

The Depository Trust Company

IMPORTANT

B#: 5499

DATE: November 24, 2003

TO: Participants and Other Users

CATEGORY: Executive Notices

FROM: Richard Macek, Managing Director and CFO

ATTENTION: Managing Partner/Officer, Cashier, Finance Dept.

SUBJECT: 2004 Special Projects

On November 18, DTCC released two notices announcing changes to DTC and NSCC fees for 2004 (NSCC Important Notice A#5719 and DTC Important Notice B#5460R). These changes result in a net decrease in overall fees to participants of approximately \$2.4 million for existing DTC and NSCC services.

During 2004, DTCC also expects to incur costs associated with two significant initiatives that will be undertaken during the year. In response to the mandates for “core clearing and settlement organizations” under the “Interagency Paper On Sound Practices to Strengthen the Resilience of the U.S. Financial System” issued this past Spring, DTCC will be moving forward next year with an effort to establish a remote site for business operations located well away from the New York metropolitan area. In 2003, DTCC completed initial implementation of remote data processing facilities, meeting this aspect of the new regulatory standards; DTCC has committed to regulatory authorities that it will begin implementing remote business operations capabilities late in 2004, with the bulk of this implementation expected to be completed by year-end 2005. Establishing this remote operating facility will involve special expenditures beginning in 2004, with additional expenditures through 2006. Cost reductions associated with the remote operating facility will begin thereafter.

During next year DTCC also expects to complete a process initiated in 2003 under which all data processing operations for applications supporting NSCC services will be migrated from the Securities Industry

Automation Corporation's facilities to DTCC's own data center. In connection with this "insourcing" initiative DTCC will be incurring certain special costs associated with the effort and with the termination of DTCC's use of SIAC for these services. DTCC anticipates that the insourcing effort will significantly reduce its overall technology costs, with these reductions producing a positive return beginning in 2006.

To fund these special expenses, DTCC will have to reduce the discounts or fee rebates to be paid to participants in 2004:

- Expenses associated with the remote operating capability will be funded principally by reductions in the amount available for year-end rebates to DTC participants (since the operations supported at this site will principally be DTC operations), although NSCC and other DTCC subsidiaries will also be funding a portion of these costs.
- Expenses associated with the NSCC insourcing effort will be funded principally by reductions to discounts or rebates paid to NSCC participants. The cost savings realized beginning in 2005 will first be used to "reimburse" those NSCC participants for the amounts of the discount reductions in 2004, and only then applied to reduce cost allocations across all DTCC subsidiaries.

DTCC anticipates that the amounts of NSCC monthly discounts paid during 2004 will be reduced by approximately half. Under DTCC's current budget projections, any year-end rebate paid to DTC participants for 2004 would be reduced by approximately one-third.

Participants may wish to make any necessary changes to their own budget projections based on this information.

Richard Macek
Managing Director and
Chief Financial Officer