

A n n u a l R e p o r t 2 0 0 0

# The Depository Trust & Clearing Corporation

2005, more than just a dream



# Highlights of DTCC Accomplishments in 2000

December 2000

New international tax withholding services prepared for 2001. | Dec.

Clearing corporation increases processing capacity to 40 million transactions daily. | Dec.

Multi-currency clearance and depository settlement system introduced. | Dec.

DTCC links with Necigef go live in Amsterdam and New York. | Nov.

Oct. | Central Counterparties White Paper published, calls for global conference.

First equities begin test trading in decimals. | Sept.

Sept. | DTCC Internet strategy put in place.

July | First real-time data feeds go live between the New York Stock Exchange and the clearing corporation.

T+1 White Paper published. | July

June | Technology White Paper published.

DTCC hosts first meeting of the Americas' Central Securities Depositories Association. | May

May | DTCC links with SIS SegInterSettle AG go live in Zurich and New York.

DTCC links with Hongkong Clearing go live in Hong Kong and New York. | May

April | Record peak-day volume of 18.1 million transactions processed by clearing corporation.

April | DTCC links with CrestCo go live in London and New York.

April | DTCC and Thomson Financial sign agreement in principle to create a joint venture to provide global straight-through processing for institutional trading.

Jan. | 100-day plan launched.

Dec. | Risk-based margining implemented for all clearing corporation customers.

December 1999

Business Segment	Benefits	Major Customers	Products and Services
<b>Clearance and Settlement</b>	<ul style="list-style-type: none"> <li>• Among the lowest cost clearance and settlement in the world</li> <li>• Risk management that provides safety and soundness</li> <li>• Large network enables new value-added services to be developed</li> <li>• Capacity to handle unpredictable trade volume</li> <li>• Automated system to most effectively use and move collateral at various clearing/depository organizations</li> </ul>	<ul style="list-style-type: none"> <li>• Banks</li> <li>• Broker Dealers</li> <li>• CSDs</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous Net Settlement (CNS)</li> <li>• Balance Order System</li> <li>• Trade for Trade</li> <li>• Physical Processing Services</li> </ul>
<b>Institutional Trade Processing</b>	<ul style="list-style-type: none"> <li>• Increases efficiency and simplifies post-trade communications among institutional trading parties</li> <li>• Provides a single integrated trade management solution for both domestic and cross-border institutional processing</li> </ul>	<ul style="list-style-type: none"> <li>• Custodian Banks</li> <li>• Money Managers</li> <li>• Broker Dealers</li> </ul>	<ul style="list-style-type: none"> <li>• TradeSuite family of products</li> <li>• TradeMatch, OASYS, Global OASYS</li> <li>• SID, ALERT</li> <li>• ITM Benchmarks, Quality Control Report Cards</li> <li>• Trade Management Services (Omgeo)</li> </ul>
<b>Asset Servicing</b>	<ul style="list-style-type: none"> <li>• Centralizes securities processing and eliminates the need for physical movement of paper certificates</li> <li>• Facilitates the distribution of primary and secondary issues</li> <li>• Automates, centralizes and simplifies principal, income and corporate action processing</li> <li>• Allows member firms to focus on core businesses by centralizing expertise and information in one place</li> </ul>	<ul style="list-style-type: none"> <li>• Custodian Banks</li> <li>• Broker Dealers</li> <li>• Issuers</li> <li>• Paying, Transfer and Redemption Agents</li> <li>• Underwriters</li> <li>• Investment Managers</li> </ul>	<ul style="list-style-type: none"> <li>• Custody</li> <li>• Underwriting Services</li> <li>• Reorganization Services</li> <li>• Redemption Services</li> <li>• Dividend Services</li> <li>• Money Market Instrument Program</li> <li>• Proxy and Shareholder Services</li> </ul>
<b>Mutual Fund Services</b>	<ul style="list-style-type: none"> <li>• Standardizes and automates electronic interactions between mutual funds and distributors</li> <li>• Lowers costs by eliminating multiple links and by netting settlement</li> <li>• Provides electronic fund transfers</li> </ul>	<ul style="list-style-type: none"> <li>• Mutual Funds</li> <li>• Banks</li> <li>• Broker Dealers</li> <li>• Third Party Administrators</li> <li>• Independent Broker Dealers</li> </ul>	<ul style="list-style-type: none"> <li>• Fund/SERV</li> <li>• Networking</li> <li>• Defined Contribution Clearance and Settlement</li> <li>• Commission Settlement and Global Update Service</li> <li>• ACATS-Fund/SERV Link</li> <li>• Transfer of Retirement Assets</li> <li>• Mutual Fund Profile Service</li> </ul>
<b>Insurance Services</b>	<ul style="list-style-type: none"> <li>• Standardized and automates information flow between insurance carriers and distributors of life insurance and annuities</li> <li>• Nets settlement and provide electronic fund transfers</li> </ul>	<ul style="list-style-type: none"> <li>• Insurance Carriers</li> <li>• Broker Dealers</li> <li>• Banks</li> <li>• Independent Broker Dealers</li> </ul>	<ul style="list-style-type: none"> <li>• Annuity Applications and Initial Premiums</li> <li>• Commissions</li> <li>• Positions and Valuations</li> <li>• Asset Pricing</li> <li>• Subsequent Premiums</li> <li>• Financial Activity Reporting</li> </ul>
<b>Value-Added Information Services</b>	<ul style="list-style-type: none"> <li>• Provides a range of information based and Internet-driven services</li> </ul>	<ul style="list-style-type: none"> <li>• Money Managers</li> <li>• Transfer Agents</li> <li>• Banks</li> <li>• Broker Dealers</li> </ul>	<ul style="list-style-type: none"> <li>• Global Corporate Action Hub</li> <li>• Customer Desktop</li> <li>• Global Tax Services</li> </ul>

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

*Our mission is, by 2005, to be the provider of choice worldwide for investment servicing solutions through leadership, innovation and technology.*

*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.*

#### Countries where DTCC has business relationships

Australia	Korea
Austria	Luxembourg
Belgium	Malaysia
Bermuda	Netherlands
Brazil	New Zealand
Canada	Norway
Czech Republic	Philippines
Denmark	Portugal
Finland	Singapore
France	South Africa
Germany	Spain
Greece	Sweden
Hong Kong	Switzerland
India	Taiwan
Indonesia	Thailand
Ireland	Turkey
Italy	United Kingdom
Japan	United States of America

The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports two principal subsidiaries, National Securities Clearing Corporation and The Depository Trust Company.

#### Subsidiaries:

- National Securities Clearing Corporation is the leading provider of centralized post-trade comparison, trade guarantee, netting, settlement and information services for equities, bonds, unit investment trusts, mutual funds and insurance transactions in the U.S.
- The Depository Trust Company is the world's largest securities depository and a major clearinghouse for institutional post-trade processing and settlement.

#### Affiliates:

- Government Securities Clearing Corporation supplies automated trade comparison, netting and settlement services to brokers, dealers, banks and other financial institutions that trade in U.S. Government securities or repurchase agreements based on those securities.
- MBS Clearing Corporation is the sole provider of automated trade matching/confirmation, risk management, netting and electronic pool notification services to participants in the mortgage-backed securities market.
- Emerging Markets Clearing Corporation is a global provider of automated trade comparison, trade guarantee, settlement and risk management services for Brady bonds and other sovereign debt transactions.

#### Joint Ventures

- Omgeo is a joint venture between DTCC and Thomson Financial that will provide a streamlined trade management solution for institutional trades and link a global community of custodian banks, investment managers and broker dealers in 37 countries.

*Throughout history, folk tales have been handed down from generation to generation, emphasizing cultural values and offering continuity during times of great change.*

*This year, our annual report features tales and legends that celebrate the world's rich cultural diversity and the universal themes of friendship and working together. We are many people, but we are one world – and truly, we are becoming one global financial community.*

*A year ago, DTCC was formed through the integration of National Securities Clearing Corporation (the clearing corporation) and The Depository Trust Company (the depository). The mission statement we adopted put a stake in the ground to turn our dreams for the future into reality.*

*“2005, more than just a dream” as the theme of this year's annual report, underscores the progress we've made during our first year of operation toward achieving our mission. We trust this report will give you a sense of the high energy and depth of commitment that has taken hold at DTCC.*

## *Dear Stakeholder:*

If there's a lesson we've learned from our collective experience in the financial services industry, it is that our success is inextricably tied to our ability to adapt to change. Over the last year, we often used the analogy of our industry being like the great explorers who literally sailed to the end of the map — and beyond.

At DTCC, we are likewise challenged to manage through a period of uncertainty, unpredictability and a series of currents that are changing the face of our industry. Notwithstanding the slowdown in the economy, the longer-term trends of demographics, industry consolidation, technology innovation and globalization are irreversible and will redefine the financial marketplace.

A year ago, following the integration of DTC and NSCC, we adopted a mission statement that set the bar high and represented our commitment to not just adapt to change, but to lead change in our segment of the industry. Our mission, "by 2005, to be the provider of choice worldwide for investment servicing solutions through leadership, innovation and technology," is more than just a statement of goals. It is a mantra internally at the company, and a key indicator against which our employees measure our progress. Many customers who have long thought of us as a "sleepy utility" have found that our state of consciousness is quite alert to the opportunities embodied in our new mission. And the theme of our annual report this year, "2005, more than just a dream" is testimony to the tangible progress we made last year to help achieve it.

At DTCC, we recognize that our future role in serving marketplaces and global trading parties will require a mix of solutions. Some will involve direct support to our marketplaces; others will be delivered by forging alliances and partnerships around the world. Our adaptability to change will be evidenced by a willingness to move away from an organization reliant on its size to one that's nimble and quick to market with solutions and is truly a global competitor.

The folklore stories in our annual report this year might seem unusual for the business of financial services and post-trade processing,

but in reality they signal the underlying values needed to succeed in a global financial community. These values include mutual respect for diverse perspectives and unique talents and a commitment to teamwork.

We are determined at DTCC, to earn our place as a natural and logical partner with other central counterparties (CCPs) and central securities depositories (CSDs) around the world by providing thought leadership that reflects our broad understanding of issues transcending national and regional borders.

Last year, the clearing corporation once again processed record volumes, with daily averages reaching over 11 million transactions and values exceeding \$421 billion.

Our customers rely on us to ensure adequate capacity not just to meet daily averages, but to handle whatever peak volumes the marketplaces experience. The volume on these peak days has doubled in the last two years, to 18.1 million transactions on a single day, April 4, 2000. Capacity planning is an integral part of our activities: We can currently handle 40 million transactions per day and this will rise to 60 million by year-end.

The other significant benefit offered by the clearing corporation, our CCP, is netting. Through netting, we reduced the number of obligations requiring settlement on a peak day in 2000 from \$722 billion to \$22 billion (or 97%). Considering the U.S. clearing corporation processed \$105 trillion in transactions last year, our netting system provides enormous benefits by reducing risk, increasing capital efficiency and lowering costs.

DTCC issued two white papers in 2000 on straight-through processing (STP) and our Technology Architecture, each providing a detailed view on how our organization will adapt to and lead the change required to serve our domestic customers. Included in this effort is a major redesign of the clearing corporation's Continuous Net Settlement system, which got under way in 2000.

We are committed to having our systems and internal processes move to STP. Early in 2001, we distributed a detailed road map to the industry outlining our project timeline. The process will be the same as our efforts on decimalization, Y2K and T+3, which ensured early testing and a seamless transition. We're working closely with the Securities Industry



*Jill M. Considine Chairman & CEO*

Association (SIA), especially on an intra-day risk management study, to assess steps needed to monitor and eliminate exposure in a shortened settlement environment.

On the custody and asset servicing side of DTCC's business, we've seen continued growth in our servicing activities in 2000. More than \$23 trillion in eligible securities were held on deposit this past year. The depository also handled more than \$116 trillion in book-entry movement of securities, up from \$94 trillion in 1999. And our asset servicing grew, with the depository processing \$1.4 trillion in dividend, interest, corporate reorganization and redemption payments, while new underwriting distributions reached \$1.7 trillion.

Institutional post-trade processing also reached record levels in 2000, with total TradeSuite activity climbing to 326 million confirmations processed, up 30% from the prior year. While DTCC is pleased with the success of the depository's TradeSuite products in helping to automate much of the communication between brokers, investment managers and custodian banks, the move to STP presents new challenges and requirements.

During our work on the SIA study and our own STP white paper, we began to explore with Thomson Financial ESG a new model for processing institutional trades, that would significantly increase efficiency, lower costs and facilitate a shortened settlement cycle. Those discussions led to a new joint-venture company, Omgeo, which we expect to launch in 2001.

By combining our TradeSuite business with Thomson Financial ESG, the venture will start day one with a solid customer base of 6,000 customers in 37 countries, proven products and reliable technology. Omgeo will then migrate to a single seamless platform, linking trading parties in a way that will minimize the cost to current customers. Few might have thought it possible that an entrepreneurial company like Thomson Financial ESG and a "utility" like DTCC could find common ground, but our experience illustrates how the old labels no longer apply.

On a combined business basis, DTCC recorded \$914 million in revenue in 2000, up 18%. We issued record discounts and refunds of \$164 million and \$88 million to customers of the clearing corporation and depository, respectively. We also reduced certain fees by \$41 million, reflecting both market conditions and strong internal fiscal management. The U.S. clearance, settlement and custody model actually gains benefits by the enormous trade volumes we process, with increased processing efficiency and one of the world's lowest cost structures.

We're pleased to report that work initiated in 2000 with Standard & Poor's recently culminated in separate AAA credit ratings for both the depository and the clearing corporation. This recognition of our fiscal strength and internal controls will be a valuable asset in gaining access to necessary capital and will serve as a competitive benchmark.

As investors increasingly look to take advantage of market opportunities across borders, DTCC has a dual responsibility to serve the needs of our marketplaces and customers and to provide leadership in advancing uniform standards and interoperability worldwide. Our global activities are focused on several fronts, and are based on a clear set of principles.

During 2000, DTCC has actively worked to provide guidance to the NYSE and the Global Equity Market alliance (GEM), and to offer support for Nasdaq's European initiatives, as well as the Amex's activities in Asia.

At the same time, DTCC issued a white paper on central counterparties (CCPs) that led to the first worldwide gathering of CCPs. The purpose of the paper was to support efforts within national and regional markets to enhance CCP capabilities, and also to encourage a global perspective in guiding that development. As an industry, we must avoid developing a patchwork of processes and systems around the world that are more costly, less efficient and may impede, rather than facilitate, seamless global trading.

The CCP conference held early in 2001, with 150 representatives of CCPs, CSDs, broker dealers, banks, investment managers and regulators, was a watershed event. We thank the nine co-sponsors of the conference

*“We have built a reputation as an organization admired for our reliability, certainty and responsiveness. We intend to continue to be a premier provider of quality products and services, with an unshakable commitment to a core set of values and high standards,” said DTCC Chairman and CEO Jill Considine, addressing an employee rally on vision and values in July.*

who share our concern over the complexities of enhancing CCP services in the midst of changing and evolving marketplace structures. We expect to continue working as a group to promote a range of issues affecting CCPs, from information exchange to more complex legal and regulatory requirements.

On different issues, in different geographic markets and at different times, we may partner and compete in varying bandwidths of our market space. In our view, adaptability is not choosing one direction over another; it's allowing for the possibility that there may be multiple solutions and multiple methods of addressing customer needs.

As an example, DTCC recently signed a memorandum of understanding with Euroclear and Clearstream to use some of our technology capabilities as a service provider and partner to help automate pre-issuance messaging services in the European commercial paper market. We're very keen on establishing these types of relationships, and benefiting from them as well.

Technology is an integral part of what differentiates DTCC in our markets. During 2000, our Technology Architecture white paper outlined significant steps we are taking to reengineer technology platforms and our delivery channels. We are also looking to diversify the range and speed of bringing technology solutions to market by partnering with others and pursuing “buy” versus “build” strategies. Our technology efforts in 2000 included revamping risk management systems, STP projects, and enhancements to our customer interfaces, such as expanding our Internet applications linking customers with a growing array of products, services and online reports.

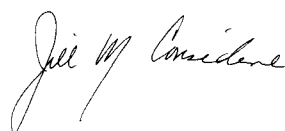
Our mutual funds business continued to show strong growth across the entire product line in 2000, led by Fund/SERV, which processed almost 70 million mutual fund transactions worth nearly \$1.6 trillion. Fund/SERV, which links mutual funds with the broker dealers, banks and other third parties that market funds, has become the de facto standard in the U.S. for processing fund orders. In 2000, we added Web access for customers of Fund/SERV and several other mutual fund services.

Insurance Services is another business we believe has growing potential. Here, too, we're developing an array of services to automate the processing and linkages between insurance carriers and their distribution channels.

In 2000, the Board of DTCC, joined by the Boards of the respective clearing corporations for government securities, mortgage-backed securities and emerging market debt instruments, formed a committee, which has recommended that these organizations establish a closer working relationship and achieve greater collaboration. This Synergy Committee is reviewing a number of issues, including governance structure and how to ensure appropriate representation of market segments. The end result, however, will be greater efficiency and economies of scale in service delivery and technology development.

In closing, we'd like to thank our Board for its valued guidance and support during this past year of transition. Board members are increasingly called upon to consider and act on matters that are unrelated to, and sometimes at odds with, their own firms' activities. However, their breadth of knowledge and high integrity have served as a tremendous asset as we've set a new course for DTCC.

We'd also like to acknowledge our employees, without whom none of this would be possible. They are the lifeblood of DTCC, and their unrelenting commitment to quality and serving customers continues to distinguish this organization. They have embraced the many changes initiated in 2000, with the high energy and determination more typical of a start-up company. And most important, they demonstrate a level of excitement about DTCC's future — and the limitless possibilities for our industry.



Jill M. Considine  
Chairman & CEO





## Clearance and Settlement

If there was one constant in the securities industry in 2000, it's that even as market indexes danced up and down, trading volume continued to climb. Throughout the world, more securities than ever were bought and sold.

In Europe, the value of share trading in 2000 rose 40% in Madrid, 38% on the Deutsche Börse and 34% on the London Stock Exchange. Although share-trading value slipped in parts of Asia, it climbed 64% in Hong Kong, 62% in Osaka and 38% in Tokyo. In North America, the value of share trading doubled in Mexico City and jumped 89% on Nasdaq, 78% on the Toronto Stock Exchange and 24% on the New York Stock Exchange (NYSE).

In the United States, this wave of trading in equities, corporate bonds and municipal debt is ultimately processed by a single company — The Depository Trust & Clearing Corporation (DTCC). Its two principal subsidiaries, National Securities Clearing Corporation and The Depository Trust Company, clear and settle virtually all these trades, making sure firms receive their securities and counterparties get their money. They also provide risk management benefits and enormous economies of scale which translate into post-trade processing that's among the lowest-cost — and safest — in the world.

Driving the growth in the value of securities traded was a nearly commensurate increase in trade volume. In 1999, for example, the combined volume on Nasdaq and the NYSE exceeded a billion shares on only 78 trading days. In 2000, however, combined trading volume on the two markets averaged more than 2.8 billion shares every single trading day.

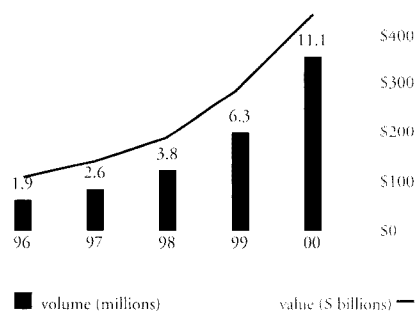
Just how high trading volumes have surged can also be measured by the number of transactions DTCC's clearing corporation processed each day in 2000. The average was 11.1 million, a 76% hike over 1999 and nearly 200% higher than in 1998. On the peak trading day for the year, April 4, processing volume leapt to a record 18.1 million transactions. Buoyed by higher volumes, the value of transactions the clearing corporation processed each day rose to \$421 billion in 2000, up from \$280 billion in 1999.

The clearing corporation, however, does more than simply process the stream of trades from the exchanges each day. It also functions as the largest central counterparty (CCP) in the world, and is one of only a few clearing corporations that guarantee all equity trades flowing through it. DTCC's clearing corporation

generally does this as of midnight on the day after the trade takes place, and it does so by stepping into each trade to become the counterparty

*We create certainty by ensuring capacity to handle peak trade volumes; by guaranteeing trades and by netting, we reduce risk and enhance capital efficiency for our customers.*

**Clearing Corporation:  
Average Daily Transactions**



*Thomas K. McCarthy  
Managing Director,  
Product Marketing and  
Development  
DTCC*



*George J. Swindasz Vice President,  
Purchase & Sales Division  
National Financial Services Corporation*



*Marianne C. Brown  
Senior Vice President,  
Brokerage Services Group  
ADP*



for member firms — the seller for every buyer and the buyer for every seller. If a buyer defaults in the midst of settling a trade, the clearing corporation guarantees that the seller will be paid. If the seller defaults, the clearing corporation guarantees that it will obtain the requisite securities for the buyer.

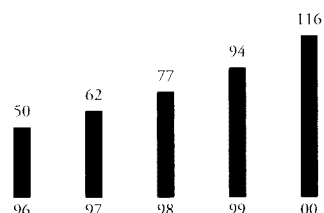
The clearing corporation also reduces risk and enhances capital efficiency for the industry through a process called netting. Within the clearing corporation's Continuous Net Settlement system, total buy and sell obligations for a particular security are paired off into one net position. The debits and credits from these net positions are likewise consolidated into one net money position for each firm. At the end of the day, instead of making and receiving hundreds or even thousands of payments, firms have only a single payment obligation.

Netting is an extremely effective tool. For example, on the peak trading day in 2000, the value of transactions processed for the industry exceeded \$722 billion. By netting all the transactions, the clearing corporation was able to shrink the \$722 billion in trades to a final payment obligation of only \$21.7 billion — a reduction of 97%.

In its role as the guarantor of trades worth billions of dollars daily, the clearing corporation maintains highly active and sophisticated risk management systems. The systems update customers' clearing fund requirements daily on the basis of volume and/or risk. Each trading day, the clearing corporation also monitors market volatility, securities concentration, market-maker domination, liquidity, and margins. In addition, a separate effort, set for completion in 2001, is under way to develop a risk-based margining methodology for all customers in determining clearing fund requirements.

While central counterparties function elsewhere in the world, the scale and scope of DTCC's counterparty role in U.S. securities

**Depository:  
Book-Entry Deliveries**  
(\$ trillions)



markets — and its capacity to reduce capital requirements via netting — have been drawing increased interest and attention from securities firms, clearing organizations and regulatory agencies around the globe. In October 2000, DTCC published a white paper that proposes a global perspective for central counterparties in the future. At a minimum, DTCC is calling for common standards, use of best practices and interoperability among CCPs. DTCC called for and, with nine co-sponsors, held a global conference on the subject in early 2001. DTCC's leadership on this issue, and its willingness to partner with other organizations all over the world in creating or operating central counterparties, continues to generate excitement and interest in the investment servicing side of the industry.

In the United States, DTCC also took the lead in 2000 on the other major processing issue in the securities marketplace: the goal to eliminate two days from the time required to clear and settle trades. The industry is committed to shortening its present T+3 (trade date plus three days) transaction settlement cycle to T+1 in mid-2004. In July 2000, as part of an effort to jump-start planning for T+1, DTCC issued a white paper offering the first comprehensive examination of T+1 issues for both the broker-to-broker and institutional segments of the



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かし、むかし、あるところに正直なきこりとおばあさんが住んでいました。

おじいさんは毎朝山へたきぎをとりにいき、おばあさんは川へせんたくにいきました。あばあさんがせんたくをしているとそこに大きなももがながれてきました。おばあさんはそれをゆうはんにたべようと家にもってかえりました。■ おじいさんが山からかえってくると、おばあさんは「おあがりなさい、おじいさん」といいました。そのとたんにももがわれて申からたまのような男の子がとびだしました。「おじいさん、おばあさん、ようこそ。ぼくはあなたがたの子供です」。おじいさんとおばあさんは大よろこび、子供に「桃太郎」という名をつけました。■ 二人はよくせわをしたので、桃太郎はすくすくと大きくなり、力もちでゆうかんになりました。■ ある日桃太郎は、おばあさんにきび団子をたくさんつくってくださいとたのみました。「ぼくはこれから「おにがしま」へ行って、おにたちがみなからぬすんだたからものを取りかえしてきます」といいました。おばあさんはきび団子をつくってやり、おじいさんは桃太郎にかたなをあたえました。「さようなら、たっしゃでね」といって二人は桃太郎をみおくりました。■ 桃太郎が海のほうへあるいてゆくと、むこうからさるがやってきました。「桃太郎さん、どこへゆくのですか」とさるがききました。「おにがしまへたからをとりもどしにゆくんだ。」「おこしにつけているのは何ですか。」「これは日本一のきび団子だよ。」「ひとつください、おともします」とさるがいました。桃太郎はさるにきび団子をあげ、二人はあるいてゆきました。■ そこへきじがまっけてきて、さるとおなじようにきび団子がほしいといいました。桃太郎はきじにきび団子をあげ、三人はまたあるいてゆきました。■ こんどは犬がやっけてきて、きび団子をくださいといいました。桃太郎はきび団子を犬にやり、三人はまたあるきだしました。■ おにがしまにつくと、三人は桃太郎のあんにしたがい、きじは空からまっけていっておにがしまの門のじょうをあけました。さるはかべをよじのぼりおにをひっかきました。桃太郎と犬は門をこじあけて申にせめいりました。たいかくとうは日のくれるまでつづき、桃太郎がとうとうかちました。おにたちはこうさんし、これからはわるいことをしませんとちかいました。それからきんぎん、さんごにたからものもっけてきて、桃太郎やけらいにさしだしました。「これはみんなでわけよう」と桃太郎はけらいにいりました。桃太郎はたからものをどっさりつんで家にかえり、おじいさんとおばあさんとすえながくしあわせにくらしました。

**MOMOTARO** | Long ago there lived an honest old woodcutter and his wife. They were poor and had no children. One morning the old man went off to cut firewood, while his wife went to the river to wash clothes. There she saw a large peach floating downstream. She caught it to take home for supper. ■ When the woodcutter returned, his wife said, "Eat, good man." Suddenly the peach split, and a baby jumped out saying, "Don't be afraid. I was sent to be your son so you would not be lonely." The happy couple named him Momotaro, which means Peach Boy. ■ They took good care of Momotaro and he grew strong and brave. ■ One day he asked his mother for a large supply of kimi-dango (millet dumplings). "I'm going to the Ogres' island to fight them and recover the treasures they've stolen." She made him the kimi-dango and the old man gave him a sword. "Sayonara, and good luck," cried the old man and woman. ■ As Momotaro walked towards the sea, he met a monkey. ■ "Where are you going?" asked the monkey. ■ "To Ogre Island, to recover treasure." ■ "And what are you bringing with you?" ■ "The best kimi-dango in Japan." ■ "Give me one," said the monkey, "and I will go with you." ■ So Momotaro did and they went along together. ■ Soon they met a pheasant who, like the monkey, asked if she too could have a kimi-dango. Momotaro said yes, and they went along together. ■ Then they met a dog. He also asked for a kimi-dango. So Momotaro again said yes and they were on their way. ■ When they got to the Ogres' castle, they followed Momotaro's plan. The pheasant flew over the gate and pecked the Ogres, the monkey clambered over the wall and pinched them, and Momotaro and the dog smashed down the door. There was a great battle until sundown and the Ogres were defeated. They bowed to Momotaro and promised never to do evil again. Then they brought out the treasures of gold, silver, jade and coral. "Brothers, take your fill," Momotaro told his friends. "These riches are for all to share." He then went home with enough riches to take care of his parents for the remainder of their lives.

*Thought Leadership* fundamentally expresses our vision for DTCC to play an active role in developing issues and proposing solutions that bring about greater efficiency, reduce risk, lower costs and encourage common standards and best practices in the financial services industry. We believe it will be the power of our ideas that continues to distinguish our company and positions it as a logical partner with other service providers.

In 2000, this leadership was exhibited in three major white papers issued on T+1, technology architecture and the development of central counterparties.



*Eleanor Davis Ainspan  
Vice President,  
Lehman Brothers Inc.*



*Richard H. Castro  
Senior Vice President, Director of Operations  
Prudential Securities Incorporated*

industry. The paper spelled out the key steps needed if the industry is to make the switch on deadline, and noted DTCC's own T+1 preparations.

Early in 2001, DTCC followed its white paper up with a detailed timeline to guide market participants in making their own adjustments. The goal is to have all T+1 changes in place a year earlier than the mid-2004 deadline. This will ensure that firms have adequate testing time to make this transition as seamless as those the clearing corporation and the depository managed on Y2K, T+3 and decimalization.

Clearance and settlement are principal businesses of DTCC, and the organization has been firm in its commitment to and responsibility for leading the transition to T+1. As early as September 1999, DTCC began reviewing the changes it would need to make in order to provide the industry straight-through processing or STP. An essential ingredient for T+1, STP effectively moves a trade through clearance and settlement in an established sequence of steps like an assembly line rather than allowing it to cycle back to the dealers, brokers and exchanges repeatedly for additional information.

Preparatory work for T+1 is already well under way at DTCC. During August, for example, the company's clearing arm began to

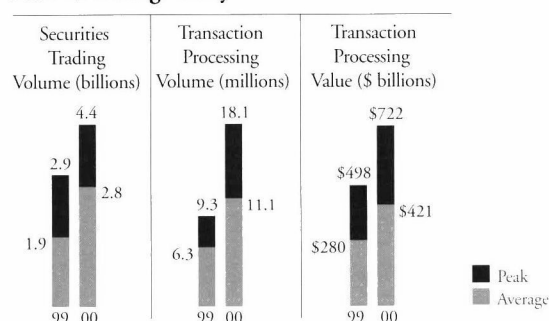
receive real-time feeds of data on 300,000 trades each day from the NYSE. By the spring of 2002, the corporation expects to have all trade data from the NYSE, Nasdaq and other markets as well as from the major electronic communications networks arriving in a continuous real-time flow. Because the trades generally arrive already matched or "locked in," the boost to processing speed will be substantial. To handle the continuous flow of real-time feeds from the markets, the clearing corporation has begun the work for reprogramming its legacy Continuous Net Settlement system. In the long run, the aim is to create a single settlement system serving both the clearing corporation and the depository — and planning for that has begun. Simplifying and automating institutional trading are also critical steps in achieving T+1, and the effort to do that through a new global joint venture is discussed in the next section of this report.

In a shortened settlement environment the central counterparty trade guarantee will need to be offered sooner in the cycle, while collateral will have to be in a form that's easily liquidated in a short time frame. DTCC has begun drawing up the guidelines for both of these steps. During 2000, a pilot study on intra-day risk was also initiated, as part of the clearing corporation's preparation for T+1.

Just as importantly, DTCC is working closely with the industry on T+1 issues through various meetings, workshops and briefings. The aim is to ensure that firms everywhere are putting into place the plans, financial structures and technology they will need to operate successfully after the conversion to T+1.

DTCC is also leading the industry on yet another front: the drive to reduce overlapping collateral requirements, which often involve millions of dollars daily. DTCC began in 2000 to establish standards and procedures that allow customers, under certain circumstances, to

**Peak vs. Average Daily**





*John G. Moran Executive Director,  
Clearance and Settlement Operations  
Nasdaq International, Ltd.*

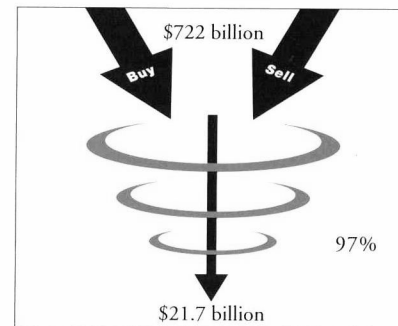
utilize their collateral at one depository or clearing corporation against obligations at another. One early success in this effort is the innovative link for cross-collateralization DTCC has established with the Options Clearing Corporation. It effectively reduces collateral demands on customers by monitoring their trading activity so that positions in the options market, for example, can be used to offset positions in the equities market, eliminating the need for additional collateral. The goal is to build similar arrangements with other organizations.

During 2000, the clearing corporation's Automated Customer Account Transfer Service (ACATS) handled a record number of transfers, with assets climbing to almost \$2 billion from \$1.2 billion in 1999. ACATS streamlines and automates the transfer of customer accounts and assets from one bank or broker dealer to another. The year also marked a concentrated effort by the clearing corporation to have banks join broker dealers using ACATS.

The surge in trading — more and more of which now courses electronically through the Internet — continues to reshape the entire landscape of the securities industry, both in U.S. markets and abroad. Foreign companies turned to U.S. markets repeatedly during the year, floating dollar-denominated bonds and raising equity capital through a burst of American depositary receipt (ADRs) issuances. Brazil's Petrobras, for instance, raised \$2.1 billion in one of the year's larger ADR offerings. U.S. institutional investors have likewise sought overseas market opportunities, and are among the largest holders of foreign securities. In 1999, the latest year for which figures are available, U.S. holdings of foreign securities climbed to \$2.5 trillion.

*Our goal is to have all T+1 changes  
in place a year earlier  
than the 2004 deadline, so customers  
have adequate testing time to achieve  
a seamless transition.*

**Netting for Peak Day: April 4, 2000**



The clearing corporation reduced the value of payments requiring settlement by 97%.

Because clearance and settlement is at the heart of DTCC's business, ensuring that it has sufficient capacity to handle rising volume is critical. Consequently, the company expanded its clearing capacity to 40 million transactions per day during 2000, a 60% increase, and plans an additional capacity increase to 60 million in 2001. DTCC also assisted companies throughout the industry in making the switch to decimal trading by supporting a series of decimalization tests throughout the industry in the first half of 2000.

DTCC has the capacity installed to handle the clearance and settlement of what undoubtedly will be growing trade volumes. It also has the momentum — and the determination — to maintain its leadership in guiding the industry to T+1. It will continue to offer support to the NYSE on its Global Equity Market plans, to Nasdaq on its overseas initiatives and to Amex on its exchange traded funds in Asia.

And certainly DTCC intends to continue supporting and helping lead industry dialogue worldwide on the cost savings and risk reduction that flow from using central counterparties.





Kyle Raetz



s war einmal ein alter Esel, der beschloss, von seinem Herrn, der ihn schlecht behandelte, weg zu laufen. Als er hörte, dass

die Bremer Stadtmusikanten Sänger brauchten, machte er sich auf den Weg

dorthin, weil eine schöne Stimme wie seine sicher Aufnahme finden würde. ■ Bald traf der Esel auf einen alten Jagdhund.

„Weil ich alt und schwach bin“, sagte der Hund, „will mich mein Herr loswerden.“ „Komm“, sagte der Esel. „Mit deinem

schönen Bellen kannst du auch bei den Bremer Stadtmusikanten mitmachen!“ ■ Etwas später schloss sich ihnen eine

alte streunende Katze an, die weggelaufen war, um nicht von ihrer Herrin ersäuft zu werden. Als sie an einem Bauernhof

vorbeikamen, hörten sie einen Hahn, der aus Leibeskräften schrie. ■ „Du singst so frohgemut“, sagten sie. ■ „Frohgemut?“

stotterte der weinende Hahn. „Ich singe, so laut ich kann, weil sie mich braten wollen.“ ■ „Lauf mit uns weg“, sagte der

Esel, „und du wirst in unserer Musikgruppe berühmt.“ ■ Als die Nacht hereinbrach, befanden sich die vier Freunde in

einem dichten Wald. In der Ferne sahen sie Licht aus einer Hütte, an die sie sich langsam heranschlichen. Der Esel setzte

seine Vorderhufe auf die Fensterbank. Der Hund sprang dem Esel auf den Rücken, die Katze kletterte auf den Hund

und der Hahn flatterte auf die Katze hinauf. ■ Räuber feierten einen Überfall. Der hungrige Esel steckte seinen Kopf

durch das Fenster, wodurch seine drei Kameraden auf die Lampe fielen. Das Licht ging aus, und das Zimmer war erfüllt

von lautem Iah-Rufen, Bellen, Schreien und Krähen. Die Räuber schrieten voller Furcht und liefen weg. Ihr Abendmahl

füllte die Mägen der vier Freunde. ■ Später, als die Tiere schliefen, schlich sich ein Räuber zurück. Er öffnete die Tür

und sah die Augen der Katze und meinte, es wären glühende Kohlen im Feuer und wollte daran eine Kerze anzünden.

Die Katze zerkratzte ihm augenblicklich das Gesicht. Der Mann fiel auf den Hund, der ihn ins Bein biss. Der Esel gab

dem Räuber einen tüchtigen Schlag mit dem Hinterhuf, der diesen hinaus beförderte. Der Hahn begrüßte dies mit

lautem Krähen. ■ „Lauft schnell weg!“ schrie der Räuber seinen Kumpanen zu. „Eine schreckliche Hexe hat mir das

Gesicht zerkratzt, ein Dämon hat mich ins Bein gebissen und ein Ungeheuer hat mich mit einem Stock geschlagen!“

■ Von diesem Tage an lebten der Esel, der Hund, die Katze und der Hahn glücklich und in Eintracht in der Hütte.

**The Bremen Town Musicians** | Once upon a time an old donkey decided to run away from his abusive master. When he heard the Bremen town band needed singers, he decided his fine braying voice might be accepted. ■ The donkey soon met an old hunting dog. "I am old and weak," said the dog, "my master wants to get rid of me." "Come," said the donkey, "With your good bark, you can join the band, too!" ■ Later, an old stray cat joined them to avoid being drowned by her mistress. Passing a farmyard, they heard a rooster crowing. ■ "You sing so happily," they said. ■ "Happily?" said the tearful rooster. "I'm singing as hard as I can, for they want to cook me." ■ "Run away with us," the donkey said. "and you'll be famous in our band." ■ When night fell, the four friends found themselves in a thick forest. In the distance they saw light from a cottage and crept closer. The donkey placed his front hoofs on the window ledge. The dog jumped on the donkey's back, the cat climbed onto the dog and the rooster flew on top of the cat. ■ Bandits were celebrating a robbery. The hungry donkey stuck his head through the window, toppling his three companions onto the lamp. The light went out and the room rang with the loudest braying, barking, screeching and crowing. The terrified bandits fled and their meal ended up in the four friends' stomachs. ■ Later, however, as the animals were sleeping, a bandit crept back. He opened the door and, mistaking the cat's eyes for burning coals in the fire, thrust a candle between them. Instantly the cat sank its claws into the bandit's face. The man fell onto the dog, who sank his teeth into his leg. The donkey gave a tremendous kick, sending the bandit flying. And the rooster loudly crowed. ■ "Run!" the bandit screamed to his companions. "A horrible witch scratched my face, a demon bit me on the leg and a monster beat me with a stick!" ■ And so the donkey, the dog, the cat and the rooster took over the cottage and lived happily for many years.

*Partnering* is a core part of DTCC's strategy for the future. To meet growing expectations for solutions that can address the industry's domestic and global requirements, we are moving beyond a U.S.-centric view to pursue strategic partnerships and alliances wherever they can provide tangible benefits to our customers. The partnership we established with Thomson Financial in 2000 to form a new joint venture, Omgeo, is a dramatic statement of our commitment to look beyond our institutional walls for the answers that best serve our customers — and our industry.

## *Institutional Processing*

**I**n the business of Wall Street, institutional trading is big business. Last year, ownership of securities by institutional investors reached 58 percent. Institutional trading is also a business on the brink of big changes, including the industry's move in the U.S. to completing settlement one day after the trade (T+1).

Unlike standard broker-to-broker trades, which in the United States are cleared by DTCC's clearing corporation, institutional trades involve different processing procedures that currently require a series of repetitive and sometimes convoluted steps or loops. But these procedures are now staggering under the weight of rising trade volumes. In the U.S. market, institutional trading volume shot up 36% in 2000 and is expected to continue growing by 25% annually. Globally, cross-border trading activity is expanding by roughly 30% each year.

Confronted with the twin pressures of exploding volume and the move to T+1, the industry has a serious challenge to face. It must define a more efficient and cost-effective post-trade processing model for institutional trades, a model that can serve both the U.S. domestic and cross-border markets. In May 2000, DTCC and Thomson Financial announced the creation of a new joint venture company, named Omgeo, to do precisely that.

The goal of Omgeo is to radically transform — and ultimately cut the costs of — traditional institutional trade processing. It is a company that will begin operating in 2001 with a fixed base of customers, a tried and

tested product line, highly reliable technology infrastructures and a plan for seamlessly migrating customers to a new matching model that leverages their current technology investments.

The industry's current procedures for processing institutional trades include extensive redundant and manual processes, a lack of uniform messaging standards and a range of difficulties in obtaining and communicating accurate customer account, security identification and settlement instruction data. These shortcomings are starting to create serious problems and backlogs.

According to the most recent Securities Industry Association estimates, the number of institutional trades still awaiting confirmation as well as affirmation on settlement date continues to grow. By next year, the SLA estimates that more than 16% of institutional trades will not be affirmed by noon on T+2, leading to the inevitable prospect of increased settlement failure. Correcting trades that fail to settle is a potential nightmare for the industry

because it's expensive and involves additional risk. Making this problem more acute is the plan for U.S. markets to achieve T+1 settlement by 2004. Other markets in the world are likewise faced with similar challenges as they move to shortened settlement cycles.

What makes institutional trading big business, of course, is the growing number of institutions trading on

both a domestic and a global basis — and the rising volume of trades completed each day. An order to buy or sell securities by the

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*DTCC and Thomson Financial  
created a new joint venture  
company, Omgeo, to streamline and  
cut costs for institutional trade  
processing in the U.S. and globally.*

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*Laurie Campbell Director of Sales,  
New Business Ventures Group  
DTCC*



*Jide Salami Director of  
Market Development and Finance  
Thomson Financial ESG*



*Steven J. Kelly, CFA  
Vice President  
Morgan Stanley Dean Witter*

Vanguard Index 500 Fund, currently one of the largest mutual funds in the U.S. market, can involve 100,000 shares and over \$100 million in a single order. Yet this fund is only one among the more than 8,000 mutual funds trading in U.S. markets, along with pension funds, insurance companies and other institutions that manage pools of capital. Globally, the number of investment managers, broker dealers and custodian banks involved in institutional trading is estimated to be more than 15,000.

In this market space, DTCC's depository has played a leadership role in bringing greater efficiency and certainty to institutional trade processing and is helping move the industry toward straight-through processing. Through its TradeSuite<sup>SM</sup> family of products, the depository in 2000 processed an average of more than 589,000 confirmations each day for institutional trades — an increase of 37% over 1999. This higher volume was driven by investment managers active in trading on the NYSE, Nasdaq, other exchanges and ECNs (electronic communications networks). Communication and processing associated with the way large institutional trades are executed — they often require parties in addition to the buyer and seller, including custodians — resulted in a record number of 326 million TradeSuite confirmations in 2000.

During 2000, DTCC provided strong leadership in articulating the principles and design model for post-trade processing of institutional trades, both in its own white paper on T+1 and in the sections it co-authored with the SIA's Institutional Transaction Processing Committee which published a white paper specifically on institutional processing in late 1999. It was during these initiatives that DTCC and Thomson, which was also participating in work on the SIA

White Paper, looked at the complementary nature of their individual businesses and processing models, and began discussing how they might work together to create a new paradigm for the future.

Through its TradeSuite set of products, the depository has, over the years, automated much of the communication process between brokers, investment managers and custodian banks in the later stages of institutional transactions. Thomson Financial ESG has had similar success in the United States with a related product called OASYS which helps in the earlier stages of the process to automate the flow of allocations from investment managers to broker dealers. While TradeSuite has had some success outside the U.S. market, especially with cross-border trades involving U.S. securities, Thomson's OASYS Global product has set the standard for automating cross-border processing.

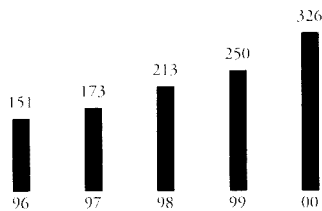
In combining these two strengths, Omgeo will develop functionality and linkages leading to a single workflow solution which supports the automating, streamlining and lower costs associated with the post-trade processing of institutional trades. Omgeo will also start business with a customer base of more than 6,000 investment managers, broker dealers and custodian banks worldwide, and it will offer a range of counterparties for quick and seamless trade matching unrivaled by any other service providers.

The Omgeo solution will address four key industry requirements: 1) it will introduce "execution matching," which eliminates the back and forth confirmation and affirmation of trades by automatically comparing brokers' notices of execution with investment managers' allocations; 2) it will allow for continuous and automated (rather than manual) updating of information at points along the trade cycle;



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Director of Operations  
Munder Capital*

**Depository: Institutional  
Delivery Confirmations**  
(millions)



3) it will permit trading parties to monitor the status of trades on a real-time basis, using Internet technology; and 4) it will ensure interoperability with other industry service providers.

Omgeo expects to offer what's effectively a straight-through post-trade processing service for institutional trades throughout the world. Even as a first step, the company anticipates that, as it begins operating, its products will improve the industry's same-day affirmation rates from today's 12% to between 60% and 90% without any development requirements for the users. This will, of course, significantly upgrade the industry's overall trade date processing efficiency.

Settlement of institutional trading activities will remain with DTCC, where the depository will still settle trades for depository-eligible securities, making sure buyers receive their securities and sellers receive their money. For DTCC, retaining settlement will provide additional risk and cost benefits to customers who clear and settle both broker-to-broker and institutional trades as these technology platforms are integrated in the move to T+1.

But all the communications and processing work, from the time a trade is made until it's ready for settlement, will be handled by the 500 employees of the new company, Omgeo.

For Omgeo, this means its proposed single workflow solution for post-trade processing can be offered to customers in markets around the world, with customers establishing different settlement arrangements depending on the trading parties and the markets where trades are executed.

As DTCC continues to build and broaden its institutional trade management services worldwide, it will look to extend partnering arrangements with other service providers and vendors,

wherever possible. The company believes these relationships can supply communications and processing solutions for the various stages of the trade cycle and will help reduce the need for its customers to make substantial investments in upgrading or reworking their technology platforms.

The progress DTCC has made, working closely with Thomson Financial, is again illustrative of its commitment to partner and develop new relationships that can serve its customers' rapidly changing business requirements as well as their need for certainty, reliability and lower cost. And while some might be surprised by DTCC's approach, the company is clearly determined to make a statement about its determination to anticipate — and exceed — its customers' expectations.

*Omgeo underscores DTCC commitment to develop new relationships and partnering arrangements that serve customers' changing business requirements.*

## *Asset Servicing*

**T**he initial public offering or IPO market in the United States raised more money in 2000 for public companies, both foreign and domestic, than ever before — and when IPO activity is up, DTCC's asset servicing business is also up. Even though the new economy began to lose some of its momentum as early as April, and U.S. market indexes declined sharply in the fourth quarter, corporations raised almost \$81 billion in U.S. equity IPOs in 2000 compared to just under \$69 billion in 1999.

For the depository, this record-busting exercise in raising equity capital, coupled with a sharp increase in the sale of convertible securities, helped push the value of total underwriting distributions in 2000 to a record \$1.7 trillion, or an average of more than \$6.7 billion each business day.

The volume of new issues also rose in 2000. Despite a 9% decline in the overall value of new stocks and bonds issued in the U.S. market — \$1.96 trillion in 2000 versus a high of \$2.13 trillion in 1999 — the number of underwritings continued to climb. Faced with a record \$120 billion in follow-on equity offerings and rapid growth in certain asset-backed securities, the depository completed 35,173 total underwriting distributions during the year. Average daily underwriting volume rose to 140, up 3% over 1999's record volume.

Adding to activity in the U.S. market during 2000 were foreign companies, which raised more capital via stock offerings in the U.S. market than in any previous year. Most of that, came from sales of American depository receipts (ADRs), which are negotiable, dollar-denominated securities generally issued on behalf of non-U.S. corporations for trading on U.S. exchanges. Trading volume in these

shares skyrocketed to \$30.5 billion, or more than 80% over 1999. Overseas companies also tapped U.S. debt markets. British Telecommunications' \$10 billion transaction was the largest U.S. dollar-denominated corporate bond issue in 2000.

All this heightened market activity generated an increased workload for the depository, which holds — chiefly in book-entry form — nearly 2 million separate and pooled equity and debt securities currently issued in the United States. Servicing these securities after they've been distributed in an initial public offering is a primary business of the depository. It includes managing the distribution of payments for dividends, interest, maturity and redemptions. The company also plays a critical role in handling the numerous offers to tender or exchange shares as part of corporate mergers and acquisitions. To this high-volume processing business, the depository brings economies of scale, rigorous procedures, proven technology, management of risk and years of experience.

For example, just a decade ago, 6 out of 10 municipal bonds newly issued in the U.S. market were still paper certificates requiring extensive and time-consuming manual processing. As a result of a collaborative effort by the depository and The Bond Market Association to eliminate paper, 9 out of every 10 municipal bonds in the new issues the depository's underwriting unit handled during 2000 were in electronic, book-entry-only format. Over the years, the sustained drive to "dematerialize" these securities has trimmed millions of dollars in handling costs for both underwriters and bondholders.

The value of securities the depository distributed in 2000 climbed as well for its Money Market Instruments Program. These instruments, such as commercial paper, institutional certificates of







abía una vez cinco hermanos,  
que decidieron buscar fortuna. Cuando  
llegaron a una bifurcación de cinco caminos, cada uno  
tomó uno distinto, prometiendo regresar en un año. ■ El

primero llegó a la casa de un ladrón, que enseñó a su joven aprendiz todo cuanto sabía. Pronto

el hermano supo más que su maestro. ■ El segundo hermano llegó al hogar de un gran

cazador. No había transcurrido mucho tiempo, cuando él también supo más que su maestro. ■ El tercero

llegó a la casa de un curandero que entablillaba huesos rotos. Pronto el discípulo superó al maestro. ■ El

cuarto hermano llegó a la casa de un anciano, que podía resucitar a los muertos. En pocos meses, aprendí

este arte mejor que su maestro. ■ El último de los hermanos paró en la casa de un adivino. Aprendió pronto

todo cuanto sabía el maestro, y aún más. ■ Poco tiempo después, llegó la hora de regresar a la bifurcación de

los caminos. Se regocijaron mucho de verse y de enterarse de sus nuevas profesiones. ■ Un rey que vivía

cerca oyó hablar de los cinco hermanos con dotes excepcionales. Años atrás un gigante había raptado a su

hija, y pensó que tal vez estos cinco hermanos podían ayudarle. ■ Los hermanos le ofrecieron sus servicios.

El adivino supo que la princesa se encontraba en la isla-castillo del gigante. Cuando llegaron, el ladrón se

deslizó a hurtadillas en el castillo y robó a la princesa. Mientras huían, el experto cazador disparó sus flechas

contra el gigante. Entonces el gigante aplastó su bote, pero el curandero lo reconstruyó. Luego, la princesa

perdió el conocimiento y murió, pero el resucitador pudo revivirla. ■ El rey se sintió tan feliz, que declaró:

“Muchachos, tengo cinco hijas, y cada una de ellas se casará con uno de vosotros”. Y todos vivieron

siempre felices.

**The Five Brothers** | There once were five brothers who decided to seek their fortunes. They walked to a junction of five roads, each taking a different road, promising to return in one year. ■ The first came to the house of a thief who taught his young apprentice everything he knew. Soon the brother knew more than his master. ■ The next brother arrived at the home of a great hunter. Before long, he too, knew more than his master. ■ The third came to the house of a bonesetter. Soon the brother was better than the doctor himself. ■ The fourth brother arrived at the house of an old man who could raise the dead. Within months, he had learned to resuscitate cadavers better than his master. ■ The last brother ended up at the house of a fortune-teller. Soon he learned everything the master knew, and more. ■ Before long, it was time to return to the junction. They were overjoyed to see each other, and to hear of each other's new professions. ■ A king who lived nearby, heard of the five brothers with exceptional gifts. A giant had kidnapped the king's daughter years ago, and it occurred to him that maybe these five brothers could help. ■ As the brothers set out, the fortune-teller knew the daughter was at the giant's island castle. Upon arrival, the thief slipped into the castle and stole the princess away. As they fled, the master hunter fired arrows at the giant. The giant then smashed their boat, but the bonesetter reconstructed it. Then the princess fainted and died, but the resuscitator was able to revive her. ■ The king was so happy, he declared, "I have five daughters, and each one will marry one of you boys." And they all lived happily ever after.

*Trust and Certainty* represent two of the cornerstones of DTCC's clearing corporation and depository businesses. As the primary infrastructure organizations for U.S. markets, these businesses handle the post-trade processing of more than \$106 trillion in broker-to-broker transactions and process more than 326 million institutional trade confirmations. We maintain custody of securities valued at \$23 trillion. We make \$116 trillion in book-entry movements and distribute \$1.7 trillion in underwritings. In addition, we process \$1.4 trillion in dividend, interest and corporate reorganization and redemption payments. While we continue to grow the range and reach of our services, trust and certainty remain an integral part of the guiding principles upon which we measure our activities — and our success.

Patricia Mobley Director,  
Reorganization Department  
DTCC



Mark F. Ferraris  
Senior Vice President,  
Corporate Trust Services  
The Bank of New York

Cynthia A. Schmitt  
Vice President  
Mellon Bank, N.A.



deposit and bankers' acceptances, are sometimes issued on a moment's notice and may remain outstanding for only 24 hours. As a result, the deliver order activity the program generates is significant, and the value outstanding at the end of 2000 had soared to \$2.79 trillion. What makes handling these enormous sums possible is the depository's technology and near total automation of this business.

Internet technology plays an increasingly important role in many of the depository's activities, particularly when instructions have to be delivered quickly to agents, the depository and its participants. In the underwriting distribution business, for instance, shelf registrations of new issues often leave little preparation time for large underwritings. To help overcome this, the depository added Internet access for IPO tracking. Underwriters can now query the depository on the Web and alert it to potential new issues by filing their prospectuses electronically on the Web.

*DTCC is committed to serving its customers with the high level of safety, efficiency and innovation they have come to expect from us.*

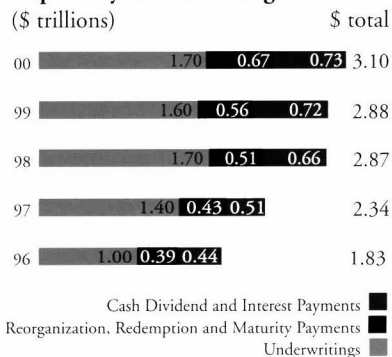
Cash dividends and interest payments the depository distributed to industry participants also rose to record levels in 2000. Dollar volume, which typically runs close to \$1 billion on an average day, climbed past \$15 billion on busy days and on the peak day in 2000 surged to almost \$20 billion. For 2000 as a whole, the depository

managed \$730 billion in cash interest and dividend payments, up 2% from 1999. Distribution of these payments is an enormous processing task. On high-volume days, it can involve as many as 1,500 of the 4,000 paying agents with which the depository deals and more than 200,000 separate payments to

participants. During 2000, the depository's dividends unit managed a record 3,015,988 dividend and interest payments.

Underwriting and dividends may have set records in 2000, but the largest increase in the depository's asset servicing business came from merger and acquisition (M&A) activity and the redemption of securities. Driven by \$1.8 trillion worth of U.S. market M&A activity that included some of the largest corporate actions in history, such as AT&T's merger with Media One and The Chase Manhattan Bank-J.P Morgan deal, the depository's cash reorganization payments climbed to \$203 billion from \$135 billion. In this pressure-packed business, the depository had to read and interpret thousands of lines of instructions on the disposition of securities in 11,604 corporate actions — and then work with agents and participants on tight deadlines to make sure the securities were transferred and payments made on time.

#### Depository Asset Servicing





*Douglas E. Anderson  
Managing Director and Division Executive,  
The Chase Manhattan Bank  
Broker Dealer Division*

The combined value of corporate action and redemption payments the depository handled in 2000 climbed to \$667.3 billion from \$561.2 billion in 1999, a 19% increase that easily topped previous records.

Mergers and acquisitions, of course, were certainly not limited to the United States. Cross-border M&A transactions set records in 2000. European companies alone poured an estimated \$30 billion into U.S. acquisitions. Britain's Unilever bought Best Foods. Spain's Terra Networks bought Lycos. Switzerland's UBS acquired PaineWebber. Credit Suisse First Boston acquired Donaldson, Lufkin and Jenrette. In anticipation of just this kind of cross-border activity, DTCC created its Global Corporate Action Hub as a way to introduce standard practices and reduce risk. The Hub uses Web-based technology both to consolidate the steps leading to a merger or acquisition and to automate the process. Testing began in 2000, with the aim of having the Hub operational by late 2001. Its novel approach and standardized procedures will replace the days of telexes, faxes, phone calls and other manual methods brokers and custodians still use to communicate with investment managers about domestic and international corporate reorganizations.

In a similar reflection of the globalization of the securities industry in 2000, DTCC strengthened its links with 12 central securities depositories in foreign markets and added new capacity to pay interest and dividends in non-U.S. currencies. While the depository has long had the capability to pay interest on global bonds in non-U.S. currencies, it can now pay dividends and interest in a number of currencies on equities and other instruments held in custody for DTC overseas. A pilot under way in 2001 goes even further:

it will offer those customers whose securities the depository holds through foreign custodians the opportunity to have part of their dividends paid in U.S. dollars — and the rest in the local currency.

To serve its growing base of international customers more fully in 2000, the depository spearheaded development of a new global tax product and augmented its current foreign tax withholding service. Working closely throughout 2000 with PricewaterhouseCoopers and a consortium of global financial institutions, the depository launched an Internet-based tax service called DALI™ to help financial institutions meet new U.S. withholding tax regulations for overseas customers. This is a sizeable challenge because foreign holdings of U.S. securities total more than \$14 trillion. The dividends or interest earned by the bulk of these securities are subject to withholding taxes. As a service to many foreign financial institutions trying to cope with the new U.S. regulations, the depository also established itself as a tax withholding agent. This means that, on behalf of qualified foreign customers, it will send withholding taxes on dividends to the U.S. government and prepare tax forms at year-end.

Throughout 2000, the flow of global capital was more fluid than ever before in history, streaming across borders for equity purchases, mergers, underwritings and investments. Servicing the assets that result from this flow is a demanding, high-technology business. DTCC has a hard-earned reputation for handling this business extremely well. The company's goal, even as the business grows increasingly global and complex, is to continue serving its customers with the same commitment to safety, efficiency and innovation it has always maintained.

John W. Cronin  
Vice President  
Alliance Fund Services, Inc.



Randi Gordon  
Director, Insurance Services  
DTCC



## Mutual Fund and Insurance Services

Investors poured an astounding \$309 billion into stock mutual funds during 2000, fueling an increase in U.S. mutual fund assets to nearly \$7 trillion. This generated an expansion of almost 2% for the industry, despite declining stock prices in the second half of the year, and produced rapid growth not only for the clearing corporation's Mutual Fund Services but also for its Insurance Services.

These two businesses, whose processing innovations have helped revolutionize the sales, distribution and administration of mutual funds and market-based insurance products, saw record increases in volumes across all their product lines as well as in their customer bases. Insurance Services alone grew its overall customer base by over 50%.

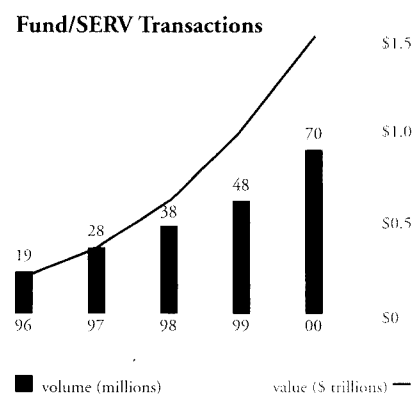
Both services also took advantage of the Internet's flexibility by successfully adding Web-based access to several of their high-volume products. For 2001, Mutual Fund Services is developing and testing a new product that gives distributors the ability to ask questions and get answers about client mutual fund accounts in real time. Insurance Services, for its part, is actively seeking partnerships with firms that can build Windows or Web-based front-end systems that speed customer access to its robust mainframe processing capacity.

### Mutual Fund Services

Automating and standardizing the transactions the mutual fund industry and its distributors generate each day is a major business of the clearing corporation. The company's Fund/SERV product, introduced in 1986, allows the industry to collapse thousands of independent links into a single uniform system for fund purchases,

redemption orders, settlement and account registration. Now the de facto processing backbone of the industry, Fund/SERV pumped an average of \$6.2 billion in mutual fund transactions through its system every day in 2000. Volume on the system climbed to an average of 275,000 transactions per day, or nearly 70 million transactions for the year, an increase of 44% over 1999. The value of the transactions leapt to nearly \$1.6 trillion, from \$982 billion in 1999.

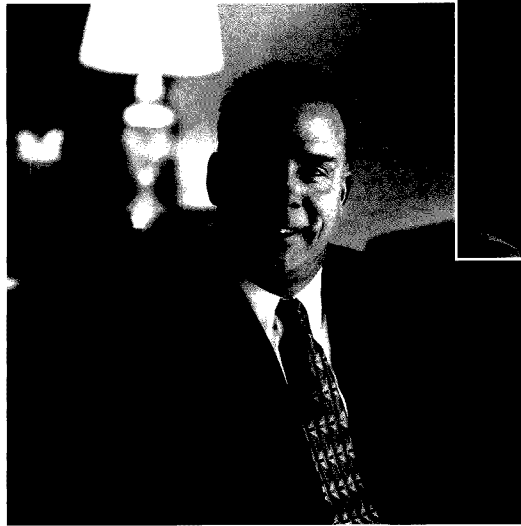
Following the introduction of Fund/SERV, the clearing corporation designed and launched a series of additional products that tie together those who market and distribute mutual fund shares with their industry partners, including brokers, dealers, insurance carriers, banks, pension plans and financial planners. To automate the transfer of a customer's assets from one mutual fund distributor to another, for example, the corporation introduced its ACATS-Fund/SERV system. Last year, the number of mutual fund account transfers flowing through the system rose 34% to 255,490 per month, and the number of funds participating rose to 210 from 134. Traffic on the company's related Transfer of Retirement Assets product, created



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Broker Dealer Services,  
Annuities Division  
Pacific Life Insurance Company*



specifically so that people could move their IRA account funds to different firms, averaged 16,350 transfers a month, an increase of 49%.

The growing popularity of defined contribution plans led to a near tripling of volume in another Mutual Fund Services product — Defined Contribution Clearance and Settlement. It clears and settles 401(k) and other retirement plan transactions among fund companies, plan trustees or custodians, and third-party administrators. Monthly volume handled by the product went to 347,518 from 127,364 trades in 1999.

By the end of 2000, the clearing corporation had enlarged the customer base for its Commission Settlement Service to 158 firms that rely on it to automate the payment of commissions to their distributors and agents throughout the country. Consequently, it's no surprise that monthly volume on the service nearly doubled to 55 million items with an average settlement value each month of \$294 million.

Critical to the selling, redemption and record keeping of mutual fund products is the collection and exchange of information. For years, two of Mutual Fund Services' primary products — Mutual Fund Profile and Networking — have helped to fill that need for the industry. Mutual Fund Profile lets fund companies and their distributors exchange accurate, up-to-date information on dividend rates as well as daily fund prices or net asset values. Participation in the service in 2000 climbed to 444 firms from 392 the previous year. Networking, in turn, makes it possible for firms

and funds to update and exchange account information about their customers on a routine batch basis. For Networking, 2000 was a banner year. The service increased the number of sub-accounts it handles to 52 million from 40 million, up 30%, and it nearly doubled the accounts it handles for independent broker dealers alone to 6.1 million.

Making all of its products more accessible to its growing customer base is a major 2001 goal for Mutual Fund Services. During 2000, the business not only added Internet access to Fund/SERV, but also provided Web links to Networking. A new Internet-based version of Mutual Fund Profile is scheduled for release in 2001, and work is already under way to create Internet access to the company's other products.

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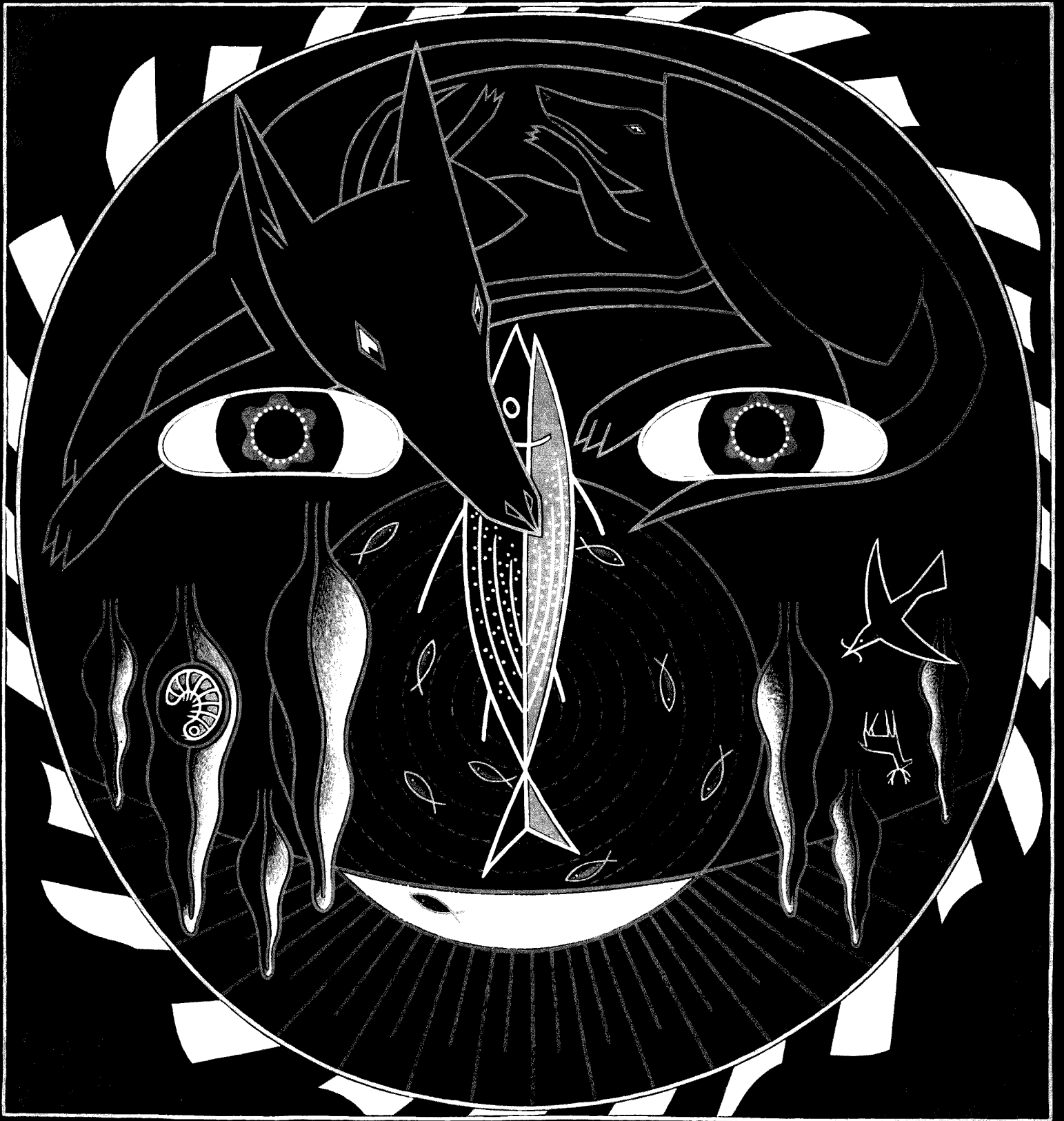
*Our Mutual Fund and Insurance  
Services businesses have helped to  
revolutionize the sale,  
distribution and administration  
of mutual fund and  
market-based insurance products.*

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At the same time, Mutual Fund Services is prepared to introduce a product in 2001 that will establish a new information benchmark throughout the financial services industry. The new product uses the XML computer language to get computers to talk to one another and find answers to questions in real time. When a registered representative, for example, enters an electronic query on behalf of a client, there will be a response

within seconds showing information about any of the participating mutual funds in that client's account. For mutual fund distributors and other financial intermediaries, this means up-to-the-minute access — via the Internet through established proprietary networks — to highly useful client account information.







anard, quoique menu, était très intelligent. Parti de rien, il possédait à présent 100 écus. Un beau jour, le Roi, qui avait dépensé toute sa fortune, alla voir Canard pour qu'il lui accorde un prêt,

ce qu'il accepta avec grande fierté. Cependant, après deux années, rien ne lui avait été

remboursé. Il se mit en route pour aller chez le Roi tout en chantant : « Can, can, quand reverrai-je mon argent ? » ■ Il rencontra bientôt Renard qui voulut se joindre à lui. « On n'a jamais trop d'amis », se dit Canard. « Le voyage sera fatigant. Fais-toi tout petit et glisse-toi dans mon gésier. Je te transporterai », proposa-t-il à Renard. ■ Peu après, il tomba sur Mademoiselle Échelle appuyée contre un mur. « Emmène-moi avec toi ! » lui demanda-t-elle. Encore une fois il accepta et lui offrit de se reposer dans son gésier. ■ Un peu plus loin, il rencontra Rivière et Nid de guêpes qui voulaient l'accompagner. Canard accepta de les emmener s'ils pénétraient dans son gésier afin de ne pas se fatiguer. ■ En apprenant l'arrivée de Canard, le Roi se mit à rire et ordonna qu'on l'enferme au poulailler. Les dindons et les poules peu hospitaliers ne virent pas d'un très bon œil l'arrivée du nouveau-venu et l'accueillirent à coups de bec. ■ Maître Renard entendit les appels à l'aide de son ami, apparut soudain et ne fit qu'une bouchée des volailles. Agacé, le Roi fit jeter Canard au fond d'un puits. Heureusement, mademoiselle Échelle se hâta de venir l'aider. Canard sortit du puits et se remit à chanter : « Can, can, quand reverrai-je mon argent ? » ■ Le Roi, furibond, ordonna qu'on le fasse cuire. Alors Rivière sortit du gésier et inonda le four. Canard se mit à nager en chantant sa chanson à tue-tête. ■ Le Roi se mit en rage en hurlant : « Amenez-le-moi ! Que je lui coupe la tête ! » ■ Canard crut qu'on allait enfin le recevoir, mais il aperçut le Roi et tous ses ministres, l'épée à la main. ■ Il ne lui restait qu'un seul ami. Les guêpes plongèrent sur le Roi et ses ministres, en les piquant si féroce-ment qu'ils se jetèrent par la fenêtre et moururent. Épuisé, Canard s'assit sur le trône. ■ Lorsque les gens aperçurent Canard sur le trône, ils exprimèrent leur surprise et leur joie en criant : « Le Roi méchant est mort. Vive le nouveau Roi ! »

**Drakestail** | Drakestail, though tiny, had brains. From nothing, he had amassed a hundred crowns. One day, the King, who had spent all his money, went to Drakestail for a loan. He proudly complied, but after two years the money was not repaid. He set out to see the King, singing: 'Quack, quack, when shall I get my money back?' ■ Soon he met Fox who wished to join him. Drakestail thought: 'One can't have too many friends.' He said to Fox, "The journey will tire you. Make yourself small, go into my gizzard and I'll carry you." ■ Soon he met Ladder, leaning on her wall. "Take me along!" she said. And once again, he offered his gizzard to save her legs from fatigue. ■ A little farther he met River and Wasp's-nest who wished to come along. Drakestail agreed, if they would enter his gizzard to save them from fatigue. ■ Upon hearing of Drakestail's arrival, the King laughed and said, "Put him with the poultry." When the unfriendly turkeys and chickens saw the newcomer, they attacked him with pecks. ■ The Fox heard Drakestail's cries and out he jumped, tearing the fowls to pieces. Annoyed, the King ordered Drakestail to be thrown into a well. Luckily, friend Ladder hastened out. Drakestail climbed to safety and continued his song, "Quack, quack, when shall I get my money back?" ■ The King became furious and ordered Drakestail thrown into the furnace. Then River hastened out and flooded the furnace. Swimming about, Drakestail sang his song louder than ever. ■ The King flew into a rage. "Bring him, I'll cut his throat!" ■ Drakestail thought he was finally being received, until he saw the King and his ministers, swords in hand. ■ One friend remained. Wasp's-nest and his wasps threw themselves on the King and his ministers, and stung them so fiercely that they leapt out the window to their deaths. Fatigued, Drakestail sat on the throne. ■ When the people came and saw Drakestail on the royal seat, they broke out in cries of surprise and joy: "The wicked King is dead, long live the new King!"

*Networking* is critical in the ever-changing world of financial services.

*Mergers and consolidation of financial organizations bring new challenges to link and ensure adequate connectivity between, across and beyond the borders of a company's infrastructure. In 2000, we continued to grow our support for mutual funds and insurance carriers with the development of a new XML-based Interactive Inquiry function and significant growth in virtually all of our insurance processing services. DTCC continues to demonstrate its leadership in developing solutions for customers by looking to centralize, standardize, automate and create networks which provide new, low-cost ways to link companies, making products more widely available and affordable throughout the industry.*



Angela Pearson  
Director, Marketing,  
Mutual Fund Services  
DTCC



Leonard J. Schmitt  
Vice President, Operations & Financial  
Reporting Administration,  
Insurance Services  
Morgan Stanley Dean Witter



Colleen Daley  
Vice President, Financial Data Services,  
Private Client Group  
Merrill Lynch

### Insurance Services

The clearing corporation's Insurance Services business is poised to make an even stronger impact on industry practices by automating tedious manual procedures. Its product takes the normally time-consuming, manual procedure for filling out annuity applications and automates it to the extent that insurance companies are now accepting applications and paying commissions within 24 hours. Because the product supports Web-based access, agents can sit in a client's home and file the application immediately from a laptop computer. In addition, Insurance Services in 2000 programmed the new product to take into account each state's insurance regulations, making for a degree of automation — and efficiency — that's unprecedented.

Throughout 2000, Insurance Services' products generated enormous volume increases. Position record processing leapt 174%, climbing to 216 million from 79 million. The volume of pricing records handled increased even faster, rising 300% to 24 million from 6 million in 1999. And the dollar value of commissions, applications and subsequent premiums settled shot up to \$1.8 billion from \$233 million in 1999, representing nearly 3.5 million transactions handled via Insurance Services' networks.

Helping to fuel this volume growth was an expanded customer base. By the end of 2000, the business had increased its trading relationships to 609 from 230, representing 13 service providers, 55 broker dealer distributors and 68 insurance carriers.

Meanwhile, Insurance Services is moving forward during 2001 to deliver its Licenses and Appointments initiative to standardize the information that insurance companies and their distributors collect

and exchange when seeking licenses for, or appointing, new agents. Making it easy and cheaper to gather and maintain this required license and appointment information — while automating the way companies request and exchange it nationwide — is the goal of the initiative.

Insurance Services first began work on the concept in 1999 in conjunction with an industry advisory group. Although some companies have begun to automate some aspects of this process, for many firms it remains an expensive, manual procedure. Now that's likely to change.

A major goal for Insurance Services during 2001 is to look for strategic partners who can expand both its scope of services and its client base, particularly by supplying the systems and software to help potential customers get online with the business quickly. Partnerships for Mutual Fund and Insurance Services may also be on the horizon overseas, especially in Europe, where the rapid growth in equity investing and mutual funds in recent years has created new opportunities for business.

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*A major goal for Insurance Services  
is to develop strategic  
partners that can expand the  
scope of its services and its client base.*

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## *Value-Added Technology Services*

In the securities industry, where firms generally regard information about the capacity and sophistication of their technology as highly proprietary, DTCC took an unusual step during 2000. It published a White Paper in June detailing its technology base and its plans for the future. The industry's response to the paper, *Paving the Technology Future*, was prompt and favorable, reflecting the pivotal role DTCC technology plays in sustaining the industry's most essential infrastructure.

Although the securities industry invests billions of dollars annually on upgrading its technology — there is widespread recognition that the velocity of technological change shows no sign of slowing. In 2000, Web-based bond trading began to alter longstanding trading practices and, in many firms, computer algorithms rather than traders guide routine derivatives trading. Trading on leading exchanges in Europe and Asia is now almost entirely electronic, and trade execution time is measured in seconds. In larger firms, it's not unusual to see brokers commanding dozens of phone lines and viewing a world of information on screens that track stock and options prices, create spreadsheets on implied volatility and display up-to-date business news.

For DTCC, the challenge raised by this technology explosion is twofold. One is the job of sustaining its current technology and wringing as much performance from it as possible. The other is implementing and managing the longer-range technology renewal plan articulated in its White Paper, which includes developing support for internationally accepted industry standards and protocols as well as expanded use of Internet technologies. Both these challenges, in turn,

must be faced within a larger technological context — the preparations needed to move the U.S. securities industry's ever-larger trading volumes from their current three-day processing cycle into the much shorter T+1 time frame.

### *Managing today's technology performance*

Throughout 2000, DTCC's highly efficient technology once again reduced trade processing and securities custody costs for the industry. The capacity and scalability of the clearing corporation's technology, for example, allowed it to process record transaction volumes at lower costs per transaction. These economies of scale resulted in processing fee reductions over the course of the year. More efficient asset servicing and custody practices in the depository also brought end-of-year refunds.

The securities industry began to make its historic shift during 2000 to trading securities in one-penny increments rather than in fractions, which had been the NYSE's practice for two centuries. To bolster the industry's preparations, DTCC supported a series of decimalization tests throughout the industry in the first half of 2000 and helped its customers make necessary adjustments.

As trade volumes continued to rise — trading surged past 18 million transactions on the peak trading day in 2000 — the clearing corporation worked with the Securities Industry Automation Corporation, which manages its computing facilities, to make sure it maintains sufficient clearing capacity. By the end of the year, the



*Marshal E. Root  
Principal,  
Morgan Stanley Dean Witter*

corporation had expanded its capacity from 25 to 40 million transactions per day. An additional capacity increase of 50% is planned for 2001. At the same time, to accommodate the rising volume of cross-border trading and foreign ownership of U.S. securities, the depository completed the initial programming needed to support the processing of settlements — and the distribution of dividend, interest income and redemption payments — in currencies other than the U.S. dollar.

Preparations for T+1 also got under way in earnest during 2000. During August, for example, the company's clearing arm began to receive real-time feeds of data from the NYSE. Early in 2002, DTCC expects to capture all trade data from the NYSE, Nasdaq and the major electronic communications networks in a continuous real-time flow. Also initiated in 2000 was the multi-year project to modify the company's legacy Continuous Net Settlement system so that it will be able to accommodate the pace and shorter time requirements of T+1. And to strengthen its development efforts, especially for T+1, the clearing corporation arranged in mid-year for the transfer of 87 programmers and technicians from SIAC.

Over the course of 2000, DTCC made strong headway in broadening its use of Internet technologies as a universal delivery channel. Internet product delivery and support were established on the WebDirect platform for eight separate DTCC services. For example, customers were able for the first time to research

DTCC's library of legal notices online. They also had, for the first time, the ability to track domestic tax payments, enter Fund/SERV transactions and arrange for the payment of mutual fund sales commissions on the Web.

Capitalizing on the Internet's phenomenal capacity to speed the search for information, DTCC expanded customer access to its Web-based Electronic Documents Library and moved to complement in-person training by offering DTCC University, products and services training online. The company expanded its Participant Information and Efficiency Reports (PIER) to include customers of the depository, and gave the 240 companies using PIER, which ranks a company's performance against industry averages, online access to the data in the reports. Another 290 customer firms can now receive their fixed-income performance reports via the Web.

DTCC entered 2000 without any serious Y2K systems or hardware problems, and it ended 2000 by achieving another year of significant technology performance.

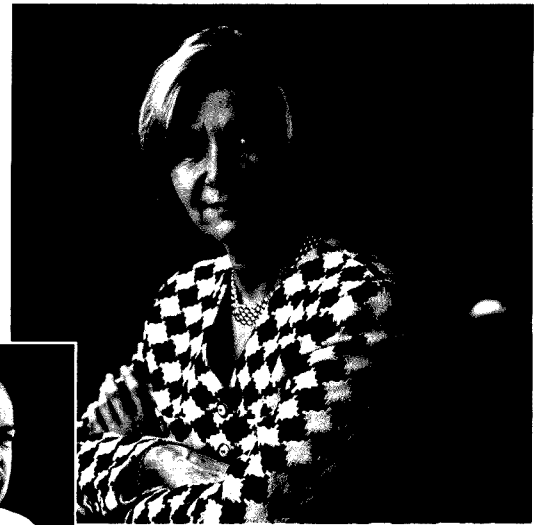
### *Building tomorrow's technology solutions*

It is, of course, precisely because DTCC's processing systems and communications networks are so critical to the industry — and must be able to work with hundreds of customer networks and programs — that the company spelled out its technology direction and strategy in a White Paper for all the industry. Since changes that DTCC initiates can affect many of our customers, DTCC's goal is to renew technology on a clearly articulated timetable. This permits

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Information Services Division  
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customers to make changes in conjunction with their own internal efforts to upgrade capabilities and meet T+1 requirements.

Guiding DTCC in this multi-year program is a technology advisory committee formed in 2000 and made up of systems and operations experts from broker dealers and banks throughout the industry. Also shaping the renewal program is DTCC's own push to pare older proprietary programs and adopt industry-standard communications methods and applications. In addition, because DTCC and its subsidiaries offer specialized services to numerous sectors within the securities industry, the need remains strong to create alternative Web-based channels for many of these services. To focus clearly on that task, the company created a special e-business group in 2000. Its goal is simple: expedite and integrate Internet technologies for the delivery of more products, services and information through the Web.

Meanwhile, DTCC made giant strides in 2000 toward another major technology goal to create a secure common interface or "front end" for customers who routinely make use of multiple DTCC products and services. The new "Customer Desktop" portal is to be beta-tested in the first half of 2001 and formally introduced later in

the year. It combines access to DTCC's most widely used products, services and information bases on a single Internet menu or "desktop" that can be customized by each user. In the challenging business-to-business or B2B Internet world, where promises often outrun reality, this is an important achievement.

DTCC's technology efforts throughout 2001 will remain focused on its published plans for technology renewal and the migration of services to the Internet. Most of the functions on the

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*One of our objectives is to assemble cost-effective new technology solutions that are flexible, scalable and secure, and can be delivered over the Internet.*

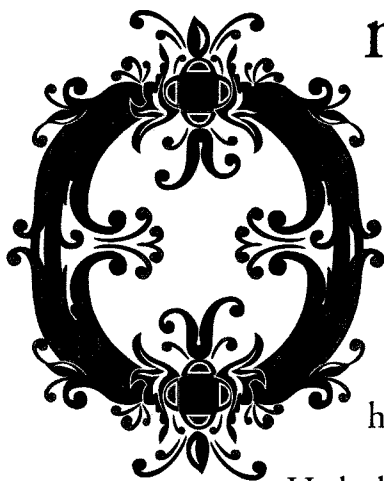
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long-running Participant Terminal System, for example, will be substantially reengineered to make them easier to use, while the system itself will become Internet accessible. Other tasks include replacing the current Fixed-Income Transaction System, which is used to match corporate and municipal bond trades. It will be succeeded by a real-time matching process to be built in

conjunction with DTCC's affiliate, the Government Securities Clearing Corporation. Overall, the objective is to assemble cost-effective new technology that is as flexible, scalable and secure as the systems DTCC has built over the years, but equally at home on the Web and capable of serving both domestic and international customers. The long-established goal — to provide service that adds value and is faster, better and cheaper — remains firmly in place.







ne day, on the banks of the Amazon, Mother Jaguar explained to her son, Painted Jaguar, how to eat hedgehogs and tortoises. ■ ‘When you find a hedgehog, drop him into

water. Then he will uncoil. When you catch a tortoise, scoop him out of his shell with your paw.’ ■ That night, Painted Jaguar found Stickly-Prickly

Hedgehog and Slow-and-Solid Tortoise sitting under a fallen tree. Unable to escape,

Stickly-Prickly curled into a ball, and Slow-and-Solid drew into his shell. ■ ‘Mother said to drop the hedgehog into the water, and to scoop the tortoise out of his shell,’ said he, ‘but which is which?’ ■

‘Perhaps,’ suggested Stickly-Prickly, ‘she said to uncoil a tortoise you must shell him out of the water with a scoop.’ ‘And to water a hedgehog you must drop him into your paw,’ said Slow-and-Solid. ■ Confused,

Painted Jaguar tried to scoop Stickly-Prickly and got his paddy-paw filled with prickles. Thinking he was being tricked, he told tortoise to jump into the Amazon and be drowned. ■ Tortoise complied and escaped

to join his friend. ■ They could hear Painted Jaguar roaring among the trees till his Mummy came. ■ ‘By the prickles in your paddy-paw I see you tried to scoop a hedgehog,’ said the Mother Jaguar. ‘Remember, a

hedgehog curls himself into a ball and his prickles stick out. A tortoise only draws his head and legs into his shell.’ ■ ‘Even Painted Jaguar can’t forget those directions,’ said Slow-and-Solid. ‘It’s a pity you can’t swim.’

■ ‘If only you could curl up!’ said hedgehog. ‘Hold up my chin. I’m going to learn to swim!’ With that,

Slow-and-Solid helped Stickly-Prickly learn to swim. ■ ‘If you unlace my backplates, I’ll see if I can curl up,’ said the tortoise. And Stickly-Prickly unlaced Tortoise’s back-plates, and showed him how to curl up. ■

Each helped the other, till morning came. Then they went to find Painted Jaguar. ■ ‘Do you remember what your mother told you?’ said Stickly-Prickly. And they curled up and rolled around Painted Jaguar till

his eyes turned cartwheels in his head. ■ Bewildered, Painted Jaguar ran to his Mummy. ‘Mother,’ he said, ‘the animal you said couldn’t swim swims, and the one you said couldn’t curl up, curls. It isn’t a Hedgehog,

and it isn’t a Tortoise. It’s a bit of both, and I don’t know its proper name.’ ■ ‘Nonsense!’ said Mother

Jaguar. ‘Everything has its proper name. I should call it “Armadillo” and I should leave it alone.’ And that is just what Painted Jaguar did. ■ The curious thing is that from that day, no one on the banks of the

Amazon has ever called Stickly-Prickly and Slow-and-Solid anything but Armadillo.

### Epilogue: Folklore Stories



own through the centuries we  
find folklore stories have traveled  
across continents and oceans  
to provide a common expression of shared beliefs.

Some, like Marshall McLuhan, have suggested  
that the role of these oral stories will take on  
new significance in the Internet age as we freely  
communicate across national borders.

***Innovation** is not just a buzzword, it is a business necessity. At DTCC, we look at innovation as more than just delivering highly functional and flexible technology solutions. We define innovation as understanding our customer's entire business process and then developing business planning as well as technology approaches that meet their requirements for greater efficiency, lower technology investment and reduced operational responsibility. During 2000, we developed a number of innovative services including expanded Internet delivery of applications. Equally important, however, we began to realign our internal business approach to prepare for more timely, quick-to-market solutions.*

## *DTCC Board of Directors*

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

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

**Richard F. Brueckner**  
*Managing Director  
Donaldson, Lufkin & Jenrette*

**Robert H. Silver**  
*Executive Vice President  
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**Thompson M. Swayne**  
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**Peter J. Murray**  
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**Dennis J. Dirks**  
*Chief Operating Officer  
Depository Trust & Clearing Corporation*



*not pictured:*

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

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

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*National Financial*  
*Services Corporation*

**Ronald J. Kessler**  
*Corporate Vice President &*  
*Director of Operations*  
*A.G. Edwards & Sons, Inc.*

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

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

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



## Consolidated Balance Sheet

December 31, 2000

(in thousands)

### Assets

Cash and cash equivalents	\$3,751,173
U.S. Treasury securities	119,150
Accounts receivable	139,767
Participants' funds	1,214,018
Fixed assets, less accumulated depreciation and amortization of \$219,106,000	149,458
Intangible assets, less accumulated amortization of \$53,117,000	4,194
Other assets	272,144
<b>Total assets</b>	<b>\$5,649,904</b>

### Liabilities and Shareholders' Equity

#### Liabilities:

Accounts payable and other liabilities	\$ 488,684
Payable to participants	2,004,959
Notes payable	56,704
Participants' funds:	
Cash deposits	1,745,800
Other deposits	1,214,018
<b>Total liabilities</b>	<b>5,510,165</b>

#### Commitments and contingent liabilities (Note 10)

Preferred shareholders' equity in The Depository Trust Company	75,000
--	--------

#### Shareholders' equity:

Preferred stock:	
Series A, \$.50 par value – 10,000 shares authorized, issued and outstanding	300
Series B, \$.50 par value – 10,000 shares authorized, issued and outstanding	300
Common stock, \$100 par value – 18,500 shares authorized, issued and outstanding	1,850
Paid-in capital	950
Retained earnings:	
Appropriated	29,400
Unappropriated	31,939
<b>Total shareholders' equity</b>	<b>64,739</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$5,649,904</b>

The accompanying notes are an integral part of these statements.

## Consolidated Statement of Income

For the Year Ended  
December 31, 2000

(in thousands)

### Revenues:

Trading services	\$ 490,245
Custody services	163,730
Network services	64,691
Other services	96,277
Interest income	98,778
Total revenues	913,721
Discounts and other refunds to participants	(252,484)
Net revenues	661,237

### Expenses:

Employee compensation and related benefits	345,741
Computer equipment depreciation, licenses, software amortization, processing and maintenance costs	130,925
Professional and other services	57,962
Occupancy	48,349
Amortization of intangible assets	13,580
Interest expense	14,439
Other general and administrative	41,454
Total expenses	652,450
Income before income taxes and minority interests	8,787
Provision for income taxes	(3,365)
Income before minority interests	5,422
Minority interests	(683)
Net income	\$ 4,739

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Cash Flows

For the Year Ended  
December 31, 2000

(in thousands)

### Cash flows from operating activities:

Net income	\$ 4,739
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of fixed assets	32,708
Amortization of intangible assets	13,580
Discount accreted net of premium amortized on investments owned	(4,858)
Changes in operating assets and liabilities:	
Increase in accounts receivable	(27,195)
Increase in other assets	(42,560)
Increase in accounts payable and other liabilities	89,693
Increase in payable to participants	219,144
Increase in participants' fund cash deposits	41,707
Net cash provided by operating activities	326,958

### Cash flows from investing activities:

Maturity of U.S. Treasury securities	90,000
Purchases of U.S. Treasury securities	(125,659)
Purchases of fixed assets	(46,194)
Net cash used in investing activities	(81,853)

### Cash flows from financing activities:

Issuance of preferred stock in The Depository Trust Company	75,000
Principal payments on notes	(11,697)
Net cash provided by financing activities	63,303

Net increase in cash and cash equivalents	308,408
Cash and cash equivalents, beginning of year	3,442,765
Cash and cash equivalents, end of year	\$3,751,173

### Supplemental disclosure:

Income taxes paid	\$ 19,610
Interest paid	\$ 9,213

The accompanying notes are an integral part of these statements.

## Notes to Consolidated Financial Statements

### 1 Business and Ownership:

The Depository Trust & Clearing Corporation (DTCC) was established in 1999. On November 4, 1999, the shareholders of The Depository Trust Company (DTC) exchanged their ownership interests in DTC for common shares, and the shareholders of National Securities Clearing Corporation (NSCC) exchanged their ownership interests in NSCC for preferred shares, both issued by DTCC. The consolidated financial statements include the combined financial position of DTCC, DTC, and NSCC (the Companies) at book value. This business combination qualified as a tax-free exchange.

DTC is a registered clearing agency with the U.S. Securities and Exchange Commission (SEC), a member of the Federal Reserve System and a limited-purpose trust company under New York State banking law. DTC is a securities depository and a clearinghouse for the settlement of securities trading activity. NSCC, also a clearing agency registered with the SEC, provides various services to the financial community, consisting principally of securities trade comparison, recording, clearance and settlement.

### 2 Summary of Significant Accounting Policies:

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

NSCC's ownership in Government Securities Clearing Corporation (GSCC) of approximately 24% is included in other assets at a carrying value of \$2.4 million at December 31, 2000. The equity method is used to account for this investment, limited to management's estimated of its realizable value. At December 31, 2000, NSCC also owns approximately a 10% interest in MBS Clearing Corporation (MBSCC) and 14% interest (on a fully diluted basis) in Emerging Markets Clearing Corporation (EMCC). These investments, which are carried at their respective costs of \$432,000 and \$495,000, are also included in other assets.

The operating results of DTCC also include the activities of the Mortgage Backed Securities Division (MBS) of DTC. The MBS Division operates with separate participants' fund requirements (See Note 3) and credit facilities (See Note 8).

**Cash equivalents:** The Companies invest funds in overnight reverse repurchase agreements and money market accounts, which are considered cash equivalents. Reverse repurchase agreements provide for the Companies' delivery of cash in exchange for securities having a

market value which is at least 102% of the amount of the agreement. Independent custodians designated by the Companies take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$1,987,505,000. The counterparties to these agreements were three major financial institutions.

Overnight investments made in the commercial paper of two major U.S. bank holding companies totaling \$135,532,000 are also included in cash equivalents.

**U.S. Treasury securities:** U.S. Treasury securities are recorded at amortized cost. The market value of these securities, which are due in less than one year, is \$119,286,000. These securities were held in an account for the exclusive benefit of participants to facilitate participants' compliance with customer protection rules of the SEC.

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

Due from the Companies' participants for services	\$ 52,793,000
Cash dividends, interest and related receivables	69,737,000
Other	17,237,000
<b>Total</b>	<b>\$139,767,000</b>

Cash dividends, interest and related receivables are presented net of an allowance for possible losses of \$500,000. Other receivables are presented net of an allowance for possible losses of \$300,000. Stock dividends receivable are not recorded in the consolidated financial statements.

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

Furniture and equipment	\$172,342,000
Leasehold improvement	145,293,000
Software	43,946,000
Leased property under capital leases	6,983,000
<b>Total Cost</b>	<b>\$368,564,000</b>

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

During 2000, the Companies capitalized software which was developed internally or purchased, totaling \$20,269,000; the amortization charges were \$9,909,000.

## Notes to Consolidated Financial Statements

**Intangible assets:** The Companies entered into agreements with the Philadelphia Stock Exchange, Inc. and certain of its subsidiaries in 1997 and the Chicago Stock Exchange, Inc. and certain of its subsidiaries in 1996 in which these corporations signed covenants not to compete with the Companies. The amounts paid for these covenants are being amortized over five years, their estimated benefit periods.

**Income taxes:** Deferred tax assets and liabilities represent the expected future tax consequence of temporary differences between the carrying amount and tax basis of assets and liabilities. Deferred tax assets relate principally to amortization of intangible assets, employee benefit costs, the accrual of rent expense on a straight-line over the lease term for financial reporting purposes and a provision for losses (see Note 12), partially offset by the capitalization of software developed for internal use. The deferred tax asset of \$76,051,000, included in other assets at December 31, 2000, is expected to be fully realized and, accordingly, no valuation reserve has been established.

**Discounts and other refunds to participants:** The Companies provide discounts on their billing to participants based upon the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by their independent user Boards of Directors. Such discounts amounted to \$192,953,000 in 2000. Further, there is a policy to provide participants a monthly refund of net income earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such monthly refunds totaled \$59,531,000 in 2000.

**Securities on deposit:** Securities held in custody by DTC for participants are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in participants' securities balances. Such short positions are valued and collateralized daily by participants' cash, U.S. Treasury securities and/or municipal bonds rated AA or better aggregating 130% of the short position. DTC's obligation to return such amounts to participants is also reflected in payable to participants. At December 31, 2000, short positions amounted to \$34,966,000.

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

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

### 3 Participants' Funds:

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

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

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

	DTC	NSCC
Cash:		
MBS division	\$ 57,201,000	\$ —
Other	658,264,000	1,030,335,000
Securities issued or guaranteed by		
the U.S. Government, at market	215,614,000	796,221,000
Letters of credit issued by		
authorized banks	—	700,436,000

The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. The earnings on these investments are passed through to participants. In 2000, such earnings totaled \$113,957,000.

#### 4 Transactions with Related Parties:

**SIAC:** Under the terms of an agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by the New York Stock Exchange, Inc. (NYSE) and the National Association of Securities Dealers, Inc. (NASD), provides computer facilities, personnel and services in support of NSCC's operations. NYSE and NASD are shareholders of DTCC. SIAC charges NSCC for these services based on its direct and overhead costs arising from providing such services. The agreement continues in effect unless cancelled by either party upon prior written notice. Charges under this agreement totaled \$69,796,000 in 2000. The amount payable to SIAC at December 31, 2000, was \$5,984,000. If this agreement is cancelled, NSCC is contingently liable for the cost of certain SIAC office and equipment leases through December 31, 2004, aggregating approximately \$10,504,000.

**NYSE and NASD:** NSCC collects certain regulatory fees on behalf of NYSE and NASD. At December 31, 2000, no amounts were due the NYSE or NASD.

**EMCC:** In 2000, NSCC entered into an agreement with EMCC to provide certain system development and operating services to EMCC. Charges under this agreement, which are based on a determination of NSCC's cost of providing these services, totaled \$1,634,000 in 2000. DTCC's expenses are presented net of these charges. The agreement expires in 2002. At December 31, 2000, the receivable from EMCC amounted to \$246,000.

In 1999, NSCC entered into an arrangement with EMCC whereby NSCC pays for the computer services performed by SIAC for EMCC and charges EMCC a transaction fee based on the number of trades settled. The SIAC charges NSCC paid and the transaction fees EMCC paid during 2000 totaled approximately \$948,000 and \$451,000, respectively. Pursuant to this agreement, there is a cumulative difference of \$915,000, which NSCC may recover through future increases in the volume of transactions or future increases to the transaction fee charged to EMCC.

**GSCC:** NSCC has entered into an agreement with GSCC to provide various computer and other support services and office facilities. Charges under this agreement are based on a determination of NSCC's cost of providing these services. The agreement continues in effect unless cancelled by either party upon prior written notice. Charges under this agreement totaled \$6,677,000 in 2000. DTCC's expenses are presented net of these charges. At December 31, 2000, the receivable from GSCC amounted to \$573,000.

**MBSCC:** NSCC has entered into an agreement with MBSCC to provide various services and office facilities. Charges under this agreement, which are based on a determination of NSCC's cost of providing these services, totaled \$1,131,000 in 2000. DTCC's expenses are presented net of these charges. The agreement continues in effect unless cancelled by either party upon prior written notice. At December 31, 2000, the receivable from MBSCC amounted to \$413,000.

#### 5 Payable to Participants:

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed unless claimed by the owners of the securities. Cash dividends, interest, reorganization and redemption payables of \$1,803,975,000 are included in payable to participants on the consolidated balance sheet. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws. Stock dividends payable and unclaimed are not reported on the consolidated financial statements.

Payable to participants also includes settlement accounts payable of \$97,755,000 which primarily represent deposits received from NSCC participants to facilitate participants' compliance with customer protection rules of the SEC.

#### 6 Pension and Other Post-Retirement Benefits:

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

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

## Notes to Consolidated Financial Statements

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

	Pension Benefits	Other Benefits
Benefit obligation at end of year:		
Qualified plan	\$216,394,379	\$ —
Other plans	43,025,702	30,239,960
	259,420,081	30,239,960
Fair value of plan assets at end of year	186,384,915	—
Funded status	(\$73,035,166)	(\$30,239,960)
Net accrued benefit cost recognized at year-end	(44,643,297)	(26,242,170)
Weighted-average assumptions as of December 31:		
Discount rate	7.50%	7.50%
Expected long-term rate of return on plan assets	9.00	—
Rate of compensation increase	4.50	—

For measurement purposes, an 8.8% pre-65 and a 7.7% post-65 annual rate of increase in the per capita cost of the covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5% for 2007 and remain at that level thereafter.

	Pension Benefits	Other Benefits
Net benefit cost	\$ 19,867,081	\$ 4,223,375
Additional loss recognized due to settlement	1,198,361	—
Total benefit cost	\$ 21,065,442	\$ 4,223,375
Employer contribution	\$ 14,272,109	\$ —
Benefits paid	7,625,664	465,476

## 9 Shareholders' Equity:

In thousands	Preferred Stock		Common Stock	Paid in Capital	Retained Earnings	
	Series A	Series B			Appropriated	Unappropriated
Balance at December 31, 1999	\$300	\$300	\$1,850	\$950	\$29,400	\$27,200
Net income 2000	—	—	—	—	—	4,739
Balance at December 31, 2000	\$300	\$300	\$1,850	\$950	\$29,400	\$31,939

## 7 Income Taxes:

DTCC, DTC and NSCC file a consolidated federal income tax return. DTCC and NSCC file combined New York State and New York City income tax returns; DTC files separate state and local returns. The provision for income taxes for the year ended December 31, 2000, consists of the following:

Current income taxes:	
Federal	\$11,549,000
State and local	4,505,000
Deferred income tax benefit:	
Federal	(5,976,000)
State and local	(6,713,000)
Total income taxes	\$ 3,365,000

The effective tax rate is greater than the 34% Federal statutory rate primarily due to state and local taxes. The accrual of restructuring expenses in 2000 (See Note 12), which is not currently deductible, increases both the current income taxes due and the deferred income tax benefit.

## 8 Notes Payable and Lines of Credit:

Notes payable at December 31, 2000 amounted to \$56,704,000 and consists of unsecured borrowings with several domestic banks. The notes have a weighted-average interest rate of 6.78%. The annual maturities in 2001, 2002, 2003 and 2004 are \$11,854,000, \$12,022,000, \$10,828,000 and \$8,000,000, respectively; the balance matures in varying amounts through 2007. Interest expense related to these notes payable totaled \$4,365,000 in 2000.

DTC maintains \$3 billion (\$2 billion for the MBS Division) of committed collateralized lines of credit to effect settlement. In addition, to support processing of principal and income payments, DTC maintains a \$50 million committed line of credit and a \$350 million uncommitted line of credit for its MBS Division. DTC also maintains a line of credit of \$10 million to support potential short-term operating cash requirements. NSCC maintains a \$1.9 billion committed collateralized line of credit agreement with 10 major U.S. banks to provide for potential liquidity needs. At December 31, 2000, there were no outstanding borrowings under these credit facilities.

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

### 10 Commitments and Contingent Liabilities:

The Continuous Net Settlement (CNS) system interposes NSCC between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of midnight of the day they are reported to the membership as compared/recorded. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the involved participants through the settlement process. At the close of business on December 31, 2000, open positions due NSCC approximated \$1,757,780,000 and open positions due by NSCC to participants approximated \$1,183,596,000 for unsettled positions and \$574,184,000 for securities borrowed through NSCC's Stock Borrow Program.

During 1995, a SIPC trustee was appointed to liquidate the business of Adler Coleman Clearing Corporation (ACCC), a former NSCC participant. NSCC and the SIPC trustee entered into an agreement in connection with the settlement of certain positions held by ACCC at NSCC.

NSCC would be liable to the trustee if certain conditions occur for amounts which management estimates could be up to \$17,000,000 plus interest. At present, management is unable to determine with certainty NSCC's ultimate obligation. In 2000, NSCC has provided an additional \$2,580,000 for estimated liquidation losses, which are included in other general and administrative expenses. At December 31, 2000, the related accrual included in accounts payable and other liabilities is \$16,654,000, of which approximately \$4,554,000 is estimated interest.

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2000. Rent expense under these leases was \$40,871,000 in 2000.

At December 31, 2000, future minimum annual rental payments under all non-cancelable operating leases follow:

Year	Amount
2001	\$ 31,828,000
2002	25,418,000
2003	21,948,000
2004	20,335,000
2005	22,417,000
Thereafter	177,197,000
<b>Total future minimum annual rental payments</b>	<b>\$299,143,000</b>

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

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

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

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

If a participant fails to fulfill its settlement obligations with NSCC and NSCC ceases to act on behalf of the participant, NSCC would liquidate that participant's guaranteed security receive and deliver obligations and apply the defaulting participant's fund deposit received to satisfy any net outstanding obligation and/or loss.

## Notes to Consolidated Financial Statements

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

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

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

### 12 Other Matters:

During 2000, DTC decided to restructure certain operations, which included closing its Garden City vault and relocating related operations to New York City. In connection with the Garden City operation, the leased premises will be abandoned prior to the termination of the lease and the estimated service life of the related leasehold improvements will be curtailed. In addition, certain severance costs will be incurred as this and other operations are restructured. Accordingly, a provision for losses of \$24.3 million has been included in other general and administrative expenses. It consists primarily of the sum of the lease payments on the premises which will be abandoned, net of estimated sublease proceeds, the impairment in the carrying value of related leasehold improvements and the estimated severance payments.

On August 31, 2000, DTCC and Thomson Financial ESG, a unit of the Thomson Corporation, signed a definitive agreement to create a new commercial enterprise that builds on the existing trade-processing businesses of DTC and Thomson Financial ESG. The new company, Omgeo, will be structured as an equal joint venture, and will operate independently of DTC and Thomson Financial ESG. The joint venture is expected to commence operations in early 2001.

## Report of Independent Accountants



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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and its subsidiaries at December 31, 2000, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the

United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

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

February 9, 2001



*Inside DTCC: Senior Managers and Their Teams*



(L) *Karen L. Saperstein, Deputy General Counsel and Secretary, Richard B. Nesson, Managing Director and General Counsel, Larry E. Thompson, Deputy General Counsel*

(M) *Marie T. Rey, Vice President, Jeffrey T. Brockenborough, Manager, Ellen Fine Levine, Managing Director, Risk Management*

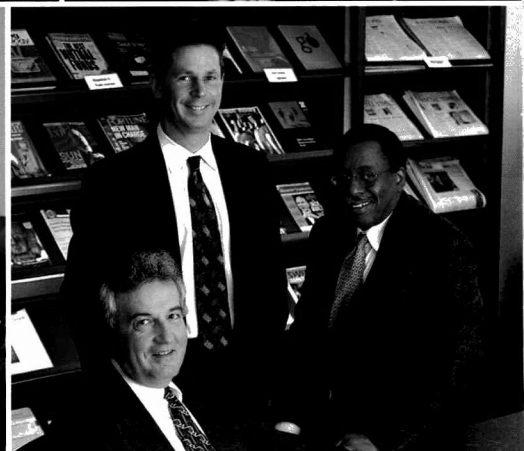
(R) *Richard R. Macek, Managing Director and Chief Financial Officer, Edmund Schemitsch, Vice President, Finance*



(L) *Cecilia Humphrey, Director, Stuart Kleinman, Managing Director, Jeffrey H. Smith, Managing Director, International*

(M) *John C. Martin, Vice President, Reconciliation, Janis Meola, Vice President, Risk Management, Dennis J. Dirks, Chief Operating Officer*

(R) *William D. Scotto, Director, Roberta Sonenfeld, Managing Director, Quality/Business Re-engineering Office*



(L) *Cheryl T. Lambert, Vice President, Settlement Division, William B. Aimetti, Managing Director, Operations, Corporate Services, and Quality Initiatives, James J. Ronayne, Managing Director, Operations*

(M) *June C. Ferreira, Director, Employment Services, Monique Thompson-Bryant, Training Administrator, Kevin P. Carey, Managing Director, Human Resources*

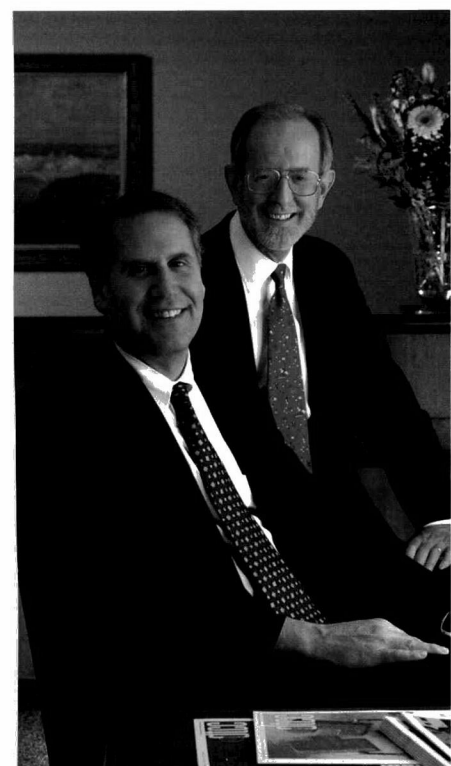
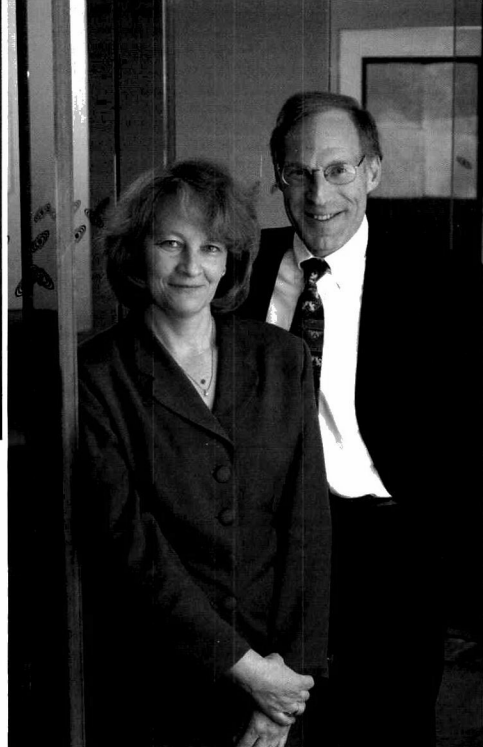
(R) *Raymond R. DeCesare, Managing Director, Information Technology, Michael Obiedzinski, Vice President, Louis Grandison, Director*



(L) *Avraham Zloof, Managing Director, Internet Applications, Karen E. Duffy, Applications Manager, Risk Development, Robert Green, Vice President, Systems, Internet Development*

(M) *Lori A. Klebous-Zivny, Vice President, Stuart A. Fishbein, Managing Director and General Auditor*

(R) *James V. Femia, Vice President, Patricia M. Ryan, Manager, Steve M. Labriola, Managing Director, Product Marketing and Development*



(L) *Peter Axilrod, Managing Director, International Central Counterparty Services, Keith C. Kanaga, Managing Director, EMCC*

(M) *Colleen Daniel, Manager, TradeSuite Development, Robert J. McGrail, Managing Director, New Business Ventures Group, Andrew J. Zelenka, Vice President, TradeSuite Development*

(R) *Stuart Z. Goldstein, Managing Director, Corporate Communications, Edwin Ramos, Senior Graphics Designer*



(L) *Macrina V. DiGregorio, Vice President, International Services, Donald F. Donahue, Managing Director, Customer Marketing and Development Group, Song P. Han, Manager, Information Services*

(M) *Joseph J. Bellantoni, Managing Director, Applications Development, George Catalanotto, Vice President, Jacob Feuchtwanger, Managing Director*

(R) *Charles R. Taylor, Managing Director, Strategy Development, Djerizza Weisz, Vice President, Strategy Implementation*



## Senior Management DTCC

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### Executive Leadership Team

Jill M. Considine  
*Chairman & CEO  
DTCC*

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

Kevin P. Carey  
*Managing Director,  
Human Resources*

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

Stuart A. Fishbein  
*Managing Director,  
Internal Audit*

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

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

Richard B. Nesson  
*Managing Director &  
General Counsel*

### Managing Directors

William B. Aimetti  
*Managing Director,  
Operations  
Corporate Services &  
Quality Initiatives*

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

Dwight Arthur  
*Managing Director,  
Internet Research*

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

Joseph J. Bellantoni  
*Managing Director, Applications  
Development*

Ann Bergin  
*Managing Director,  
Mutual Funds*

Neil F. Brander  
*Managing Director, Applications  
Development*

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

John J. Colangelo  
*Managing Director,  
Asset Servicing*

Raymond R. DeCesare  
*Managing Director,  
Information Technology*

Dennis M. Earle  
*Managing Director,  
International  
Central Counterparty Services*

Jacob Feuchtwanger  
*Managing Director, Applications  
Development*

John D. Fitzgerald  
*Managing Director,  
Product Development*

Stuart Z. Goldstein  
*Managing Director,  
Corporate Communications*

Vincent P. Hilly  
*Managing Director,  
Data Administration*

William M. Hodash  
*Managing Director,  
TradeSuite  
Product Management*

Charles Horstmann  
*Managing Director,  
Securities Processing*

Keith C. Kanaga  
*Managing Director, EMCC*

Stuart Kleinman  
*Managing Director, International*

James Koster  
*Managing Director, IS/QA/  
Technical Training*

Steve Labriola  
*Managing Director,  
Product Marketing  
and Development*

Ellen Levine  
*Managing Director,  
Risk Management*

Kevin F. Maloney  
*Managing Director,  
Product Marketing  
and Development*

Thomas McCarthy  
*Managing Director,  
Product Marketing  
and Development*

Robert C. Nicholson  
*Managing Director, Sales*

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

James J. Ronayne  
*Managing Director,  
Operations*

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

John L. Scheuermann  
*Managing Director,  
Operations*

Walter Siebecker  
*Managing Director,  
Insurance Services*

Jeffrey H. Smith,  
*Managing Director,  
International*

Roberta J. Sonenfeld,  
*Managing Director,  
Quality/Business  
Re-Engineering*

Charles Taylor  
*Managing Director,  
Strategy Development*

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

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

Avraham Zloof  
*Managing Director,  
Internet Applications*

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