

The Depository Trust Company

IMPORTANT

Executive

B#: 2477

DATE: October 01, 2001

TO: Participants and Other Users

CATEGORY: Executive Notices

FROM: John Fitzgerald, Managing Director

ATTENTION: Operation Managers and Managing Partners

SUBJECT: Withdrawal Activity Fee Increases

Over the past several years, as anticipated, DTCC's depository division has seen a continued decline in activities involving physical certificates. In particular, the number of daily withdrawal activities – Withdrawals by Transfer (WTs) or Certificate on Demand (COD) withdrawals – has dropped significantly; the market stress of recent months appears to have accelerated this decline. The drop in 2001 has brought the level of daily activities substantially below levels forecasted for the year, and used in the determination of activity fees. WTs have declined more than 30% from last year's average, to a bit more than 5,300 WTs per day in the first eight months of this year. We anticipate that this accelerated downturn in volume will continue in the coming months. While we have made significant cost cuts, including a 40% reduction of our workforce in the areas dealing with withdrawal processing, the recovery of costs involved with this type of processing will make it necessary to increase withdrawal activity fees, effective in January 2002.

Further, the attrition in physical activity volumes over the past several years has caused fee revenue for these activities to fall short of full cost recovery, an ongoing issue which has only partially been corrected by the fee changes implemented last May. Since fees relating to physical withdrawals of certificates should clearly recover the fully loaded cost of supporting the withdrawal activity – so that no unintended incentive is created encouraging the continued use of certificates – DTCC also needs to take action to bring withdrawal fees to the level recovering these fully loaded costs. Because the changes required to accomplish these two objectives will represent meaningful increases in these fees, DTCC wants to provide this information to Participants as early as possible to assist in the budgeting process for next year.

Anticipated Fee Increases. Therefore, effective on January 2, 2002, the depository will implement increases in the fees on withdrawal services. For purposes of Participants' budgetary planning, anticipated revised fees are identified below, based on next year's projected daily volumes of 4,000 WT's and 70 CODs. The final fees to be implemented in January will be determined through DTCC's normal budgetary processes, and will be announced in mid-December, following approval by DTCC's Board.

2002 Withdrawal Fees

Service	Present Fee	Proposed Fee
Withdrawals by Transfer¹		
Direct Mail by Agent (DMA)		
For each assignment concluding in either direct mail by the transfer agent or a Direct Registration Statement (DRS) ²	\$2.93	\$4.60
Direct Mail By Depository (DMD)		
For each assignment concluding in direct mail by DTC ³	\$2.93	\$5.40
Delivery To Participant		
For each assignment concluding in delivery to a Participant	\$3.88	\$7.90
Certificates on Demand		
Bearer CODs	\$23.27	\$35.77
Corporate CODs	\$27.12	\$41.69

Footnotes:

¹ The "Present Fees" shown for WT's represent the weighted average of active and inactive fees (see discussion later in this Notice).

² Fees shown are not inclusive of transfer agent charges for each assignment resulting in direct mail.

³ In addition, the "direct mail" surcharge of \$2.24 for each assignment resulting in direct mail by the depository is being increased to \$2.50.

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Contingent Fee Increases. Given the unanticipated acceleration in the decline in WT volumes in 2001, it appears quite possible that WT volumes in 2002 may decline below our projected levels of 4,000 per day. In the event that we see such a decline during the first months of 2002, DTCC would plan further steps to align fees with their respective costs in July 2002. If volumes remain at the 4,000 level projected, there would be no second round of fee increases, and COD fees will remain at the revised rate of January 2, 2002.

Below are the proposed fee increases that would take effect in July 2002, if volumes fall below the 4,000 WT daily average:

2002 Withdrawal Fee Model

Service	Proposed fee at 3,500 WT level	Proposed fee at 3,000 WT level
Withdrawals by Transfer		
Direct Mail by Agent (DMA)		
For each assignment concluding in either direct mail by the transfer agent or a Direct Registration Statement (DRS)	\$5.10	\$5.60
Direct Mail By Depository (DMD)		
For each assignment concluding in direct mail by DTC	\$6.20	\$7.10
Delivery To Participant		
For each assignment concluding in delivery to a Participant	\$8.70	\$9.60

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Other Fee Revisions. As the charts suggest, DTCC also will be acting at the time the new fees are implemented in January to simplify the fee schedule for WTs to eliminate the distinction between withdrawals on “active” and “less active” issues as well as making other changes. As volumes have declined, these distinctions have become much less significant in terms of differences in costs DTCC incurs to process these activities.

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The fee levels indicated in the schedules set forth in this Notice are indicative, and can be used by Participants in their budget planning for next year. DTCC will not announce the actual fees to be implemented in January until later this year, following formal approval of these fees by DTCC’s Board; the indicative fees shown above, however, have been computed conservatively, and – barring further sharp downturns in volumes – the fees implemented in January will not be higher than these fees.

If you have any questions about these changes to the fee schedule or their impact on your future bills, please contact your Relationship Manager.