

The Depository Trust Company

IMPORTANT

B#: 9001-06

DATE: January 03, 2006

TO: All Participants

CATEGORY: Compliance

FROM: General Counsel's Office

ATTENTION: Managing Director/Officer Cashier

SUBJECT: Approval - Purchase of Shares of the Common Stock of DTCC

On December 7, 2005, the Securities and Exchange Commission (“SEC”) approved The Depository Trust Company (“DTC”) rule filing SR-DTC-2005-16¹ (DTC’s rule change was submitted together with similar proposed rules changes by the Fixed Income Clearing Corporation (“FICC”) and National Securities Clearing Corporation (“NSCC”).

Pursuant to the Rules of DTC (See Rule 31, DTCC Shareholders Agreement), as a condition to its use of the services and facilities of the Corporation, a Participant other than a Limited Participant shall be required to purchase and own Common Shares in accordance with the terms of the Shareholders Agreement and be a party to the Shareholders Agreement².

Implementation of the above will take place during the first quarter of 2006. DTC Participants that are required to purchase DTCC Common Shares will be contacted directly by DTCC. Please refer to the following pages (Questions and Answers on Change in Share Ownership) for additional information.

¹ See SEC Release No. 34-52922; File Nos. SR-DTC-2005-16, SR-FICC-2005-19, and SR-NSCC-2005-14

² Note that, if a Limited Participant is also a member or participant of another clearing agency subsidiary of DTCC, such Limited Participant may be a Mandatory Purchase Participant or a Voluntary Purchaser Participants pursuant to the terms of the Shareholders Agreement and the rules and procedures of such other subsidiary.

Questions or inquiries regarding this Important Notice should be addressed to Linda Karr, Assistant Secretary at (212) 855-3038.

Richard Nesson
Executive Managing Director of Legal, Regulatory and Compliance

Questions and Answers on Change in Share Ownership

1. What does the change do?

DTCC shareholders have approved a change to DTCC's Shareholder Agreement and the SEC has approved related rule filings submitted by DTC, NSCC and FICC. As a result of the change, all common shares will be owned by the participants of DTC, NSCC and FICC, including shares now held by the NYSE, NASD and Amex. The NYSE, Amex and NASD acquired their shares back in the '70s in a representative capacity for their broker/dealer members for logistical and other reasons.

2. What percentage of DTCC's shares are currently held by the exchanges and NASD?

The NYSE holds approximately 29% of DTCC's common shares currently, while NASD and Amex each hold 3.7%, or a total of 36.4% of DTCC's common shares.

3. What is the purpose of this change?

Having all common shares in the hands of participants will guarantee that participants continue to govern and control the activities of DTC, NSCC and FICC, including the kinds and quality of services provided and the service fees charged. In particular, with this change participants will be able to assure continuation of the current practice of establishing fees that are cost-based and use-based as well as the practice of returning any excess revenues to participants in the form of discounts and refunds. If, for example, a significant block of DTCC shares were not controlled by participants, it would be possible that the practice of returning excess revenues to participants could be changed, with excess revenues instead being distributed as a dividend to shareholders. In 2005, for example, DTCC expects to return about \$340 million to NSCC, DTC and FICC participants on a pro-rata basis in the form of either discounts or refunds. (Dividends received by DTCC from Omgeo are not included in that number, although they are also refunded to participants).

4. How will this new proposal work? Will all firms be required to purchase shares, or are only some firms?

Certain categories of firms will be required to purchase shares. They are called "Mandatory Purchaser Participants." Other firms will be allowed to purchase shares, but will not be required to do so. These are called "Voluntary Purchaser Participants." Some categories of users will not be eligible to purchase DTCC shares at all.

The decision by the DTCC Board about which firms would be required to purchase shares was based upon a determination of which firms gained the most benefit from the services provided by DTCC's clearing agencies. As a result, those firms who would be required to purchase shares are 1) all participants of DTC except for those who are classified as "limited participants" (mostly transfer agents); and 2) all participants of NSCC or FICC that receive a trade guarantee.

Voluntary Purchaser Participants include 1) NSCC members who are classified as "fund members," "insurance carrier members," "municipal comparison only members," or "mutual fund/insurance services members;" 2) "comparison only members" of the Government Securities Division of FICC, and 3) "participants" or "limited participants" of the Mortgage-Backed Securities Division of FICC and "EPN Users" of FICC's MBS Division.

The firms who will not be permitted or required to own shares in DTCC are in the ancillary member categories. These would include “Limited Participants” of DTC, “Data services only members” and “Third Party Administrator (TPA) members” of NSCC, as well as “sponsored members” of GSD of FICC.

5. What will happen to DTCC shares that Voluntary Purchaser Participants choose not to purchase?

The Mandatory Purchaser Participants will be obligated to purchase on a pro-rata basis any shares allocated to Voluntary Purchaser Participants that they choose not to purchase.

6. When would participants be expected to pay for Voluntary or Mandatory purchases?

Early in March 2006, Voluntary Purchaser Participants will be notified by overnight mail of their share entitlements and their opportunity to purchase shares. After receiving elections to purchase from the Voluntary Purchaser Participants, probably by mid-March, DTCC will notify the Mandatory Purchaser Participants of their share purchase obligations. The notification to the Mandatory Purchaser Participants will be made by overnight mail several days in advance of the Settlement Date. March 31, 2006, is expected to be the Settlement Date for all share purchases.

7. How is payment finalized?

For most participants, payment will be finalized by a transaction posted to the participant’s settlement account on Settlement Date, March 31, 2006. For the few participants that do not have a settlement account, a wire or check must be received by DTCC on or before Settlement Date. Checks in excess of \$5,000.00 US must be bank checks or certified checks.

8. How many participant firms currently own shares of DTCC? How many firms will be required to purchase shares?

There are currently about 190 firms who own shares in DTCC. Under the change, an additional 300 or so firms will be required to purchase DTCC shares.

9. Who currently owns what at DTCC?

Ownership in DTCC is held through both common and preferred shares, but common shares are currently owned by both participants firms of DTCC’s subsidiaries and the markets, while preferred shares are owned solely by the NYSE and NASD.

Common shares are offered to participant firms of DTCC’s subsidiaries in relation to their use of those subsidiaries’ services (i.e., the amount of shares they can own is determined by how much they use DTCC’s services). The system of participant ownership was originally set up to support The Depository Trust Company and was adopted by DTCC in 1999 when it was formed.

Up to now, the markets (NYSE, Amex and NASD) have also owned common shares as representatives of their members. It was always anticipated that, over time, as broker/dealers exercised their rights to purchase common shares, the number of shares held by the markets would decrease, potentially to zero. The decision not to require purchase of common shares by participant firms was also perceived to be a potential disincentive to joining DTC in its early years of operation.

Preferred shares: When DTC and NSCC were combined in 1999 to create DTCC, NSCC was owned by the NYSE and NASD (NASD had bought Amex), not its participants. As part of the integration agreement, the two organizations were given preferred shares in DTCC, allowing them to each name one member of the DTCC Board of Directors. This preserved the right each had previously to name one member of NSCC's Board.

10. Why didn't certain firms voluntarily buy shares previously?

That's a difficult question for us to answer, but the Board proposed this change because it felt strongly that it is appropriate for participants that are "full service users" of DTC, NSCC and FICC be required to contribute to DTCC's capital through the purchase of its shares because they gain the greatest benefits from the services provided by DTCC's clearing agency subsidiaries.

11. What has been the reaction of the industry to this change?

The DTCC Board, which includes representatives from 15 participant firms, unanimously approved the proposal. As expected, a strong majority of our shareholders, over 85%, and the industry as a whole, supported this proposal because it ensures that DTCC will remain an industry-owned and governed body. Similarly, in approving the related rule filings the SEC noted that the shareholder ownership change would help assure that the participants of DTC, NSCC and FICC have fair representation in the selection of directors and the administration of the clearing agencies' affairs, which is a requirement of the Securities Exchange Act of 1934.

12. How many shares of DTCC are issued?

23,655

13. How are shares distributed by DTCC? You are not a public company, so who decides the number of shares and value?

Shares are available to participant firms based on their use of clearing agency services. Since only participants are qualified to own DTCC shares, there is no "market value" for the shares. The Common Share Price, the price at which common shares are transferred from one participant to another, is determined by using a formula set forth in the Shareholders Agreement that is based upon DTCC's book value, with adjustments for the retained earnings of the three clearing agencies.

14. How much will each participant firm have to pay, on average, to hold shares in DTCC?

Since the redistribution of shares will take place in 2006, the Common Share Price will be based upon DTCC's adjusted book value at the end of 2005. Based upon DTCC's adjusted book value at December 31, 2004 the current price per share is \$3,152.91. The actual amount of shares each participant will own is determined by their use of DTCC services, and whether they are mandatory or voluntary shareowners.

15. Does DTCC pay dividends on stock?

Since DTCC's services are provided on a cost-basis and as a matter of policy and practice any excess revenues are rebated back to participants, DTCC does not pay any dividend.

16. What powers or benefits are conferred upon shareholders of DTCC by virtue of their owning shares?

Common shareholders are entitled to elect all the directors of DTCC other than two directors named by the preferred shareholders. They are also entitled to vote on any matters submitted to shareholders for a vote. Proxy material for the 2006 Annual Meeting of DTCC Shareholders, to be held on April 28, 2006, will be sent to all shareholders in mid April.