

## The Information Freeway: Data Flows Keep Rising

**N**etworking and Mutual Fund Profile also continued to grow in 2001. Networking allows funds and distributors to update and exchange account information about their customers in a standardized, electronic format. During 2001, the number of sub-accounts supported by Networking rose to 56 million, up 8% over 2000. The greatest surge in customers for Networking came from independent broker/dealers, adding almost 822,000 sub-accounts in 2001 and bringing total accounts for this segment of the industry to over 7.4 million. With Mutual Fund Profile, users can exchange accurate, up-to-date information on daily fund prices and dividend rates. In 2001, the number of customer firms using this service rose to 544 from 444 the previous year. In another service, Defined Contribution Clearance & Settlement, volumes soared with average monthly volume up nearly 200% to 1 million transactions, and the number of participating fund companies climbing to 256 from 170.

## Helping Customers Expand Globally

**I**n recent years, the U.S. experience in mutual funds has garnered increasing interest in Europe, as countries look to expand investment activity in funds, move toward open distribution across borders and privatize state pension systems. While European markets for investment funds are quite different from the U.S., a number of European financial firms and infrastructure providers have asked DTCC to share its experience in creating centralized, standardized automated solutions for customers. DTCC continues to explore the potential for partnering opportunities where its expertise in processing and straight-through reporting may lead to low-cost viable solutions supporting the growth of fund investment and trading in Europe.

left to right

**Brian Scribner** Director, Mutual Funds

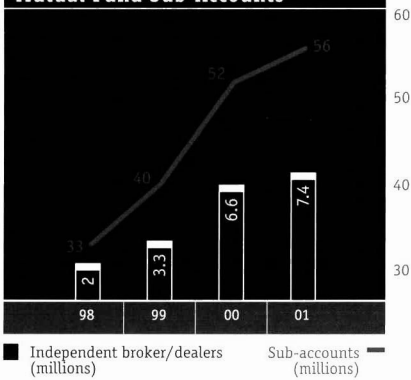
**Donna Cranston** Director, Human Resources



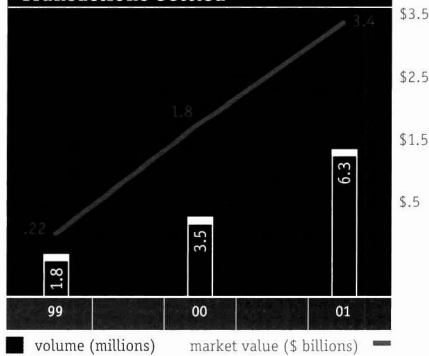
Ashley Ritter Marketing Manager, Insurance Services



**Networking: Volume of Mutual Fund Sub-Accounts**



**Insurance Services: Transactions Settled**



## Mainstreaming Insurance Products

DTCC's evolving business model for the insurance sector of the industry is to ensure that annuities and other insurance products are easily mainstreamed and accessible in the financial marketplace. This model is similar to the one DTCC has proven so successful in support of equities, bonds and mutual funds. The elements of DTCC's insurance strategy include: 1) helping link insurance carriers with their distributors; 2) standardizing processing and data exchange; 3) reducing processing and product servicing costs through DTCC's high-volume capacity; 4) leveraging technology strategies at DTCC to support new service requirements of carriers and distributors; and 5) creating bottom-line revenue opportunities for the industry by employing strategic partnerships to help design, sell and service new products.

As DTCC continues to grow its current service offering, the company is also working closely with insurance carriers to implement its strategy and support this vibrant sector of the financial services industry.

## Customers, Trading Relationships and Volumes: Growth on All Fronts

DTCC's Insurance Services (IS) business experienced record growth in 2001, providing highly efficient processing capacity to speed such routine industry tasks as processing applications, appointing and licensing agents, and paying commissions. The volume of IS transactions for application and premium transactions and commissions reached a record 6.3 million, up 80% from 3.5 million in 2000. The value of money settlement for these transactions in 2001 nearly doubled to more than \$3.38 billion from the \$1.75 billion in the prior year.

As industry recognition of DTCC's Insurance Services business continues to grow, so does its client base. During 2001, interest in the streamlining and lower cost that IS brings has expanded the number of customers to 161 major carriers and distributors.

## Introducing Value-Added Services

Until last summer, getting the information needed to license and appoint insurance agents was a manual, paper-intensive process that often took insurance companies days of phone calls and weeks of review to complete. Now, at last, there is a single industry standard that automates, centralizes and speeds up this process for distributors and insurance carriers nationwide. Created and developed by IS, which spent more than a year testing and refining the underlying data transmission program, the new service is quickly emerging as an industry hit. More than a dozen major insurance companies have already begun using the program and, in anticipation of the significant savings and big leap in efficiency the new service provides, nearly a dozen others are now testing their systems in order to go live.

Another service that grew dramatically in 2001 was Financial Activity Reporting (FAR). FAR automates the tracking of annuity sales and related activity and helps distributors meet internal and external compliance requirements. The number of FAR users more than tripled during the year to 24 insurance carriers and distributors, with 15 additional companies now in testing.

**Craig Gurien** Product Manager,  
Insurance Services



## Expanding Markets through Strategic Partnerships

With its nationwide communications infrastructure, linking hundreds of insurance carriers to more than a hundred thousand broker/dealers, banks and financial planners, DTCC's Insurance Services is in a unique position to help the industry automate processing and data exchange. In 2001, IS developed a number of strategic partnerships aimed at giving the industry greater ability to interoperate with its distributors, while offering distributors low-cost Internet-based processing services, such as easy-to-use order entry software and sophisticated data analysis. One example is the IS partnership with the Association for Cooperative Operations Research and Development (ACORD). Insurance Services is working with ACORD to speed the development of common data standards that all sectors of the annuity and life insurance industry can use for exchanging product information and handling money settlement. Other partnerships focus on the unique role of IS as an information pipeline and catalyst for the industry—moving data along from distributors to carriers and enriching it so that distributors can market, sell and service insurance products much more easily. Strengthening and expanding these partnerships remains a high priority in 2002.

**Michael Kopcak** Director, Risk Management



## Keeping Up with the Complexities of Cross-Border Investing

Cross-border securities trading and holdings have skyrocketed over the past decade. As issuers and investors demand global options for raising and investing funds, 2001 trading volume in both U.S. and foreign securities was four times greater than in the early 1990s. In just six years, foreign holdings of U.S. securities tripled to \$4.4 trillion in 2000, while U.S. holdings of foreign securities reached \$2.3 trillion. Advances in technology have improved information flows facilitating the trading of securities across time zones and continents. However, clearing and settling transactions still depend on costly, inefficient practices.

Costanza Pinilla Manager, International



## Providing Thought Leadership to Advance Best Practices and Common Standards

Global firms active in the cross-border securities markets have been clear about what they value most – lower costs, strong risk management and the stability and reliability of a seamless processing infrastructure. In response, DTCC took a leading role initiating a worldwide dialogue on central counterparties (CCPs) early in 2001. A London conference, co-sponsored by DTCC and the world's principal clearing organizations, sparked a global outpouring of ideas among the 150 industry leaders who attended. Less than six months later, halfway around the world in Sydney, a new industry association, called CCP 12, emerged to carry the dialogue forward. CCP 12, comprising DTCC and other major clearing organizations, is working to promote best practices, common standards and enhanced information flows to improve securities clearing across borders.

If the number of industry initiatives focused on addressing the cross-border issue is any indication of its significance, it's clear the stakes are high. The Giovannini Group, the Lamfalussy Committee of Wise Men, the European Securities Forum, the Group of Thirty and the Centre for European Policy Studies are just a few of the government, regulatory and industry bodies looking at market structure, regulatory integration and streamlining clearing and settlement. DTCC is committed to being a full-fledged participant and leader in helping our customers improve efficiency, reduce risk and achieve seamless securities processing worldwide.

## **EuroCCP: Low-Cost Clearing and Netting for Europe**

In 2001, DTCC assembled, gained regulatory approval for and launched a new subsidiary, European Central Counterparty Limited (EuroCCP), in a record nine-month timeframe. EuroCCP is the first central counterparty to offer cross-border clearing and netting for European and U.S. securities traded in Europe. Spurring the development of this groundbreaking venture was Nasdaq Europe's selection of DTCC to develop a central counterparty based on DTCC's experience and sophisticated post-trade processing and risk management capabilities.

EuroCCP will bring a seamless clearing and settlement approach that can reduce the operational costs, inefficiencies and risk associated with cross-border transactions. What EuroCCP also brings to the pan-European marketplace is the key advantage of netting. This greatly reduces the volume of money and securities to be exchanged each trading day, making it more efficient for firms and investors to control risk, manage collateral and handle payments.

## **New Solutions for Global Withholding Taxes**

To help customers navigate the complexities of withholding tax requirements, DTCC continued to expand its range of tax services in 2001. Six core products have been designed to help U.S. and non-U.S. financial firms provide clients with accurate reporting and tax relief to maximize their return on securities investments. Working closely with PricewaterhouseCoopers and a consortium of global financial institutions, DTCC launched an Internet-based tax service called DALI™ in 2001. DALI simplifies the way a U.S. tax withholding agent and a foreign intermediary exchange data so that the correct amount of tax is withheld from U.S.-source income payments.

Meanwhile, to assist non-U.S. DTC participants in complying with these new tax regulations, the depository established itself as a tax-withholding agent in 2001. The depository now coordinates tax withholding, payment and reporting on behalf of non-U.S. financial institutions, including six central securities depositories.

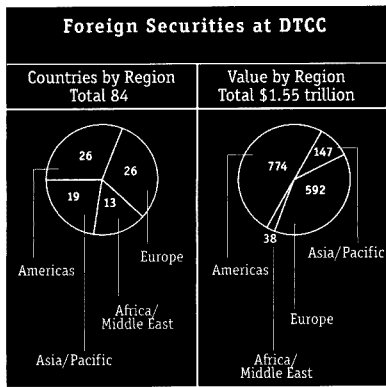
## **Teaming with Euroclear and Clearstream for Commercial Paper in Europe**

Europe's commercial paper market, a principal source of short-term money for business, has grown sharply in recent years. Fueled by the euro, the size of the European commercial paper market jumped to more than \$300 billion at the close of 2001 from \$182 billion in 1998.

To help the industry keep pace with this market, DTCC teamed with the Euroclear group and Clearstream International to develop a communications product to automate messages associated with the issuance of European commercial paper and other money market instruments. Called European Pre-issuance Messaging, or EPIM, the service is based on a similar product DTCC's depository developed in 1999 for the U.S. market. Efficient same-day processing and settlement have been instrumental in the emergence of an enormous U.S. commercial paper market valued at \$1.5 trillion in 2001. The enhanced European version of the system electronically links organizations settling euro-commercial paper trades with dealers and issuing agents. In a market where speed is critical, EPIM creates a way for participants to exchange issuance information instantly and reliably in standard formats. The service will be fully operational early in 2002.

**Richard Lanning** Director, International





## Increasing Share of Global Assets and Strengthening Links

The assets held at DTCC's depository increasingly reflect the global nature of capital markets. At year-end 2001, the depository held non-U.S. issues valued at \$1.5 trillion representing issuers from 84 countries. Last year, more than one out of 10 corporate debt and equity offerings distributed through the depository's underwriting service were non-U.S. issues.

In addition, the depository holds in custody and services close to \$500 billion in American depository receipts (ADRs). ADRs are dollar-denominated securities widely used by non-U.S. companies to raise capital conveniently and efficiently in the U.S. equity markets.

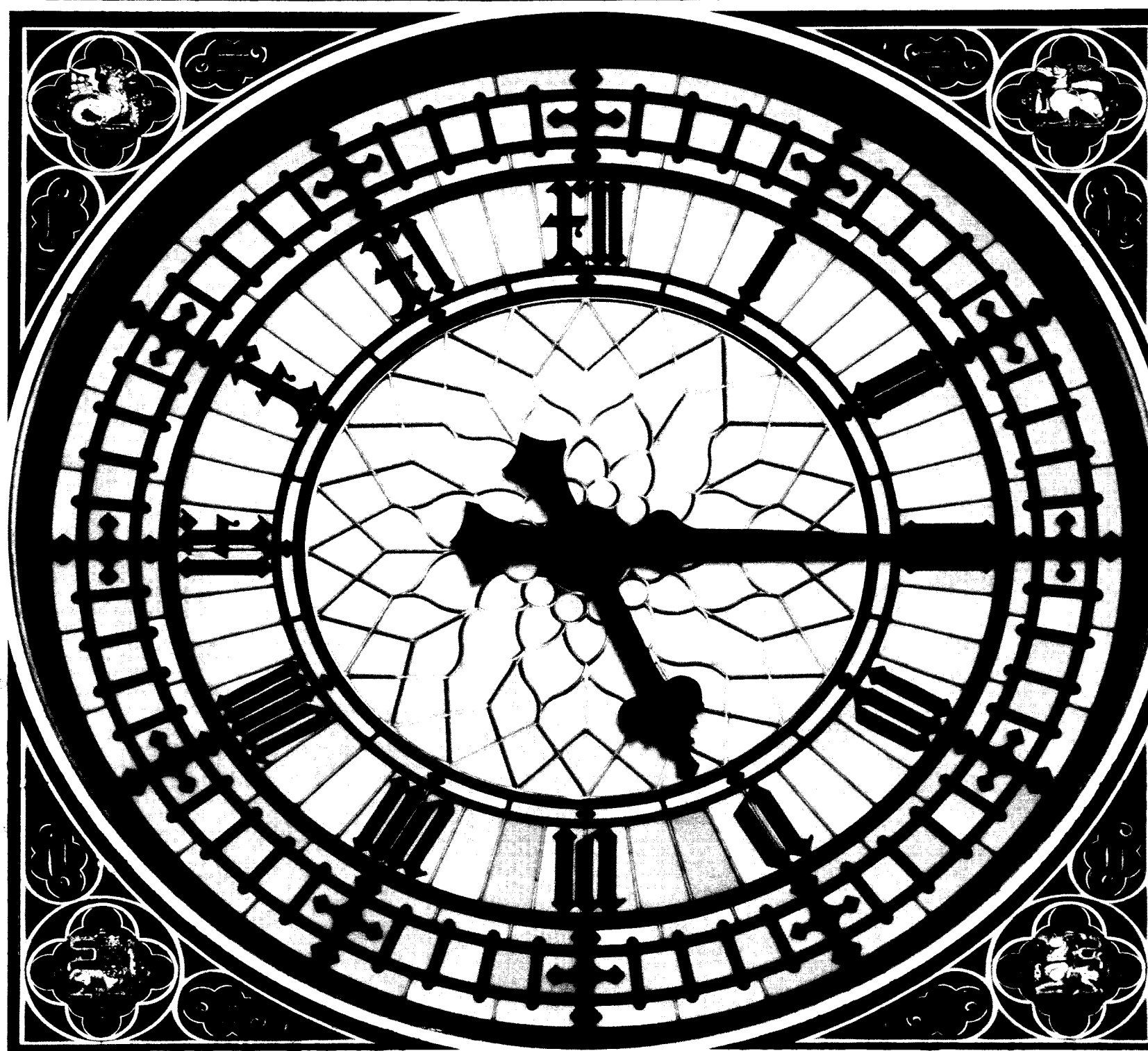
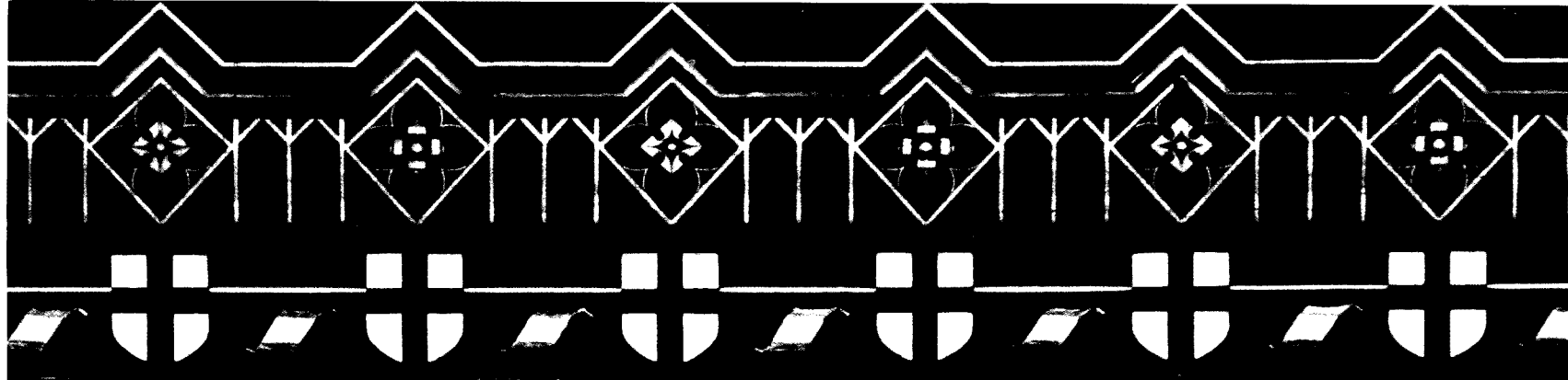
To simplify cross-border clearing and settlement of securities, DTCC continued to strengthen its links with clearing and depository organizations abroad. The clearing link with The Canadian Depository for Securities, which permits Canadian firms to settle trades with U.S. counterparties, is a particularly vibrant one, with roughly 12 million trades processed in 2001. Also, DTC and The Central Depository (Pte) of Singapore enhanced their link in 2001 to enable American Stock Exchange-listed exchange-traded funds to trade in Singapore.

Stephen Letzler Director, Corporate Communications



William Salva Director, International





DOMINE: SALVAM: FAC: REGNAM: nostram: VICTORIAM: DEUM

Ensuring capacity and certainty in trade processing is DTCC's hallmark. We guarantee completion of trades and maintain the capacity to clear and settle trades—on time—no matter how high volume climbs.

**settled**



## Crafting Strategy for the Longer Term

Every day, the securities industry depends on DTCC's rock-solid systems and platforms—and its longstanding reputation for capacity, safety and soundness—to support the marketplaces. As DTCC works to sustain a transformed global securities market, a market where technology is driving rapid change, the company must balance the critical importance of maintaining its high standards for reliability and certainty with the imperative for rapid development of new technology solutions.

DTCC recognizes that, because of the central role it plays in the industry, alterations or upgrades in its technology can have repercussions throughout the industry. As a result, DTCC is committed to helping customers minimize technology investment. To guide future technology investment and development decisions, DTCC has adopted a new strategy that emphasizes: 1) purchasing and adapting off-the-shelf software, where possible, to deliver more cost-effective and time-to-market solutions; 2) working with component-based technology so that it will be easier to create future upgrades without destabilizing or revamping whole systems; 3) developing and promoting open architecture to ease planning and encourage interoperability; 4) adopting common communication standards and protocols that make it easier and cheaper for customers to communicate with DTCC; and 5) leveraging Internet-based technologies to expand access and speed delivery of services.

To help implement the strategy, DTCC began working with Accenture in 2001 to improve its internal technology processes and resource management. This new virtual organization, called DTCC Solutions, will enhance the information technology productivity of DTCC, strengthen its product lines and support an end-to-end operating model to meet the real-time needs of securities trading globally.



Peter Paguaga, Manager, Settlement

## Preparing for STP and T+1

While helping customers grow their business, DTCC also continues to work on the large-scale projects that are the very building blocks of a transformed global securities market. In 2002, DTCC will focus on converting systems and risk platforms to accept and process real-time trade reporting, as well as completing the development of a central trade repository to house that information. By substantially enhancing the technology underlying its risk analysis functions, DTCC will be prepared to accommodate more extensive risk management, particularly during the shorter settlement cycles that T+1 will bring.

Two longer-range key projects begun in 2001 and continuing over the next two years are the redesign of the Continuous Net Settlement System, and the initial planning and engineering to combine the separate depository and clearing corporation settlement processes into a single, cost-effective system.

DTCC is looking to adapt the real-time trade-matching (RTTM) technology first developed by GSCC for U.S. government securities to mortgage-backed securities processed by MBSCC in 2002, and to NSCC's fixed income products by 2004.

A technology strategy that allows us to

1

Be quick to market

2

Ensure reliability and security

3

Provide for contingencies

4

Pursue solutions through  
invention, acquisition and partnering



John Shannon Systems Director, Communications

### Ensuring Reliability Remains a Technological Priority

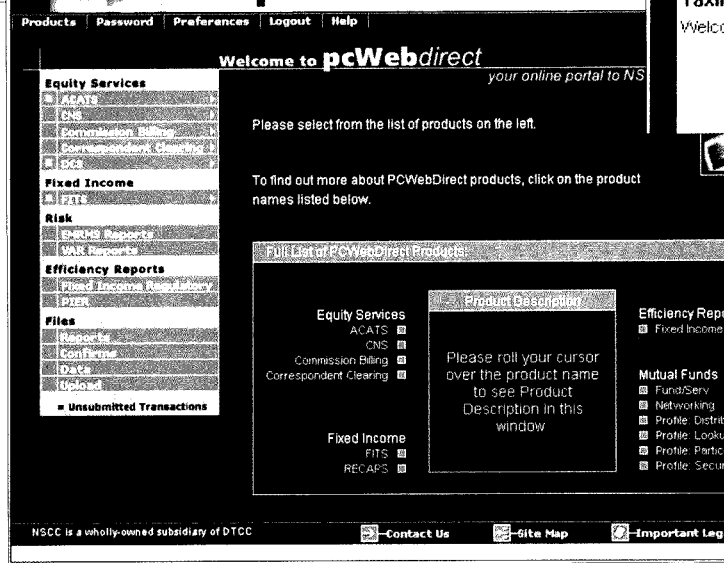
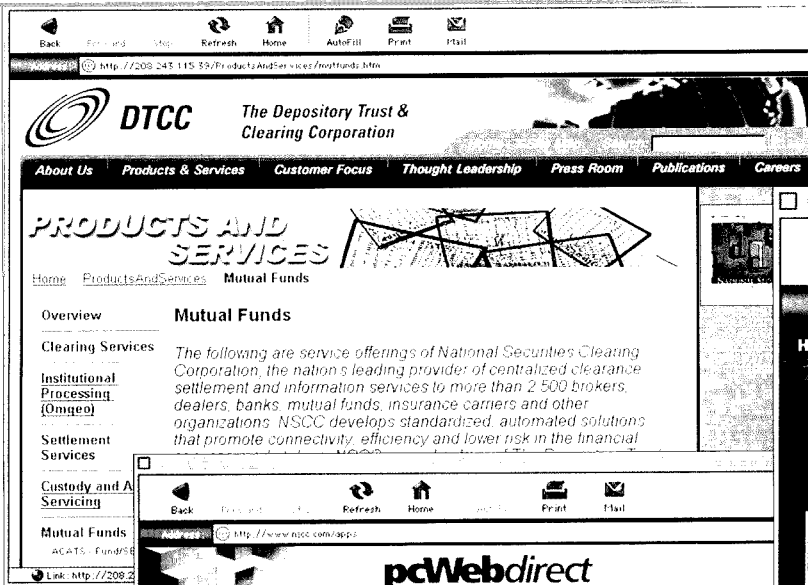
**A**lready highly regarded for its systems reliability and stability, DTCC nonetheless set impressive records again during 2001, achieving a rate of 99.9% for the availability and timeliness of depository, clearing and settlement systems. And, during the critical days and serious disruptions post-9/11, DTCC's depository and clearing corporation systems remained up and functional 100% of the time, while DTCC also worked to help customers reestablish connectivity.

Following 9/11, DTCC began a vigorous, ongoing review of contingency planning at current operating sites, and is moving to further decentralize its operations.

### Leveraging Internet Technology to Lower Costs and Enhance Access

**D**TCC's efforts to leverage Internet technology began to reap significant results in 2001. In December, DTCC launched not only a new look for PCWeb Direct, but also the pilot of its Customer Desktop initiative, which places a single, Internet-based portal front end on a series of separate, proprietary reporting and inquiry systems that customers regularly use. In future versions of Customer Desktop, customers will be able to monitor their positions and status while tracking other DTCC products and services, all on a customizable single screen with a single, secure sign-on to gain access to multiple sub-systems. In 2002, Customer Desktop will expand to include all DTCC Web-based products and reports, single sign-on for TaxInfo, DTax and all PCWeb Direct offerings, the new DTCC University, services for business partners and Participant Inquiry Notification System (PINS).

Also planned is incorporating the modernized Participant Terminal System (PTS) into a new browser-based version, Participant Browser Services (PBS), for easier access by customers. Launched to a pilot group in 2001, new releases of PBS, for key service areas such as Settlement and Corporate Actions, will be rolled out to a wider range of users in 2002.



clockwise DTCC.com—the company's public Web site, featuring updated design and content.

Customer Desktop—the unified, single, secure portal that users can customize for access to DTCC Web-based products and support.

DTCC Global Tax Services—an information page available on DTCC.com spelling out details of this new, cost-saving tax service.

PC WebDirect—the fast, flexible Internet service connecting customers to a host of clearing corporation products and services.



Arthur Fennell Communications Networking Engineer, Communications



**Peter Madoff**  
Senior Managing Director  
Bernard L. Madoff  
Investment Securities LLC

**Mary M. Fenoglio**  
Executive Vice President  
State Street Bank & Trust

**James H. Messenger**  
Chief Executive Officer  
National Financial  
Services LLC

**George Hrabovsky**  
President  
Alliance Global Investor  
Services

**Dennis J. Dirks**  
Chief Operating Officer  
The Depository Trust  
& Clearing Corporation

**Thompson M. Swayne**  
Executive Vice President  
J.P. Morgan Chase & Co.

**Kenneth K. Marshall**  
Executive Vice President  
& Chief Operating Officer  
Instinet Corporation

**John R. Mohr**  
Executive Vice President  
The New York  
Clearing House  
Association L.L.C.

**Jill M. Considine**  
Chairman and  
Chief Executive Officer  
The Depository Trust  
& Clearing Corporation

**Richard F. Brueckner**  
Chief Executive Officer  
Pershing, a Credit Suisse  
First Boston company

DTCC's Board is made up of 21 directors who also serve as directors of the company's operating subsidiaries. Seventeen are from participants including international broker/dealers, correspondent and clearing banks, mutual fund companies and investment banks. Two directors are designated by DTCC's preferred shareholders: NASD and the New York Stock Exchange. The remaining two are the chairman and chief operating officer of DTCC itself. Individuals are nominated for election as directors based on their ability to represent participants of each of DTCC's operating subsidiaries, and Board committees are specifically structured to help achieve this objective.





**Ronald J. Kessler**  
Vice Chairman  
A.G. Edwards & Sons, Inc.

**Jeffrey C. Bernstein**  
Senior Managing Director  
Bear, Stearns Securities Corp.

**Steven L. Scheid**  
Vice Chairman  
President Schwab  
Retail Group  
The Charles Schwab  
Corporation

**Robert H. Silver**  
Executive Vice President  
UBS PaineWebber Inc.

**Edward A. Kwalwasser**  
Group Executive Vice President  
New York Stock Exchange

**Arthur L. Thomas**  
Chairman, Securities  
Services Division  
Merrill Lynch,  
Global Markets &  
Banking Group

**Melvin B. Taub**  
Corporate  
Technology Officer  
Citigroup/Salomon  
Smith Barney

**Edward F. Watts, Jr.**  
Managing Director  
Goldman, Sachs & Co.

**Peter J. Murray**  
Managing Director  
Credit Suisse First Boston Corp.

**Thomas J. Perna**  
Senior Executive Vice President  
The Bank of New York

not pictured:

**Mark L. Harris** President & Chief Operating Officer Van Kampen Investor Services Inc.



## Consolidated Balance Sheet

	December 31, 2001
	(in thousands)
<b>Assets</b>	
Cash and cash equivalents	\$3,121,579
U.S. Treasury securities	85,455
Accounts receivable	161,855
Participants' funds	796,367
Fixed assets, less accumulated depreciation and amortization of \$252,183,000	154,411
Deferred income taxes	92,640
Other assets	268,376
<b>Total assets</b>	<b>\$4,680,683</b>
<b>Liabilities and Shareholders' Equity</b>	
<b>Liabilities:</b>	
Accounts payable and other liabilities	\$ 615,711
Payable to participants	1,138,812
Notes payable	44,647
Participants' funds:	
Cash deposits	1,940,087
Other deposits	796,367
<b>Total liabilities</b>	<b>4,535,624</b>
Commitments and contingent liabilities (Note 10)	
Preferred shareholders' equity in The Depository Trust Company	75,000
<b>Shareholders' equity:</b>	
Preferred stock:	
Series A, \$.50 par value - 10,000 shares authorized, issued and outstanding	300
Series B, \$.50 par value - 10,000 shares authorized, issued and outstanding	300
Common stock, \$1.00 par value - 18,500 shares authorized, issued and outstanding	1,850
Paid in capital	950
Retained earnings:	
Appropriated	29,400
Unappropriated	37,282
Accumulated other comprehensive loss	(23)
<b>Total shareholders' equity</b>	<b>70,059</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$4,680,683</b>

The accompanying notes are an integral part of these statements.

## Consolidated Statement of Income

	For the Year Ended December 31, 2001
	(in thousands)
<b>Revenues:</b>	
Trading services	\$429,335
Custody services	162,221
Network services	60,562
Other services	86,041
Interest income	68,982
Equity in net income of Omgeo LLC	11,521
Total revenues	818,662
Discounts and other refunds to participants	(177,076)
Net revenues	641,586
<b>Expenses:</b>	
Employee compensation and related benefits	365,521
Information technology	113,220
Professional and other services	75,301
Occupancy	47,921
Interest expense	14,200
Other general and administrative	22,564
Reimbursement from affiliates	(28,420)
Total expenses	630,307
Income before income taxes and minority interests	11,279
Provision for income taxes	3,948
Income before minority interests	7,331
Minority interests -- preferred stock dividend	(1,988)
Net income	5,343
Other comprehensive loss -- foreign currency translation adjustments	(23)
Comprehensive income	\$ 5,320

*The accompanying notes are an integral part of these statements.*



## Consolidated Statement of Cash Flows

	For the Year Ended December 31, 2001
	(in thousands)
<b>Cash flows from operating activities:</b>	
Comprehensive income	\$ 5,320
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization of fixed assets	41,075
Loss on disposition of capital lease	144
Discount accreted net of premium amortized on investments owned	(2,372)
Changes in operating assets and liabilities:	
Increase in accounts receivable	(22,088)
Increase in deferred income taxes	(16,589)
Increase in other assets	(68,089)
Increase in accounts payable and other liabilities	127,027
Decrease in payable to participants	(866,147)
Increase in participants' fund cash deposits	194,287
Net cash used in operating activities	(607,432)
<b>Cash flows from investing activities:</b>	
Maturity of U.S. Treasury securities	131,413
Purchases of U.S. Treasury securities	(95,346)
Purchases of fixed assets	(46,172)
Net cash used in investing activities	(10,105)
<b>Cash flows from financing activities -- principal payments on notes</b>	(12,057)
Net decrease in cash and cash equivalents	(629,594)
Cash and cash equivalents, beginning of year	3,751,173
Cash and cash equivalents, end of year	\$3,121,579
<b>Supplemental disclosures:</b>	
Income taxes paid	\$ 13,634
Interest paid	\$ 18,985

*The accompanying notes are an integral part of these statements.*

# Notes to Consolidated Financial Statements

## 1 Business and Ownership:

The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports two principal subsidiaries, The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC). DTC is a registered clearing agency with the U.S. Securities and Exchange Commission (SEC), a member of the Federal Reserve System and a limited-purpose trust company under New York State banking law. DTC is a securities depository and a clearinghouse for the settlement of securities trading activity. NSCC, also a clearing agency registered with the SEC, provides various services to the financial community, consisting principally of securities trade comparison, recording, clearance and settlement.

In April 2001, European Central Counterparty Limited (EuroCCP) was formed as a wholly owned subsidiary of DTCC to provide clearing, netting, settlement and risk management services for European cross-border equity transactions and U.S. equity securities traded in Europe. EuroCCP, a United Kingdom Recognised Clearing House, is expected to commence operations in 2002.

In May 2001, DTCC formed a joint venture, Omgeo LLC (Omgeo), with The Thomson Corporation (Thomson) into which DTCC contributed, at book value, its institutional post-trade processing business. Omgeo combines the institutional trade-processing infrastructure of both DTCC and Thomson to provide for seamless global trade management and a securities industry solution for straight-through processing.

Effective January 1, 2002, the shareholders of Government Securities Clearing Corporation (GSCC), MBS Clearing Corporation (MBSCC) and Emerging Markets Clearing Corporation (EMCC) exchanged their ownership interests in those respective corporations for common stock issued by DTCC. The primary purpose of these exchanges was to achieve greater efficiencies between DTCC and the above companies by streamlining core processes, improving communication and technology innovation, strengthening risk management, expanding opportunities for cross-margining and positioning the industry for increased growth in global trading activity. The persons elected to serve on the Board of Directors of DTCC will also serve as directors on the Boards of each of its other domestic subsidiaries. The accompanying financial statements do not give effect to these exchanges.

## 2 Summary of Significant Accounting Policies:

**Basis of Presentation:** The consolidated financial statements include the accounts of DTCC and its wholly owned subsidiaries (the Companies). Intercompany accounts are eliminated in consolidation.

NSCC's ownership in GSCC of approximately 24% is included in other assets at a carrying value of \$2.4 million at December 31, 2001. The equity method is used to account for this investment,

limited to management's estimate of its realizable value. At December 31, 2001, NSCC also owns approximately a 10% interest in MBSCC and 14% interest in EMCC. These investments, which are carried at their respective costs of \$432,000 and \$495,000, are also included in other assets.

The operating results of DTCC also include the activities of the Mortgage Backed Securities Division (MBS) of DTC. The MBS Division operates with separate participants' fund requirements (see Note 3) and credit facilities (see Note 8). The MBS Division's operations consist principally of the settlement of Ginnie Mae securities. During the first quarter of 2002, this function is expected to be assumed by the Federal Reserve Bank of New York. Accordingly, the MBS Division will thereafter cease operations.

The carrying value of DTCC's investment in Omgeo, which is included in other assets, represents 50% of Omgeo's net worth adjusted for the difference in the book value of the assets contributed by the partners. DTCC's share of Omgeo's undistributed net income, adjusted for the impact of the amortization of the above difference, is included as revenue on the consolidated statement of income.

Omgeo's total revenue and net income in 2001 are \$117,527,000 and \$16,464,000, respectively. Further, Omgeo has elected to be treated in a manner similar to a partnership for federal and state income tax purposes. As a result of this election, Omgeo's federal and state taxable income is allocated proportionately to DTCC and Thomson.

**Cash equivalents:** The Companies invest funds in overnight reverse repurchase agreements and money market accounts, which are considered cash equivalents. Reverse repurchase agreements provide for the Companies' delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreements. Independent custodians designated by the Companies take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$2,461,922,000. The counterparties to these agreements were three major financial institutions.

Overnight investments made in commercial paper totaling \$162,156,000 are also included in cash equivalents. At December 31, 2001, the issuer of the commercial paper was one major U.S. bank holding company.

**U.S. Treasury securities:** U.S. Treasury securities are recorded at amortized cost. The market value of these securities, which are due in less than one year, is \$86,045,000. These securities were held in an account for the exclusive benefit of participants to facilitate participants' compliance with customer protection rules of the SEC.

**Accounts Receivable:** Accounts receivable consist of the following:

Due from the Companies' participants for services	\$ 50,942,000
Cash dividends, interest and related receivables	96,442,000
Other	14,471,000
Total	\$161,855,000

Cash dividends, interest and related receivables are presented net of an allowance for possible losses of \$500,000. Other receivables are presented net of an allowance for possible losses of \$1,443,000. Stock dividends receivable are not recorded in the consolidated financial statements.

**Fixed assets:** Fixed assets consist of the following:

Furniture and equipment	\$187,410,000
Leasehold improvements	157,750,000
Software	60,398,000
Leased property under capital leases	1,036,000
<b>Total Cost</b>	<b>\$406,594,000</b>

Furniture and equipment are depreciated over estimated useful lives ranging from three to seven years, principally using accelerated methods. Leasehold improvements are amortized using the straight-line method over the lives of the related leases or the useful lives of the improvements, whichever is less. Software is primarily amortized using the straight-line method over an estimated useful life of three years.

During 2001, the Companies capitalized software, which was developed for internal use or purchased, totaling \$19,373,000; the amortization charges were \$14,569,000.

**Income taxes:** Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. The net deferred tax asset is expected to be fully realized and, accordingly, no valuation reserve has been established.

**Discounts and other refunds to participants:** The Companies provide discounts on their billing to participants based upon the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by their independent user Boards of Directors. Such discounts amounted to \$140,472,000 in 2001. Further, there is a policy to provide participants a monthly refund of net income earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such monthly refunds totaled \$36,604,000 in 2001.

**Securities on deposit:** Securities held in custody by DTC for participants are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in participants' securities balances. Such short positions are valued and collateralized daily by participants' cash, U.S. Treasury securities and/or municipal bonds rated AA or better aggregating 130% of the short position. DTC's obligation to return such amounts to participants is also

reflected in payable to participants. At December 31, 2001, short positions amounted to \$30,377,000.

**Foreign currency translation:** For EuroCCP, the functional currency is the British pound. Assets and liabilities are translated into U.S. dollars using the year-end exchange rate; income and expenses are translated using the average exchange rate for the reporting period. Translation adjustments are deferred in accumulated other comprehensive loss, a separate component of shareholders' equity.

**Financial instruments:** Management believes that the carrying value of all financial instruments approximates market value.

**Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3 Participants' Funds:

The Companies' rules require most participants to maintain deposits related to their activities at the clearing agencies. The deposits are available to secure participants' obligations and certain liabilities of the Companies, should they occur.

The DTC participants' fund consists of deposits of cash and short-term U.S. Government securities. The calculated requirements are used to record the NSCC participants' fund. Deposits to this fund are made in cash, short-term U.S. Government securities and letters of credit issued by authorized banks.

A summary of the deposits held, including deposits in excess of calculated requirements, follows:

	DTC	NSCC
Cash:		
MBS Division	\$ 58,187,000	\$ —
Other	818,534,000	1,063,366,000
Securities issued or guaranteed by		
the U.S. Government, at market	206,217,000	1,089,445,000
Letters of credit issued by		
authorized banks	—	702,502,000

The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. The earnings on these investments are passed through to participants and are not included in interest income. In 2001, such earnings totaled \$66,274,000.

#### 4 Transactions with Related Parties:

**SIAC:** Under the terms of an agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by the New York Stock Exchange, Inc. (NYSE) and the National Association of Securities Dealers, Inc. (NASD), provides computer facilities, personnel and services in support of NSCC's operations. NYSE and NASD are shareholders of DTCC. SIAC charges NSCC for these services based on its direct and overhead costs arising from providing such services. The agreement has no expiration date and continues in effect unless prior written notice of cancellation is given by either party. Charges under this agreement totaled \$49,285,000 in 2001 and are included in information technology expenses. In January 2001, 71 former employees of SIAC were transferred to NSCC and the related cost of these employees is included in employee compensation and related benefits expenses. The amount payable to SIAC at December 31, 2001 was \$3,178,000. If this agreement is cancelled, NSCC is contingently liable for the cost of certain SIAC office and equipment leases through December 31, 2004, aggregating approximately \$6,189,000.

**NYSE and NASD:** NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2001, no amounts were due the NYSE or NASD.

**Omgeo:** DTCC has entered into an agreement with Omgeo to provide various support services and office facilities. In addition, certain employees were seconded to Omgeo to assist in its operations. At December 31, 2001, the receivable from Omgeo amounted to \$5,490,000.

**EMCC:** NSCC has entered into an agreement with EMCC to provide certain system development and operating services to EMCC. The agreement expires in 2002. At December 31, 2001, the receivable from EMCC amounted to \$648,000.

In 1999, NSCC entered into an arrangement with EMCC whereby NSCC pays for the computer services performed by SIAC for EMCC and charges EMCC a transaction fee based on the number of trades settled. The SIAC charges paid by NSCC and the transaction fees paid by EMCC during 2001 totaled approximately \$483,000 and \$479,000, respectively. At December 31, 2001, the cumulative excess of SIAC charges over the transaction fees since the inception of this arrangement is \$919,000. This amount may be recovered by NSCC through future increases in the volume of transactions or future increases to the transaction fee charged to EMCC.

**GSCC:** NSCC provides various computer services to GSCC through SIAC under NSCC's agreement with SIAC. NSCC also provides other support services and office facilities to GSCC. Further, in 2001, NSCC entered into an arrangement with GSCC whereby GSCC provides software development services to NSCC. At December 31, 2001, the receivable from GSCC amounted to \$400,000.

**MBSCC:** NSCC has entered into an agreement with MBSCC to provide various support services and office facilities. At December 31, 2001, the receivable from MBSCC amounted to \$296,000.

A summary of the charges related to Omgeo, EMCC, GSCC and MBSCC for the year ended December 31, 2001, follows:

(in thousands)	Omgeo	EMCC	GSCC	MBSCC	Total
Employee compensation and related benefits	\$11,164	\$ —	\$ —	\$ —	\$11,164
SIAC	—	479	5,423	—	5,902
Occupancy	1,773	—	628	233	2,634
Other, net	24,612	2,405	523	880	28,420
Total	\$37,549	\$ 2,884	\$6,574	\$1,113	\$48,120

DTCC's expenses are presented net of these charges for employee compensation and related benefits, SIAC and occupancy expenses.

#### 5 Payable to Participants:

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed unless claimed by the owners of the securities. Cash dividends, interest, reorganization

and redemption payables of \$938,517,000 are included in payable to participants on the consolidated balance sheet. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws. Stock dividends payable and unclaimed are not reported on the consolidated financial statements.

Payable to participants also includes settlement accounts payable of \$131,351,000, which primarily represent deposits received from NSCC participants to facilitate participants' compliance with customer protection rules of the SEC.

## 6 Pension and Other Post-Retirement Benefits:

DTCC has a noncontributory defined benefit pension plan covering substantially all full-time employees of the Companies as well as GSCC and MBSCC. The pension plan is qualified under section 401 (a) of the Internal Revenue Code. Pension benefits under the plan are generally determined on the basis of an employee's length of service and earnings. The funding policy is to make contributions under the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended.

Retirement benefits are also provided under supplemental non-qualified pension plans for certain officers of the Companies upon retirement. The cost of non-qualified defined benefits is determined based on substantially the same actuarial methods and economic assumptions as those for the qualified pension plan. The Companies maintain certain assets in trusts to meet their non-qualified retirement benefit obligations.

DTCC also provides health care and life insurance benefits to its eligible retired employees and the eligible retired employees of certain affiliated companies. The funded status and related components of the plans follow:

	Pension Benefits	Other Benefits
Benefit obligation at end of year:		
Qualified plan	\$ 265,508,940	\$ —
Other plans	65,255,868	38,478,086
	330,764,808	38,478,086
Fair value of plan assets at end of year	195,293,019	—
Funded status	(\$135,471,789)	(\$38,478,086)
Net accrued benefit cost recognized at year-end	(\$79,748,303)	(\$33,523,802)
Weighted-average assumptions as of December 31, 2001:		
Discount rate	7.25%	7.25%
Expected long-term rate of return on plan assets	9.00	—
Rate of compensation increase	4.50	—

For measurement purposes, an 8.8% annual rate of increase in the per capita cost of the covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5% for 2008 and remain at that level thereafter.

The components of pension and other benefits expenses follow:

	Pension Benefits	Other Benefits
Net benefit cost	\$23,115,513	\$5,009,193
Additional loss recognized due to:		
Special termination benefits	17,955,240	—
Curtailments	9,190,904	2,940,950
Settlements	3,781,016	—
Other	767,139	—
Total benefit cost	\$54,809,812	\$7,950,143
Employer contribution	\$18,414,747	\$ —
Benefits paid	7,738,583	664,981

## 7 Income Taxes:

DTCC, DTC and NSCC file a consolidated federal income tax return. DTCC and NSCC file combined New York State and New York City income tax returns; DTC files separate state and local returns. EuroCCP will file separate returns in the United Kingdom. The provision for income taxes for the year ended December 31, 2001, consists of the following:

Current income taxes:	
Federal	\$ 14,410,000
State and local	6,127,000
Deferred income tax benefit:	
Federal	(11,036,000)
State and local	(5,553,000)
Total income taxes	\$ 3,948,000

The effective tax rate is greater than the 34% Federal statutory rate primarily due to state and local taxes. The accrual of restructuring expenses in 2001 (see Note 12), which is not currently deductible, increases both the current income taxes due and the deferred income tax benefit.

The major temporary differences that give rise to the deferred tax assets (liabilities) are as follows:

Employee benefit related	\$52,942
Rent	14,671
Depreciation and amortization	15,732
Lease abandonment costs	10,511
Capitalization of software developed for internal use	(9,736)
Other	8,520
Net deferred income tax assets	\$92,640

## 8 Notes Payable and Lines of Credit:

Notes payable at December 31, 2001, amounted to \$44,647,000 and consist of unsecured borrowings with several domestic banks. The notes have a weighted-average interest rate of 6.78%. The annual maturities in 2002, 2003, 2004 and 2005 are \$11,819,000, \$10,828,000, \$8,000,000 and \$5,000,000, respectively; the balance matures in varying amounts through 2007. Interest expense related to these notes payable totaled \$3,568,000 in 2001.

DTC maintains \$3.5 billion (\$1.75 billion for the MBS Division) of committed collateralized lines of credit with 14 major

banks to effect settlement. In addition, to support processing of principal and income payments, DTC maintains a \$50 million committed line of credit and a \$350 million uncommitted line of credit for its MBS Division. DTC also maintains a line of credit of \$10 million to support potential short-term operating cash requirements. NSCC maintains a \$1.9 billion committed collateralized line of credit agreement with 14 major banks to provide for potential liquidity needs. At December 31, 2001, there were no outstanding borrowings under these credit facilities.

## 9 Shareholders' Equity:

(In thousands)	Preferred Stock		Common Stock	Paid in Capital	Retained Earnings		Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Series A	Series B			Appropriated	Unappropriated		
Balance at December 31, 2000	\$300	\$300	\$1,850	\$950	\$29,400	\$31,939	\$ —	\$64,739
Net income 2001	—	—	—	—	—	5,343	—	5,343
Foreign currency translation adjustments	—	—	—	—	—	—	(23)	(23)
Balance at December 31, 2001	\$300	\$300	\$1,850	\$950	\$29,400	\$37,282	(23)	\$70,059

Appropriated retained earnings represent an amount equal to the retained earnings of NSCC at December 31, 1999. Such retained earnings are available for the satisfaction of losses arising out of the clearance and settlement of transactions at NSCC (see Note 10). Such amount of retained earnings is excluded from the calculation of book value per share for purposes of capital stock transactions of DTCC.

## 10 Commitments and Contingent Liabilities:

The Continuous Net Settlement (CNS) system interposes NSCC between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of midnight of the day they are reported to the membership as compared/recorded. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the involved participants through the settlement process. At the close of business on December 31, 2001,

open positions due NSCC approximated \$1,898,256,000 and open positions due by NSCC to participants approximated \$1,394,128,000 for unsettled positions and \$504,128,000 for securities borrowed through NSCC's Stock Borrow Program.

During 1995, a Securities Investor Protection Corporation (SIPC) trustee was appointed to liquidate the business of Adler Coleman Clearing Corporation (ACCC), a former NSCC participant. NSCC and the SIPC trustee entered into an agreement in connection with the settlement of certain positions held by ACCC and NSCC. NSCC would be liable to the trustee if certain conditions occur for amounts which management estimates could be up to \$17,000,000 plus interest. At present, management is unable to determine with certainty NSCC's ultimate obligation. In 2001, NSCC has provided an additional \$421,000 for estimated liquidation losses, which are included in other general and administrative expenses. At December 31, 2001, the related accrual included in accounts payable and other liabilities is \$17,074,000, of which approximately \$4,975,000 is estimated interest.

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2001. Rent expense under these leases was \$40,636,000 in 2001.

At December 31, 2001, future minimum rental payments under all non-cancelable operating leases follow:

Year	Amount
2002	\$ 33,108,000
2003	29,096,000
2004	20,967,000
2005	22,099,000
2006	22,174,000
Thereafter	154,412,000
Total minimum rental payments	\$281,856,000

The Companies are involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation will not have a material effect on the consolidated financial statements.

#### **11 Off Balance-Sheet Risk and Concentrations of Credit Risk:**

In the normal course of business, NSCC guarantees certain obligations of its participants under specified circumstances (see Note 10). If a participant fails to fulfill its obligations, NSCC could be exposed to risk in amounts in excess of that recorded in NSCC's balance sheet.

NSCC mitigates its exposure to risk by requiring participants to meet NSCC established financial standards for membership, monitoring compliance with other financial standards established by NSCC and by requiring participants to provide participants' fund deposits in the form of cash, marketable securities or acceptable letters of credit (see Note 3).

If a participant fails to fulfill its settlement obligations with NSCC and NSCC ceases to act on behalf of the participant, NSCC would liquidate that participant's guaranteed security receive and

deliver obligations and apply the defaulting participant's fund deposit received to satisfy any net outstanding obligation and/or loss.

NSCC has entered into a netting contract and limited cross-guaranty agreement with DTC under which DTC has agreed to make payment to NSCC for any remaining unsatisfied obligations of the defaulting participant to the extent that DTC has excess resources belonging to the defaulting participant; in a similar manner, NSCC has agreed to make payment to DTC for any remaining unsatisfied obligations of the defaulting participant to the extent that NSCC has excess resources belonging to the defaulting participant. NSCC has also entered into limited cross-guaranty agreements separately with EMCC, GSCC, MBSCC and The Options Clearing Corporation (OCC) which provide for payments under similar circumstances. NSCC and OCC have also entered into an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant failure.

In the event that a deficiency still exists after the application of the DTC payment and/or payments from other clearing agencies, before NSCC may assess the membership, NSCC is required to apply against the deficiency at least 25% of its retained earnings or such greater amount to be determined by its Board of Directors. NSCC may assess the balance needed on a pro-rata basis to the remaining participants based upon their required participants' funds deposits.

As discussed in Note 1, DTCC, through its subsidiaries, provides various services to members of the financial community who participate in securities trade comparison, clearance and settlement. As such, DTCC has a significant group concentration of credit risk since participants may be impacted by economic conditions affecting the securities industry. As described above, such risk is mitigated in a number of ways.

#### **12 Restructuring Costs:**

In an effort to reduce costs, DTCC restructured its operations during 2001 incurring certain Voluntary Enhanced Retirement Option and severance costs. Accordingly, a provision for \$36,489,000 has been included in employee compensation and related benefits.

## Report of Independent Accountants



PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York, NY 10036

To the Board of Directors and Shareholders of  
The Depository Trust & Clearing Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and cash flows present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and its subsidiaries at December 31, 2001, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 8, 2002



# Senior Management DTCC

## Executive Leadership Team

**Jill M. Considine**  
Chairman & CEO  
DTCC

**Dennis J. Dirks**  
Chief Operating Officer  
DTCC  
President  
DTC & NSCC

**Kevin P. Carey**  
Managing Director,  
Human Resources

**Donald E. Donahue**  
Managing Director,  
Customer Marketing &  
Development Group

**Stuart A. Fishbein**  
Managing Director,  
Internal Audit

**Richard R. Macek**  
Managing Director &  
Chief Financial Officer

**Robert J. McGrail**  
Managing Director,  
New Business Ventures Group

**Richard B. Nesson**  
Managing Director &  
General Counsel

## Managing Directors

**William B. Aimetti**  
Managing Director,  
Operations, Corporate Services,  
Quality Initiative &  
Relationship Management

**Anthony J. Alizzi**  
Managing Director,  
Relationship Management

**Dwight Arthur**  
Managing Director,  
Product Marketing &  
Development

**Peter J. Axilrod**  
Managing Director,  
International Central  
Counterparty Services

**Ann Bergin**  
Managing Director,  
Mutual Funds

**Mary Ann Callahan**  
Managing Director,  
International/London Office

**John J. Colangelo**  
Managing Director,  
Asset Servicing & Operations

**Jacob Feuchtwanger**  
Managing Director,  
Applications Development

**John D. Fitzgerald**  
Managing Director,  
Product Development

**Stuart Z. Goldstein**  
Managing Director,  
Corporate Communications

**J. Randall Grespin**  
Managing Director,  
Insurance Services &  
Mutual Funds

**Vincent P. Hilly**  
Managing Director,  
IT Infrastructure

**Keith C. Kanaga**  
Managing Director,  
EMCC

**James Koster**  
Managing Director,  
Product Marketing &  
Development

**Ellen E. Levine**  
Managing Director,  
Risk Management

**Thomas McCarthy**  
Managing Director,  
Product Marketing &  
Development

**Richard J. O'Brien**  
Managing Director,  
Human Resources

**James J. Ronayne**  
Managing Director,  
Operations

**Karen Saperstein**  
Managing Director,  
Deputy General Counsel &  
Secretary

**John L. Scheuermann**  
Managing Director,  
Asset Servicing

**Jeffrey H. Smith**  
Managing Director,  
International

**Roberta J. Sonnenfeld**  
Managing Director,  
Quality Office

**Charles Taylor**  
Managing Director,  
Strategy Development

**Larry E. Thompson**  
Managing Director &  
Deputy General Counsel

**Carl H. Urist**  
Managing Director &  
Deputy General Counsel

**Jack R. Wiener**  
Managing Director &  
Deputy General Counsel

**Janet Wynn**  
Managing Director,  
Product Marketing &  
Development

**Avraham Zloof**  
Managing Director,  
Applications Development

**DTCC**

Tel: 212 855 1000  
e-mail inquiries:  
info@dtcc.com

**Online Addresses:**

www.dtcc.com  
www.dtc.org  
www.nsc.com  
www.gsc.com  
www.mbscc.com  
www.e-m-c-c.com  
www.euroccp.com  
www.omgeo.com

**Marketing & Sales Offices:****DTC**

New York  
Tel: 212 855 4155  
Fax: 212 855 4127  
e-mail inquiries:  
info@dtcc.com

**EMCC**

Tel: 212 855 1670  
Fax: 212 855 1699  
e-mail inquiries:  
info@e-m-c-c.com

**EuroCCP**

Tel: 44 20 7444 0000  
Fax: 44 20 7444 0404  
e-mail inquiries:  
info@euroccp.com

**GSCC**

Tel: 212 855 7500  
Fax: 212 269 0162  
e-mail inquiries:  
info@gsc.com

**MBS Clearing Corporation**

Tel: 212 855 7500  
Fax: 212 269 0162  
e-mail inquiries:  
info@mbscc.com

**NSCC**

New York  
Tel: 212 855 4155  
Fax: 212 855 4127  
e-mail inquiries:  
info@dtcc.com

**Joint Venture Offices**

Omgeo maintains  
offices in 40 countries  
around the world.  
Principal offices are:

**Boston**

Tel: 800 407 4264  
Fax: 617 772 5330

**London**

Tel: 44 20 7369 7777  
Fax: 44 20 7369 7081

**New York**

Tel: 212 855 1000  
Fax: 212 855 5441

**Hong Kong**

Tel: 852 2524 0076  
Fax: 852 2530 3595

e-mail inquiries:  
askomgeoamericas@omgeo.com

**Design:**

Taylor & Ives, Inc., NYC

**Editorial:**

Stuart Z. Goldstein, James M. Conmy

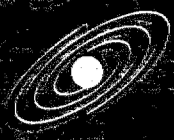
**Major Photography:**

William Taufic

# DTCC



## A Sampling of Services



# DTCC

Bringing value to an entire industry

The Depository Trust & Clearing Corporation  
www.dtcc.com

## Introduction

For nearly three decades, the DTCC family of companies has developed centralized, standardized and automated post-trade processing solutions and information services for virtually all sectors of the financial services industry, helping them to achieve greater efficiency, connectivity, streamlined financial settlement and reduced costs.

This brochure offers an overview of the support and solutions DTCC brings to the industry. It provides a snapshot of the range of services currently available and the capabilities we've demonstrated.

As a new generation of leaders in financial services takes on the challenges that are transforming both markets and the requirements of investors, we want to assure our customers of our steadfast commitment to meet these challenges with you. At DTCC, we play a central role in developing products and services that reduce technology investment and help markets grow.

Our goal is not only to help customers meet the current challenges, but to anticipate those that loom on the horizon. After solving an issue in one sector of the industry, we look to leverage our experience in helping identify synergies and create other services that offer additional efficiencies and reduce costs for our customers.

At DTCC, we are developing new solutions that are quick to market, innovative and demonstrate our ongoing determination to lead in this new era.

The Depository Trust & Clearing Corporation (DTCC) is a holding company for five clearing organizations—National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, Emerging Markets Clearing Corporation and European Central Counterparty Limited—and the world's largest international securities depository, The Depository Trust Company. DTCC is also a joint venture partner with Thomson Financial in Omgeo, a global company transforming institutional trade processing. Services listed in this publication are provided by these subsidiary organizations.

## What DTCC Delivers . . .

- World-class systems and networks that decrease costs year after year: nearly \$2 billion for our customers in the past 10 years alone.
- Centralized, automated and standardized processing capabilities that reduce technology costs.
- The ability to link manufacturers of financial products with their distributors, both inter-company and intra-company.
- The ability to create one solution for an industry segment, and then provide additional solutions to new and different problems over the existing network, creating new value and efficiencies.
- Automation of manual back-office procedures to help financial services firms expand into new business areas and grow their profits.
- International communication standards and protocols that provide a low-cost and accessible gateway to markets worldwide.
- The safety, security and certainty of a world-class organization with the highest credit ratings and an unrivaled track record for systems reliability.

## Proven Results:

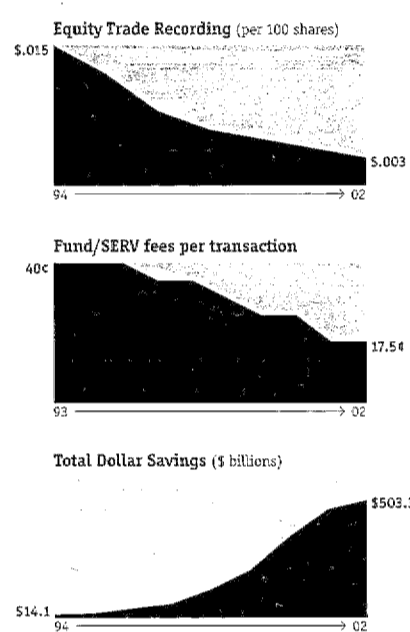
Our dynamic record of cost reductions year over year tells a compelling story of our dedication, skill, knowledge and experience in serving the financial services industry.

**Equities trades:** we have reduced clearing and settlement costs over the last 10 years by 85%

Saved our customers more than **\$1.7 billion** over the past 10 years by reducing fees for many of our services.

**Mutual fund trades:** we have reduced clearing and settlement costs over the last 10 years by more than 56%.

Not only do customers benefit from DTCC's economies of scale, they continue to realize internal opportunity savings by outsourcing numerous activities related to transaction processing.



## DTCC's real-life solutions for real-life problems

**Case #1: Controlling Technology Investment. Unable to communicate with its new subsidiary on certain key products, and unprepared to make new technology investments so soon after the acquisition, one company quickly solved its problem through DTCC.**

Shortly after a major financial services company acquired a broker-dealer firm, both companies realized they had a problem. Instead of quick data downloads and easy access to customer information on critical shared products, they had to resort to tedious faxes, hundreds of telephone calls and reams of paper. They were mulling a major new systems investment when DTCC offered a solution. DTCC already had links in place with both the parent company and the new subsidiary to handle customer account information, payment and record-keeping needs. Now, the parent and subsidiary communicate product information effectively via DTCC's centralized system—and the need for a huge systems investment has disappeared.

**Case #2: Leveraging Internet Technology. Increasingly frustrated by the administrative costs and inefficiencies in communicating with their distribution networks, a number of companies turned to DTCC for a solution...and got a revolution.**

Financial service companies rely increasingly on independent financial planners and advisers as conduits to sell their products. But to make customer information, product performance and commission status available to thousands of independent planners was a costly headache—until DTCC leveraged its Internet technology, putting this information at the fingertips of thousands of individual financial planners in real time. With a laptop computer, financial planners can now call up key client information in the client's own living room, enter money transfer instructions, and purchase or redeem shares . . . any time of the day or night. DTCC is saving companies millions in administrative costs while revolutionizing the sale and servicing of financial products.

**Case #3: Reducing Fixed Costs through Outsourcing. Saddled with high fixed costs for back-office handling of certain securities, several Wall Street firms turned to DTCC for a solution—and got one that cut their expenses drastically.**

Keeping custody of certain securities—and maintaining specialists on the payroll to deal with them when necessary—was running up huge costs for Wall Street firms. Then they outsourced the job to DTCC, which took custody of the securities and fed status and maturity information directly into the firms' own data systems. The result was that DTCC was able to centralize this service, achieving economies of scale while substituting low variable costs for high fixed costs—saving the Wall Street firms some \$20 million per year.

**Case #4: Expanding Access and Connectivity. Cramped by high processing costs and distribution dead-ends, financial service companies turned to DTCC for ways to expand distribution networks.**

In the early years of the mutual fund business, fund companies turned to DTCC for help in standardizing and lowering processing costs. Not only did DTCC help spur growth and expansion of the mutual fund market by building a low-cost processing business, it also saved the industry millions in the process. In today's competitive market, DTCC is still serving the industry by standardizing and expanding its connectivity—through asset transfer, commission settlement and fund data programs—to an ever-broadening fund sales and distribution network.



# DTCC

## A Sampling of Services

The Depository Trust & Clearing Corporation  
www.dtcc.com



Service	Description	Broker/ Dealers	Banks	Mutual Funds	Insurance Carriers
<b>Clearing and Settlement</b> (equities, corporate and municipal bonds)					
<b>Automated Customer Account Transfer Service (ACATS)</b>	Automates and standardizes the timely transfer of customer account assets from one financial institution to another	X	X	X	
<b>Continuous Net Settlement (CNS)</b>	An automated book-entry accounting system that nets and guarantees financial and security settlement	X			
<b>Fixed Income Transaction System (FITS)</b>	Provides an automated and standard way to handle the comparison and settlement of municipal and corporate bond transactions and UITs	X	X		
<b>Settlement</b>	Facilitates end-of-day net settlement through automated book-entry movement and same-day funds through the Fedwire system	X	X	X	X
<b>CNS Stock Borrow</b>	Facilitates the borrowing and lending of securities to support customers who require additional inventory to cover short positions, and to allow customers with long positions to earn interest on excess securities	X	X		
<b>Custody and Asset Services</b>					
<b>Custody/Safekeeping</b>	Lets brokers or banks use the depository's vaults to store physical securities they maintain on behalf of their customers in customer name	X	X		
<b>Dividend Service</b>	Facilitates the announcement, collection, allocation and reporting of dividends, interest and certain principal payments for securities that are depository-eligible	X	X		
<b>Direct Registration</b>	Provides an automated way to register shares electronically in a specific customer's name directly on the books of transfer agent and electronically transfer those shares between a transfer agent and broker	X	X		
<b>Global Corporate Action Hub (GCAH)</b>	Provides a secure, real-time Internet based communications link among custodians, investment managers and brokers in an automated corporate action processing system to exchange information on pending corporate actions such as mergers, tender offers, etc.	X	X		
<b>Money Market Instruments</b>	Facilitates the issuance, distribution and redemption of money market instruments entirely in book-entry form	X	X		
<b>Reorganization Service</b>	Provides information about various reorganization activities (e.g., mergers, tender offers, etc.) and processes actions (e.g., a decision to tender shares) on behalf of a bank or broker	X	X		
<b>Restricted Deposit Service</b>	Uses the depository to handle the removal of restrictions on securities faster and more effectively	X	X		
<b>Underwriting</b>	Allows underwriters to distribute both primary and secondary offerings of securities quickly and cost-effectively via the depository's electronic book-entry delivery and settlement	X	X		
<b>Mutual Funds</b>					
<b>Commission Settlement</b>	Automates and consolidates mutual fund commission information and settlement between mutual funds and their distributors	X	X	X	
<b>Defined Contribution Clearance &amp; Settlement (DCC&amp;S)</b>	Centralizes and automates the purchase, redemption and settlement of mutual fund transactions for defined contribution plans [e.g., 401(k), 403(c), etc.] by linking plan administrators, trustees and mutual fund companies	X	X	X	
<b>Fund/SERV</b>	Links mutual fund families with broker/dealers, banks, insurance carriers and financial planners for the processing of orders, redemptions and settlement of fund transactions	X	X	X	X
<b>Fund/SPEED</b>	Provides real-time exchange of customer account and order information between financial planners, banks, broker/dealers and others, and mutual fund companies	X	X	X	X
<b>Mutual Fund Profile Service (MFPS)</b>	Provides brokers with audited daily fund prices and rates, information on fund characteristics, contacts and processing capabilities	X	X	X	
<b>Networking</b>	Automates record-keeping of client level information and allows that information to be exchanged between funds and their distributors	X	X	X	X
<b>Transfer of Retirement Assets (ToRA)</b>	Lets mutual fund families electronically transfer the value of mutual fund shares held in IRAs between themselves when a client moves from fund to fund			X	
<b>Insurance Services</b>					
<b>Annuity Applications and Premiums</b>	Transmits annuity application and premium information from distributors to the issuing insurance carrier, and settles the premiums	X	X	X	X
<b>Commissions and Compensation</b>	Transmits information regarding payments, advances and chargebacks of periodic asset-based compensation, ad hoc transaction-based commissions and bonuses from carriers to their distributors and settles the compensation dollars	X	X	X	X
<b>Financial Activity Reporting</b>	Provides insurance distributors with the details of financial transactions such as disbursements, rebalances, asset allocation changes, and partial withdrawals that affect an annuity or life insurance contract	X	X	X	X
<b>License and Appointments</b>	Provides a two-way flow of information between insurance carriers and distributors, transmitting license and appointment data in either direction	X	X	X	X
<b>Positions and Valuations</b>	Transmits information from a carrier to its trading partners on individual life insurance or annuity contracts and their underlying assets, accumulation units and valuations	X	X	X	X
<b>Pricing</b>	Transmits information from insurance carriers to the distributors of their products on the daily prices of those products (e.g., annuities)	X	X	X	X
<b>Government Securities</b>					
<b>Trade Comparison</b>	Automated batch and real-time trade comparison for the purchase and sale of government securities	X	X	X	X
<b>Netting and Guaranteed Settlement</b>	Reduces the number of settlements and guarantees the settlement of net positions	X	X	X	X
<b>Repo Services</b>	Provides comparison, netting, risk management and balance sheet offset benefits. General Collateral Finance and Special Repos are also handled through the service	X	X	X	X
<b>Treasury Auction Takedown</b>	Nets Federal Reserve auction purchases, reducing settlement risks and costs	X	X	X	X
<b>Mortgage-Backed Securities</b>					
<b>Trade Comparison/Confirmation</b>	Automates trade comparison and 10b-10 confirmation for purchase and sale of mortgage-backed securities. Real-time matching will be available in 2002	X	X	X	X
<b>Trade Netting</b>	Reduces the number of financial obligations involving mortgage-backed security transactions requiring settlement	X	X	X	X
<b>Electronic Pool Notification</b>	Allows members to electronically communicate to their contra-sides the underlying securities involved in MBS trades	X	X	X	X
<b>International</b>					
<b>Emerging Markets Clearing Corporation</b>	Provides clearance and settlement services for emerging market debt instruments, including Brady bonds and sovereign debt	X	X		
<b>European Central Counterparty Ltd.</b>	Provides pan-European clearing, netting, settlement and risk management services in U.S. and European issues. Nasdaq Europe is the first market to use EuroCCP's services	X	X		
<b>European Pre-Issuance Messaging (EPIM)</b>	Automates the issuance and sale processing of European commercial paper by linking organizations settling trades with dealers and issuing agents	X	X		
<b>Global Tax Services</b>					
<b>Domestic Tax Reporting Service (DTAX)</b>	Accumulates year-end tax reporting and reclassification information on various U.S. security types in a centralized database to help U.S. participants meet U.S. dividend and interest reporting requirements	X	X	X	X
<b>DTC TaxInfo</b>	Provides a tax information database on to U.S. participants on withholding rates and tax relief opportunities related to international securities held at the depository	X	X		
<b>DTC TaxRelief</b>	An automated communications facility that allows U.S. participants to withhold international tax for themselves and their customers either immediately at the time a payment is made, or subsequently through accelerated refunds	X	X		
<b>DALI</b>	Provides a technology solution to help both U.S. and non-U.S. financial institutions comply with U.S. tax withholding regulations requiring detailed information on non-U.S. investors	X	X	X	X
<b>U.S. Tax Withholding Service</b>	An automated service that enables non-U.S. financial institutions holding U.S. securities at the depository to easily and quickly comply with non-resident alien tax withholding rules and minimize tax withheld	X	X		





**The Depository Trust &  
Clearing Corporation**  
[www.dtcc.com](http://www.dtcc.com)