



The Depository Trust & Clearing Corporation

putting

first

Annual Report 2006

Our purpose

is to help grow the world economy by furthering the development of low-cost, efficient capital.

Our mission

is, by 2010, to be the acknowledged world-class provider of servicing solutions to financial markets through leadership, innovation, technology, risk management and strategic alliances.

Our values

provide the moral compass by which we operate, binding us together and underscoring our approach to business for all DTCC employees. They include integrity and trust, quality and excellence, customer focus, employee focus and respect, innovation and teamwork.

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Senior Management IBC

DTCC is the most **cost-efficient, quick-to-market** and **high-quality** infrastructure service provider comparably in the world.

As a user owned and governed service organization, DTCC operates on an “at cost” basis. **Customers benefit** from commoditizing their post-trade processing and settlement through a central service provider, which ensures certainty, reliability and the return of any excess profit to customers, in the form of discounts and rebates.

The secret of our success is no secret at all. We work tirelessly with customers, marketplaces, regulators and trade groups on a **global basis** to anticipate and understand trends transforming financial services. We work collaboratively with partners and other service providers to develop **flexible technology** solutions that maximize usage and help our customers grow revenue.

And we leverage our experience and technology across the DTCC complex to bring solutions to market quickly. It's not size that gets the job done, it's know-how.

Our leadership position is driven by a simple principle: an uncompromising and enduring commitment to **putting the needs of customers first.**

91%

For three consecutive years, DTCC has received **world-class customer satisfaction scores**

in surveys conducted by an independent research firm.

The results underscore our ongoing commitment to quality and excellence – and serving the needs of customers.



How we serve our customers

Total Value of NSCC
Equity, Bond and ETF
Transactions Processed:

\$174.9
Trillion

Total Value of
Asset Servicing and
Underwritings:

\$7.63
Trillion

Value of Mutual
Fund Transactions
Processed:

\$2.1
Trillion

Value of Government
Securities
Transactions
Processed:

\$864.1
Trillion

Volume of OTC
Derivative
Transactions Confirmed
by Deriv/SERV:

2.6
Million

Value of Securities
on Deposit:

\$36
Trillion

Value of Securities
Settled through DTCC:

\$1.53
Quadrillion

Value of Insurance
Applications,
Premiums and
Commissions Processed:

\$16.3
Billion

Market Value of
Electronic Book-
Entry Deliveries:

\$179
Billion

Value of
Mortgage-backed
Securities
Transactions
Processed:

\$76.1
Trillion



Quick-to-Market

DTCC gets it. They know that, because the pace of change is accelerating for technology innovation, industry consolidation and globalization, they must be even faster on their feet. DTCC has committed to providing customers with high-quality and quick-to-market solutions that meet our needs, whether DTCC builds them, buys them or partners with others to deliver them.

”

Quotes on this and other pages are drawn from customer comments in DTCC's 2006 Customer Satisfaction Survey.

Dear Stakeholder:

D

uring 2006, DTCC achieved a number of important milestones, but two are especially significant. First, we settled in excess of \$1.5 quadrillion in securities transactions, which reflects the breadth of financial instruments we support and the scope of services we provide to customers. Second, we celebrated receiving a 91% overall customer satisfaction score in a survey conducted by an independent consultant, which underscores the depth of the commitment across all of our business lines to quality and excellence.

At DTCC, “putting customers first” is ingrained in the culture – and it’s at the heart of our business model. Since we operate “at cost”, our customers are assured that they will benefit from the efficiencies of critical mass and tight fiscal controls. Last year, we returned over \$580 million in rebates, discounts and interest to customers, and we again reduced transaction fees for 2007 by \$81 million.

As we look at trends shaping the industry, we see the merger of the New York Stock Exchange with Euronext as just a next step in a bigger, more complicated, global transformation of capital markets that’s under way. We understand the pressure on our customers to reduce risk and costs is driving them toward strategies that include creating new investment instruments, trading strategies, risk transfer vehicles and much more sophisticated market mechanisms and capabilities.

As time goes on, and as financial resources are invested across a broader range of markets, the nature of the financial services industry will become even more diverse and complex. At the center of this global transformation is the need for a more efficient infrastructure.

More than six years ago, DTCC published a white paper and co-sponsored a conference of central counterparties (CCPs) in London where we discussed the “genuine and serious need throughout the industry for the kind of risk and cost reductions that CCPs can provide.” We were strong advocates for consolidation of CCPs and clearing services. And where consolidation was not appropriate, we encouraged CCPs to work toward greater interoperability. We characterized in a speech to the CCP delegates that the centralization of clearing services was “the CCPs’ opportunity to invent the future.”

We continue to believe that increasing the interconnection of CCPs is key to the globalization of capital markets – but more importantly, our customers believe this.

DTCC, obviously, is in a position to play a significant role, both by directly providing our own services and working with other counterparties, to help create a seamless, borderless and low-cost trading environment.

The challenge for DTCC, and our counterparties around the world, is that customer expectations are accelerating at almost warp speed. The demands customers are putting on us are growing by orders of magnitude greater than they were even three years ago. Whether trading is on an exchange or

How our Customers see us

Equity-Related
Services:

97%

Satisfaction
with Relationship
Managers:

91%

Integrity
and Trust:

94%

Securities
Processing
Services:

95%

Breadth of
Products and
Services:

90%

Reliable
Technology:

93%

94%

of Senior Officers
See DTCC as
the "Go To"
Solutions Provider

Transaction
Processing
Capabilities:

95%

Mutual Fund
Services:

90%

These numbers are from DTCC's most recent Customer Satisfaction Survey, conducted by an independent research firm. The research firm indicates that scores above 85% are considered world-class. Nearly half of the firms who responded to the survey identified themselves as providing global financial services.

As globalization takes hold in financial services, DTCC has the capacity to address emerging issues and the competitive drive to lead the industry.

over-the-counter, there's a whole new level of innovation required of us, and a much shorter time period to develop the kind of capabilities the industry needs. And like our customers, we must be prepared for business 24/7, not just in one market, but in markets and time zones throughout the world.

DTCC has worked hard to demonstrate our ability to deliver services globally and be quick-to-market with complex, highly tailored and new technology solutions, as in the growing over-the-counter derivatives markets. Delivered in nine months, our Deriv/SERV platform has been credited with increasing confirmation rates for credit default swaps to 80% from 15% only two years ago. Our aggressive systems development and implementation schedule has allowed us to enhance the platform's capabilities shaped by customer experience and growth requirements.

Deriv/SERV handled a record 2.6 million transactions in 2006, more than double last year's volume.

At the same time, we developed and launched in 2006 our Trade Information Warehouse for OTC derivatives – which provides a comprehensive trade database and support infrastructure that automates and standardizes post-trade processes (such as payments, notional adjustments and contract term changes) over a contract's life, which can extend for years. The warehouse reduces operational risk by automating manual, bilateral reconciliation and processing for Deriv/SERV's 753

customers, which include global derivatives dealers, traditional asset managers, global investment banking firms and hedge funds.

To provide global settlement services for the warehouse, we announced a partnership with CLS Bank International, which settles in 15 currencies and is an integral part of the foreign exchange market.

In addition to being quick-to-market with global solutions, DTCC has a multi-decade history and track record in managing risk – such as credit, market and operational risks. DTCC's extensive experience and sophisticated risk management capabilities have protected customers across financial sectors from several major events where a participant failed or circumstances required a careful wind-down of business.

As globalization takes hold in financial services, we believe DTCC has the capacity to anticipate and address emerging issues and trends. We are committed to exceeding customer expectations, we embrace a bottom-line accountability for results, and we have the competitive drive to lead the industry.

Never have we been more prepared or clear about our mission.

Overall Performance In 2006, DTCC set another record in its core clearance and settlement business. This past year, DTCC subsidiaries processed on average \$6.1 trillion worth of transactions each business day, up 8% over 2005. This increase reflected strong trading activity across the markets.

The volume of equity transactions processed grew to over 8.5 billion during 2006, an increase of 29% from 6.6 billion in the prior year. The value of these transactions jumped to \$174.9 trillion from \$130.7 trillion in 2005.

Through "netting", DTCC's clearing subsidiaries are able to reduce the total number of trade obligations requiring financial settlement. Of the record \$174.9 trillion in equity securities transactions processed in 2006, we eliminated or netted down \$171.1 trillion (98%), so only \$3.8 trillion required an exchange of securities and funds. Netting significantly reduces industry risk and helps customers optimize capital.

For U.S. government securities, volume declined 2%, to 24.9 million transactions from 25.5 million in 2005. The value of these transactions also declined slightly to \$864 trillion in 2006, from \$874 trillion previously. Netting reduced the number of government securities transactions requiring settlement by 76%, to \$206.9 trillion from \$864 trillion.

Mortgage-backed securities volume grew 3%, to 1.7 million transactions in 2006, but the value of these trades remained relatively flat at \$76 trillion.

During 2006, the value of book-entry movements of securities ownership handled by DTCC's depository jumped 20% to \$179 trillion. The depository also settled \$140 trillion in money market instruments, up 23% over 2005. In addition, it handled the underwriting for nearly 51,000 IPOs and other securities offerings, up 8% in 2006, and valued at \$4.4 trillion.

Servicing assets held by the depository is a critical function performed for DTCC customers. Last year, we processed nearly \$3.3 trillion in cash, dividend, interest, redemption and reorganization payments, up from \$2.8 trillion in the prior year.

DTCC's mutual fund services and insurance businesses also saw growth in transaction volumes. Our Fund/SERV system supports over 1,000 fund families and broker/dealers, and the value of mutual fund transactions processed in 2006 increased 24%, to \$2.1 trillion. Our Insurance Services business also experienced growth in the value of insurance applications, premiums and commissions processed, up 25%, to over \$16 billion.

DTCC's fee-based services generated revenue of \$1 billion in 2006. This is 5% below 2005 revenue due to the fee cuts DTCC implemented in 2006, which saved customers \$186 million for the year.

DTCC's strong financial performance and ability to continue driving down customer costs is attributable to an enterprise-wide focus on cost controls, productivity, Six Sigma/quality process management tools and other metric-based initiatives.

In 2006, Standard & Poor's again validated the financial soundness of our operating subsidiaries, DTC, NSCC and FICC, each of which maintained AAA/A-1+ credit ratings.

Thinking and Operating Globally As our customers and our marketplaces operate around the world, DTCC's strategy is to provide them with the same highly-efficient, low-cost services they've come to expect from us.

Several years ago, anticipating the current marketplace consolidation, for example, DTCC redesigned our clearing systems with capabilities that can readily accommodate practices in other markets, such as incorporating multiple settlement cutoffs. Our subsidiaries can accept real-time input from exchanges and other markets outside the United States, as well as trades in multiple currencies. And our depository can settle and service assets in several currencies, with the flexibility to add more, as needed.

DTCC celebrated its 91% customer satisfaction survey score at employee events last fall.



New Global Services In 2006, we also launched our Managed Accounts Service, which will automate and streamline communication among investment managers, sponsoring broker/dealers and service providers, in a market that reached \$856 billion last year. Citigroup Smith Barney and its Global Transaction Services unit joined in the launch, and more than 60 firms are now looking to leverage this service to support their high net worth investors.

We've also been working with the buy side community to support the growing market for alternative investment products. A pilot group of fund administrators and broker/dealers has already begun testing DTCC's automated platform, with a formal launch expected in 2007. With hedge fund assets estimated at \$1.4 trillion last year, global interest in this new service is growing.

Lastly, as market activity and mergers grow worldwide, the number of global corporate action announcements grew as well. DTCC's Global Corporate Action Validation service, with round-the-clock coverage of securities from 160 countries, is leading the way in reducing risk by supplying the correct information to make corporate action announcement and trading decisions.

Building Stronger Relationships We have also looked to establish more formal relationships with counterparts around the world, especially in Asia and South America, where DTCC subsidiaries have worked with local infrastructure organizations over the years. In 2006, we were pleased to sign an agreement with the China Government Securities Depository Trust & Clearing Co., Ltd., to foster business collaboration. We also announced a new international account with Japan Securities Depository Center, Inc., (Jasdec) to facilitate the post-trade processing and custody of U.S. securities listed on Japanese stock exchanges.

Working Closely with Omgeo Omgeo, DTCC's joint venture with Thomson Financial, whose main business is to streamline post-trade, pre-settlement trade management for institutional investors, has steadily grown its revenue, its customer base and its brand recognition in U.S. and international markets.

We believe as DTCC's business activities expand globally, such as our support of OTC derivatives, there will be more opportunities to link customers through Omgeo and leverage synergies between our respective organizations.

Reengineering for the Future While DTCC is always working with customers to develop new services and capabilities, we also focus on maintaining and upgrading our core systems. Our goal is to ensure DTCC's legacy applications and telecommunications infrastructure have the flexibility and scalability to meet the industry's requirements.

In 2006, we increased the capacity of our mainframe database for equity processing to handle 160 million sides per day or more than three times our previous peak volume of 50.1 million sides. On February 27, 2007, when the market declined more than 400 points, DTCC handled a record 76.7 million transactions seamlessly.

DTCC is also in the midst of a multi-year reengineering of our corporate action and underwriting processing platforms, with the underwriting launch scheduled for 2007. The entire project, to be completed in 2009, will create a single, integrated platform for processing both U.S. and the growing number of eligible global securities. This initiative will bring greater standardization and reduced risk to asset servicing, an increasingly global and complex industry segment.



Mitigating Industry Risk DTCC has a hard-earned reputation as a trusted leader and contributor to the safety and soundness of capital markets. In 2006, we continued strengthening our highly sophisticated risk systems and methodologies.

We expanded the Value at Risk methodology used by DTCC's equity clearing corporation to include the Fixed Income Clearing Corporation. This change will match a customer's clearing fund requirements more closely to risk, while reducing overall funding levels.

We also moved toward standardizing collateral requirements for our clearing corporations, which will take effect in 2007, while expanding the types of financial instruments customers can use as collateral. Lastly, collateral premium rules for our clearing corporations were revised to give DTCC subsidiaries better controls in determining whether there is adequate collateral set aside for potential risks. All of these changes help to improve liquidity and mitigate risk.

Regulatory Compliance and Operational Risk At the heart of our regulatory compliance program is a commitment to employee awareness and personal responsibility, which is reinforced through training and ongoing communications. In 2006, every DTCC employee completed training seminars on anti-money laundering and information security. We also published a seminal employee handbook on regulatory issues titled, "Safeguarding Our Reputation", as well as a special edition of the employee newsletter dedicated to this topic.

During 2006, we expanded our information security and privacy programs to protect sensitive customer data, including external computer threats and compliance requirements by third-party vendors. And DTCC upgraded its procedures for screening securities in line with U.S. Treasury Office of Foreign Assets Control (OFAC) requirements.

Succession Planning The issue of succession planning has been a high priority at DTCC – as it has been across the industry, with the baby boomers moving toward retirement. The company's announcement mid-year that Don Donahue would assume the responsibility of CEO was but one step in a multi-year plan to have in place a bench strength of senior management talent to ensure the continuity of leadership, talent and reliability of this organization.

The plan also includes recruiting talent externally and growing leaders from within. In many ways, addressing the succession issue is a natural extension of our ongoing focus on business continuity planning and risk management. We understand that our people – their knowledge, experience and growth – are the most critical asset we have. Our plan is focused not only on building the next generation of leaders, but to also develop skills and create a learning environment for all employees across the complex.

DTCC also continues to be very aggressive in ensuring our workforce is diverse and increasingly reflects the global environment in which we operate.

As our customers and marketplaces operate around the world, DTCC's strategy is to provide the same service they've come to expect from us.



Our Board of Directors DTCC's Board of Directors underwent several changes in 2006, with the election of five new directors and the retirement of six others. We give a heartfelt thanks to those who stepped down for their years of service. We value the commitment, expertise and insights of all our Board members, past and present. Invaluable for their guidance and collective wisdom about our industry, they have helped DTCC to transform, consolidate and grow, continually strengthening our ability to serve customers. And their vision will have an enduring impact as DTCC charts its course in the years ahead.

Our Advantage: Dedicated Employees For the third year in a row, DTCC received world-class customer satisfaction survey scores. We thought this warranted a special celebration, and last September we held events to thank and recognize our employees. We've featured photos of employees from these events in this letter.

We thank our employees for their tireless efforts. Our employees are smart, responsive, collegial, inquisitive, committed and results-driven. They take new challenges in stride; they work tirelessly on the industry's behalf; they adapt to change without missing a beat; and they understand how critical our role is to safeguarding customers and the soundness of capital markets.

But aside from being a source of enormous pride to management and our Board, we believe this employee commitment to quality and excellence will also be a growing source of advantage as customers choose service providers on a global basis.

Jill M. Considine
Chairman

Donald F. Donahue
*President &
Chief Executive Officer*





Transformational Solutions

“DTCC has a long history of bringing automation, standardization and centralization to post-trade processing. Now, they’re really accelerating efforts to establish global solutions using international standards and protocols. The goal is nothing less than helping to transform financial services for the U.S. and other global markets.”

Clearance and Settlement

G

lobally, the volume of securities traded in 2006 set new records, and U.S. markets were no exception.

EQUITIES

DTCC's clearing subsidiary, National Securities Clearing Corporation (NSCC) provides clearance and settlement services for virtually all trades done on the NYSE, Nasdaq, the American Stock Exchange and for all regional exchanges, electronic communications networks and alternative trading systems in the United States. With increased algorithmic trading activity, the expansion of new trading platforms and the impact of decimalization all driving volumes to higher and higher levels, NSCC processed a total of 8.5 billion transactions, up 29% from 6.6 billion in 2005. The total value of these transactions in 2006 increased to \$174.9 trillion from \$131 trillion, a 34% increase over 2005.

Increasing Capacity and Performance for

Customers During 2006, DTCC overhauled its processing capabilities to significantly increase the capacity, performance and efficiency of its core mainframe database for equities, corporate and muni bonds and UIT transactions processing. The Trade Repository Processing system was upgraded and reconfigured to process at least 160 million sides per day, triple the previous peak daily volume of transactions. Concurrently, DTCC also

upgraded its risk database to accommodate higher volumes anticipated in the future, as every incoming trade must be filtered through this risk assessment system. NSCC also filed with the U.S. Securities and Exchange Commission (SEC) in 2006 to modify its rules regarding Clearing Fund collateral requirements from customers in order to improve liquidity and minimize risk.

To reduce risk, increase efficiency and optimize available capital for the financial services industry, NSCC nets down, or reduces, the total number of trade obligations each day requiring financial settlement. On its peak volume day of June 8, NSCC handled a record 50.1 million transactions, worth more than \$1 trillion, up 47% above an average volume day in 2006. Through netting, NSCC reduced the total value of trade obligations requiring financial settlement from \$1 trillion to just \$16.6 billion, a netting factor of 98%. On a yearly basis in 2006, NSCC's Continuous Net Settlement system (CNS) reduced financial settlement from \$174.9 trillion to \$3.8 trillion, a netting factor of 98%.

While NSCC provides final settlement instructions to its customers each day, the payment and movement of securities ownership occurs at The Depository Trust Company (DTC). In addition to NSCC transactions, DTC settles institutional trades, money market instruments and other financial obligations. As DTCC's depository, DTC also eliminates the movement of securities by providing book-entry deliveries, which transfer the ownership of securities electronically. Like trading volumes, book-entry deliveries continued to climb in 2006, to 292.7 million from 263 million deliveries in 2005, up 11%. The value of these



Quantitative Solutions

"We count on DTCC's reliability and risk management capabilities as we pursue our quantitative strategies in fixed income markets and products. As customers, we support DTCC's quest to find new ways to automate processes and reduce the associated costs. These are critical components for creating greater efficiency in the marketplace."

By netting down the total number of trade obligations each day requiring financial settlement by **98% on average**, we reduce risk and help the industry optimize capital.

deliveries was \$179 trillion, up by 20%. Trading in money market instruments also climbed to record values in 2006, with a total \$140 trillion in these instruments settled by DTC, up from \$113.8 trillion the prior year, an increase of 23%.

DTCC has an extensive business continuity program, which includes a fully redundant, self-healing telecomm network, multiple data centers and operating sites throughout the U.S. and overseas to ensure the markets' safety, certainty and soundness. In 2006, DTCC successfully introduced EMC Corporation's industry-leading SRDF®/Star software into its business continuity strategy. This new technology allows DTCC to reduce the time to replicate huge volumes of data over long distances from 30 minutes to less than two minutes.

GLOBAL CLEARANCE AND SETTLEMENT ACTIVITIES

Enhancing Cross-Border Capabilities DTCC's clearing and settlement systems have been built with the flexibility to accommodate practices in other markets by incorporating multiple settlement cutoffs, for example, and its subsidiaries can accept real-time input from exchanges and other marketplaces outside the U.S., accepting trades in multiple currencies. And DTCC's depository has the ability to settle and service assets in currencies other than the U.S. dollar, with the flexibility to add additional currencies as needed.

With regard to cross-border exchange mergers, such as the NYSE merger with Euronext, DTCC has made systems enhancements this year to meet specific requirements, and is prepared to deploy those changes on an accelerated timetable. Since almost half of its customers are firms that operate on a global basis, DTCC continues to expand facilities in the U.K. and China, as well as provide customer servicing capabilities on a 24/7 basis.

Creating a New Canadian Settlement Link

Responding to customers' increasing needs for transaction settlement across borders, in 2006 DTCC created a new link with The Canadian Depository for Securities Ltd. (CDS). The link substantially reduces cross-border processing costs and boosts efficiencies, eliminating problems associated with maintaining split inventories in Canadian and U.S. securities and allowing customers to consolidate all U.S. and Canadian security positions in their DTC accounts.

JASDEC and DTCC Integrate Settlement and Asset Servicing for U.S. Issues To facilitate post-trade processing and custody of U.S. securities on international markets, DTCC and the Japan Securities Depository Center, Inc. (JASDEC), Japan's central securities depository, also announced in 2006 the creation of a new international link to integrate settlement and asset servicing of U.S. issues listed on Japanese stock exchanges

Left:
Diane Babich
Director
Relationship Management

Robert M. Yodice
Director
Product Marketing &
Development

Right:
Leon M. King
Account Executive
Relationship Management

Susan Geigel
Director
Legal



within JASDEC's depository accounts. With this new link, the securities can be traded on Japan's markets and the transactions settled in yen, with any book-entry movement of the securities recorded by JASDEC accounted for within DTCC's depository.

Information Sharing and Collaboration with China DTCC and the China Government Securities Depository Trust & Clearing Co., Ltd. (CDC) signed an agreement late in 2006 to foster business collaboration and build a working relationship between these two major financial infrastructure organizations, exploring business subjects ranging from the clearance, settlement and custody of securities to the processing of derivatives and corporate actions.

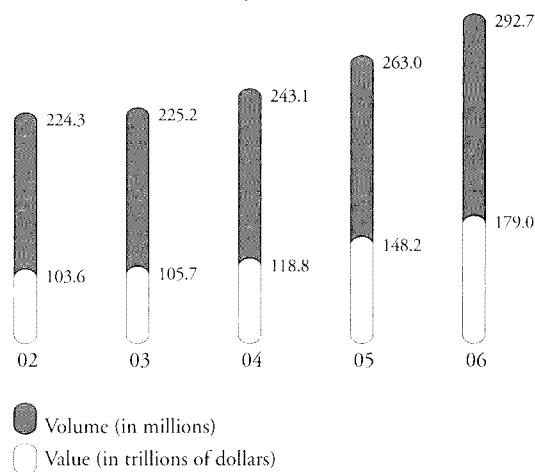
DTCC Adds New Stock Exchange to Clearance and Settlement For the first time in nearly a decade, DTCC began accepting transaction data from a new exchange in its clearance and settlement applications in 2006. New York-based International Securities Exchange (ISE) received approval from the SEC to trade equities in September. ISE operates on NSCC's Regional Interface Operation (RIO) Trade Capture and Reporting application, which can clear U.S. domestic equities and corporate bond transactions from the regional markets.

New Link Between DTC and Omgeo Delivers Real-Time Data Transmission

Late in 2006, DTCC and Omgeo implemented a new real-time link for the transmission of data between DTC's Inventory Management System (IMS), through which customers manage the submission of their trades for settlement, and Omgeo's TradeSuite system for affirmed institutional trades. Omgeo, DTCC's joint venture with Thomson Financial, is the global provider of post-trade, pre-settlement processing services for the institutional market.

For customers, this new link further automates the post-trade, pre-settlement trade life cycle, reducing the risk of trade failure and associated costs.

DTC Book-Entry Deliveries





Paul Vigilante

Managing Director

Goldman, Sachs & Co.

“Goldman Sachs continues to work closely with DTCC on industry-wide changes that lead to more efficiency and less risk. For example, a key priority now is to implement enhancements to the institutional trade settlement process. DTCC’s leadership role is critical to the success of this type of industry initiative.”

FIXED INCOME

Government securities trading volume in 2006 eased slightly from its level the previous year, impacted by the flattening of the yield curve in 2006, and an associated reduction in the dollar value of the repo term book. The volume of transactions Fixed Income Clearing Corporation (FICC) handled in 2006 was 24.9 million, down 2% from the 25.5 million processed in 2005. The value of the transactions, at \$864.1 trillion, also declined slightly, dropping 1.2% from the record value of \$874.3 trillion FICC processed in 2005. On June 30, however, FICC's Government Securities Division set a single-day record for the value of the trades it handles, netting transactions valued at \$6.2 trillion, or slightly more than the previous record of \$6.19 trillion set in 2005.

Repos Remain Largest Segment of FICC Business

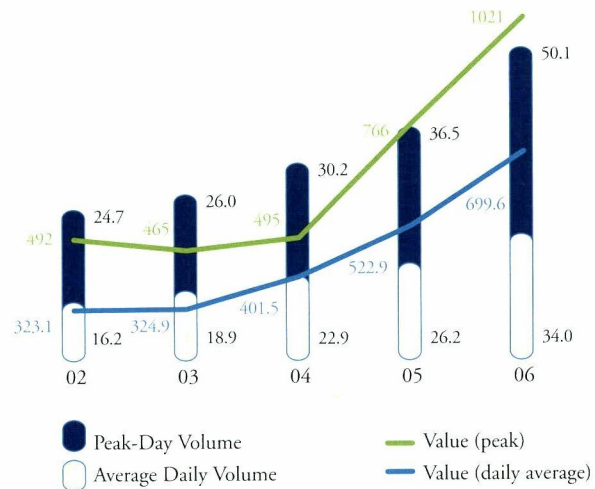
The sale and subsequent repurchase of government securities through repurchase agreements, or repos, remained by far the largest segment of FICC's clearance and settlement business in 2006, accounting for more than 78% of the total value of transactions flowing into FICC's net. The value of the general collateral finance (GCF) repo transactions FICC netted dropped 10% in 2006, to \$240.4 trillion from \$267.5 trillion in 2005. In contrast, the value of standard repo and reverse repo transactions which FICC netted in 2006 rose to \$437.1 trillion from \$413.4 trillion the previous year, an increase of 6%.

Making Repo Collateral Substitution Easier

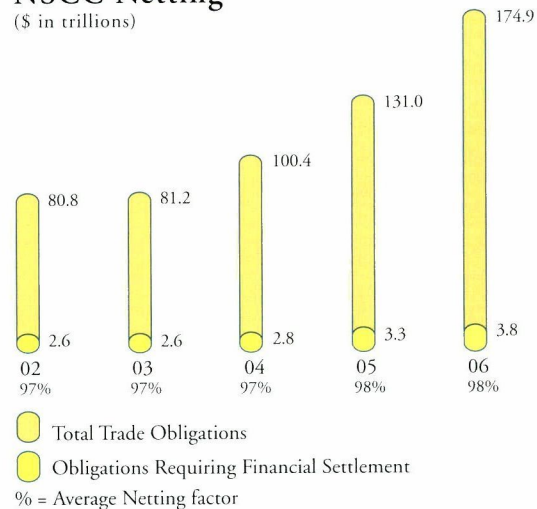
In addition to the growing volume of repo transactions FICC handles, the corporation also has to cope with hundreds of requests from brokers and dealers each day to substitute the collateral behind many of their repo transactions. The substitute collateral is

NSCC Average vs Peak-Day Volume
(in millions)

NSCC Dollar Value (average daily and peak)
(\$ in billions)



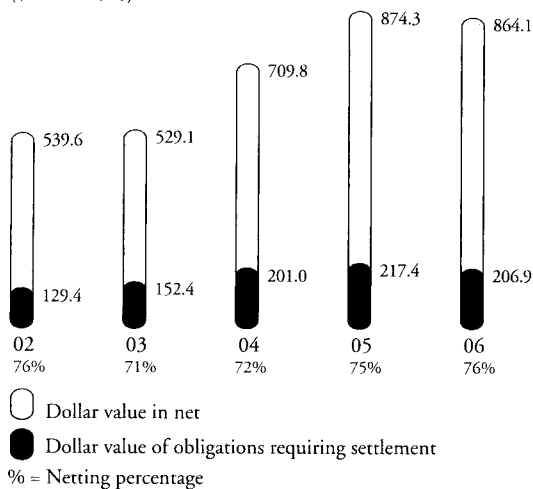
NSCC Netting
(\$ in trillions)



The sale and subsequent repurchase of government securities through **repo agreements** remained the largest segment of FICC's clearance and settlement business in 2006.

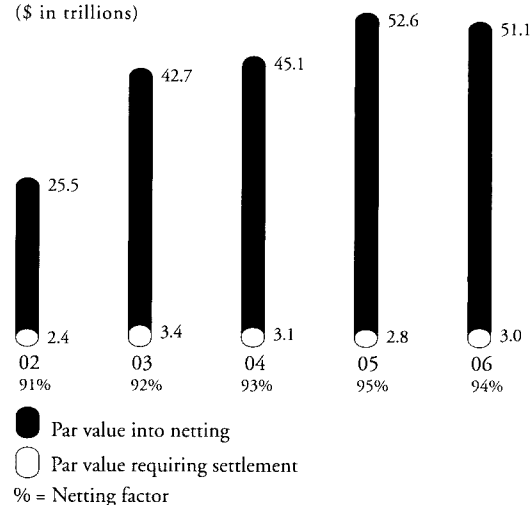
U.S. Government Securities

(\$ in trillions)



Mortgage-Backed Securities TBA Trades

(\$ in trillions)



usually a similar security of equivalent value. While substitution volume varies from day to day, it tends to be particularly high on days at the end of a quarter, when three-month or longer-term contracts typically expire and firms require specific securities for new repo contracts. These spikes in volume were straining industry resources and systems.

Consequently, backed by recommendations from an industry working group, FICC instituted a new, automated methodology in 2006 that streamlines collateral substitution and makes it easier for all the parties involved to control their financial and risk exposure. It also provides FICC more time to carry out each step in the substitution process, and more time for the banks to receive the new collateral and credit it to the proper account.

To strengthen its repo substitution process even more, FICC is creating a facility that can substitute general collateral for any replacement allocations that do not arrive in time for processing. This will protect FICC customers by ensuring that any affected repo contracts remain in force. But it will also allow FICC to institute a firm, daily deadline for the industry beyond which collateral substitutions will no longer be accepted.

“Fail Netting” Now Automated Failed trade obligations, known by the industry shorthand as “fails”, have been a recurrent problem in the government securities market. Although the number of fails was substantially lower in 2006 than in previous years, ongoing fails continue to create risk exposure for securities dealers and financial responsibility for FICC, which is required to carry the

failed clearance obligations on its books. To help reduce the current backlog and avoid new fails, FICC enhanced its systems during 2006 to create a routine, automated “recycling” of failed trade obligations.

Since its introduction in September, fail netting has begun to shrink the backlog of fails while preventing a buildup of new fails.

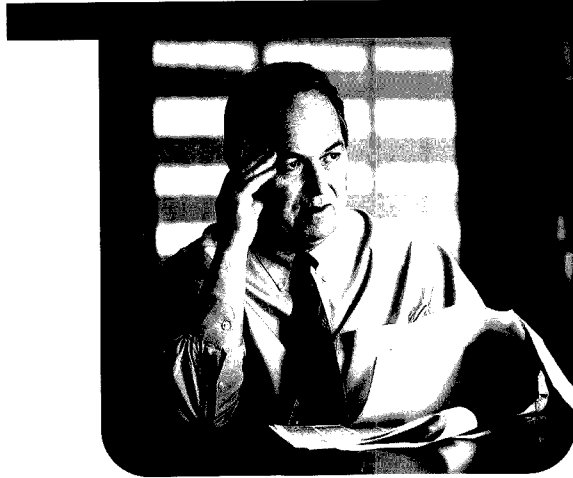
Handling Record Volume for Mortgage-Backed Securities Despite a gradual slow-down in the U.S. housing market, the issuance of mortgage-backed securities (MBS) rose slightly in 2006, driven largely by homeowners switching from adjustable to fixed-rate mortgages or refinancing to draw cash from the value of their homes. As a result, FICC processed 1.7 million mortgage-backed securities transactions in 2006, up 3% over 1.65 million transactions handled in 2005. The value of the transactions, at \$76.1 trillion, was fractionally higher than the \$75.6 trillion processed the previous year. Of the total MBS transactions in 2006, \$51.1 trillion were netted and the remaining activity was handled trade-for-trade and on a broker giveup basis.

Sellers of mortgage-backed securities routinely submit information through FICC’s Electronic Pool Notification (EPN) service on the pools of mortgages they intend to deliver to satisfy their delivery obligations. Despite the rise in overall mortgage-backed securities trading volume, increased netting of to-be-announced positions and other factors reduced the number of mortgage pools delivered through EPN in 2006 to 10.7 million from 12.0 million in 2005, a drop of 11%.

Bottom Left
Neil T. Henderson
*Managing Director
Clearance &
Settlement Group*

Top Right
Simona Turin (left)
*Applications Manager
Fixed Income
Clearing Corporation*
Mary Ann Callahan
*Managing Director
International*

Bottom Right
Veronica Moorer (left)
*Process Specialist
Information Services*
Lisa Kastner PMP
*Business Systems Analyst
Information Services*



Central Counterparty Structure for MBS Market Taking Shape

In April 2006, FICC put into motion its plan to build a central counterparty for mortgage-backed securities trading – a multi-year initiative that will bring major changes to the market by guaranteeing settlement of trades while reducing processing costs and risks for the industry. FICC’s goal is to build the framework for a central counterparty in three separate steps for completion in 2008.

The first step involves making it possible for market participants to match specified pool trades via FICC’s Real-Time Trade Matching (RTTM) service. Step two, which simplifies and automates mortgage pool substitutions via FICC’s Electronic Pool Notification service, is scheduled for full use by customers in third quarter 2007. FICC anticipates introducing the final stages of the central counterparty services and providing multilateral pool netting – for testing – by the end of 2007, with full implementation to be phased in during 2008.

Municipal and Corporate Bond Transactions Set Record

On behalf of NSCC, FICC’s Real-Time Trade Matching service matched more than 12.9 million corporate bond, municipal bond and unit investment trust transactions in 2006, a 32% increase over the 9.8 million handled the previous year.

OMGEO

Omgeo, which serves the institutional trade information market, celebrated its fifth anniversary in 2006 with strong growth. Volume on Omgeo’s systems rose to an average of 1.3 million

trade confirmations a day, up more than 20% over the previous year. Omgeo also continued to expand its sales channels in 2006, bringing in prime brokers, fund administrators and more than 100 hedge funds to join the 6,000-plus broker/dealer, investment manager and custodian bank clients it serves in 42 countries.

Rapid Growth in Fixed-Income and Other Asset Classes

Omgeo processed a record 2 million U.S. fixed-income market allocations in 2006, up 43% from the 1.4 million processed in 2005. Helping spark this growth is Omgeo’s enhanced OASYS product, which enables clients to process to-be-announced contracts for mortgage-backed and money market securities, including commercial paper. In 2005, commercial paper accounted for just 2% of Omgeo’s fixed income volume; by year-end 2006 it made up 13% and is forecast to continue growing in 2007.

Taking Advantage of Single Gateway to DTCC

To keep pace with its clients, even when their requirements extend beyond Omgeo services, the company created Omgeo Connect in 2005 as a single gateway into the post-trade world for both Omgeo services and a wide range of third-party service providers. By linking Omgeo Connect to DTCC Deriv/SERV, for example, Omgeo will add OTC derivatives processing capabilities to its menu of services. “Early adopters” of Omgeo Connect were able to take advantage of new services added to the offering throughout 2006.

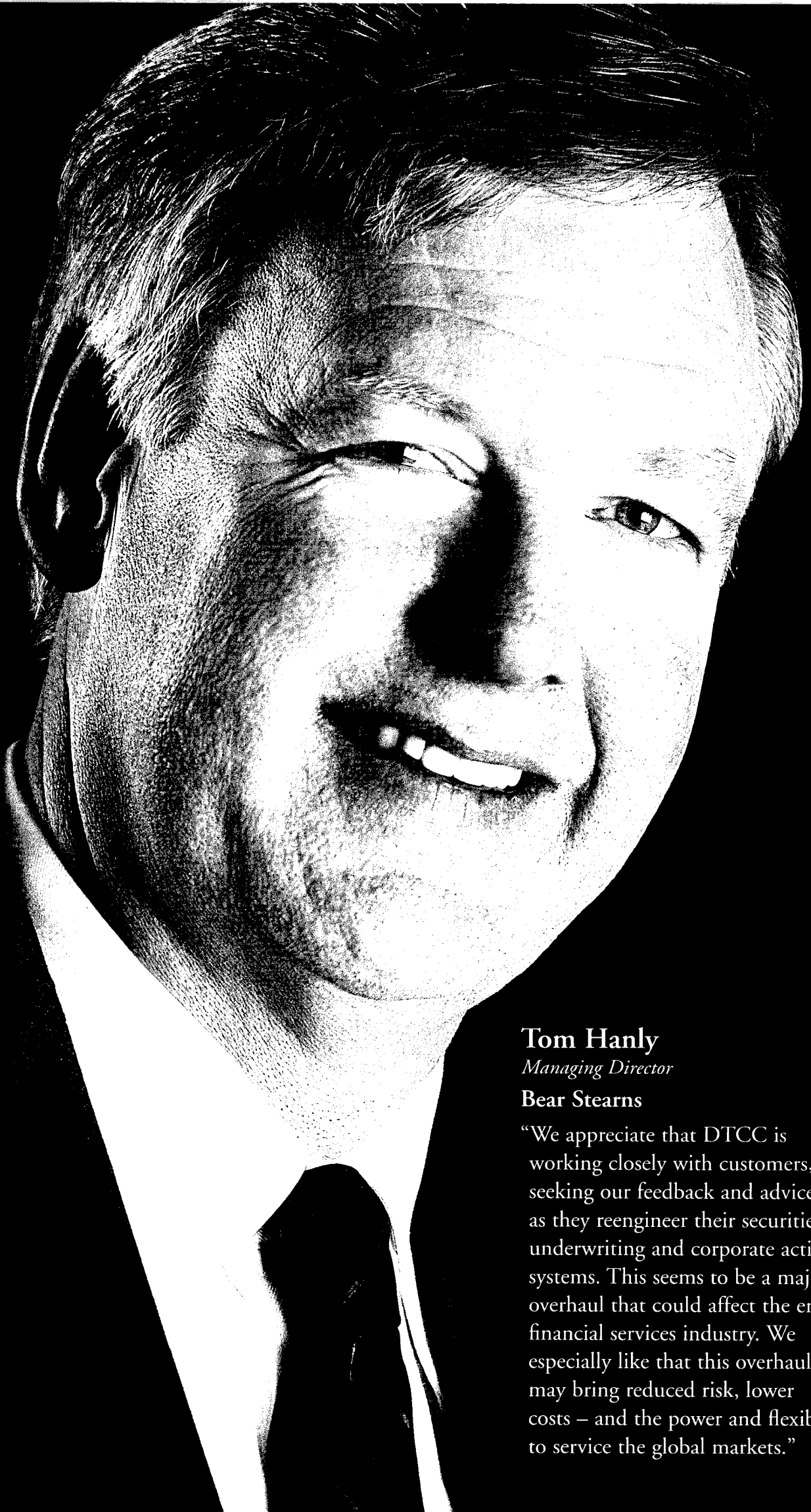




Flexible and Reliable Technology

“The biggest expense on our financial statement is for the upkeep and investments we make in new technology. DTCC is very good at coming up with clever, workable solutions that minimize our costs to access and use their services. They’re also skilled at leveraging trends in IT and Telecomm to ensure resiliency and business continuity like cutting lag time to replicate data over long distances from 30 minutes to less than 2 minutes.

”

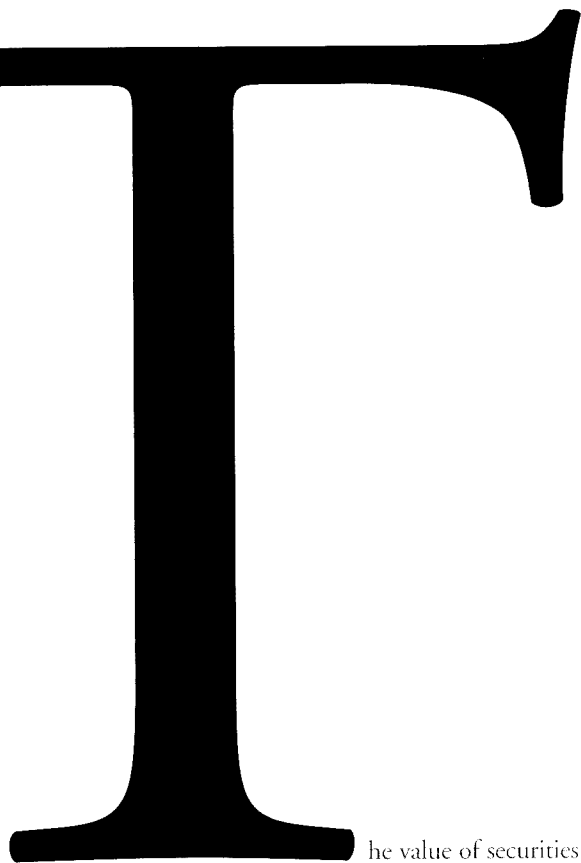


Tom Hanly

Managing Director

Bear Stearns

“We appreciate that DTCC is working closely with customers, seeking our feedback and advice, as they reengineer their securities underwriting and corporate actions systems. This seems to be a major overhaul that could affect the entire financial services industry. We especially like that this overhaul may bring reduced risk, lower costs – and the power and flexibility to service the global markets.”



The value of securities held at DTCC's depository at year-end 2006 stood at \$36 trillion, up 15% from \$31.2 trillion in 2005. Securities issues held at the depository, including equities, corporate and municipal debt, asset-backed securities, exchange-traded funds and money market instruments as well as securities from more than 100 foreign countries and territories, numbered almost 2.8 million, up 6% from 2.6 million in 2005.

Working with agents in the United States and around the world, the depository collected and allocated to customers nearly \$3.3 trillion resulting from dividend and interest payments, and redemptions and reorganization activities, up 17% over the \$2.8 trillion in 2005. The value of dividend and interest payments alone totaled nearly \$1.8 trillion in 2006, while the number of these payments increased to almost 4.4 million, up 12% from the 3.9 million processed in 2005.

The depository also handles the initial processing, distribution and settlement of new issues – including more than 99% of all municipal issues in the United States – with lead underwriters, broker/dealers and banks. In 2006, the depository processed underwriting distributions for a record 50,867 new issues worth nearly \$4.4 trillion, compared to 47,178 new issues in 2005.

Eliminating Paper and Reducing Customer Costs

DTCC made major strides in 2006 in its push toward dematerialization – the elimination of paper certificates in the industry –

when all the major stock exchanges and markets in the United States made DTCC's Direct Registration System (DRS) a listing requirement for all security issues. DRS enables investors to register ownership of their shares electronically with either the issuing company or its transfer agent, eliminating the need for paper certificates.

The New York Stock Exchange, Nasdaq and the American Stock Exchange filed rule changes approved by the Securities and Exchange Commission (SEC) in 2006 that require that all newly listed issues on or after January 1, 2007 be DRS-eligible. Issues that come to market before that date will have to become DRS-eligible by January 1, 2008. Regional exchanges in Chicago, Philadelphia and Boston are expected to follow suit in 2007.

In approving the rule change, the SEC signaled that DRS would provide “more accurate, quicker and more cost-efficient transfers; faster distribution of sales proceeds; a reduced number of lost or stolen certificates and a reduction in the associated certificate replacement costs.” In 2006, there were more than 1,406 issues that were DRS-eligible. That number is expected to jump by an additional 10,000 issues by 2008.

According to the Securities Industry and Financial Markets Association (SIFMA), the annual cost to print and issue paper certificates totals approximately \$250 million, which includes \$49 million to replace lost or stolen certificates each year.



Top Left:
Una Yu (left)
*Quantitative Analyst
Risk Management*

Roxana Argintescu
*Associate Product Manager
International Tax Services*

Bottom Right:
Joseph J. Trezza
*Vice President
Asset Services*



Reengineering to Bring New Efficiencies to the Industry

DTCC's efforts to reengineer several core legacy systems, one of the most ambitious projects ever undertaken by DTCC, remained on track in 2006. The initiative entails redesigning the core systems for securities underwriting and corporate actions with a single new platform called The DTCC SOURCE – Securities Origination Underwriting & Reliable Corporate Actions Environment.

The project, which is being implemented in phases with completion scheduled for 2009, will create a single platform, replacing more than 60 separate underwriting and corporate action systems. It will bring significant new efficiencies to the industry, streamlining processes, eliminating redundancies and providing new capabilities to support the processing of complex corporate actions and increasingly sophisticated types of securities, both in the U.S. and international markets.

In 2006, DTCC worked to prepare customers and the industry for the changes they will need to make to their own systems, establishing timetables and project plans and distributing crucial technical information needed for key structural changes. The first phase to be implemented in late 2007 will completely renovate the depository's system for handling new issue distributions. Among other changes, this new, decentralized system will gather information from underwriters on new bond and securities issues and distribute it electronically in real time to market participants, moving the industry a step closer to straight-through processing. The service, which will handle municipal and corporate

bonds, asset-backed securities and other fixed-income securities, will help the industry meet new regulatory requirements for the prompt reporting of bond trades.

Helping Track Tax Reporting Information

DTCC also launched a new Web-based service in 2006 to address one of the most perplexing and costly service problems for financial firms trying to respond to investors on cost-basis questions for tax reporting. The new service – called AccuBasis™ – provides security issuers, transfer agents, broker/dealers, mutual fund companies and other financial service professionals with cost-basis information quickly, accurately and efficiently. AccuBasis is offered through a strategic alliance between DTCC and NetWorth Services, Inc., a financial services software company specializing in cost-basis securities information.

Investors need cost-basis information to report gains or losses when filing tax returns and in determining the unrealized gains or loss on a position. Researching cost-basis information, however, has proven to be difficult, time-consuming and expensive. Now DTCC customers can offer AccuBasis to their investors so they can retrieve cost-basis information with ease and in a matter of minutes. With AccuBasis, investors input some basic information on the security and approximate date of purchase. The service automatically calculates the historical security changes caused by stock splits, mergers, dividend reinvestments and every other possible cost-basis adjustment, including security pricing that dates back to 1925, and then delivers the accurate, adjusted cost-basis information.

Streamlining Structured Securities Processing

With the rapid growth of structured securities continuing into 2007 and beyond, DTCC has begun working with the industry to solve the processing problems with these securities, including collateralized mortgage obligations (CMOs) and asset-backed securities (ABS). CMOs are bonds backed by a pool of mortgage loans and issued by various organizations, including Fannie Mae, Freddie Mac, investment banks and insurance companies. ABS are structured bonds or notes backed by loan payments or receivables such as credit cards or auto loans.

The average monthly distribution of principal and interest for these securities by DTCC's depository grew to \$65.1 billion in 2006, up 27% from \$51.4 billion in 2005. With this growth, however, comes an increasing number of processing challenges because of the many different parties who add or forward information on a structured security deal. Thousands of these information exchanges fail to be handled in an accurate and timely manner each year, and late and inaccurate notifications of payment rates for these issues continue to pose a major challenge for the industry.

A DTCC white paper in June 2006 discussed these issues and called for an industry-wide effort to address these processing problems. In 2007, DTCC will continue to work with the Securities Industry and Financial Markets Association (SIFMA),

paying agents, DTCC customers and an industry working group to implement new operational arrangements and other measures to improve the accuracy and timeliness of rate information on structured securities. Once approved by the industry and the Securities and Exchange Commission (SEC), these new parameters will be implemented during 2007 and 2008.

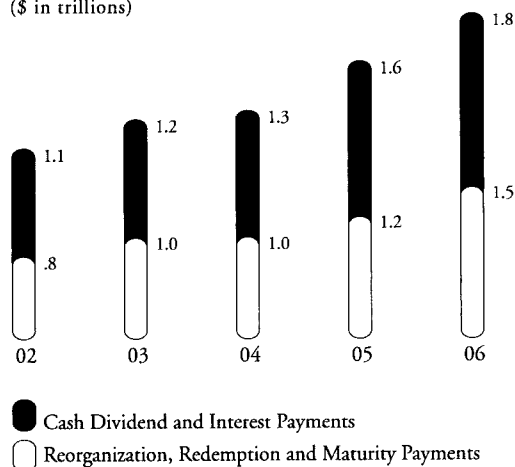
Enabling Tax Relief

DTCC's Global Tax Services delivered benefits to customers totaling a record \$1.6 billion in 2006, an increase of 20% from 2005 and the second year in a row that the billion-dollar mark was surpassed. Through its TaxRelief service, Global Tax Services enables customers to secure relief from international withholding taxes for themselves and their customers. This comes as either a pre-payment when a non-U.S. income payment is due – called "at-source" relief – or through past-payments in subsequent accelerated refunds.

The service is driven by negotiations with individual tax authorities and securities issuers by DTCC's depository and by the depository banks handling American Depositary Receipts (ADRs). ADRs are receipts representing shares of a foreign-based corporation that trade on a U.S. exchange or market. The 2006 tax savings increase occurred as U.S. investment in foreign securities continued to climb. In 2006, for example, U.S. holdings of foreign stocks and bonds totaled more than \$5.8 trillion, compared to \$1.2 trillion just 10 years earlier.

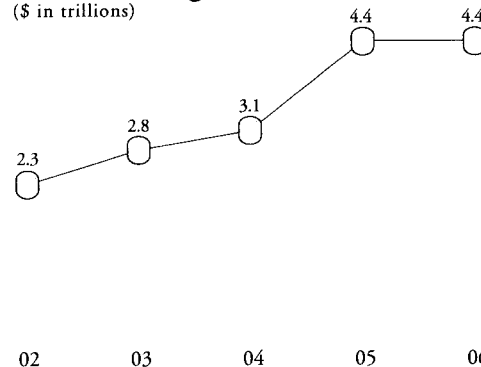
Depository Asset Servicing

(\$ in trillions)



Underwriting Value

(\$ in trillions)

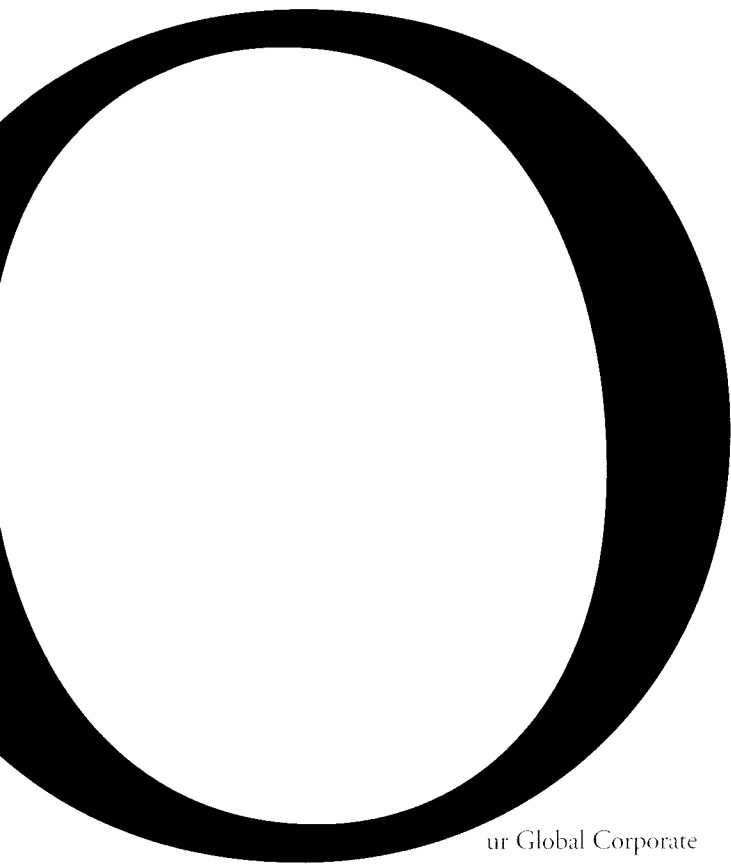




Thought Leadership

“We’ve come to expect that DTCC is always on top of industry changes that can impact the customer – and our bottom line. It’s reassuring to know they can take a leadership role in developing issues and proposing solutions that bring greater efficiency, reduced risk and costs, and help encourage common standards and best practices.”

Global Corporate Action Services



Our Global Corporate Action Validation Service (GCA VS) continued to show strong progress in expanding both its coverage and its client base in 2006, as a 10% increase in corporate announcements worldwide continued to pressure global financial firms to seek new and cost-effective ways to obtain fast, accurate information.

Several major firms selected GCA VS during the year, bringing the total client base to 21, including Citigroup Global Markets Inc., First Clearing LLC (a division of Wachovia Bank), and Raymond James. They join major global firms such as Goldman Sachs, Merrill Lynch, UBS, Credit Suisse and JPMorgan Securities that are already using GCA VS.

Most Complete Global Coverage by Any Organization The service's corporate action experts provide round-the-clock support, in 16 languages, at its centers in London, New York and Shanghai. In 2006, the service expanded to cover corporate actions in a list of more than 1.6 million securities provided to DTCC by its customers, and provided "scrubbed" information on about 900,000 events from 160 countries. This represents the most complete global coverage of corporate actions by any organization worldwide.

GCA VS has long worked closely with its customers to help determine what enhancements needed to be made and to help develop service level agreement requirements. Working groups of customers and potential customers were established for the Americas and Europe, and for Asia. Additionally, GCA VS has an advisory committee of customers to help make key policy decisions. Frequent one-on-one meetings also take place with customers to get feedback and comments, all of which are key to the unit's success.

Among the major enhancements made to the service in 2006 was moving the service from a small, Windows-based server onto the more powerful and faster DTCC mainframe – a move completed in September. The new platform provides significantly faster operation of virtually every process used by the service, while providing new data verification capabilities. Ultimately, that means DTCC can provide more accurate data more quickly to its customers.

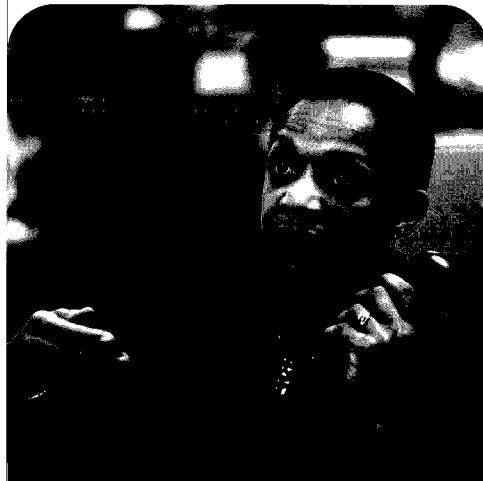
Responding Quickly to the Unexpected As a global service, GCA VS is well prepared to manage unexpected events that could threaten its ability to provide the information customers expect. On December 26, an earthquake off the Taiwanese coast

GCA experts provide customers with the most complete global corporate action coverage, 24/7, in **16 languages** and across **160 countries.**

damaged undersea cables carrying most of the data and Internet traffic between Asia and the rest of the world. This event effectively cut off DTCC's Shanghai office. DTCC immediately activated its business continuity plan – work queucs were re-routed and new working patterns (work shifts plus extended working hours) were put in place for the DTCC London and New York offices. In many instances, employee holiday plans were put off or canceled. The service operated transparently, maintaining overall service level agreement (SLA) performance above target levels.

More and more firms are recognizing their need to reduce their risks and costs involved with corporate actions data collected from around the world. GCA VS is continuing to meet those growing needs in 2007, by providing new “scheduled payment” event data, expanding its security coverage, while also creating new and standardized message formats, available in either ISO 15022 and/or XML. The new message formats will harmonize GCA VS and DTC data, and GCA customers are expected to begin testing the new formats in early 2008.

While the efforts within regional markets are ongoing to standardize and streamline market practices, DTCC is well on its way to providing a single, high-quality capability to source, validate and disseminate corporate actions announcements. This data is used by customers, in turn, to promote straight-through processing and reduce their risk and costs.



*Glynis F. Aquino
Vice President
Quality &
Reengineering*

*Joseph Carraha
GCA Validation
Specialist
Global Corporate Actions*

*Tawanna M. Jones
GCA Validation
Specialist
Global Corporate Actions*





BlackRock

“Managing corporate announcements with increasing volumes flowing from Europe, Asia-Pacific and the Americas, is a major challenge for financial institutions. We need an automated, centralized system that reduces our costs and risk while tracking these announcements, whether it’s in the back office or at the trading desk! That’s why we are actively integrating DTCC’s GCA Validation Service within our Aladdin enterprise investment platform.”



Global Outlook

“ We operate across multiple borders and in diverse markets. So we need and expect DTCC to help us achieve the same level of streamlined efficiency, risk management and lower costs that they provide in the U.S. capital markets. We need them to develop groundbreaking solutions like Deriv/SERV for the growing derivatives market that address our changing needs in the global market space. They do this and do it every day.”

