

The Depository Trust Company

IMPORTANT

B#: 6932

DATE: September 27, 2004

TO: Participants and Other Users

CATEGORY: Executive Notices

FROM: Product Management

ATTENTION: Managing Partner/Officer, Operations Manager

SUBJECT: 2005 Revisions of DTC Service Fees

DTCC's own budgeting cycle concludes in November of each year, with fee revisions for the following year finalized at that time as part of that process. However, in accordance with DTCC's past practice, this Notice provides certain preliminary guidance to participants regarding fees for DTC and NSCC services for next year that participants can use as they prepare their own 2005 budgets.

The DTCC Board of Directors has preliminarily reviewed proposed fee revisions to selected DTC and NSCC service lines. Overall, these adjustments, expected to be finalized in November, represent a net fee decrease in DTCC's equity businesses of approximately \$3.5 million. By continuing to effectively manage costs, DTCC anticipates that fees for most services in 2005 should remain relatively constant, with increases in a few services (to continue to bring them in line with our goal of matching revenues with costs) and disincentive fees implemented for several services.

The specifics of these adjustments are as follows:

- NSCC expects to revise fees for "Flip Trades" to align them with the cost of the service provided. This revision would reduce these fees by approximately \$2.4 million (20%).

- DTC expects to revise fees for several Settlement services, also to align fees with the cost of the service provided. As such, CNS, institutional deliveries, and deliver order “drop” fees would be reduced by a total of approximately \$4 million (8%). Money Market Instrument (MMI) transaction fees would be increased by a total of approximately \$1 million (14%).
- DTC expects to increase certain Asset Servicing fees. Fees for physical certificate processing to move these services closer to full cost recovery would be increased by approximately \$1 million (7%), in addition to certain disincentive fees for Withdrawals by Transfer that have already been announced. Certain service fees on voluntary offerings will also be increased by \$500,000 (10%) to align these fees more closely with the cost of the service provided. Overall, the Asset Servicing fee revisions represent a net fee increase of approximately \$1.5 million.
- As previously announced, fees for tax products are being increased by approximately \$500,000 (8%) to reflect the cost of providing these services.

We are projecting fee increases to both participants and insurance carriers in our insurance business lines to bring revenues for identified services in line with their costs. We are currently estimating that fees will increase by a total of about \$3.2 million in 2005, of which about half will be incurred by participants and half by insurers.

In addition to these fee actions, DTCC will also implement certain disincentive fees, several of which have already been announced. These disincentive fees include the increased fees for Withdrawals-by-Transfer (WTs) and late reclamations described in DTC Important Notice 6626, submitted in response to the SEC Concept Release on Securities Transaction Settlement, plus a disincentive fee for the filing of hard-copy documentation on new issues to be distributed through DTC’s Underwriting service to encourage continued filing of electronic copies of these offering documents. DTCC believes that advising participants at this time of these disincentive fees being considered will help participants make their own plans to modify behaviors in response to these disincentive fees. The impact of these disincentive fees depends on the degree to which participants change behavior and reduce the volume of these activities.

The proposed revisions are consistent with DTCC’s overall pricing philosophy to align service fees with underlying cost, discourage manual and exception processing, and encourage immobilization and dematerialization.

As noted, DTCC’s Board will formally consider these fees in November. The 2005 fee schedule adopted at that time would become effective on January 2, 2005. The details of these DTC and NSCC fee revisions will be distributed in a future Important Notice.

If you have any questions regarding this notice, please contact your Relationship Manager or the undersigned at (212) 855-3725.

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