

Annual Report 2007

Celebrating
Certainty
and
Possibilities



The Depository Trust & Clearing Corporation

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.

Letter to Stakeholders

EuroCCP

Clearance and Settlement

Asset Services

OTC Derivatives Services – Deriv/SERV

Wealth Management Services

Insurance Services

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Financial Report

Senior Management

Business Lines and Customers we Support

Clearance and Settlement

National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC) and The Depository Trust Company (DTC) are involved in clearing and settlement, risk management and other associated services for securities in the U.S. NSCC clears broker-to-broker equity, corporate and municipal debt, exchange traded funds, American Depositary Receipts, and unit investment trust trades. DTC clears and settles institutional trades in all NSCC instruments and handles money market instruments. FICC clears U.S. government securities and mortgage-backed securities through two settling banks.

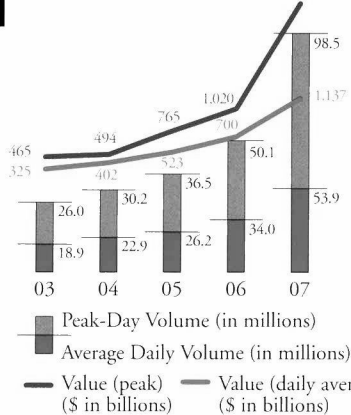
Key customers include banks, broker/dealers, hedge funds, mortgage originators, government sponsored entities, institutional investors, investment managers, mutual funds, insurance companies and other financial institutions.

2007 Fee Cuts: \$87 million

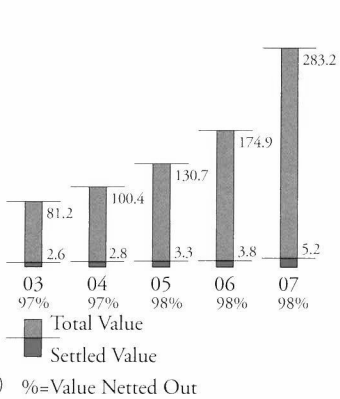
2007 Discounts/Refunds: \$164 million

2008 Fee Cuts: \$137 million

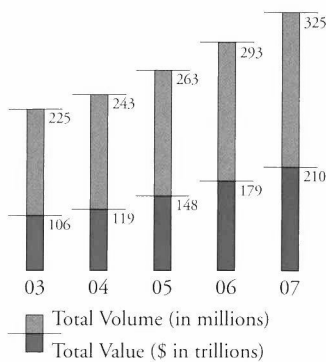
NSCC Average vs Peak-Day Volume and Value



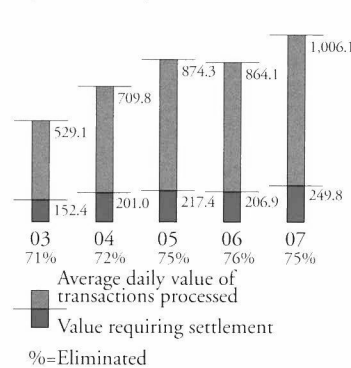
NSCC Netting (\$ in trillions)



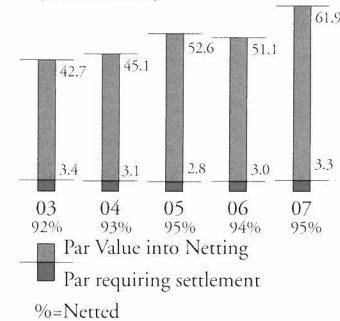
DTC Book Entry Deliveries



U.S. Government Securities (\$ in trillions)



Mortgage-backed Securities TBA Trades (\$ in trillions)



Asset Services

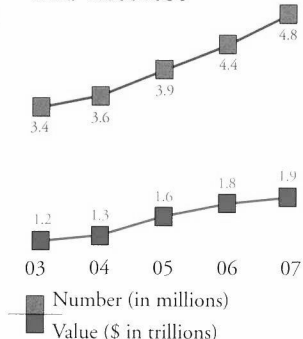
The Depository Trust Company (DTC) brings efficiency to the securities industry by holding custody of more than 3.5 million issues worth more than \$40 trillion and serving as the principal processor of corporate actions for all securities in custody.

Key customers include banks, broker/dealers, issuers, transfer agents, paying agents and central securities depositories.

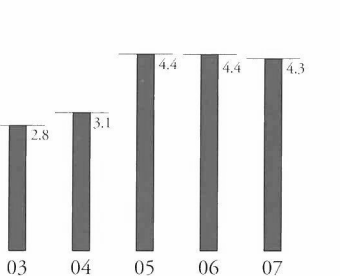
2007 Discounts/Refunds: \$338 million

2008 Fee Cuts: \$7 million

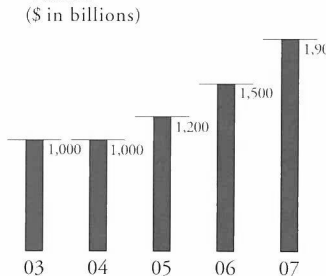
DTC Cash Dividend and Interest



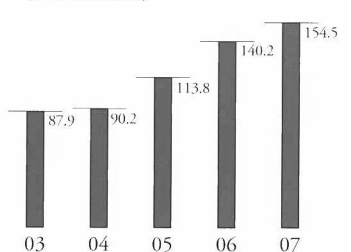
DTC Underwriting Value (\$ in trillions)



DTC Reorganization Value (\$ in trillions)



DTC Money Market Instruments Value (\$ in trillions)



Deriv/SERV

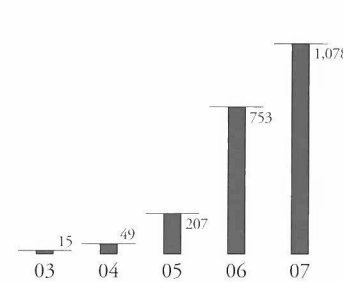
DTCC Deriv/SERV LLC supports growth in the over-the-counter derivatives market in the U.S., Europe and Asia by providing post-trade automation, standardization and risk reduction for more than 1,000 customers in more than 30 countries. It services derivatives contracts during their lifecycle through the Trade Information Warehouse.

Key customers include global investment dealers, hedge funds, investment managers, pension funds, and insurance carriers.

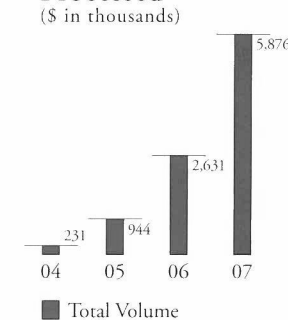
2007 Discounts/Refunds: \$19 million

2008 Fee Cuts: \$29 million

Deriv/SERV Customers (number at year end)



Deriv/SERV Transactions Processed (\$ in thousands)



Wealth Management Services

Mutual Fund Services, offered through NSCC, is the industry standard for processing and servicing U.S. and cross-border fund transactions.

DTCC is preparing to expand Wealth Management services to provide electronic processing of managed account information and an alternative investment products service for processing hedge funds and funds of funds. The new services will be offered through DTCC Solutions LLC and NSCC, respectively.

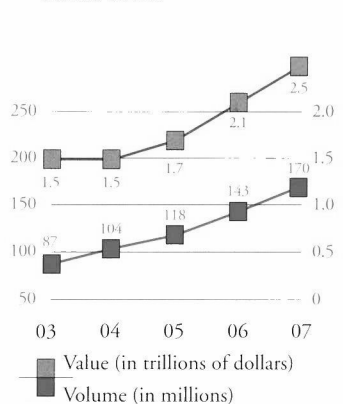
Key customers include mutual funds, broker/dealers, banks, financial planners, hedge funds, investment managers, trustees and third party administrators.

2007 Fee Cuts: \$10 million

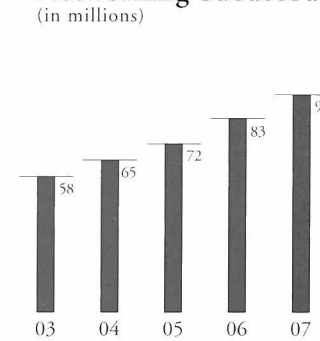
2007 Discounts/Refunds: \$23 million

2008 Fee Cuts: \$18 million

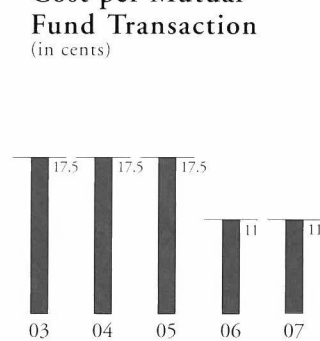
Fund/SERV



Networking Subaccounts (in millions)



Cost per Mutual Fund Transaction (in cents)



Insurance Services

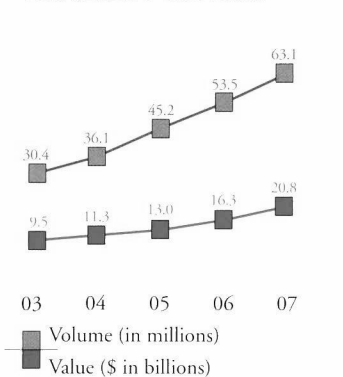
Insurance Services is helping to automate, standardize and streamline the processing of annuities and life insurance products by electronically processing annuity applications, payments of premiums, financial activity reporting, positions, asset pricing, commission payments, and licensing and appointments.

Key customers include insurance carriers, banks, broker/dealers and other distribution channels selling insurance or annuities.

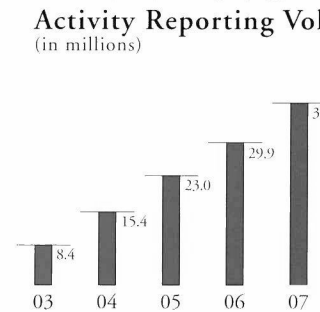
2007 Fee Cuts: \$1.3 million (6 months)

2008 Fee Cuts: \$6 million

Insurance Services



Insurance Financial Activity Reporting Volume (in millions)



The world's great painters honed their basic skills in classical composition and color techniques, and then, having established the **certainty of their talent**, went on to stretch and challenge our most fundamental ideas about art.

We are featuring the early and later works of nine of these artists in our annual report this year, to remind us how important it is to **look beyond** the current landscape.

For more than 34 years, DTCC has likewise developed a **mastery of core skills** in clearance and settlement. Now, as financial markets diversify and customers operate globally, our aim is for DTCC to be **an innovator of new services**, that can both celebrate certainty... and see the infinite possibilities beyond the next horizon.



Vincent van Gogh, *Peasant Working* | 1885



Vincent van Gogh, *Wheatfield with Cypresses* | 1889

Dear Stakeholder:

This year was a watershed year for DTCC and our subsidiaries. We continued to provide our core capabilities of unsurpassed certainty and safety during one of the more volatile periods in recent memory for the world's financial markets. But we also responded decisively to address the complex and changing needs of customers and provide ever greater levels of efficiency to the global marketplace.

We successfully settled a record \$1.86 quadrillion in transactions in 2007, across financial assets as diverse as equities, fixed income, OTC derivatives, mutual funds and insurance products. Against this backdrop, we also maintained exceptionally high overall customer satisfaction scores for the fourth year in a row, with customer satisfaction reaching 91% the last two years.

And as our customers look for ways to reduce costs, so do we — steadily focusing on tight fiscal controls amid growing transaction volume, increased productivity and process efficiency programs like Six Sigma. Last year, we were able to return more than \$984 million in rebates, discount and interest to our customers. In 2007, we reduced transaction fees by \$90 million and, at year-end, we announced a record fee reduction of \$198 million for 2008.

This year, our Annual features artists from around the world, who understood how their mastery of the basics of their art permitted them to go beyond those basics to break new creative ground. Our theme, "Celebrating Certainty and Possibilities," recognizes that DTCC increasingly draws upon our core knowledge and experience to facilitate innovation in financial services, and extend our reach to support non-traditional customers and markets in the U.S. and globally.

This dynamic interplay between the "basics" of DTCC's core strengths and experience and the "creativity" involved in applying them to a far broader set of needs has never been more critical. Our customers are entering new markets and devising complex new

investment instruments, new risk transfer vehicles and more sophisticated market mechanisms, and demanding that we support them in these dramatic changes. We are indeed in the midst of an accelerating transformation of our industry, requiring every ounce of our creativity in response.

We know that DTCC can make a major contribution in that transformation. We are increasingly doing so by deploying our demonstrated ability to deliver services globally and be quick-to-market with new, highly tailored technology solutions in new and creative ways. And, no matter how that transformation reshapes the form of financial assets or the markets they trade in, we will continue to deliver the "basics" of reliable and certain post-trade processing in the same time-tested, trusted manner that we have for 34 years.

Providing Low-Cost Clearance and Settlement in Europe

A key highlight last year was our selection, after a highly competitive bidding process, to provide clearing and settlement services for Turquoise, the new pan-European multilateral trading facility (MTF) being created by nine global investment banks. The decision by Turquoise was based on our low cost, their confidence in our processing capacity and our ability to be quick-to-market.

Support for Turquoise will be provided through EuroCCP, our European subsidiary, and a partnership with Citi Global Transaction Services, EuroCCP's settlement agent, leveraging Citi's connectivity to local central securities depositories across Europe.

With testing of EuroCCP and Turquoise planned for mid-2008 and launch expected later in the year, a further acceleration of the market competition envisioned by the Markets in Financial Instruments Directive (MiFID) is imminent.

EuroCCP's arrangement with Turquoise is not exclusive, and EuroCCP has already been approached by other European MTFs

DTCC is addressing the changing needs of customers — and providing **ever greater levels of efficiency** to the global marketplace.

to support additional trading platforms. Since EuroCCP operates on an “at cost” basis, all of the financial firms will benefit from economies of scale, and lower costs for processing and margining as volume grows in this new clearing corporation.

Bringing Automation and Lower Risk to OTC Derivatives The rapid growth of the global market for OTC derivatives is one of the decade’s headline developments in our industry. DTCC is supporting this growth through our Deriv/SERV subsidiary, extending the “basics” of automation, standardization and reduced risk to OTC derivatives. Today, Deriv/SERV is the most widely used electronic platform, with almost 1,100 customers (traditional asset managers, global investment banks and hedge funds), to match and confirm transactions in credit, interest rate and equity OTC derivatives.

While the total outstanding of credit default swaps (CDS) has grown to \$45.5 trillion in 2007 from \$3.7 trillion in 2003, our Deriv/SERV platform has been credited with significantly reducing the risk previously associated with unconfirmed trades. Today, over 90% of CDS trades are matched and confirmed through Deriv/SERV, compared with 15% late in 2003.

DTCC has not only provided an automated safety net to increase the matching of CDS trades, we’ve completed the launch of a central repository, called the Trade Information Warehouse, where these contracts can be tracked and serviced in an automated environment over their lifecycle. During 2007, we worked with the major dealers to complete their backloading and, as of the end of the year, there were about three million contracts in total in the Trade Information Warehouse. Deriv/SERV’s matching platform is now electronically capturing and sending approximately 10,000 new positions to the Warehouse daily. And when handling last

summer’s spike in credit default swap volumes (with peaks as high as 40,000), Deriv/SERV’s automated matching platform resulted in reduced operational risk and added safeguards for the industry.

By year-end we had also completed the launch of a major service extension based on the Warehouse — automated payment netting and centralized settlement through a partnership with CLS Bank International. An estimated 340,000 payments worth \$14.3 billion for the fourth quarter netted down to 123 net settlement payments worth \$288 million.

Our goal now is to further extend the Warehouse’s automated support services to the markets for equity and interest rate derivatives, as well as to grow our coverage of financial instruments in Asia.

Supporting the Syndicated Commercial Loan Market By year-end, DTCC had completed steps for our planned launch of Loan/SERV in 2008. This is a new suite of services to help automate and streamline the processing of syndicated commercial loans. We’re working with leading banks in this market, which continues to grow in both complexity and volume. According to industry estimates, global syndicated lending reached \$4.5 trillion in 2007, a 32% increase in just two years.

Just as we did with Deriv/SERV in the OTC derivatives market, we are committing the full weight of our organization’s talent, IT experience and quick-to-market capabilities to help create greater efficiency, certainty and reduced risk for this growing industry sector.

Growing Overall Volume The new processing records set during the considerable market stress and high volatility in 2007 show clearly how we continue to couple our creativity in meeting new needs with our core strength in delivering basic services.

Marie Rey, *Managing Director, Enterprise Risk Management.*
Lynn Bishop, *Vice President, Information Services.*
Kevin Mercer, *Vice President, Systems Software Technology.*

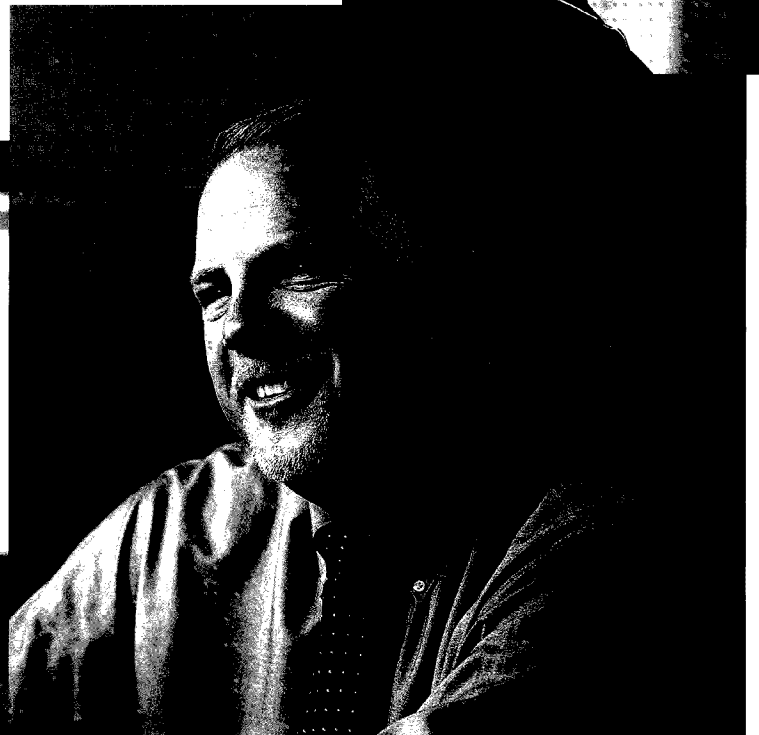


Rosalie Farah, *Senior Relationship Manager, DTCC DerivSERV.*

Maria Odegbaro, *Vice President, Deputy Chief Compliance Officer.*



Brett Lancaster, *Vice President, DTCC Solutions.*



Mark Vercruyse, *Vice President, Relationship Management.*



Mandy Huang, *Senior Technical Writer, Clearance & Settlement.*
Merrie Faye Witkin, *Managing Director, Deputy General Counsel.*
Svetlana Zavelskaya, *Web Technology Architect, Web Technology Area.*



Gary LaCara, *Vice President and Controller*,
Robin Tyson-Stoehr, *Vice President*,
Development & Diversity



Charles Shands and Jesse Peterson,
Multi-Media Production Managers

Equity transactions processed jumped to 13.5 billion transactions, up a record 59% from 8.5 billion in the year prior. The value of these transactions climbed to \$283 trillion from \$175 trillion in 2006. Through netting, DTCC's clearing subsidiaries are able to significantly reduce the total number of trade obligations requiring financial settlement, thereby reducing industry risk and helping customers optimize capital. Of 2007's \$283 trillion in equities securities transactions, we netted down almost \$278 trillion (98%), so only \$5.2 trillion actually changed hands.

These statistics illustrate the greater demands on DTCC's capacity typically triggered by greater market volatility. During 2007, the peak volume jumped to 99 million transactions on a single day in August, compared to an average of 54 million. We handled this sudden spike in volume seamlessly, since we had earlier taken steps to increase NSCC's daily processing capacity to 283 million transactions a day (up 77%). Further work is underway to raise our capacity to 450 million transactions a day.

With the flight to safety later in 2007, U.S. government securities transaction processing volume increased 22%. Transaction volumes climbed to 30 million from 25 million in the prior year. The overall value of these transactions reached \$1 quadrillion, up from \$864 trillion. Through netting, the government securities clearing division reduced the value requiring financial settlement by over 75%, to \$250 trillion. Volume for mortgage-backed securities transactions was 2.1 million in 2007, up 22%, from 1.7 million in the prior year, and the value of these trades rose to \$95 trillion, from \$76 trillion in 2006.

In 2007, the value of book-entry movement of securities ownership handled by DTCC's depository was \$209.8 trillion, up 17% from \$179 trillion the year before. The depository also settled \$154.5 trillion in money market instruments, up 10% over 2006. While the overall number of IPOs processed reached 54,266 issues, up 7% over 2006, the value of these new issues was down 3%, to

\$4.3 trillion, from the prior year. Servicing assets held by the depository is a critical function performed for DTCC customers. Last year, we processed nearly \$3.8 trillion in cash, dividend, interest, redemption and reorganization payments, up 17% from the prior year's \$3.3 trillion.

Helping Facilitate Cross-Atlantic Trading The formation of NYSE Euronext and other intercontinental trading platforms signals that the integration of the global securities markets is accelerating. DTCC worked closely with NYSE Euronext to support this transatlantic exchange in 2007. For example, we're supporting the initial cross-listing and trading activity that is already taking place for U.S. securities; we've completed the necessary rule changes for book-entry settlement through DTC of "foreign" securities issues; and we are moving toward establishing a link with Euroclear that will facilitate processing of dual-listed European securities.

We are also prepared to support other exchanges as they expand globally and to partner with other infrastructure organizations to further the goal of seamless cross-border clearance and settlement capabilities. We signed five new Memorandums of Understanding (MOUs) in 2007, which provide a legal framework for strengthening our relationships and the opportunity for collaboration with clearing and depository organizations in China, India and Pakistan.

Delivering Solutions Tailored for Key Markets

DTCC's leadership role in serving customers and in supporting our industry cut across many fronts in 2007. Examples of other major initiatives include:

- We're pushing ahead with the delivery of key components for a central counterparty capability (CCP) in our Mortgage-Backed Securities (MBS) Division. The MBS-CCP will bring the



benefits of automation, netting and risk reduction to this \$300 billion-a-day segment of our industry, and represents the biggest change in the processing of these securities in more than 20 years.

- In a move expected to enhance liquidity in trading and handling repurchase agreements (repos), our Fixed Income Clearing Corporation has submitted a rule filing to the SEC to allow its customers to resume entering into General Collateral Finance (GCF) repo agreements with counterparties that settle at different clearing banks.
- Our new Managed Accounts Service is off to a strong start. This new service provides a centralized platform to streamline communications and reduce risk and costs associated with opening and maintaining managed accounts.
- A multi-year reengineering of our processing platforms for underwriting and corporate actions continued in 2007. We are replacing more than 60 separate systems with a single, integrated platform that will process both U.S. and global securities and bring greater standardization and reduced risk to asset servicing. The first phase of the underwriting platform is scheduled to go live in 2008, and customer migration to the new corporate action system will begin in 2009.
- During 2007, we were able to reach consensus among an elite group of 13 insurance carriers that DTCC should expand its efforts and become the industry's utility and core messaging hub for the processing of annuities and other insurance products. This breakthrough follows our Insurance Services business' 10-year track record of bringing greater standardization and automation, so insurance products can be sold as easily as mutual funds.

Maintaining Strong Customer Service DTCC is very proud that we have earned top scores for overall customer satisfaction in an annual independent customer survey for four consecutive years. We credit some of this success to our use of metric-driven quality programs like Six Sigma and the standardization of our technology processes through the Capability Maturity Model Integration (CMMI) ratings model and the Information Technology Infrastructure Library (ITIL) standards. The results of our Six Sigma program have been so strong that early in 2008, we announced plans to share with customers and agents our internal "Sigma report cards" that rate performance levels on key industry asset servicing processes.

We also credit our success to the extraordinary energy, dedication and commitment of our employees, who demonstrate every day that making a difference in serving the industry is a shared value at DTCC. We've featured photographs of some of these employees in this letter to underscore how proud we are of their endless contributions to this organization — and to the industry as a whole.

Managing Risk and Regulatory Compliance Perhaps no subjects are more on the minds of financial leaders today than risk and regulatory compliance. At DTCC, we have no higher priority than meeting our risk mitigation responsibilities. Over several years, we've significantly strengthened our risk and compliance systems and methodologies to protect against credit, market and operational risks. In 2007, we created the new position of Chief Risk Officer and unified our different risk functions into a consolidated Enterprise Risk Management group. We also implemented a common margining methodology, harmonized Clearing Fund requirements and further strengthened our value-at-risk analytical processes.



Jill M. Considine
Former Chairman



Richard R. Macek
*Former Executive Managing Director,
Risk Management, Finance and Wealth
Management Services, Chairman of Omgeo*



Richard B. Nesson
*Former Executive Managing Director,
Legal, Regulatory and Compliance*

DTCC also completed in November the first in a planned series of robust enterprise-wide closeout exercises simulating how we would respond to a major participant financial failure. It's important that just as in any other aspect of business continuity planning, we test and ensure our readiness to safeguard customers and the marketplaces from these exposures.

During 2007, DTCC also hired a Chief Compliance Officer to bring added expertise to the oversight and management of our regulatory compliance efforts. In addition, we embarked on a series of efforts to improve these controls, framing an enhanced Know Your Customer program, creating new automated tools to support AML risk assessments and monitoring, and strengthening Internal Audit's oversight on these issues. DTCC will continue this heightened focus into 2008, formulating real-world scenarios as part of a new training program that is mandatory for all employees.

Recognizing the Special Contributions of Our Leaders

We are profoundly grateful to DTCC's Board members for their tireless efforts, away from their daily responsibilities, to help us ensure the delivery of evermore efficient and cost-effective services for the industry, and their invaluable guidance on how we can expand in directions that will benefit new market segments and new customers globally. The magnitude of their contribution to our industry — in terms of the vision, the dedication and the energy they devote to our activities — cannot be overstated.

We also deeply appreciate the contributions of several members of DTCC senior management who have stepped down in recent months. Our former Chairman, Jill Considine, retired this past August, in the culmination of a succession plan she put in place several years ago. Jill has had a profound influence on DTCC and on the industry. She led the historic drive to consolidate several clearing corporations serving distinct markets and the depository into the single infrastructure organization that is DTCC today.

She demonstrated DTCC's commitment to partner with others, with the launch of Omgeo, and a willingness to take risk in pursuing global opportunities. Most significant, however, was Jill's vision to create an organizational culture at DTCC that is so focused on quality, innovation and an unyielding commitment to customers. We extend our deepest thanks to her, and I'd add a personal note of gratitude for her support and counsel during the years we've worked together.

We also want to recognize the contributions and dedication of two other senior officers who retired early in 2008: Richard Macek and Richard Nesson. Both were key members of DTCC's senior management team since its inception. Rick Macek's valued leadership as head of Finance and Risk established a solid financial foundation for DTCC and helped us implement the in-depth risk mitigation strategies needed to safeguard the industry. Most recently, Rick spent 2007 in London as interim CEO of EuroCCP, preparing for its successful launch.

In his long service as the senior legal advisor to DTCC and its predecessor depository, Richard Nesson brought the organization invaluable expertise and guidance on a broad range of legal and regulatory issues. His calm, steady demeanor in the midst of a crisis and the enormous respect he engendered with regulators were critical to DTCC's success during its formative period.

We wish Jill, Rick and Richard the best in retirement. DTCC and the industry owe these three individuals an immeasurable debt of gratitude — they all are exceptional leaders who have served DTCC and the industry with distinction.

Donald F. Donahue
Chairman & Chief Executive Officer



↑ *Portrait of Madame Canals* | 1905

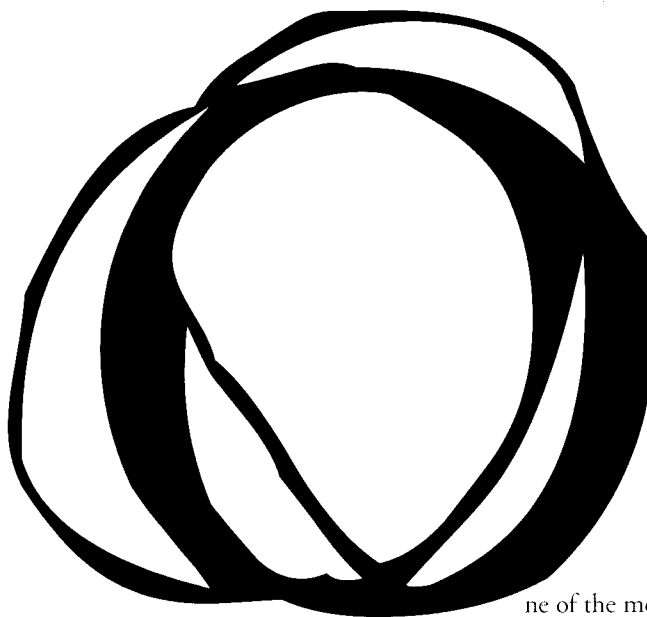
Portrait of Marie-Thérèse | 1937 →

Pablo Picasso's early work illustrated his mastery of classical painting and his ability to interpret the world around him. From this vantage point, he explored the dimensions of time, space, color and shape in ways never considered by others before.

At DTCC, we've long understood the importance of demonstrating proficiency in the basics of clearance and settlement. Yet we have also, like Picasso, brought innovation so that today we can offer our customers cutting-edge services worldwide.

Pablo Picasso

EuroCCP



One of the most significant accomplishments for The Depository Trust & Clearing Corporation (DTCC) in 2007 was the selection of European Central Counterparty Limited (EuroCCP), a new subsidiary to provide clearing and settlement services for a new pan-European trading facility known as Turquoise.

The selection establishes DTCC in the clearing and settlement of equities in Europe for the first time. EuroCCP was selected in April 2007 from among eight clearing and settlement organization proposals evaluated by the Turquoise consortium. Originally comprising seven major global investment firms — Credit Suisse, Deutsche Bank, Goldman Sachs, Morgan Stanley, Merrill Lynch, Citi and UBS — the consortium has subsequently been joined by two other major global firms, BNP Paribas and Société Générale. All of those major firms are expected to be clearing members of EuroCCP and may help clear and settle for other trading members.

Citi Global Transaction Services (GTS) was selected by EuroCCP as its settlement agent because of their expertise in securities settlement and their broad network of connections with local central securities depositories throughout Europe. EuroCCP has committed to European authorities that it will sign the European Code of Conduct for clearing and settlement, and expects to do that after it receives authorization to begin operations.

EuroCCP Operation EuroCCP will accept trades from the Turquoise trading platform and will net the trades on trade date. It will guarantee trades upon receipt and validation and will apply

risk-based margining, with appropriate levels of margin collected on a daily basis. Once netted, EuroCCP will send settlement instructions for the netted positions to Citi GTS, which will process those instructions for delivering and receiving securities and related payments in various currencies through its local securities network with central securities depositories throughout Europe.

EuroCCP ultimately expects to clear and settle trades for multiple trading venues in most securities traded throughout Europe in every currency used in those countries, although that will be phased in over a period of time. At launch in 2008, EuroCCP will clear and settle the most actively traded equities in 14 countries in Europe using seven different currencies.

Progress to Date By year-end 2007, most of EuroCCP's applications and systems development had been completed, and EuroCCP was initiating a series of testing with Citi GTS, the Turquoise trading platform, and the consortium members.

In early 2008, EuroCCP is expected to receive approval from the Financial Services Authority of the U.K. as a Recognised Clearing House (RCH). That will allow EuroCCP to begin formal operation.

By mid-2008, with Turquoise's trading technology in place, full end-to-end systems testing of the entire trading cycle will begin, with full initial operation for Turquoise scheduled to begin in the third quarter.



Pablo Picasso, like an angry bull, charged through nearly every important art movement of the early 1900's. Some, like Cubism, he invented or helped invent. Some he appropriated and improved. And some, such as the melancholy "blue" and sublime "rose" periods, were purely his own. This daring and energetic man fundamentally changed the concept of painting. He also left behind more original work than almost any other artist in history: a torrent of sculpture, paintings, drawings, ceramics, graphic design — and even poetry.

And yet, what so often surprises people viewing Picasso's paintings is not his iconoclastic work but a self-portrait done when he was seventeen. It's a conventional, though luminous, figurative painting in the classic tradition of Western art. What it shows is that Picasso, the precocious son of a Spanish drawing professor, had already absorbed—with a high degree of certainty—all of the sanctioned orthodox tenets of European academic painting and drawing. From that foundation, he began to see the possibilities that lay beyond.

The first breakthrough would come in 1907 when, as a 22-year-old, he dismantled the standard Renaissance perspective to its very foundation, and ushered in Cubism. His revolutionary work opened the door to the experiments in pure abstraction — and for 70 more years, Picasso would continue creating works quintessentially modern in their perspective.

Pablo Picasso, Portrait of Madame Canals, 1905.
© 2008 Estate of Pablo Picasso / Artists Rights Society (ARS), New York.
Museo Picasso, Barcelona, Spain / The Bridgeman Art Library.

Pablo Picasso, Portrait of Marie-Thérèse, 1937.
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Musée Picasso, Paris, France / The Bridgeman Art Library.



TOP
Iain Saville
*Board Member,
EuroCCP*

BOTTOM
Eli Lederman
*Chief Executive,
Turquoise*

Xu Beihong

Management Selected DTCC selected two respected European executives to guide the development and launch of EuroCCP: Diana Chan, a senior executive with Citi, was named CEO for EuroCCP, while Trevor Spanner, formerly of Merrill Lynch in London, was named chief operating officer for the new DTCC subsidiary.

EuroCCP is expected to have a great deal of independence from DTCC. It will have its own 13-member board of directors, made up principally of user representatives. Three members of the board will be independent members: Dr. Iain Saville, Edouard-François de Lencquesaing, and Derek Ross. Michael Bodson, DTCC's executive managing director for Business Management, Strategy and Marketing, will serve as chairman of the EuroCCP board.

EuroCCP Will Support Other Trading Platforms

EuroCCP's contract with Turquoise is not exclusive, meaning that with new rules for competition under the Markets in Financial Instruments Directive (MiFID) having taken effect, EuroCCP can provide low-cost clearing and settlement to other trading platforms in Europe. Financial firms that execute trades on multiple platforms will not only be able to have all trades in the same security on the same day netted into one settlement via EuroCCP, but will also be protected from the default of their original counterparties. EuroCCP has already been approached by a number of these trading platforms based on a growing recognition that EuroCCP will be the low-cost provider of high-quality and highly efficient clearing and settlement services in Europe. ■



Xu Beihong was a prodigy: a calligraphic master by age nine and accomplished at Chinese ink-and-color painting by age eleven. He was tutored by his father, Xu Dazhang, a well-known local calligrapher and painter. But hard times and grinding poverty forced Xu and his father, for years to wander the countryside sketching and painting simply to survive. He became both a master painter and teacher.

Eventually, he was privately sponsored to study in Japan, where he encountered non-Chinese art for the first time. Later, with government sponsorship, Xu would visit Paris, Berlin and Italy to study European artists. When he returned to China in 1927 — Xu became one of the first Western-influenced artists in China, attempting a synthesis of European styles with Chinese calligraphy. He hoped to build a bridge between the cultural differences and in so doing, revitalize Chinese art.

In Xu's horse pictures, the classic spirit of the horse, the horse's courage and mysterious power is beautifully enunciated in the line and brushwork, yet there is a "mastery of realistic appearance," carefully observed anatomy and bone structure, influenced by his training at the École des Beaux-Arts.

Today, Xu's fame and influence is such that in northwest Beijing stands the most ambitious single-artist gallery in the People's Republic of China, the Xu Beihong Memorial Gallery, displaying over 1,300 of Xu's works — like any great collection, too many pictures to be exhibited together at any one time — visited by hundreds of thousands every year.

昔有狂人考詩云
 靜又愛妻每
 日得狂人考
 百人莫之加
 悲鴻時輒自誇
 鄂西客馬拉雅
 勝西客馬拉雅
 豪興勃發
 廿九年五月
 為真不惡
 大古山領



Xu Beihong, Group of Horses, 1940.
 Courtesy of Liao Jingwen and The Xu Beihong Museum, Beijing, China.

Xu Beihong, Loquats, 1935.
 Courtesy of Liao Jingwen and The Xu Beihong Museum, Beijing, China.

Highly respected for his early work, Xu Beihong further reshaped China's art world by synthesizing new ideas and influences he gained from time spent in Europe. Xu Beihong's work created a new bridge of learning and cultural exchange. At DTCC, we too, are building bridges of learning among counterparts and cultures, as the landscape of trading becomes global.



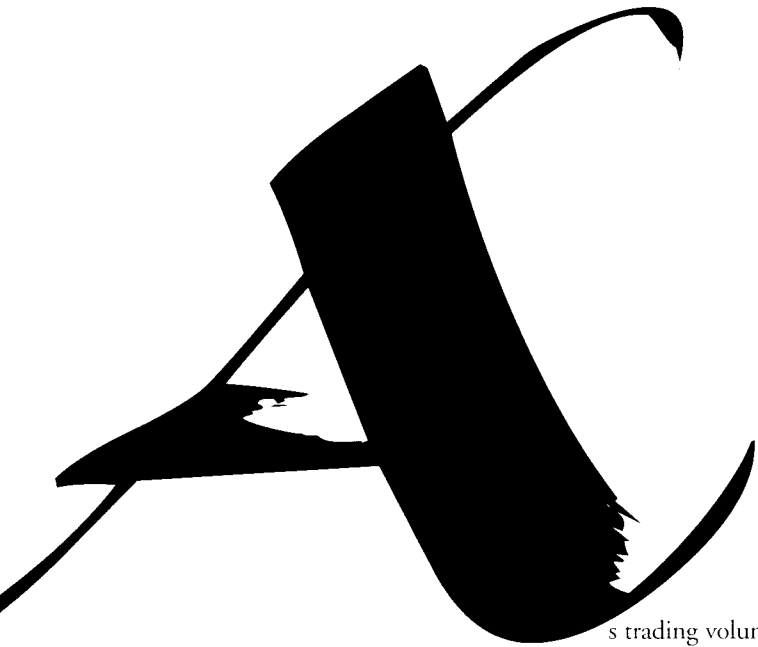
← *Group of Horses* | 1940

↓ *Loquats* | 1935



杏林夫人 清溪 徐悲鸿 1935

Clearance and Settlement



Equities trading volumes climbed and volatility rippled across global capital markets in 2007, DTCC set new clearance and settlement records, both in the number of transactions processed and the total dollar value. DTCC subsidiaries continue to play a central role in helping manage heightened market and systemic risk, by ensuring reliability and certainty in post-trade processing.

Equities

National Securities Clearing Corporation (NSCC) provides clearing, settlement, risk management and a central counterparty guarantee of trade completion 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.

Yearly volumes processed by NSCC increased 59% to 13.5 billion transactions from the 8.5 billion processed in 2006. The total value of transactions processed by NSCC reached \$283 trillion, up 62% from \$175 trillion in 2006. NSCC also saw the average number of daily transactions rise to 54 million from 34 million in 2006, with the average value of these transactions breaking through a new threshold to reach \$1.1 trillion in a single day.

Managing Volume Spikes and Market Volatility

But providing capacity to handle an average day of post-trade processing is only a small part of the story. NSCC's ability to

handle unpredictable and sharp spikes in volume and manage the associated risk is vital for protecting the safety, soundness and competitiveness of U.S. capital markets.

On the peak day of August 16, 2007, the number of transactions rose 83% to 98 million from an average daily volume of 54 million. Through its Continuous Net Settlement (CNS) system, NSCC nets down or reduces the total number of trade obligations requiring financial settlement. For example, NSCC reduced the value of obligations requiring settlement on this peak processing day in August, from \$2.2 trillion to \$31 billion, a netting factor of 99 percent. On a yearly basis, netting reduced financial settlement from \$283 trillion to \$5.2 trillion (or 98%). Netting reduces market and systemic risk and helps to optimize available capital for the financial services industry.

This year, NSCC further expanded its daily processing capacity to 283 million transactions, nearly three times the highest daily volume ever experienced, and up from 160 million transactions in 2006.

Payment and Movement of Securities While NSCC provides final settlement instructions to its customers each day, the payment and book-entry movement of securities ownership occurs at The Depository Trust Company (DTC). In 2007, DTC processed 325 million book-entry deliveries, up 11% from 293 million deliveries the year prior. The value of these deliveries, which include broker-to-broker and institutional transactions, was \$210 trillion, up 17%. DTC also processed underwriting distributions for over 54,000 new issues, up 7% over 2006, and

NSCC's ability to handle unpredictable and sharp spikes in volume and manage the associated risk is vital for **protecting** the **safety, soundness** and **competitiveness** of U.S. capital markets.



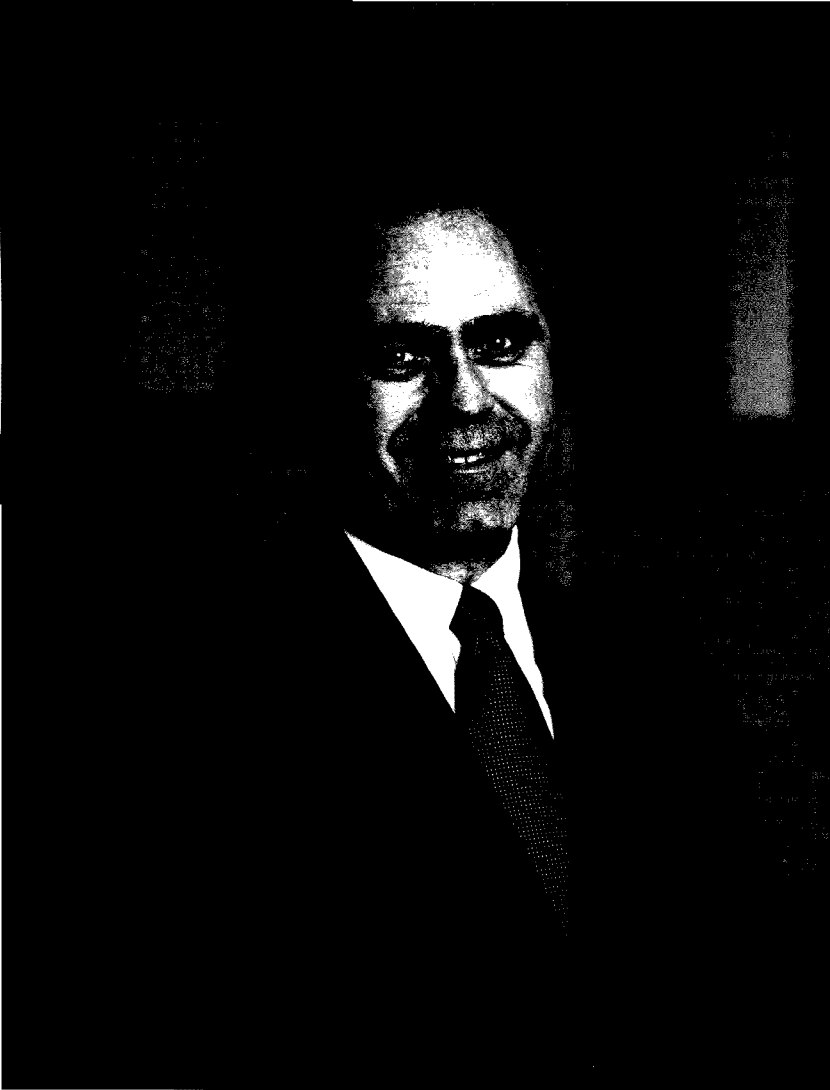
TOP
Matthew Price

*Managing Director,
Global Head of Fixed Income
Securities Operations,
UBS Securities LLC*



MIDDLE LEFT
Thomas Sakaris

*Director and Head of Equities
Middle Office for the Americas,
Citi Capital Markets and Banking*



BOTTOM RIGHT
John Rodefeld

*Managing Director,
Head of Operations — Americas,
Barclays Capital Inc.*

DTCC is making the ISO 150022 **global message standard available** for settlement-related transactions, which translates into cost savings and greater overall efficiency for customers.

worth almost \$4.3 trillion. The depository handles the initial processing, distribution and settlement of new issues with lead underwriters, broker/dealers and banks, and almost all municipal issues in the United States are distributed through DTC.

Development of Institutional Delivery Netting Service NSCC, DTC and Omgeo collaborated this year to develop a proposed joint service, known as ID Net, intended to streamline clearance and settlement, cut customer costs and reduce fails for affirmed institutional equity trades. The service, which is pending Securities and Exchange Commission (SEC) approval and undergoing internal testing, will allow NSCC to extend clearance and settlement functionalities to net the broker side of affirmed institutional transactions with certain other broker-to-broker activity that is eligible for processing through CNS. The settlement of the bank side of ID Net transactions will occur against designated omnibus accounts at DTC that will be operated by NSCC on behalf of participating brokers. Once approved, the service will be available to qualified customers on a voluntary basis. It is estimated that more than 250,000 trades a day could be eligible for the ID Net service upon implementation.

SMART/Track Goes Global To support the U.K. Financial Services Authority's enhanced requirements for agency lending disclosure with the implementation of Basel II in Europe, certain features of DTCC's SMART/Track for Agency Lending Disclosure service were made available to members of the International Securities Lending Association in 2007. European agent lenders can now leverage SMART/Track to create unique identifiers for non-U.S. principal lenders — one of the required data elements in the agency lending files. This allows the identity of the principal lender to be disclosed to borrowers, so the borrower can complete a credit and capital analysis of the underlying, or principal, lender.

Automating Non-Standard Settlement Trades In 2007, NSCC enhanced its CNS system to accommodate equity trades that deviated from the normal T+3 timeframes, and thus were subject to non-standard settlement. For equities, non-standard settlement items fall into three categories: cash transactions (which must trade and settle on the same day), next-day and sellers' option transactions. The ability to record, net and settle these non-standard trades — traditionally labor-intensive and time-consuming for brokers — along with regular transactions in an electronic format now brings a further level of efficiency to the settlement environment.

Drive to Standardize DTCC has been working to advance the use of global standards across its systems since the beginning of the decade, gradually transitioning customers away from some of the organization's traditional proprietary formats. The drive to standardize technologies took another step forward this year, as DTC began making the ISO 15022 global message standard available for almost all settlement-related transactions. This change translates into cost savings, risk reduction, global interoperability and greater overall efficiency for customers, and also strengthens the industry's business continuity planning.

In another change that brought further efficiency and standardization to the settlement process, DTC and NSCC extended their use of the Federal Reserve's National Settlement Service (NSS) for settlement in 2007, using NSS to pay end-of-day credits to settling banks via a single transmission to the Fed. By bringing credits as well as debits under the NSS umbrella, DTCC has further reduced settlement risk by dispensing with the individual wire payments and aggregating debits and payments into one simultaneous transmission.

Expanding the Real-Time Roster NSCC continued to make steady progress this year in working with the industry to advance the goal of real-time trade submission. The latest entry to the growing roster of exchanges and alternative trading systems

Through netting,
FICC frees up
capital and
lowers risk, by
reducing the total
number of trade
obligations
requiring
settlement from
\$4 trillion to
less than
\$1 trillion daily.

that submit data to NSCC in real time was the Chicago Stock Exchange, completing its conversion in December. NSCC now receives locked-in trade input in real time from the New York Stock Exchange's Arca, the American Stock Exchange and the International Stock Exchange, as well as the NASD/Nasdaq's Trade Reporting Facility (TRF) and Omgeo. These account for approximately 65% of locked-in trade input received by NSCC from the various U.S. exchanges.

The steady increase in real-time submission benefits the industry on multiple fronts, including supporting straight-through processing and providing earlier intra-day reconciliation for clients. It also prepares the industry to eventually operate in a fully integrated real-time trading environment.

Fixed Income

DTCC's Fixed Income Clearing Corporation (FICC), which clears trades of both U.S. government and mortgage-backed securities, handled record trading volume during 2007. Transactions in government securities increased more than 22% during the year, climbing to over 30 million, versus almost 25 million in 2006. The value of these transactions also rose, surpassing \$1 quadrillion for the first time — 16% more than the \$864 trillion processed the year before. Through netting, FICC's Government Securities Division continued to free up capital for its members by eliminating the total number of financial obligations requiring settlement from \$4 trillion to less than \$1 trillion daily, a netting factor of 75%.

As in past years, the sale and subsequent repurchase of government securities via repurchase agreements, or repos, accounted for a large percentage of the total value of government securities trades. As credit conditions tightened during the latter part of the year, firms increasingly turned to the repo market for short-term cash. The total dollar value of compared General Collateral Finance repo trades during 2007 was \$93.6 trillion, a 53% gain over the \$61.3 trillion traded in 2006.

Mortgage-Backed Securities Trading Up 22%

Trading in mortgage-backed securities (MBS) climbed in 2007, as well. Total volume moved past 2 million transactions for the year, a 22% jump over the 1.7 million recorded in 2006. The value of the securities traded grew even more, rising 25% to \$95 trillion from \$76 trillion in 2006. Expanding by roughly the same margin during the year was the value of the pools of mortgages attributable to pending mortgage-backed

securities trades. The pools, which are managed through FICC's Electronic Pool Notification Service (EPN), rose to \$10.8 trillion, up 26%, from \$8.6 trillion the previous year.

Volume Reflects "Flight to Safety" One reason for the growth in FICC's trading volume during the year was a "flight to safety" in the wake of the turmoil caused by the subprime mortgage crisis and subsequent credit squeeze. Investors and institutional buyers turned from collateralized debt obligations and other securitized mortgage instruments to government securities and to the kind of mortgage-backed securities that FICC supports. To help risk-manage the financial exposure of its member firms, FICC has always limited the mortgage-backed securities it handles to "agency paper." In other words, it clears trades only in securities issued in the secondary mortgage market by government-chartered agencies and companies such as Fannie Mae and Freddie Mac. As a result, the securities involved have the implied guaranty of the federal government, and any trades involving higher-risk private-label MBS are precluded because the agencies do not purchase them.

Risk Management: New Techniques Add Muscle

Meanwhile, FICC moved throughout 2007 to implement a series of even more rigorous risk management techniques for both its Mortgage-Backed and Government Securities Divisions. First was the introduction of a new value-at-risk methodology to calculate the portfolio risk of participant firms and the amount of collateral they need to post with FICC to cover potential losses. The new methodology allows FICC to increase or lower a customer's required collateral requirement based more directly on the risk presented. This methodology was implemented in the 1st quarter of 2007 for the Government Securities Division. It will be implemented in the 2nd quarter of 2008 for the MBS Division, subject to SEC approval. In conjunction with the new approach, FICC also harmonized and standardized the types of collateral that customers may use to meet their clearing fund requirements. Finally, to make it easier to manage and meet these new collateral requirements, FICC customers now have an Internet-based Collateral Management System that supplies a snapshot of their current requirements and provides for additions and substitutions to collateral as well as the prompt return of any excess.

2008 Goal: Reduced Collateral Costs via

Common Margining Common margining across FICC's two divisions, set for implementation in the 1st quarter of 2009, is another step intended to simplify collateral management while

lowering customer collateral needs and costs. By examining the portfolio positions of firms that are customers of both its Government and Mortgage-Backed Securities Divisions, FICC will be able to see where exposure in one market can be offset by positions in the other.

Central Counterparty for Mortgage-Backed

Securities: Final Steps The sharp rise in mortgage-backed securities trading in 2007 has heightened industry interest in FICC's initiative to create a central counterparty that can cut clearing and settlement costs while reducing counterparty risk. As a central counterparty, FICC will guarantee trade completion as soon as a trade is matched. By netting the mortgage pools assigned to each security in preparation for settlement, FICC will also be able to reduce the number of trade obligations requiring financial settlement as well as related transactions processing fees. Working closely with its customers, FICC made steady progress in 2007 to build the central counterparty function. The next phase, MBS pool netting, is scheduled for pilot testing before the end of the year. This phase will introduce CCP services to the MBS market. FICC's goal is to have the central counterparty fully functional and operating in the first half of 2009.

Prime Broker Netting Lowers Hedge Fund Risk and Cost

In still another effort to reduce settlement risks and costs for its customers in 2007, FICC launched a new service, Prime Broker Netting, to support processing of trades in U.S. Treasury securities that prime brokers either execute or oversee for hedge funds. Because prime brokers typically function as an agent, they are not a legal party to the trades. Consequently, they did not routinely submit the trades to FICC for clearance and settlement. Instead, the transactions settled on a costly trade-for-trade basis outside FICC. But through the new netting service, prime brokers have the flexibility to submit U.S. Treasury trades to FICC for matching-only, or matching and netting, which lets them manage how much risk they are willing to take on for each hedge fund and transaction type.

Enhancing Liquidity for the Repo Market

With the backing of the securities industry, FICC presented a plan to the SEC in 2007 to allow its customers to resume entering into General Collateral Finance (GCF) repo agreements with dealers that clear at different clearing banks. The inter-bank market for GCF repo transactions has been closed since 2003, when high

Working closely with its customers, FICC made **steady progress** in 2007 to build a central counterparty function for mortgage-backed securities.

trading volumes led to payment system risks for the two prime clearing banks. Since then, GCF repo transactions can occur only if both parties are able to settle at the same clearing bank. To overcome this restriction, which has effectively bifurcated the market, FICC has worked with the clearing banks to develop a new set of rules and procedures to govern the mechanics of the transactions. SEC approval of FICC's proposal will substantially enhance the liquidity pool for the GCF repo business.

Record Year for Municipal and Corporate Bond Transactions On behalf of NSCC, FICC's Real Time Trade Matching service matched more than 14.4 million corporate bond, municipal bond and unit investment trust transactions in 2007, a 12% increase over the 12.9 million handled the previous year. The value of the matched transactions was \$5.2 trillion.

Omgeo

Omgeo, whose transaction processing and information technology play a critical role in the global securities industry, continued to expand its business and customer base in 2007. With the addition of 50 new hedge fund clients during the year, Omgeo now counts more than 150 hedge funds as part of a customer base that extends to 42 countries and includes more than 6,000 investment managers, broker/dealers and custodian banks.

Processing Volumes Climb Sharply Transaction volume through Omgeo's U.S. domestic trade confirmation service, TradeSuite, surpassed 350 million confirmations in 2007, an increase of 23% over the previous year's volume of 285 million. On Omgeo Central Trade Manager, the company's core matching platform for domestic and cross-border trades, volume also rose during the year. With more than 250 clients currently using the service, volume now averages better than 1 million trades per month. Omgeo has also recently begun testing new methods for foreign exchange trade processing.

Fixed Income: More Products, New Customers Trade processing volume in fixed-income markets also expanded rapidly for Omgeo during 2007, rising 24% to almost 3 million allocations from 2 million in 2006. Helping feed this volume was Omgeo's expansion of its product reach to include repurchase agreements and mortgage-backed securities. Also driving volume was the addition of new buy- and sell-side customers, including insurance companies, hedge funds, state retirement funds and pension funds.

Strengthening Business Continuity Omgeo completed a two-year consolidation and migration of its data centers into DTCC in 2007. DTCC's facilities afford state-of-the-art business continuity capabilities that include multiple, geographically dispersed data centers as well as tested resources devoted to security and compliance. ■



1997-1999
Christopher Moran
Director
Merrill Lynch

1994-1997
Frank Malarkey
Director of Operations
Message Based Securities
Credit Suisse

1992-1998
MaryAnn Fappiano
Managing Director
Morgan Stanley



Henri Matisse

A painter's painter, nearly universally appreciated and immensely influential, **Henri Matisse** was at the center stage of the art world for many decades. Ironically, Matisse didn't touch a brush until he was 22 and mostly led a quiet life, outside the frantic hubbub of Paris.

Matisse's ideas about painting were remarkably different. He felt a painting should be "a soothing, calming influence on the mind like a good armchair provides relaxation for physical fatigue." Yet Matisse always traveled his own idiosyncratic path. One of the leading colorists of all time, his work would later inspire numerous painters, like pop artist Andy Warhol and abstract painters like Mark Rothko. He also chose not to follow Picasso and others into the unknown territory of Cubism. Matisse worked to combine his vibrant color treatments with the liberal use of dark outlines. Large shapes of color, delineated in black, were all he required to define form. "You are destined to change painting," Matisse was told, "by simplifying it."

Even at 71, recuperating from an eye operation, Matisse began creating the esteemed paper cutouts that he would continue with for the next 15 years: bold, simplified, colorful forms.

Henri Matisse, Red Interior: Still Life on a Blue Table, 1947.
© 2008 Succession H. Matisse, Paris / Artists Rights Society (ARS), New York.
Kunstsammlung Nordrhein-Westfalen, Dusseldorf / DACS / The Bridgeman Art Library.

Henri Matisse, Still Life with Apples, 1897.
© 2008 Succession H. Matisse, Paris / Artists Rights Society (ARS), New York.
Private Collection, Photo © Art Resource, NY.



Even as Henri Matisse established himself as a master of traditional painting technique, he began to deconstruct his art to simplify it. His later works, with their bold outlines and vivid colors, dazzle

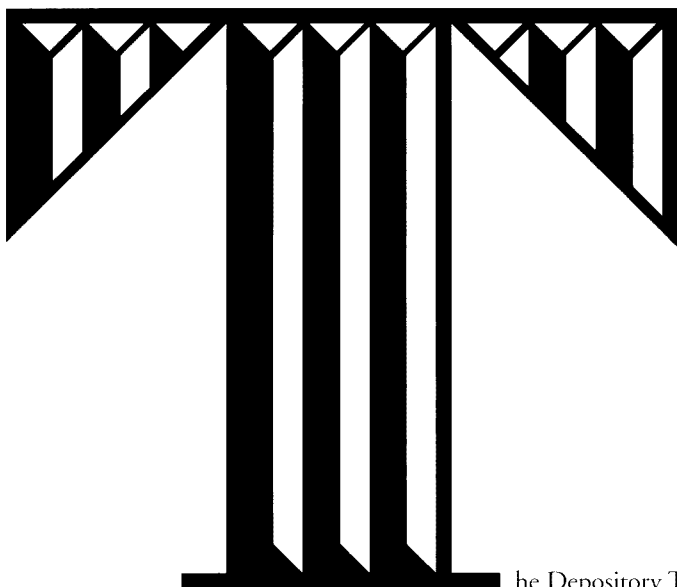
in their simplicity. With more than three decades of experience, DTCC continues to find new ways to help our customers cut costs and reduce risk by streamlining and simplifying their post-trade processing.

← *Red Interior: Still Life on a Blue Table* | 1947

Still Life with Apples | 1897 ↓



Asset Services



The Depository Trust Company boosts efficiencies and reduces costs for the industry by helping to automate the entire life cycle of a security beginning with the initial public offering, maintaining custody, making electronic “book-entry” changes to ownership of securities, servicing the assets (for example, corporate actions and dividend payments), and managing the retirement of the security.

The value of securities held at DTCC’s depository at year-end 2007 stood at more than \$40 trillion, up from \$36 trillion in 2006. Securities 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 3.5 million, up from 2.8 million in 2006.

The depository collected and allocated to customers nearly \$3.8 trillion resulting from dividend and interest payments, and redemptions and reorganization activities, up 17% over the \$3.3 trillion in 2006. The value of dividend and interest payments alone totaled \$1.9 trillion in 2007, while the number of these payments increased to almost 4.8 million, up 10% from the 4.4 million processed in 2006.

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. In 2007, the depository processed underwriting distributions for a record 54,000 new issues worth nearly \$4.3 trillion, compared to 51,000 issues in 2006.

A Redesign for New Capabilities and New Efficiencies The redesign of the depository’s underwriting system, as well as its corporate actions system — two core legacy systems — continued throughout 2007. The reengineering, one of the most ambitious projects ever undertaken by DTCC, will combine and replace more than 60 separate underwriting and corporate actions systems that have developed over the past four decades. The new platform, called the DTCC SOURCE (Securities Origination Underwriting & Reliable Corporate Actions Environment), will provide new capabilities, including multi-currency corporate action processing and support for complex corporate actions, both in the U.S. and international markets.

The new platform will streamline the way underwriters submit new-issue eligibility requests to the depository and distribute real-time information on new issues to the entire industry. It will also help municipal underwriters meet a new requirement for the prompt reporting of bond trades. Municipal underwriters will be the first to transition to the new system in the 2nd quarter of 2008. Underwriters for corporate issues, asset-backed securities and fixed-income securities will transition to the underwriting system in 2009.

Throughout 2007, DTCC worked with customers to help them prepare for the changes they will need to make to their own underwriting and corporate actions systems. At the same time, DTCC made important adjustments to the redesign of the new corporate actions system so customers would have greater flexibility in transitioning to the reengineered system. As a result, migration to the new system will begin in 2009 and be phased in through the following two years.

AccuBasis™ provides issuers, transfer agents, broker/dealers and mutual fund companies with an automated tool to help investors calculate cost-basis information quickly and accurately.

Fast, Accurate Cost-Basis Information AccuBasis™, DTCC's cost-basis product launched in 2007, has grown its customer base to include leading Fortune 500 companies such as The Walt Disney Company, Johnson Controls and Aflac, as well as leading energy companies and financial services firms such as H&R Block, RW Baird and Union Bank & Trust Co. The service provides security issuers, transfer agents, broker/dealers, mutual fund companies and other financial service providers with an automated tool they offer their investors to help calculate cost-basis information quickly and accurately.

Investors need cost-basis information to report gains or losses when filing tax returns and for determining the unrealized gains or losses of a securities position. AccuBasis automates and streamlines researching and calculating cost-basis information, which traditionally has been a difficult, time-consuming and expensive task. Firms can offer AccuBasis through a link on their Web page, where investors can input a CUSIP number, the security name or ticker symbol of the security and the approximate date of purchase.

Many banks, brokerage firms and mutual fund companies have begun testing AccuBasis in anticipation of proposed legislation in Congress. The legislation requires that all financial intermediaries, such as broker/dealers, issuers and transfer agents, report adjusted cost-basis information to both investors and the Internal Revenue Service for all transactions on or after January 1, 2009.

Resolving Structured Securities Issues In 2007, DTCC continued to work with representatives from major banks, financial services firms and leading trade organizations to help solve processing problems associated with the structured securities

market. Structured securities include 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 the depository was \$63.9 billion in 2007.

A DTCC white paper in September 2007 proposed a series of initiatives that would provide substantial cost and time savings by extending deadlines on payment information, creating two classes of structured securities — conforming and nonconforming — and charging an exception fee for nonconforming issues.

Providing Tax Relief Through its TaxRelief™ service, DTCC's Global Tax Services continued to deliver benefits to its customers, totaling a record \$2.24 billion in 2007, an increase of 40% from 2006. TaxRelief enables customers to secure withholding tax relief for themselves and their customers on cross-border dividend and interest payments such as American Depositary Receipts, global shares, equities and fixed income securities.

For the past three years, TaxRelief has played a critical role when Spanish banks came to raise money in the U.S. In 2003, Spanish tax legislation aimed at combating terrorist financing and money laundering effectively put an end to Spanish borrowing in the U.S. by calling for the banks to withhold a 15% tax on foreign investors if stringent reporting requirements were not met. Global Tax Services, working with a U.S. information vendor, structured deals with the Spanish banks so they could offer at-source tax relief

while meeting the government's reporting requirements. Spanish debt offerings jumped to more than \$55 billion by the end of 2007 from virtually zero in the first half of 2005.

The Paper Chase DTCC continued to make steady gains throughout 2007 in its push toward dematerialization — the elimination of paper certificates in the industry. DTCC worked with issuers and transfer agents to help make them compliant with the new listing requirement of U.S. exchanges. In 2006, The New York Stock Exchange, Nasdaq and the American Stock Exchange, as well as all regional exchanges in the U.S., filed rule changes approved by the Securities and Exchange Commission requiring that all securities issues be made eligible for a direct registration system (DRS) as of January 1, 2008, a deadline later extended to March 31, 2008. DRS enables investors to register ownership of their shares electronically with either the issuing company or its transfer agents, eliminating the need for paper certificates.

In the past year, the number of DRS-eligible securities has more than quadrupled to 7,018 issues in 2007, from 1,406 issues in 2006. Only 61 exchange-listed issues remain to become eligible by the March 31 deadline.

Global Corporate Action Services The Global Corporate Action Validation Service (GCA VS) increased its customer base to 25 clients, comprising global broker/dealers, asset managers, hedge funds and others.

During the year, GCA serviced over one million unique corporate action announcements (both mandatory and voluntary) and three million scheduled payments for nearly two million equities, fixed income and structured securities, across more than 160 countries/territories.

As well as increasing coverage, the service also increased the number of corporate action event types supported. Fixed Income 'scheduled payments' were brought on-stream early in the year, and, at customers' requests, announcements on 'structured securities', specifically collateralized debt obligations (CDOs), collateralized mortgage obligations (CMOs) and asset-backed securities (ABS), were rolled out in January 2008.

Another major enhancement completed in 2007 was the addition of "multi-market" functionality, which ensures that the service creates specific announcements for each and every market that the security trades on, with all the necessary market-specific details.

Looking ahead to 2008, GCA VS will double the number of intra-day publication feeds to clients, will overhaul the Internet-based browser tool by adding a range of new features, and will look to recast the existing Service Level Agreements (SLAs) to better suit customers' needs, by moving toward a "Create Date plus" framework, from "Important Date minus." ■

The redesign of the depository's underwriting and corporate actions system will replace more than 60 separate systems and will bring new efficiencies and capabilities.



TOP
Richard Laufer
*Vice President,
Lehman Brothers*



MIDDLE
James Alden
*Director, Shareholder Services,
The Walt Disney Company*

RIGHT
Kurt M. Dodds
*Director,
BlackRock*



Man with Hand Plow | c. 1933 ↑

Silver over Black, White, Yellow and Red | 1948 →

Jackson Pollock, although grounded in painting's classical themes and techniques, would shatter all known art conventions with his later work. As in art, revolutions occur in financial services too. And DTCC, while providing safety and soundness to the industry, understands the critical role infrastructure organizations can play in supporting innovation, such as new trading instruments and new trading environments, while also ensuring strong risk management.

OTC Derivatives Services – Deriv/SERV



TCC Deriv/SERV in 2007 worked with its global customers to enhance operational efficiency and further reduce risk in the dynamic and fast-growing over-the-counter (OTC) derivatives market. DTCC's goal is to provide a one-stop, centralized automated environment for the OTC derivatives market, to support the entire multi-year lifecycle of these instruments, through trade matching and confirmation, position maintenance in a global contracts repository and payment and coupon calculation, netting and money settlement.

The Global Industry Standard Volume on Deriv/SERV's matching and confirmation service soared 123% to over 5.8 million transactions in 2007, versus 2.6 million in 2006. Average daily volume during the year was almost 23,000, compared to about 10,000 in 2006. Deriv/SERV's payment reconciliation service rose 86% to 13 million transactions, up from 7 million in 2006.

Deriv/SERV grew its customer base by 43% to 1,078 customers at the end of the year versus 753 at the end of 2006, solidifying its position as the industry standard for post-trade processing in the global OTC derivatives market. Deriv/SERV now has the largest community of users in the industry, including all major dealers and buy-side firms in 31 countries. And market participants indicate that more than 90% of credit derivatives trades are matched and confirmed on Deriv/SERV, from 15% in late 2003, when the service was launched.

Industry uptake of our matching and confirmation service for interest rates and equity derivatives transactions increased substantially. Greater industry adoption of Deriv/SERV for these

products allows market participants to process all three primary derivatives asset classes — credit, equity and interest rates — with all major derivatives dealers on a single platform.

Deriv/SERV added coverage of several new products on the matching and confirmation service. Deriv/SERV now supports equity index, swaps and variance swaps in all geographic regions (the Americas, Europe, Japan, Asia ex-Japan) for which there are ISDA® (International Swaps and Derivatives Association Inc.) Master Confirmation Agreements (MCAs). MCAs are bilaterally negotiated legal documents and a prerequisite to automated processing on an electronic platform.

As industry attention turns to improving operational practices in the equity derivatives market, Deriv/SERV is working with global market participants to deliver solutions that will help move their transactions onto an electronic platform. These efforts include the recent pilot and planned rollout in 2008 of a new service, MCA-Xpress, which will automate the negotiation and execution of MCAs for OTC equity derivatives.

Deriv/SERV also enhanced its service for interest rate derivatives to support all post-trade events, including assignments, terminations and amendments. Credit default swaps (CDS) on loans and on residential and commercial mortgage-backed securities were also added to the Deriv/SERV platform.

A Robust Centralized Global Repository During the year, dealers completed backloading into the Trade Information Warehouse inter-dealer trades executed prior to the Warehouse's 2006 launch. Almost 3 million credit derivatives contracts now



Jackson Pollock produced his most important and enduring work during a sustained four-year span between 1947 and early 1951. Ironically, after a meteoric rise to fame, he abruptly abandoned his “drip” method of painting, and his life was cut short, when he died in a car wreck at age 44. However, the work he created in this short period sparked a revolution — breaking with 600 years of art history. His paintings have few rivals among the art of other Abstract Expressionists.

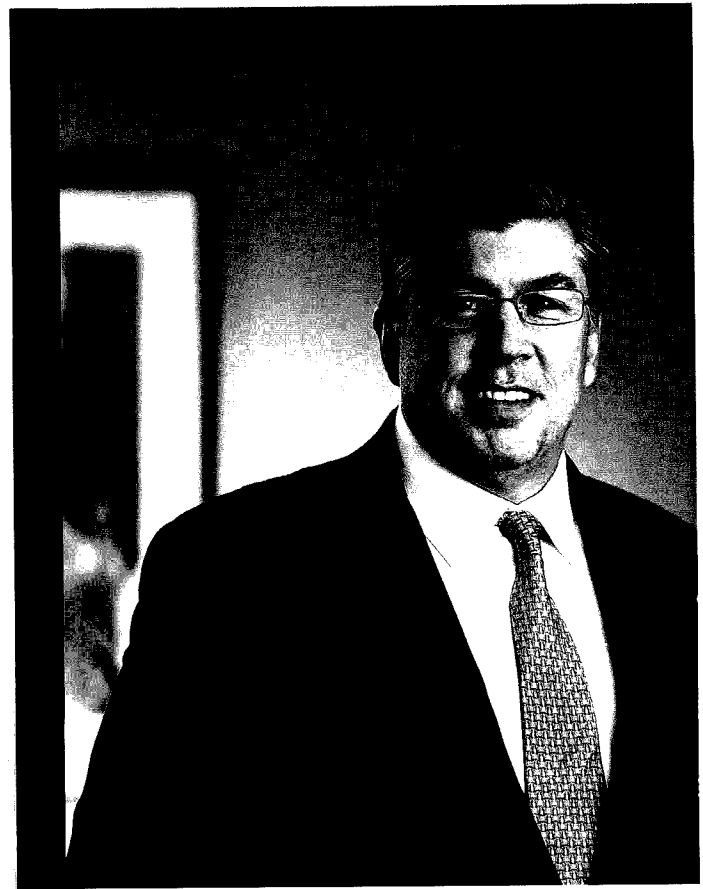
But unleashing that spark of genius took an enormous leap of faith. Pollock had, prior to this, long been considered a classically talented, though somewhat uninspired painter. Then he ever so abruptly changed his technique, essentially changing his paint colors and abandoning brushwork entirely. Instead, he would lay his enormous canvas on the floor of his barn-studio. Then he would lash his brush to a short stick and, some dozen inches from the canvas, let the paint fly, dripping and dipping and dripping, choreographing a magical dance between man and paint.

The history of art offered no reliable traditions, and no applicable rules. His web-like threads of paint took Cubism’s fractured picture plane and multiple points of view to an unimagined level. His technique is deceptively simple. Yet his imitators, and there were many, ended up producing nothing even remotely comparable.

Jackson Pollock, *Man with Hand Plow*, c.1933.
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Museum of Fine Arts, Houston, Texas, USA / Mr & Mrs Frank J. Hevrdejs Fund /
The Bridgeman Art Library.

Jackson Pollock, *Silver over Black, White, Yellow and Red*, 1948.
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Almost **3 million credit derivatives contracts** now reside in the Warehouse, a significant accomplishment for the industry — and for DTCC.



TOP RIGHT
James Wallin
*Senior Vice President,
Alliance Bernstein*

MIDDLE
Kathy Wallis
*Head of Equity Operations,
Royal Bank of Scotland*

BOTTOM MIDDLE
Karin Cook
*Global Head of OTC Derivative Operations,
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