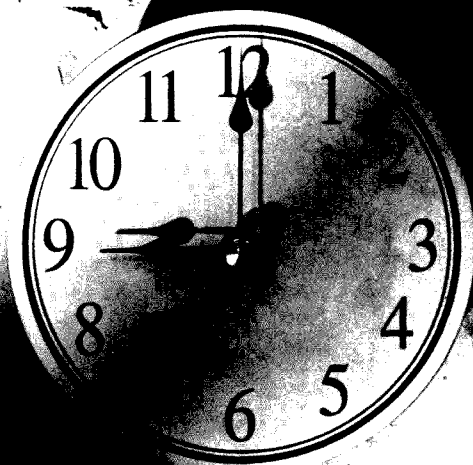
It would take **32 million years**



in order to count to one quadrillion



from zero, one count per second



Asset Services

t year-end 2004, the value of securities held at DTCC's depository (DTC) stood at \$28.3 trillion, up 15% from \$24.6 trillion in 2003.

The number of securities issues now held approaches 2.5 million, and includes equities, corporate and municipal debt, collateralized mortgage obligations, exchange-traded funds, money market instruments and many other types. International securities from more than 100 countries and territories represent 12% of the overall value, with issues including global bonds and American and Global Depository Receipts.

To service these securities, DTCC works with 4,000-plus agents around the world, handling transfers, and processing reorganizations, dividends and interest. In 2004, the depository processed over \$2.3 trillion worth of transactions such as reorganizations, redemptions, dividend and interest payments, 3% more than \$2.2 trillion the prior year.

The value of dividend and interest payments alone totaled \$1.3 trillion in 2004, while the number of these payments processed increased to almost 3.6 million, up 5% from 3.4 million in 2003. DTCC continues to address the challenges of servicing structured securities, like collateralized mortgage obligations, and in 2004, made significant headway to automate interfaces with agents and streamline income and redemption processing, resulting in a 20% reduction in late announcements and post-payable adjustments on these complex securities.

Cutting Risk and Cost with GCA Validation

As the largest processor of corporate actions in the world, DTCC has built a broad understanding of the operational complexities and risks associated with corporate actions. To bring greater efficiency and stronger risk management in this highly specialized area, DTCC launched its Global Corporate Action (GCA) Validation Service in 2003 – and expanded it in 2004. The service is provided by Global Asset Solutions LLC, a DTCC subsidiary.

GCA Validation created 900,000 announcement records in 2004, its first full year of operation – close to 30% of these announcements involved securities outside the U.S.

GCA Validation delivers better data quality and economies of scale to banks, broker/dealers and investment managers.

The service is a seamless corporate action announcement solution that delivers comprehensive information, better data quality and economies of scale to banks, broker/dealers, investment managers and others worldwide. It gives customers access to an automated, centralized source of “scrubbed” corporate action information, eliminating their manual, labor-intensive and time-consuming efforts to research and reconcile multiple announcement notifications.



In 2004, GCA Validation added a custodian verification feature to further improve the quality of information and eliminate customers' handling of custodian notifications. Today, the service processes data from more than 80 custodians worldwide.

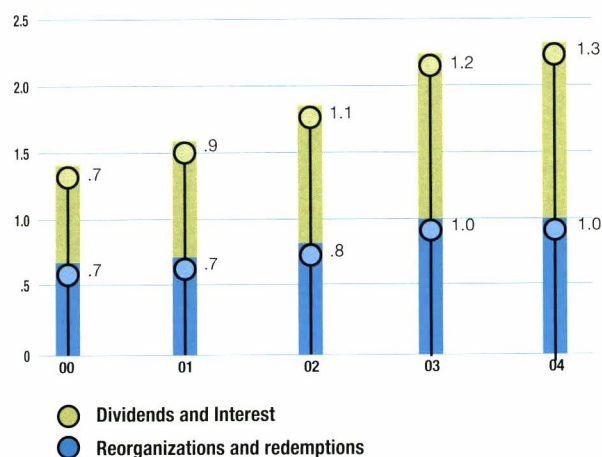
With the launch of a Shanghai service center in 2004, the GCA Validation Service became the first service of its kind with a global footprint. The new office complements the London and New York service centers, offering customers round-the-clock coverage and continuous corporate action announcement information in local languages.

Further in 2004, DTCC sponsored the first industry research of its kind to help quantify the risk associated with corporate action processing. The study, conducted by the U.K. economics consultancy Oxera, found that mishandling a single, complex event can cost a securities firm tens of millions of euros in losses. The report also pointed out that potential exposure is not limited to the back office. Inaccurate or incomplete corporate action information can lead to unwise trading decisions that can result in losses, not to mention opportunity costs, for the front office.

The Oxera report has significantly increased awareness of corporate actions risk, and lent support to the Group of Thirty's 2003 recommendation to automate and standardize corporate actions to improve the safety and efficiency of international securities markets.

Depository Asset Servicing

(\$ in trillions)



Reengineering for Efficiency and Flexibility

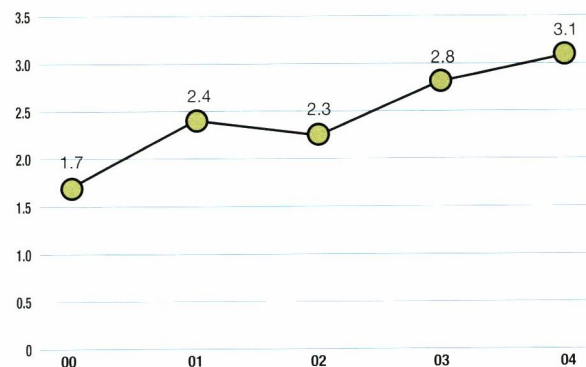
DTCC launched an ambitious, multi-year reengineering initiative to rewrite several of its systems, updating the system supporting its underwriting service and consolidating separate reorganization and dividend processing systems onto a single platform. This effort will bring significant new efficiencies to DTCC and the industry, streamlining processes, eliminating redundancies and providing greater operational flexibility. It will also deliver enhancements, including new international processing capabilities and support of ISO 15022 message standards.

DTCC is spearheading the drive to dematerialize paper certificates, to cut the risk and expense of issuing and processing certificates.

DTCC will be working in close collaboration with customers in 2005 to better understand and identify their business requirements during the development of these new systems.

Underwriting Value

(\$ in trillions)



Speeding Restricted Securities

Restricted securities, with an estimated value of \$1.2 trillion, continue to see growing volume. Many companies now issue them instead of stock options. Meanwhile, the industry is struggling to cope with the labor-intensive, costly and inefficient process of handling the physical certificates and complex documentation involved with these securities.

In 2004, DTCC introduced a new family of services to **streamline processing**, teaming with Restricted Stock Systems, Inc., a technology innovator in this specialized area.

The services give customers flexibility to select from a range of options to best meet their needs. They include a basic service in which DTC handles the transfer of restricted securities certificates; a Web-based information guide and tutorial on lifting restrictions; and a comprehensive, fully automated solution that provides an integrated way to **track and process restricted securities**, and remove restrictions.

Taking the Paper Out

DTCC is spearheading the industry's sustained drive to dematerialize paper certificates, pursuing an ambitious agenda and developing multiple strategies to deal with different investors and securities types. The goal of dematerialization is to cut the risk and expense of issuing and processing certificates, which according to a research study by the Securities Industry Association (SIA), costs the industry and investors \$250 million a year, yet involves just over one-tenth of 1% of all trade transactions processed daily.

In 2004, DTC reduced its overall stock of paper securities by 15% to 3.9 million certificates from 4.6 million in 2003. Several strategies contributed to this decline, including the continued effort to convert thousands of older, paper municipal bonds into the FAST program, which streamlines transfer processing through the use of jumbo balance certificates registered in the depository's name but held at agents.

Another key driver of dematerialization is the Direct Registration Service (DRS). At year-end 2004, the service had 100 users, while the number of DRS eligible issues increased 50% to 963 from 643 in 2003. DRS lets investors hold securities positions in their name in statement form on the transfer agent's or issuer's books. The number of book-entry DRS accounts is now estimated to be at 37.5 million.

With appropriate regulatory approval, DTC also began the first steps of a multi-year initiative to destroy non-transferable certificates for which transfer services have not been available for at least six years. And in a related effort, DTC worked with the SIA and the Securities Transfer Association to launch the "paperless legals" transfer program, which eliminates much of the legal documentation required to transfer certain share certificates.



What's a Quadrillion?

It would take a **one mile** stretch of beach,
one hundred feet wide and one foot deep –

and you'd have close to one quadrillion
grains of fine/medium sand.

Fixed Income

In 2004, Fixed Income Clearing Corporation (FICC) advanced a number of groundbreaking solutions to meet expanding industry needs in what is arguably the largest financial marketplace in the world. On an average day, FICC processes more than \$2.8 trillion in trades in U.S. Government securities and mortgage-backed securities. It also matches and compares trades in corporate and municipal bonds and unit investment trusts (UITs) with an average daily value of \$13 billion, which are then processed by NSCC for clearance and settlement along with equity trades.

Whether completing a multi-year effort to bring real time trade matching to all fixed income instruments, or laying the groundwork to extend services to buy side institutions, or tackling industry issues such as collateral substitutions for repurchase agreements, FICC brings enormous operational efficiencies and savings, as well as reduced risk and greater safety and soundness for its customers.

In fact, FICC was recognized in 2004 by Standard & Poor's (S&P), which awarded the organization its highest (AAA/A-1+) credit rating. S&P said that the rating reflected FICC's "prudent risk management procedures and financial safeguards that protect it from counterparty default."

Rising Volumes and Values

Last year saw continued growth in processing fixed income transactions, driven by market volatility as customers jockeyed to respond to five U.S. short-term interest rate hikes. Overall, FICC

government securities volume rose 17% to over 23.5 million transactions, reflecting almost \$710 trillion in value. Included in this increase are netted repurchase agreements (repos), which rose 34% to \$359.3 trillion in 2004, compared to \$268.6 trillion in 2003.

General Collateral Finance (GCF) repo participants took increasing advantage of the liquidity opportunities conferred by the service. The total value of GCF repos rocketed 69% in 2004 to \$172.2 trillion from \$101.6 trillion in the prior year. GCF repos allow dealer members to freely and actively trade general collateral throughout the day without having to settle delivery versus payment (DVP) intra-day on a trade-for-trade basis.

In 2004, FICC received Standard & Poor's highest credit rating (AAA/A-1+) for prudent risk management and financial safeguards.

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 \$2.8 trillion in buy/sell, repo and GCF repo trades entered the net on average each day, an increase of 34% over 2003 activity. Of this, about \$2 trillion, or 71.7% was settled each day through netting, an increase of 35% from 2003 activity.



In 2004, the mortgage-backed securities market cooled somewhat from the previous three years as interest rates began a slow climb. However, the total dollar value of mortgage-backed transactions processed in 2004 reached \$68.7 trillion, up 1% from \$67.8 trillion in 2003.

FICC's Electronic Pool Notification (EPN) service, the industry standard for real-time pool notification for mortgage trades, registered some drop-off, reflecting a slowdown in new mortgages, as well as in purchases of mortgage-backed securities by investors. The current face value processed through the EPN service was \$9.1 trillion, 24% less in 2004, compared to over \$12 trillion in the previous period. Corresponding EPN messages decreased about 15% to over 980,000, compared to 1.1 million in 2003, while the number of pools delivered dropped by 12% to some 11.9 million from over 13.5 million the prior year.

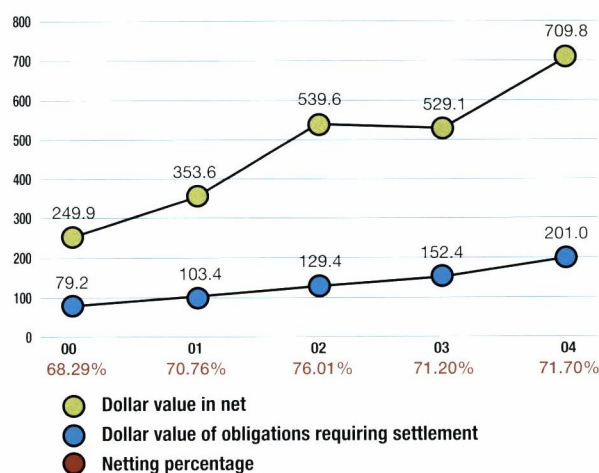
Reducing Risk through Innovative Solutions

As always, a driving force behind any new solution is to ensure that it also enhances risk management. Many of FICC's innovative solutions do just that for customers. These include:

Real-Time Trade Matching for All Fixed Income Products In mid-2004, FICC's introduction of real-time trade matching (RTTM) for corporate and municipal bonds and UITs brought RTTM to all highly traded fixed income products. This represents a major milestone in the industry-wide efforts FICC has been leading to bring customers closer to straight-through processing (STP), via RTTM's single pipeline for submitting trades, common processing platform and standardized interactive messaging format.

U.S. Government Securities

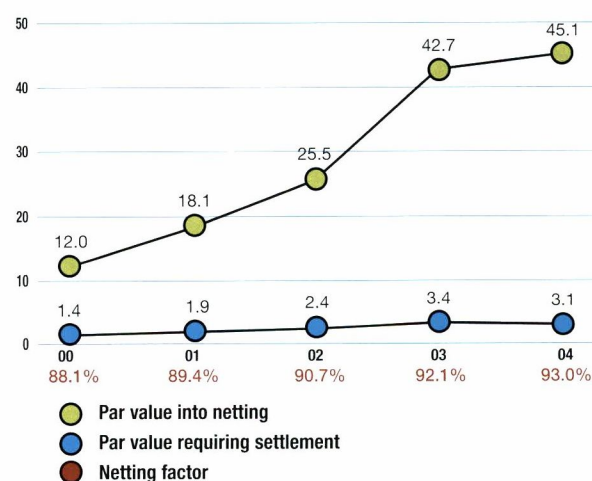
(\$ in trillions)



A major milestone was reached with **real-time trade matching** for corporate and municipal bonds and UITs.

Mortgage-Backed Securities

(\$ in trillions)



Supporting the Buy Side

FICC is collaborating with members and trade organizations to create membership models that will, for the first time, permit FICC's comparison and settlement processes to provide some support for many U.S. Government securities transactions executed by the institutional or "buy" side.

FICC is seeking SEC permission to **create "sponsoring" and "sponsored" membership categories** that would allow bank netting members to sponsor their clients, who are not FICC members, and bring into FICC's netting and settlement process repo trades involving these clients. The sponsored members would receive FICC's settlement guarantee for submitted government securities transactions. FICC intends to gradually expand the types of entities that can become sponsoring and sponsored members.

It also is exploring an **institutional settlement** model that would include the dealer side of the trade in FICC's net, while providing trade-for-trade settlement services for the institutional side of the trade – via cooperation with electronic trading systems and matching utilities such as Omgeo.

Beginning in early 2005, RTTM's interactive messaging function is also now facilitating price reporting for some 12,000 municipal bond trades a day. FICC is working collaboratively on this initiative with NSCC, which operates netting and settlement services for municipals, and with the Municipal Securities Rulemaking Board (MSRB). This platform enables NSCC fixed income customers to comply with the MSRB's new 15-minute real-time price reporting deadline required for both street side and customer municipal bond trades. In addition, NSCC and FICC are working with the National Association of Securities Dealers to create an interface with its Trade Reporting and Compliance Engine (TRACE) to comply with its new 15-minute real-time reporting requirement for corporate bond transaction prices, which is targeted for mid-2005.

First Stage of CCP for Mortgage-Backed Securities FICC is looking to make significant headway in 2005 on providing central counterparty (CCP) capabilities to mortgage-backed securities. The company has decided to break apart this huge, multi-year effort. It will, ultimately, provide members with the ability to compare and net their MBS trades, allocate pools to net settlement obligations and subsequently net and settle pool obligations with FICC as guarantor and contra-side to all activity, as FICC does for the government securities world. In 2005, FICC is focusing on completing development of the first stage of this initiative (pool netting services) to further decrease settlement obligations, reduce MBS pool clearance and allow more accurate assessment of the risk associated with outstanding pool settlements.



Broadening GCF Repo Collateral In 2004, helping fuel the growth of GCF Repos was the addition of Fannie Mae and Freddie Mac adjustable rate mortgage pass-through securities (ARMS) and Ginnie Mae fixed-rate mortgage-backed securities as collateral options. One of FICC's ongoing goals is to continue strengthening the ability of members to meet their obligations in a timely way without increasing risk exposure to FICC or its members. Consequently, in 2005, FICC is looking at expanding the types of products eligible for GCF Repo processing to corporate commercial paper and Treasury Inflation-Protected Securities.

FICC implemented enhancements to handle the rising number of customer requests for repo collateral substitutions in government securities.

Enhancing Collateral Substitutions During 2004, FICC implemented internal processing enhancements that allowed it to provide faster, more automated processing to handle the rising number of customer requests for repo collateral substitutions in government securities. These improvements proved invaluable in September 2004 when FICC processed 50% more requests

than the previous peak set on June 30, 2004. However, increasing volume of substitution activity, compounded by late-day allocations, has increased risk associated with the collateral substitution process. As such, FICC continues to look for ways to further improve the process. It established an industry working group to evaluate potential solutions to improve processing of the allocation of collateral for both outstanding repurchase agreements as well as forward starting general collateral repos.

Supporting Members FICC also implemented a new fee structure for the GSD netting service in 2005 to more accurately reflect its processing costs based on trade size and post-netting settlement requirements. Since FICC inherently has more risk on larger-value settling trades, the new pricing structure employs both a fixed and variable component to more evenly reflect the cost of netting and guaranteeing trades. The new structure is also meant to encourage more participation by the high-volume, smaller-value or "low-ticket" traders who make up a large part of the growing electronic bond trading marketplace.



An STR, a common DNA test, can predict a DNA match that only has a one in a quadrillion chance of being the same as a randomly selected person.



Mutual Funds

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. DTCC's National Securities Clearing Corporation (NSCC) subsidiary reported increased volumes for all its Mutual Fund Services in 2004. This is testament to their fundamental importance to the industry, streamlining processing and eliminating inefficiencies.

Focusing on the Fundamentals

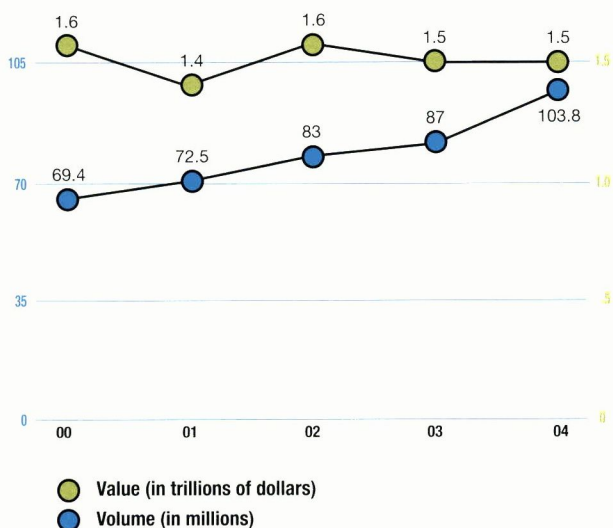
Fund/SERV®, NSCC's flagship mutual fund service, is the industry standard for processing and settling a broad range of investment funds, and linking fund companies with their distributor partners, including broker/dealers, banks, financial planners and plan administrators. In 2004, the number of

Fund/SERV users reached 1,108, with 666 fund families and 442 broker/dealers. Fund/SERV transactions rose 19% to nearly 104 million from 87 million in 2003, while the value of transactions processed totaled \$1.52 trillion, down slightly from \$1.54 trillion in the prior period. On an average daily basis, transactions grew to 412,000 in 2004, up 19% from 345,000 in 2003, due in large part to Defined Contribution Clearance & Settlement trade growth, which increased 33%, and overall market activity.

Fund/SERV processed nearly 104 million transactions worth \$1.52 trillion.

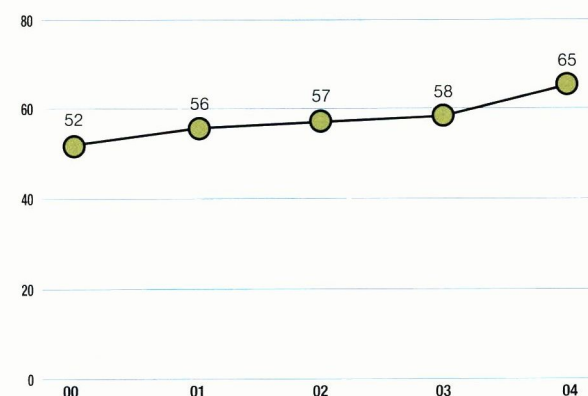
Also seeing a substantial increase in volume is Networking, which automates and centralizes customer sub-account information so that distributor and fund company records and client statements are accurate. In 2004, sub-accounts supported on the service grew to 65 million versus 58.2 million in 2003, a 12% jump, and the number of fund companies and distributors using the service expanded 3%, to 979 from 954.

Fund/SERV



Networking Sub-accounts

(in millions)



Leveraging Systems for Greater Transparency

In 2004, DTCC continued to further leverage its **fund services** to support the industry's handling of complex rules regarding the availability of fee discounts and how commission fees are applied.

To expand the level of **comprehensive and accurate breakpoint information**

available to distributors on load funds, in 2004 NSCC began an aggressive rollout of service enhancements to Mutual Fund Profile Service, Fund/SERV and Networking, which have been endorsed by The Joint NASD/Industry Task Force on Breakpoints and the SIA's Operations Committee.

These processing improvements included the creation of a database for breakpoint schedules and rules, and an ancillary service to Profile that can complete full-security data input for fund companies. They have placed DTCC in a leading position **to help the industry meet new compliance requirements** going forward.

The continuing drive toward increased shareholder account transparency impacted Networking, as well, in 2004. The correct allocation of 12b-1 trailing commission fees, which typically cover distribution, marketing and advertising costs, have been difficult to track with account transfers. **NSCC solved the problem by expanding** the capability of **Networking** with the addition of sales charge rates; and further functionality will be added to the service in 2005 so that accurate records can be shared by both sides of the transaction. More recently, the Securities and Exchange Commission adopted a rule allowing fund companies to voluntarily impose redemption fees on short-term trading as a deterrent to market timing. NSCC is working with industry groups to define changes to Networking and Fund/SERV that would bring these new data requirements into an automated environment.

In 2004, the number of Fund/SPEEDSM users grew to 109,200, compared with 65,400 in the year prior, and the volume of inquiries grew 13% to nearly 4.1 million from 3.6 million. Fund/SPEED is a Web-based platform for financial planners and other distributors to access account data in real time and to process purchases, redemption and exchange orders. Commission Settlement, a streamlined and standardized commission payment service that simplifies reconciliation for fund distributors, also experienced growth, with the total dollar value of commissions settled reaching nearly \$4 billion, compared to almost \$3.3 billion, a 23% surge.

Late Trading and Market Timing Prompts Invitation from Congress

While ensuring that customers' day-to-day needs were well serviced, new industry challenges moved DTCC into the forefront as a logical solutions provider.

New industry challenges moved
DTCC into the forefront as a **logical
solutions provider.**

Because of Fund/SERV's established record of successfully handling millions of fund transactions each year, NSCC was asked to testify before Congress on how the service could be used to combat late trading of funds. This opportunity to speak on Fund/SERV's resiliency and flexibility followed months of concentrated outreach and dialogue with industry members, during which NSCC gained a thorough understanding of the solutions being proposed, and the effect each would have on fund companies, distributors and service providers.

The Securities and Exchange Commission proposed a rule whereby purchase and redemption orders would be

received by a fund company or NSCC no later than 4 p.m. ET. At the same time, the Commission is reviewing alternative solutions offered by other industry groups. DTCC is fully engaged in these discussions and expects that Fund/SERV will be an integral part of whatever solution is finally adopted.

Tracking Opportunities to Expand Market Efficiencies

In recent years, DTCC has sought to broaden the range of its Mutual Fund Services to nontraditional segments of the market. Stable value funds, 529 Plans, offshore funds, bank collective investment trusts and guaranteed investment contracts have all benefited from the automated transactional and information capabilities these services provide. This work continued in 2004 when DTCC formed a steering committee to look into other alternative investments, such as hedge funds and registered investment partnerships, to see where it could parlay its expertise to alleviate widespread manual processing and reduce risk.

The separately managed account market, which saw a 15.9% increase in assets under management from 2003 to 2004, has the potential for even faster growth. DTCC continues to work closely with the Money Management Institute and industry members on developing an automated, standardized infrastructure model that would provide the operational efficiencies needed to support future expansion of the market.

DTCC continues to help customers in **new markets** including Stable Value Funds, 529 Plans and guaranteed investment contracts.

What's a quadrillion?

A quadrillion web pages would require more than 100,000 internets.

