

The Depository Trust Company

IMPORTANT

B#: 1673

DATE: June 25, 2001

TO: All Participants and Paying Agents

CATEGORY: Dividends

FROM: John J. Colangelo

ATTENTION: Managing Partner/Officer/Cashier/Ops Mgr. & Dividend Mgr.

SUBJECT: Principal and Income Credit Line

Effective July 16, 2001, DTC will reinstate the use of a credit line to ensure that virtually all income payments are allocated to Participants on payable date.

Background

Beginning in January 2000, DTC eliminated the intra-day and overnight credit lines used to support allocations of income payments which had been secured to smoothly transition the conversion to Same-Day Funds (SDF) in 1996. In concert with this change, DTC's Dividend Department initiated a policy of allocating only those funds received from paying agents by 3:00 p.m. (DTC announced this change in Important Notice B#7661, distributed on August 16, 1999 and again on November 22, 1999).

Though DTC has eliminated using its credit lines to support income payments, a number of Participants have continued to allocate the total income distributions due their customers on respective payment dates and internally fund the resulting "shortfall." Currently, funds received after 3 p.m. are allocated to Participants early the next business day in the intra-day allocation cycle provided that agent-supplied CUSIP-specific details accompany the late payments. DTC returns all overnight investment income to Participants affected by these late payments by way of the current month-end refund process.

Since January 2000, the depository can report significant progress made with respect to issuer and agent compliance with the SDF payment requirements. For recent peak payable dates in 2001, on average, approximately 95.6 % of the income payments due DTCC were received by 3:00 p.m., a marked increase from the 91.9 % level in 2000. Correspondingly, allocations to Participants have increased. The intraday allocation percentage for income payments – funds made available to Participants throughout the day and available for withdrawal by Participants – has increased from 76 % at the beginning of 2000 to an average of 87.5 % in 2001, while end-of-day allocations have also increased from 92 % for peak payable dates in 2000 to 95.4 % for peak payable dates in 2001. While these improvements are significant, some Participants still continue to fund their customers on payment date, even though they may not have received the total allocations expected. Thus, after 18 months of operating without the support of a credit line, DTC has reassessed the current payment performance activity and plans to reinstate its credit facility.

We are making this change for several reasons. Considerable efforts have been undertaken by the paying agent community and DTC to achieve improved payment receipt and allocation performance. DTC continues to actively interact with agents and, where appropriate, agents' issuers, to review late payments and identify the specific causes for them. The results of this review process has led to stepped-up efforts by paying agents to further educate issuers regarding SDF payment practices. A number of agents have committed to significant internal improvements to their processing procedures to ensure that funds received from issuers on payable dates can be quickly identified and, in turn, wired to DTC to permit timely allocation to DTC customers. The recent improved payment statistics support these efforts.

Going forward, DTC, paying agents and their service vendors are also working jointly on several automation enhancements which are expected to yield increased efficiencies in the payment flow, receipt and allocation of funds to Participants and their customers. It is expected that these enhancements will result in continued improvements to overall payment receipt and compliance performance.

Thus, due to the significant progress made, and since DTC expects these favorable trends to continue, effective July 16, the DTC will reinstate the use of a credit line to ensure that virtually all allocations of income payments are made to Participants on payable date.

DTC believes the return to this processing environment will benefit all Participants. Among the primary benefits of this change is a decrease in the exception processing costs related to late payments, most notably inquiries submitted to DTC involving unallocated income payments, as well as the Participants' costs of financing unreceipted payments to their customers. The reinstatement of a credit line for full income allocations (except those payments where the agent or issuer has specifically indicated that DTC will not receive payments) will also bring uniformity to DTC's allocation process as principal (i.e., maturities and redemptions) payments continue to be supported by credit resources.

DTC will continue to work with agents, issuers and their service providers to increase payment performance so that, ultimately, long-term reliance on a credit facility becomes unnecessary. DTC will periodically report to Participants on this progress.

The cost of the credit lines will be passed through to Participants, similar to the procedures in place at the time of its elimination. Participants should expect to see these charges as part of their monthly bill beginning in August 2001.

The depository's staff is prepared to assist Participants, agents and issuers with any questions regarding this matter. Participants should contact their Relationship Manager and Paying Agents should contact their Agent Liaison representative as the need arises. This notice may also be viewed on our web site at www.dtc.org.