

The Depository Trust Company

IMPORTANT

B#: 7915

DATE: April 15, 2005

TO: All Participants

CATEGORY: Executive Notices

FROM: Jim Umberger, Managing Director, Customer Access

ATTENTION: Senior Operations and Technology Officers

SUBJECT: Redistribution of Expenses Associated with SIAC
Customer Impact

Over the course of the last 18 months, DTCC has distributed several Important Notices (Z#0008 – October 2003, Z#0009 – January 2004, and Z#0010 – April 2004) detailing customer requirements related to the migration of telecommunications connectivity to DTCC subsidiaries' clearing corporation applications, from legacy SIAC Broker and Access Networks to DTCC's Securely Managed and Reliable Technology (SMART) or SIAC's Secure Financial Transaction Infrastructure (SFTI) networks. These Notices clarified DTCC's intention to cease operation of the legacy Broker and Access networks and the need for Participants to migrate their communications off these networks; DTCC's originally announced intention had been to cease operation of the Broker and Access networks at the end of 2004.

Although there are several factors motivating this migration of communications with clearing corporation applications to SMART and/or SFTI, one key consideration is business continuity planning. The migration will significantly upgrade business continuity capabilities for the industry, but these improved capabilities can only be completely effective when **ALL** Participant firms complete the work to access these services through SMART and /or SFTI. Until all Participants complete the upgrade, **ANY** firm accessing DTCC clearing services through legacy network connections is exposed in the event of a large-scale regional disruption, *as are that firm's counterparties*. The SEC has mandated that the DTCC network migration be accelerated so that if a large-scale disruption were to occur in the New York region, the securities industry generally could continue to complete the necessary clearance and settlement activities. Participants' legacy

Broker or Access network connections are not automatically configured to “fail over” to DTCC’s remote processing sites, and therefore do not provide the necessary resilience to meet these regulatory expectations.

In addition, this effort is part of DTCC’s overall program to “sunset” legacy technologies described in the June 2000 whitepaper, *Paving the Technology Future*. As described in that paper, implementing standardized capabilities and eliminating multiple legacy technologies are essential parts of reducing industry infrastructure costs. Eliminating the use of multiple proprietary networks is an important component of reducing the industry’s overall cost to communicate with the central clearance and settlement infrastructure.

Most customers have been diligently working towards the goal of migrating communications off the Broker and Access networks, and DTCC responded by significantly increasing resources dedicated to the upgrade and relaxing its December 2004 deadline. However, these delays both prevent DTCC from meeting overall business continuity expectations and also impose significant additional cost on DTCC’s participants.

As DTCC has clearly stated, “*Since delays beyond the end of 2004 would increase risks and costs to the industry, any participants who delay migrating to these services via SMART or SFTI beyond [year-end 2004] would be expected to fund their portion of any additional costs incurred for continued support of the Access and Broker Networks*” (Important Notice Z#0008).

At an appropriate point this year, DTCC intends to divide the legacy facilities’ support costs, which are expected to be in the millions, among those customers who have not yet completed the migration of their telecommunications connections and therefore continue to require the Broker or Access network connections. **DTCC will incur these costs effective July 1, 2005. Consequently, DTCC reserves the right to assess additional charges for any customers still communicating via the legacy networks on that date.**

To avoid these costs being assessed it is mandatory that you:

- Ensure adequate communications connectivity through SMART and/or SFTI. DTCC members using SFTI must connect to at least one access center outside the New York area. These access centers are located in Chicago, Boston and Philadelphia.
- Complete testing of the new pathways.
- Complete full conversion of all input and output for clearing corporation applications directly to/from DTCC through SMART and/or SFTI.
- Cancel the legacy Broker or Access connections.

DTCC urges customers to contact their Relationship Manager immediately to discuss required actions and potential financial impact.