



THE  
DEPOSITORY  
TRUST  
COMPANY  
1997  
ANNUAL  
REPORT

*A Quarter Century*

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WILLIAM F. JAENIKE  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
THE DEPOSITORY TRUST COMPANY  
55 WATER STREET  
NEW YORK, NEW YORK 10041

As this report was going to press, our President Thomas A. Williams suffered a fatal heart attack.

Tom was a friend and colleague for many years. He joined DTC as President in the fall of 1994, but he had been a part of our “family” since the mid-1960s, when we were CCS and he served as our outside counsel responsible for creating our rules, by-laws and other founding documents. He continued as our counsel, attending our Board meetings and giving us the benefit of his experience and wisdom over those many years.

He will be sorely missed.

A handwritten signature in black ink that reads "Will Jaenike". The signature is written in a cursive, flowing style with a large initial "W".

**D**TC, a service company owned by members of the financial industry, is a national clearinghouse for the settlement of securities trades and a custodian for its Participant banks and broker-dealers. In 1997, Participants delivered \$62 trillion of securities through the depository's book-entry system, 24% more than in 1996, and securities in its custody grew to \$15.4 trillion, up 27%. ■ DTC's mission is to reduce its Participants' securities operations

costs by providing safe, reliable, quality services, and efficiently performing operations tasks for Participants. Its telecommunications network links 558 Participants, their institutional customers, and firms that serve as trans-

fer agents, paying agents, and exchange and redemption agents for securities issuers. ■ DTC has in its custody for Participants: 80% of the shares of companies represented in the Dow Jones Industrial Average; 81% of the shares of all New York Stock Exchange listed companies; 68% of the shares of issues included in the Nasdaq Stock Market; 65% of the shares of all American Stock Exchange listed companies; 92% of the principal amount of outstanding corporate debt listed on the NYSE; more than 98% of the principal amount of outstanding municipal bonds and 99% of the commercial paper issued in the United States.

**DEPOSITORY GROWTH**

<b>TOTAL FOR THE YEAR</b>	<b>1997</b>	1992	1987	1982
Book-entry deliveries				
Market value (in trillions)	\$ 62	\$ 19	\$ 10	\$ 2
Number (in millions)	151	83	78	37
Cash dividend and interest				
Payments (in billions)	\$ 518	\$ 328	\$ 151	\$ 37
Number (in millions)	2.7	1.9	0.8	N/A
Reorganization, redemption, and maturity payments (in billions)	\$ 411	\$ 353	\$ 128	N/A
Underwritings				
Value (in billions)	\$1,374	\$ 747	\$ 336	\$148
Number (in thousands)	28.3	18.3	13.8	1.4
<b>AVERAGE DAILY</b>				
Book-entry deliveries				
Market value (in billions)	\$ 245	\$ 76	\$ 39	\$ 9
Number (in thousands)	596	328	309	149
<b>INSTITUTIONAL DELIVERY SYSTEM</b>				
Average daily confirms delivered (in thousands)	686	342	246	66
<b>YEAREND</b>				
Eligible securities issues	1,354,933	1,025,881	490,620	36,361
Value of securities on deposit (in trillions)	\$ 15.4	\$ 6.4	\$ 2.8	\$ 0.8
Number of shares on deposit (in billions)	288	148	93	27
Principal amount of corporate debt on deposit (in billions)	\$5,257	\$1,884	\$ 668	\$171
Principal amount of municipal debt on deposit (in billions)	\$1,716	\$1,163	\$ 507	\$ 13
Participants	558	532	604	455
Broker-dealers	414	352	421	328
Banks	136	172	177	120
Clearing agencies	8	8	6	7
<b>TRADING IN SELECTED MARKETS</b>				
Average Daily				
NYSE shares traded (in millions)	527	202	189	65
Nasdaq shares traded (in millions)	647	191	150	33
AMEX shares traded (in millions)	25	14	14	5
<b>EMPLOYEES</b>				
Full-time employees	2,714	2,719	2,989	1,731

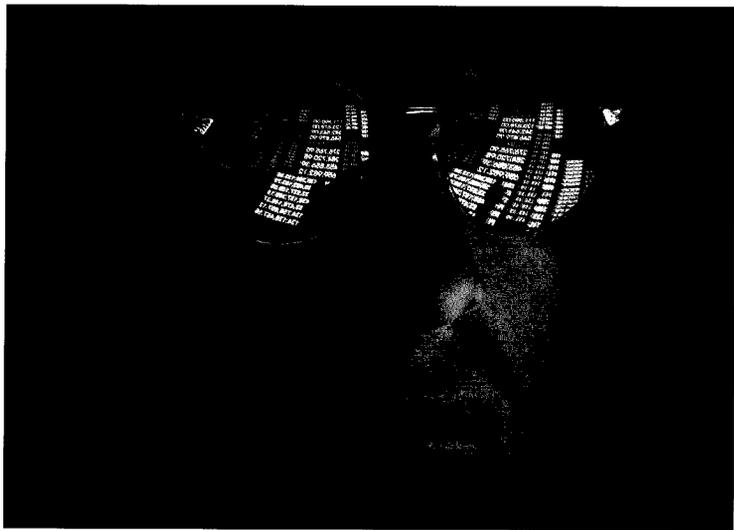
In 1998, DTC will complete its first quarter century. It will do so in the midst of significant changes that present new challenges and opportunities to the depository and to the industry it serves.

DTC's creation 25 years ago responded to the "paperwork crisis" in processing securities transactions that brought the industry to its knees in the late nineteen sixties. The record of DTC's contributions to the industry's success over this time in immobilizing and providing book-entry delivery services for U.S. securities is clear. The most recent of those contributions are described in this *Annual Report*.

In looking forward, the serious problems to be overcome in preparing the industry's computer systems for the Year 2000, understandably a major focus of Participant attention, obscure for some in the industry the many opportunities that the new millennium will offer us. The first years will be marked by many additional industry accomplishments—focusing particularly on perfecting Straight-Through Processing (STP) and further shortening the settlement cycle—that are likely to equal, if not exceed, the substantial achievements of the last few years. This *Annual Report* also reflects how DTC and the industry are beginning to lay the groundwork for these developments:

- DTC's systems smoothly processed the record volumes of October's heavy trading days (peaking at 2.6 billion shares on October 28), proving the industry's readiness to handle the growth in global investment activity and also underscoring DTC's focus on capacity and systems performance.

- The completion in December of DTC's absorption of business previously conducted by the Philadelphia Depository Trust Company (PHILADEP) and plans



for DTC's acquisition of Participants Trust Company further consolidate the clearance and settlement infrastructure in the United States, preparing for increasing interaction among the world's securities markets in the coming decades.

- The depository's new, state-of-the-art backup facility—largely completed in 1997—increases the safety and stability of the nation's settlement system.

- In 1997, Participants and DTC together launched several initiatives to build on DTC's huge databases to improve the quality of Participants' data collection

and management, and extend the benefits of STP into all aspects of a security's handling, from issuance through to retirement or redemption.

■ The conversion of DTC's telecommunications network to the latest technology and a comprehensive modernization of the Participant Terminal System (PTS)—both set in motion in 1997—establish a platform for improved service in these key areas of the industry's settlement infrastructure.



■ Industry discussions in 1997 produced a new vision of the future of global electronic trade confirmation systems, charting the course for the years ahead. An action plan to align the Institutional Delivery (ID) system with this new vision is in place, guiding the future evolution of ID. The development and deployment of major elements of a workstation platform for ID services represent significant 1997 achievements under this action plan.

■ The 1997 rollout of a sophisticated and responsive Customer Service Center, ultimately to provide automated

support for all Participant inquiries—operations and systems alike—set a new benchmark for DTC's progress in raising the caliber of its services to its users. The encouraging response to DTC's second broad-scale survey of its Participants' views of our responsiveness indicated their satisfaction with both DTC's "continuous improvement" efforts and further areas for service enhancement.

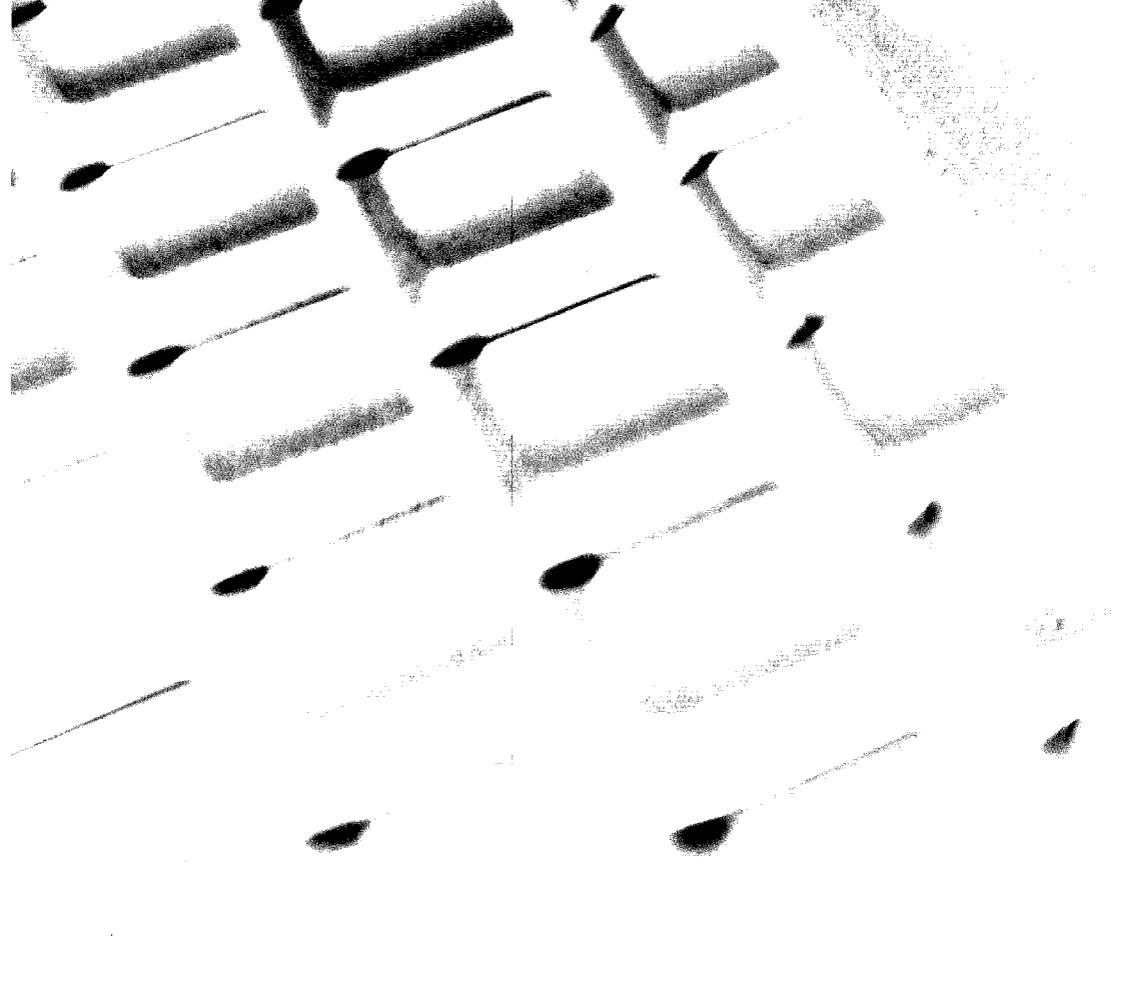
■ Commercial law changes and other related developments in 1997 allow DTC to take final steps toward immobilizing the few remaining U.S. securities still held in physical form.

These developments reaffirm DTC's commitment to the goal of reducing our Participants' costs and risks through reliable, high-quality, post-trade processing services. This mission will continue to guide us as we work to meet our Participants' domestic and cross-border securities needs in the coming years.

We are grateful to our Participants for the confidence they have shown in asking us to take on greater responsibilities on their behalf, and to DTC's 2,714 employees for their energy and dedication in meeting our Participants' expectations.

*William F. Jenike*  
William F. Jenike  
Chairman & Chief Executive Officer

*Thomas A. Williams*  
Thomas A. Williams  
President



T I M E L I N E

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■  
H I G H L I G H T S  
I N T H E  
A U T O M A T I O N  
O F  
C L E A R A N C E  
A N D  
S E T T L E M E N T

## Events Leading to DTC's Formation

### 1968–1972

**F**or the securities industry, the decade of the '60s was distinguished by the rise of institutional trading, a marked increase in corporate capital needs, and the implementation of computer-based technologies. Not surprisingly, New York Stock Exchange (NYSE) trading volumes exploded in the late '60s and early '70s—on a single day in 1968, for example, trading reached 16.4 million shares, the highest since 1929. Average daily trade volumes rose from about three million shares in 1960, to almost 12 million in 1970, with each purchase and sale generating numerous paper forms. A "paperwork crisis" developed as brokers and banks, increasingly, were unable to process changes in ownership from sellers to buyers on time.

**T**he impact of this crisis on the industry and the market's efficiency was severe. Between 1968 and 1970, some 100 firms were forced out of business due to loss of revenue traceable to failed settlements of trades. The NYSE curtailed trading hours, closed one day a week, and took other temporary measures to remedy the problem. In 1968, the NYSE expanded the services of its Stock Clearing Corporation to provide computerized book-entry changes of ownership among its member-firm brokers in settlement of trades on the floor of the Exchange. Called the Central Certificate Service (CCS), it immobilized the underlying stock certificates in the clearing corporation's vault.

**I**ndustry studies analyzing the problems associated with achieving timely and accurate processing of securities transactions advocated an interindustry solution, which led to the formation in 1970 of the Banking and Securities Industry Committee (BASIC). BASIC's primary charge was to develop a depository concept for post-trade securities processing that would be acceptable to all segments of the financial community. In effect, the committee crafted a blueprint for what would become DTC.

**I**n 1971, BASIC announced the signing of a memorandum of understanding among the NYSE, the American Stock Exchange (AMEX), the National Association of Securities Dealers (NASD), and the 11 member banks of the New York Clearing House Association.

**I**n 1972, the Securities Industry Automation Corporation (SIAC) was formed, as a jointly owned subsidiary of the NYSE and AMEX, to provide the exchanges and their member-firm brokers with automation and data processing services.

## 1973–1977

### 1973:

■ Daily Average NYSE Trading Volume (millions of shares) .....	<b>16</b>
■ DTC-Eligible Issues .....	<b>4,729</b>
■ DTC Securities on Deposit (\$ value in billions) .....	<b>\$9</b>
■ DTC Deliveries (market value, book-entry, in billions) .....	<b>\$176</b>
■ DTC Participants .....	<b>270</b>

**1973:** Following BASIC's recommendations, CCS Inc.'s operations are transferred to DTC, a wholly owned NYSE subsidiary. DTC is set up as a limited-purpose trust company to hold securities certificates in its custody and process book-entry deliveries (changes of ownership) through a computerized system. Said then-Chairman William T. Dentzer, "Our goal is to immobilize securities certificates...reducing processing costs...increasing safety and speed of deliveries."

**1974:** The Participant Terminal System (PTS) is introduced, enabling Participants to communicate directly with DTC's computer system.

■ Odd-lot trades in U.S. Treasury notes and bonds become eligible for settlement in clearinghouse funds at DTC.

■ DTC supports its portion of the Continuous Net Settlement system designed by the clearing corporations and SIAC for NYSE and AMEX trades—SIAC acts as servicing agent, all deliveries are made through DTC by book-entry, facilitating same-day turnarounds on settlement day.

## 1978-1982

**1975:** Long-term lobbying efforts result in amendments to Article 8 of the Uniform Commercial Code, making it possible for the NYSE to sell shares of DTC stock to depository Participants. (Previously, ownership of depositories was limited to securities exchanges and associations.) Currently, the NYSE, AMEX, and NASD, in addition to Participants, all hold DTC stock.

■ Securities and Exchange Commission (SEC) eliminates fixed-brokerage commissions; this change contributes to trading volume growth.

■ Congress passes the Securities Acts Amendments of 1975. This amends the 1934 Securities Exchange Act by directing the SEC to establish a national market system and a nationwide system for clearing and settling securities transactions.

■ American Depositary Receipts (ADRs), which represent foreign securities, become DTC-eligible.

**1977:** The National Securities Clearing Corporation (NSCC) is formed through a merger of clearing subsidiaries of the NYSE, AMEX, and NASD, centralizing clearance and settlement of broker-dealer trades.

### 1978:

- Daily Average NYSE Trading Volume (millions of shares).....**28.6**
- DTC-Eligible Issues.....**13,028**
- DTC Securities on Deposit (\$ value in billions).....**\$200**
- DTC Deliveries (market value, book-entry, in billions) .....**\$500**
- DTC Participants .....**305**

**1978:** 2,400 Over-The-Counter (OTC) market issues are added to DTC's securities eligibility list.

**1979:** DTC implements Computer-to-Computer Facility (CCF) extending automation of services by linking the depository's computers directly to those of Participants, enabling Participants to transmit and receive daily processing information electronically.

**1981:** DTC initiates municipal bond program. DTC's interface with the New England Securities Depository Trust Company ends in 1981 when the exchange elected to discontinue the depository's function.

**1982:** Amendment of NYSE Rule 387 and amendments of similar rules of other Self-Regulatory Organizations (SROs) are approved by SEC, mandating that beginning in 1983, institutional trades in depository-eligible securities must be confirmed, affirmed, and settled through a registered securities depository such as DTC. These rule changes will result in universal use of the Institutional Delivery (ID) system within a few years.

■ NYSE has its first 100 million share day on August 18.

■ First book-entry-only (BEO) certificates of deposit and muni issues are distributed through DTC, another step toward eliminating paperwork in trade processing.

## 1983-1987

### 1983:

- Daily Average NYSE Trading Volume (millions of shares).....**85**
- DTC-Eligible Issues.....**71,397**
- DTC Securities on Deposit (\$ value in trillions).....**\$1.24**
- DTC Deliveries (market value, book-entry, in trillions).....**\$3.57**
- DTC Participants .....**475**

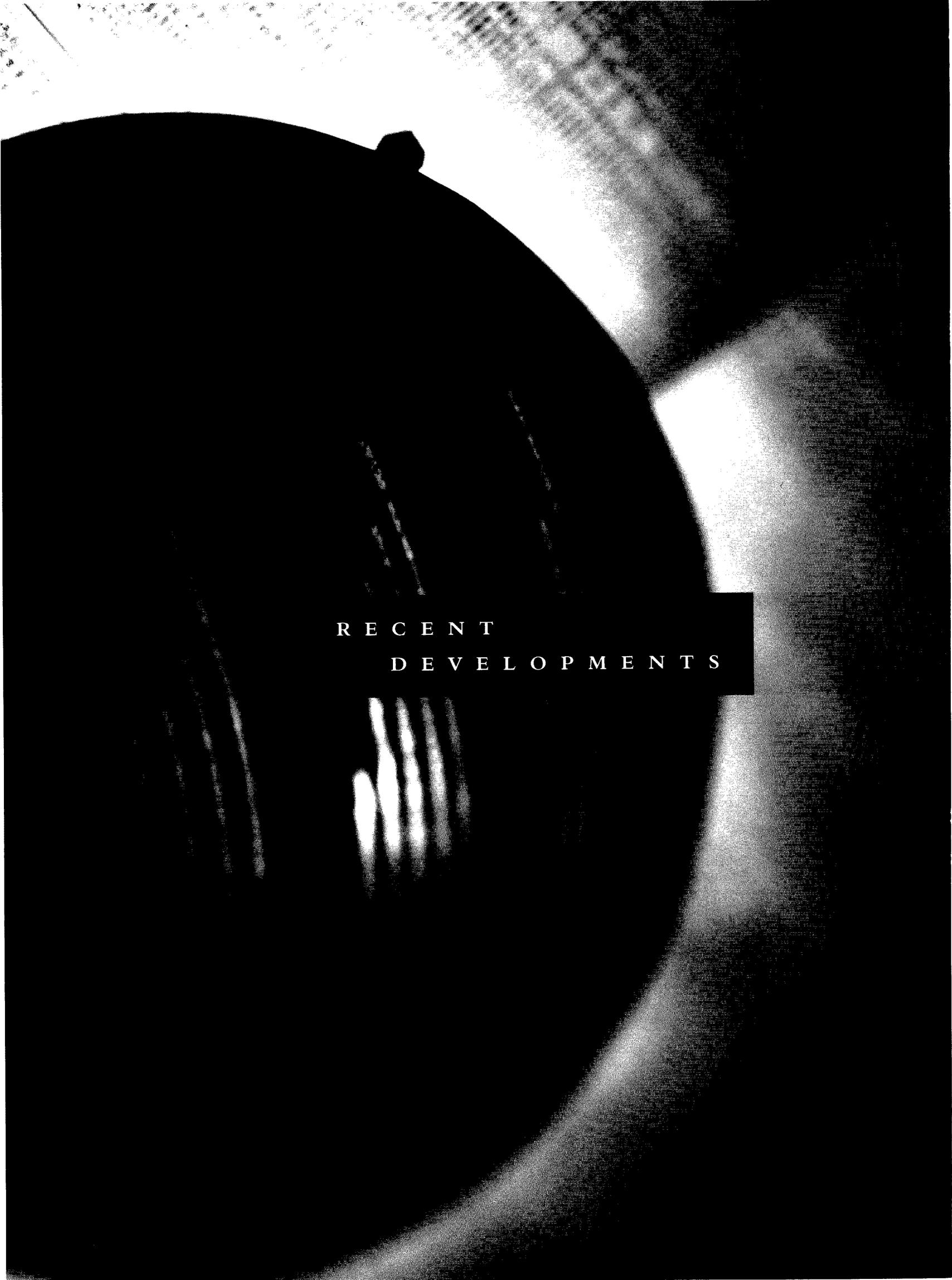
**1983:** SEC approves Municipal Securities Rulemaking Board (MSRB) amendments, requiring that depository and clearing corporation services be used for confirmation, dealer comparison, and settlement of most municipal bond trades—increasing DTC muni activity.

**1987:** DTC inaugurates Same-Day Funds Settlement (SDFS) system, making security types that settle in federal funds, eligible for DTC services.

■ Market break occurs during which the Dow Jones Industrial Average (DJIA) falls 508 points in largest one-day drop; 600-million-plus shares are traded on the NYSE; DTC handles post-trade processing of daily average of 1.7 billion shares; and ID trade confirmations average 187,000 daily.

■ DTC absorbs the Pacific Securities Depository Trust Company business.

■ SEC requires use of automated facilities, such as the ID system, for settlement of all delivery-versus-payment/receipt-versus-payment institutional trades of depository-eligible corporate securities, eliminating the exception to NYSE Rule 387.



RECENT  
DEVELOPMENTS



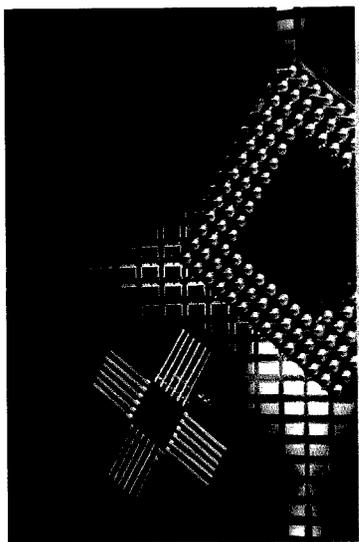
DTC and NSCC expanded links with The Canadian Depository for Securities Ltd. to help Participants realize operational efficiencies for cross-border trading. Clockwise, from left, are CDS Assistant Vice President Mark Shulman, Vice President Bruce Butterill, and Senior Product Manager Pierre-Yves Camu with IDC Managing Director Mary Ann Callahan and Director Cecilia Humphrey.

**N**ineteen ninety-seven was another year of improvement and growth. Several milestones stand out against the backdrop of a busy year—Year 2000 system remediation was 99% complete by yearend, DTC successfully absorbed the business of the Philadelphia Depository Trust Company (PHILADEP), and DTC systems readily handled the heavy volumes of the October market break.

As the industry's clearance and settlement needs have expanded, DTC has enhanced its systems and other capabilities to meet them.

#### EXPANSION OF ELIGIBLE ISSUES

During 1997, DTC made more than 44,300 issues eligible including issues requiring special processing, such as issues not initially assigned CUSIP numbers, Small Business Administration loan pools, and State of Israel bonds. Throughout 1997, DTC worked with Participants to make eligible for full depository services restricted securities, including private placements.



Participants continued to trade global debt and equity securities that settle in book-entry form. These issues typically consist of both a domestic tranche (Securities and Exchange Commission [SEC]-registered or Rule 144A) and a foreign tranche sold to "offshore" purchasers (Regulation S). Last year, more than 3,800 issues were distributed through the global securities program—global, meaning that the issues were made eligible at DTC as well as at other depositories located outside the United States—totaling more than \$386 billion. This represents a 72% increase over 1996 activity. Noteworthy in 1997 was the partial distribution through DTC of the first DTC-eligible Brady Bond issue, involving the restructuring of the Republic of Peru's debt in exchange for \$4.8 billion of bonds, and the settlement

of a \$3 billion Brazilian global bond issue at DTC, which represented the largest unsecured bond issue ever offered by a developing nation.

#### DEVELOPMENTS AFFECTING MAJOR BUSINESS

The percentage of timely principal and income (P&I) payments, excluding corporate action proceeds, forwarded to DTC by 2:30 p.m. ET, an industry standard, continued to climb. Peak-day, 2:30 p.m. compliance averaged 89% compared with last

IPO Tracking, the system for reporting secondary market activity during an initial public offering's penalty bid period, was launched in June and tracked 303 book-entry IPO issuances totaling \$29 billion by yearend. Pictured here with DTC Senior Product Management Analyst Kurt Ilisije and Information Services Manager Ana Patricia Cosentino are State Street Bank and Trust Company Vice President Brent Blake, The Bank of New York Assistant Vice President Robert LaFaman, and Pershing Vice President Joseph Brereton who helped develop the IPO Tracking system.

year's 81%. During 1997, total P&I payments to DTC amounted to \$855 billion, an increase of 13.8% over 1996. On July 1, P&I payments peaked at \$40 billion. Improved compliance enabled Participants to withdraw a greater portion of available intraday P&I payments from their depository settlement accounts, using the P&I withdrawal program.

Revisions to the Uniform Commercial Code Article 8 became law late last year, modernizing securities holding rules. The revised provisions will allow DTC to make eligible additional foreign securities that are held through foreign custodians as well as other financial instruments including Bankers' Acceptances which will be made eligible in mid-1998. Because Article 8 now better defines each party's rights to the

Rule 387). These rules have required that only the facilities of a registered clearing agency, such as DTC, can be used for confirmation, affirmation, and book-entry settlement of institutional trades. In July, the Operations Committee of the Securities Industry Association, with DTC's support, reached an agreement with Thomson Financial Services on the amendments permitting "Qualified Vendors" to provide confirmation

underlying collateral, secured lending may improve liquidity for Participants and others during periods of market stress.

After much discussion, regulatory impediments to more flexibility in institutional trade comparison are expected to be eliminated with the proposed amendments to marketplace institutional trade confirmation rules (e.g., New York Stock Exchange

and affirmation services. The National Association of Securities Dealers (NASD) has submitted conforming amendments to its rule relating to institutional trade confirms to the SEC for approval. Other self-regulatory organizations are expected to make similar rule changes in 1998.

The absorption of the depository services of the Philadelphia Depository Trust



Company (PHILADEP) by DTC and the clearing services of The Stock Clearing Corporation of Philadelphia (SCCP) by the National Securities Clearing Corporation (NSCC) was completed in late 1997. PHILADEP Participants converted seamlessly to the DTC system either as direct Participants or indirectly by clearing through other DTC Participants.

The system for detecting "flipping," or secondary market activity during an initial public offering's (IPO's) penalty-bid period, went into full production in June. This coincided with implementation of rules of securities markets requiring all new depository-eligible, publicly traded issues to be distributed by book-entry through a registered securities depository. The IPO

Over the past five years, DTC's Continuous Improvement Process has tapped staff to create a customer-oriented focus to conducting its business. Key staff during 1997 included, from left, Employee Relations Manager Elizabeth McAuliffe, Dividend Department Group Director Peter Gleeson, Reorganization Department Director Patricia Mobley, Employment Manager Regina Parodi, and Reconciliation Department Manager Raymond Budd.



Because of Participant interest in funding DTC-eligible securities positions by using repurchase transactions, DTC expanded the capabilities available through its Collateral Loan Program by adding a new account type for the processing of such transactions. The new Repo account procedure enables Participants to distinguish repurchase transactions or other types of financing transactions from pledges of collateral.

Tracking system tracked 303 IPO issues worth approximately \$29 billion by yearend, or a total of 74% of all common stock IPOs processed through DTC. All major underwriters used the IPO tracking system by yearend.

DTC's Money Market Instrument (MMI) program continued to grow as a result of expanding interest in both commercial

paper (CP) and institutional certificates of deposit (CDs). A total of \$958 billion of commercial paper was issued through the depository in 1997, representing an estimated 99% of commercial paper issued during the year. At yearend, DTC had on deposit 61% of CDs outstanding valued at \$213 billion, up 33% from the previous year.

The Federal Reserve Bank of New York became a DTC Participant in early 1998. This decision eliminates the burdensome process of physical delivery of commercial paper to the Bank, which serves as the principal custodian of commercial paper on behalf of foreign central banks.

For the past five years, DTC's Continuous Improvement Process (CIP) has involved efforts by all of the depository's employees to streamline its operations and better meet Participants' needs. Work Process Improvement teams review DTC's operations and reengineer them to reduce Participants' costs. Employee suggestions to improve service and/or reduce costs are strongly encouraged, with rewards and recognition of ideas accepted for implementation. In 1997, 525 Participants were surveyed, providing DTC with specific data and areas of customer concern on which DTC could take action.

#### CUSTOMER RELATIONS

Six advisory boards, made up of representatives from Participant organizations, institutions, and DTC, worked through the year on key areas including operations, eligibility, dividends, institutional trade processing, corporate actions, and settlement. For example, beginning last July, members of

the Institutional Delivery Advisory Board set out to increase the Institutional Delivery (ID) system's usefulness to the multiple parties to an institutional trade by identifying gaps in the information flow from pre-trade through settlement, and the Corporate Actions Advisory Board continued its study of DTC's role in providing Participants with warning reports and other risk management tools for voluntary reorganizations.

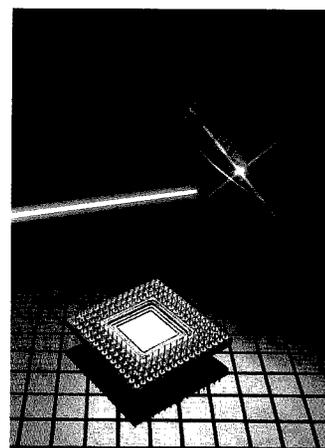
DTC's Chairman and CEO joined the Board of the National Securities Clearing Corporation and NSCC's President and CEO, David Kelly, joined DTC's Board in 1997, to foster closer coordination and

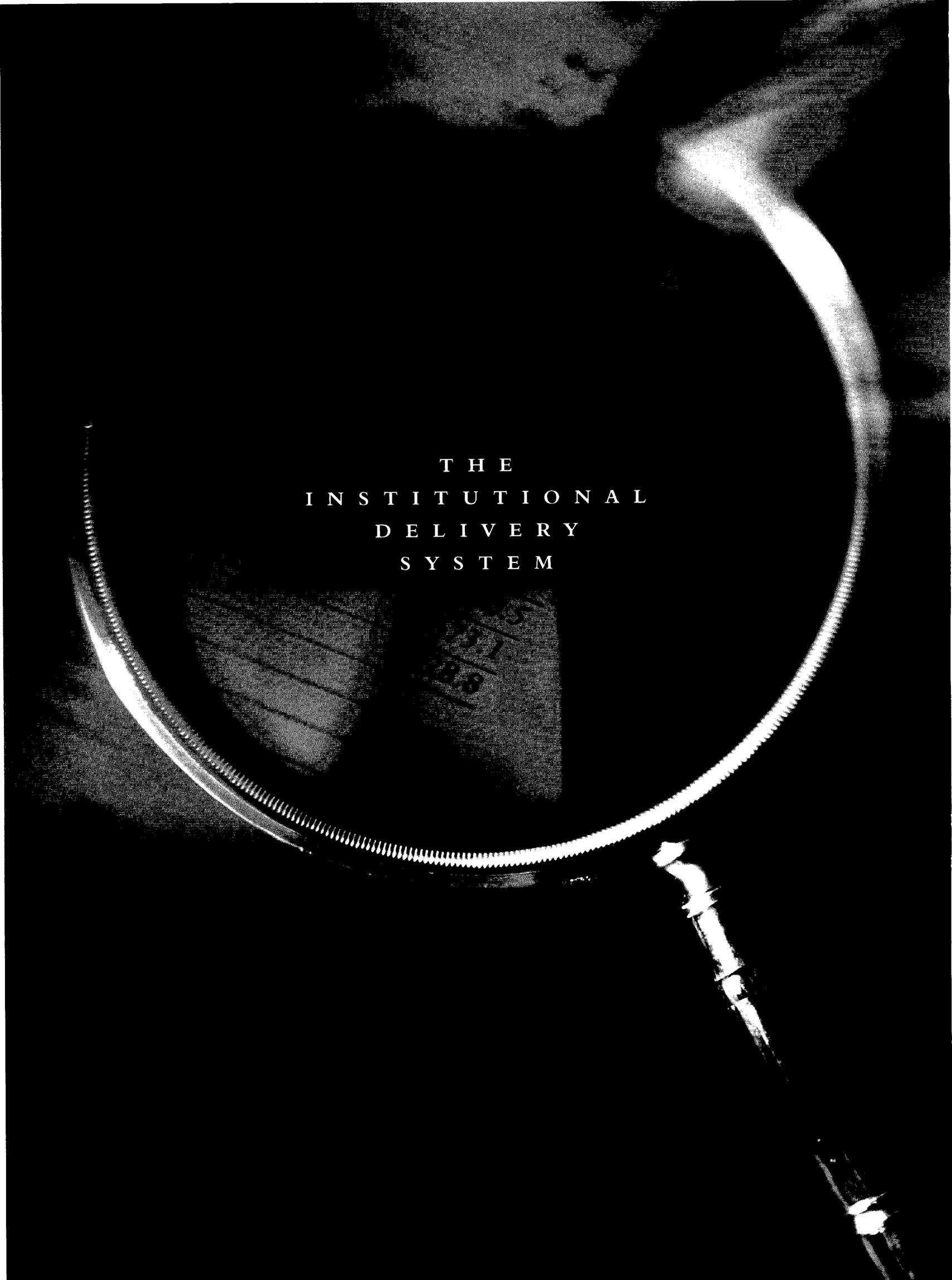
cooperation between the two organizations.

Plans were initiated to open a DTC office in San Francisco to focus on the needs of Participants in 10 Western states and two Canadian provinces. The staff there will meet more frequently with Participants and other depository users to help better serve their needs.

Similarly, the Chicago office staff was increased to handle additional responsibilities stemming from expanding the geographical coverage of that office, which now includes 10 additional Midwestern states and two Canadian provinces.

Staff in both the San Francisco and Chicago offices will be responsible for customer service, sales, and training in their respective areas.





THE  
INSTITUTIONAL  
DELIVERY  
SYSTEM



J.P. Morgan views the DTC Hub as a reliable and cost-effective means of communicating reconciliation data on a daily basis. From left are DTC Product Manager William DuMond and J.P. Morgan Services Inc. Vice Presidents James Mallon and Robert Nugent.

The Institutional Delivery System (ID), introduced in 1973—the year DTC was founded—links all parties to an institutional trade, helping to eliminate redundant processing while reducing financing costs due to failed deliveries. Connectivity between the parties to an institutional trade is the cornerstone of the ID system.

As individual financial markets evolve into a 24-hour, interconnected global marketplace with abbreviated settlement periods, DTC's plans for ID include uninterrupted, real-time connectivity throughout the business week for users, regardless of geographic location or time zone.

Connectivity continues to be of paramount importance as the industry focuses its efforts on developing standardized trade messaging to support Straight-Through Processing (STP). DTC is enhancing ID by opening its architecture to accept multiple



communications protocols and by accepting messages in any commercially viable format. This will permit ID users to continue to rely on ID as their access point to any future Electronic Trade Confirmation (ETC) global system, regardless of the ETC choices made

by counterparties and settlement agents worldwide. As a first step in this direction, DTC began translating ID-formatted messages into the Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.) format last year, enabling ID users to communicate with over 6,000 S.W.I.F.T. members worldwide. In cooperation with the Industry Standardization for Institutional Trade Communications (ISITC) members, DTC added new features to its message

hub, which enables investment managers and custodians to exchange settlement and reconciliation messages between them.

Throughout 1997, ID continued to provide reliable and consistent service. On an average day, ID processed 274,000 trades and distributed 686,000 confirmations—a 21% increase over 1996. Capacity planning remained a priority, providing sufficient computer resources to support uninterrupted clearance and settlement. This planning made it possible for ID to meet the unanticipated volume surges during the market break, spanning three consecutive trading days, in late October. As the nation's principal markets dealt with the record-breaking 2.6 billion shares traded on October 28, ID delivered more than one million confirmations.

In 1997, additional customer-requested improvements were made to the Standing Instructions Database (SID), which facilitates error-free settlement by providing investment managers, brokers, and custodians with accurate customer account information and settlement instructions. The improvements included enhanced notifications of information changes, account information printed more succinctly, and a series of management information reports to help customers optimize SID. By yearend, bank trust trading departments started using SID to reduce costs and

exception processing. In 1997, SID usage, measured by the number of daily SID-enhanced confirmations, grew fourfold over the 1996 yearend figure.

In addition, a series of ID products, called TradeSuite™, was introduced for use by institutions. The TradeSuite™ software package operates on PC workstations using client-server technology and is designed to

emphasis. This took many forms, including expanding the available hours of the ID/SID Service Desk. The Service Desk was connected to the depository's Customer Support Center, extending coverage to 24 hours a day, six days a week, to correspond with the securities industry workweek worldwide.

In support of the industry's efforts to promote STP and ETC, the depository was



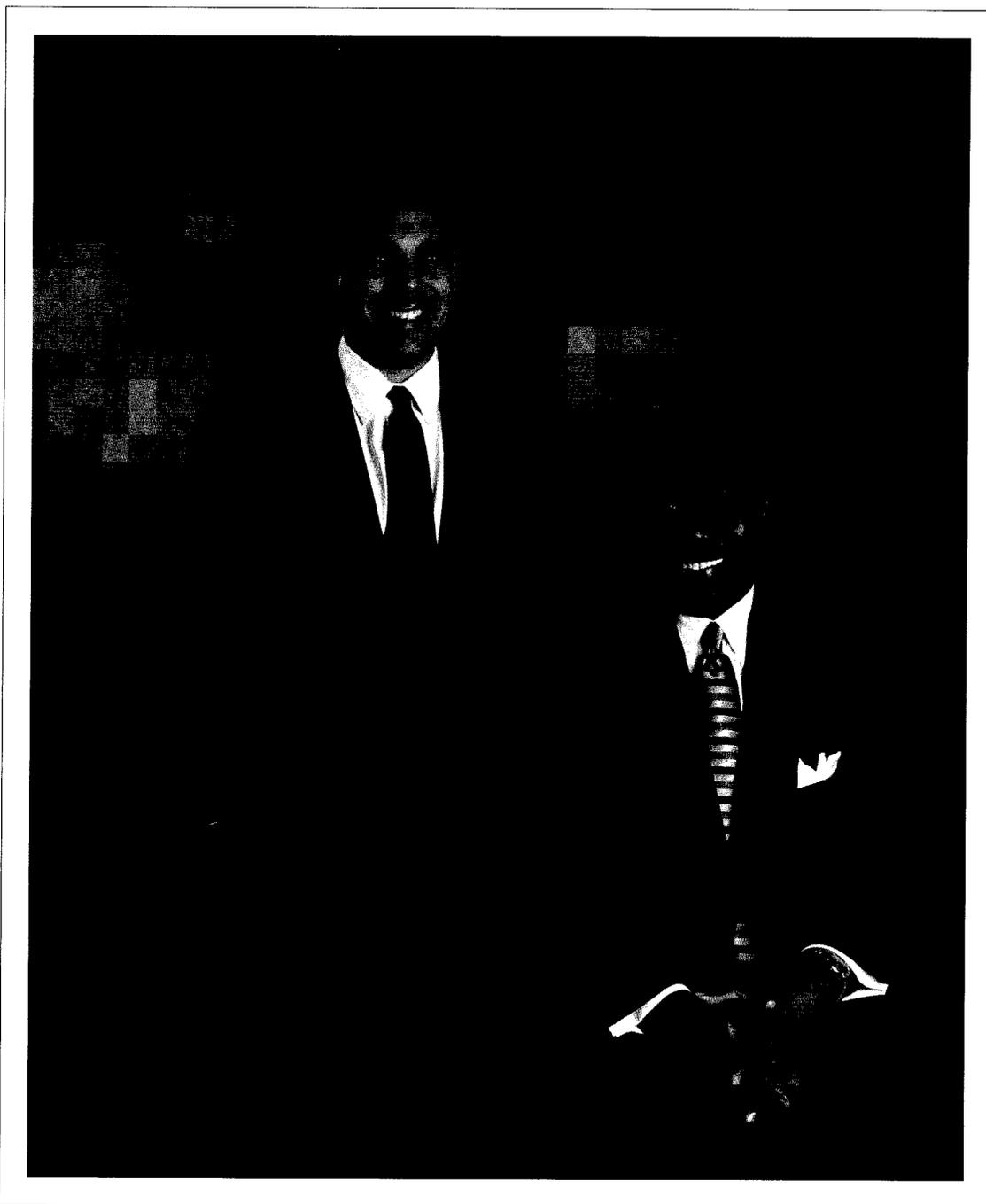
esting was completed for the Windows-based Confirm/Affirm application. From left are DTC Institutional Services Director Brian Mullarkey, DTC Information Services Manager Marc Jan Berliner, J.&W. Seligman & Co. Operations Manager Anthony Buonacore, DTC Institutional Training and Services Associate Director Dina Curreri-Hamwi, Manning & Napier Advisors, Inc. Applications Analyst James Combs, and J.&W. Seligman & Co. Operations Supervisor Lorraine Taibbi, who were involved in the test phase.

run under either Windows 95 or NT. The first service offered through TradeSuite™ was SID. ID Confirmation and Affirmation capabilities are now also included. Similar ID software for use by broker-dealers is under development.

ID customer service received continued

active in several industry organizations: ISITC; the S.W.I.F.T. Reconciliation and Settlement Committee; the Financial Information Exchange (FIX) Committee; and the Global Straight-Through Processing Committee (GSTPC).

TECHNOLOGY



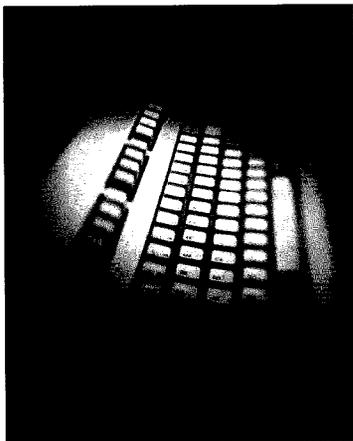
DTC's Vice President and Senior Counsel Jack Wiener (left) and Securities Processing Vice President John Martin, Jr., played crucial roles in the integration of the Philadelphia Depository's participants with the DTC system following the closing of PHILADEP late last spring.

**D**TC's technology efforts are focused on matching the services Participants want with the best technology available to provide those services.

**A**s a result, DTC uses client-server technologies for services that require graphical presentations of data, while continuing to rely on large powerful mainframes for the bulk of its day-to-day high-volume processing and maintenance of its large information databases.

#### RESPONDING TO PARTICIPANT NEEDS

In direct response to customer requests, the depository developed user-friendly, open-architecture workstations using client-server technology. TradeSuite™, which includes the Standing Instructions Database (SID) and Institutional Delivery (ID) capabilities, is designed to allow ID users to process their transactions using Windows-based screens



and conventions.

Similarly, the Participant Terminal System (PTS) is being re-designed. Although work is still in progress, the results of this browser-based modernization effort will provide expanded menus,

self-help features, easier navigation, graphical user interfaces, and other user-friendly approaches while maintaining the system's extensive functionality.

Established last year, the Customer Support Center features state-of-the-art systems and sophisticated software to handle the growing volume of technical and operations inquiries from customers. In addition to supporting inquiries about new products like Windows PTS (WPTS) and the SID Workstation, the center is increasingly becoming a focal point to answer questions or resolve problems involving all of DTC's operations. Monitoring and analyzing the types of ques-

tions received by the Center's personnel will help in the design of future services and result in more focused training where customer questions indicate more is needed.

#### SYSTEM INTEGRITY AND RELIABILITY

DTC has dedicated substantial resources to its Year 2000 effort. By yearend 1997, 99% of DTC's software was remediated to handle the century change. During 1998 and 1999, DTC will participate in critical industrywide testing and testing with individual Participants.

To ensure the integrity and reliability of

**D**TC's Chicago office has been expanded. Additional staff will help the depository to better understand the needs of its client base and to offer customers local servicing, support, and training from one convenient location. From left are ABN AMRO, Incorporated, Senior Vice President Ben Witt with DTC Vice President Ann Vece and Chicago office Senior Participant Services Representative Darla Stuber.

the depository's systems, the Command Center monitors DTC's communications and processing systems. Fully operational in 1997, with Computer Operations, Network Operations, and Network Engineering relocated there, the Command Center will benefit DTC by providing a central point for more timely and effective problem resolution as well as improved day-to-day job tracking and processing. The center monitors DTC's extensive PTS system,

which has more than 18,000 online, real-time user devices located throughout the United States, Canada, and four other countries; the Computer-to-Computer Facility linkages with DTC's high-volume users; the extensive dial-in network used primarily by institutions for ID; the growing workstation TCP/IP connections; and DTC's two data centers with their eight terabytes of online storage.

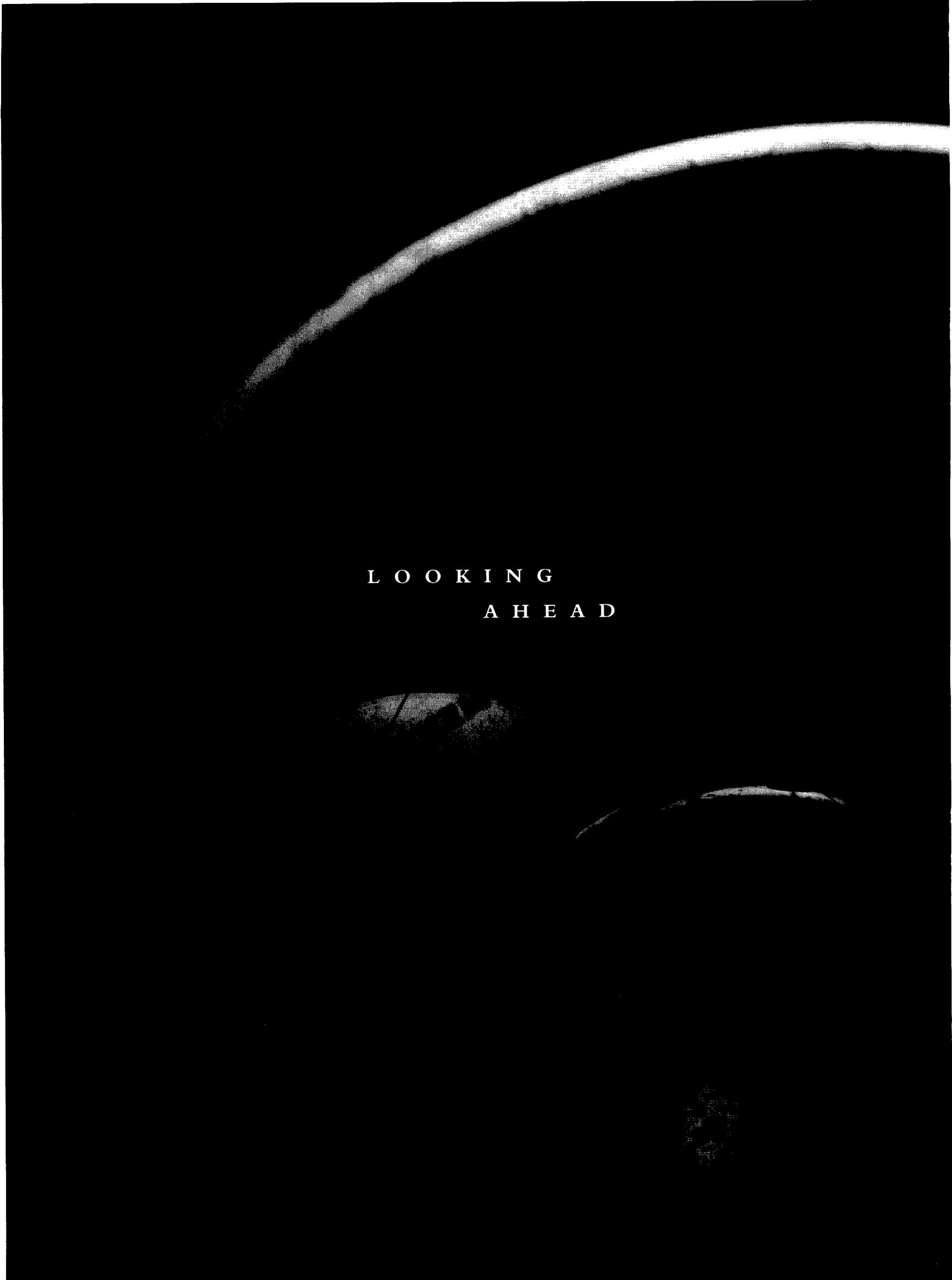
DTC's commitment to systems quality is of paramount importance and its quality

The depository's requirement for reliable and secure systems necessitates the constant review and testing of its contingency capabilities. Major work was completed during the past year on a state-of-the art backup data center and recovery site. Mirroring technology backs up data, allowing for data recovery—within one hour—for all processing in the event of a failure of the production data center. In addition, the site houses a recovery facility, capable of accommodating a staff of more than 800, ready to provide critical operations support.

efforts are designed to improve the products and services offered to Participants. The Quality Assurance Department developed, in 1997, improved methodologies to standardize the process used to define, design, program, and implement new systems. As a result, a number of efficiencies are realized including a clearer definition of system requirements, early detection of potential problems, and greater system reliability.

Frame relay technology is another technology the depository has adopted to improve its services. Frame relay uses packets of data, routed through virtual circuits in a telecommunications network, and can support multiple protocols over a single network connection. With this technology, more data can be transferred to and from Participants faster and at a lower cost, while increasing network reliability.





LOOKING  
AHEAD



From left are DTC Associate Counsel Jeffrey Waddle, The Bank of New York Vice Presidents Scott Kraemer and Michael Finck, and DTC Product Management Director William Salva, all of whom were instrumental in developing the depository's Foreign Tax Withholding Services.

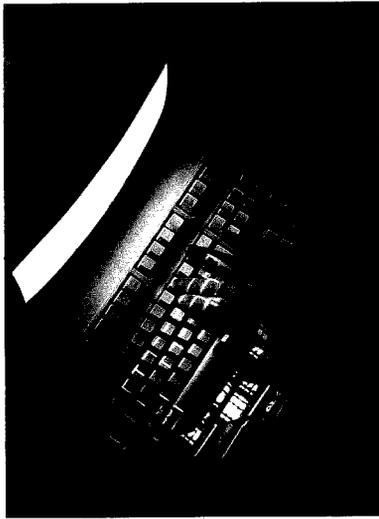
The immediate future for the securities industry, and for clearance and settlement in particular, will be characterized by continued rapid change, globalization, and a requirement for active risk management. ■ To meet these challenges, DTC is supporting industry initiatives to shorten settlement cycles, thereby reducing risk.

**A**utomated, efficient securities processing will continue to be a top industry priority for our Participants and DTC.

#### STREAMLINED PROCESSING

As part of this strategy, DTC is aligning ID with the future global Electronic Trade Confirmation (ETC) architecture by opening ID to accept messages in all commercially viable communications protocols. In the near future, ID, DTC's ETC system, will be able to serve as a single access point for its users to the evolving global ETC/STP structure.

Further, by enhancing ID's format and



protocol translation services, DTC will promote linkages among pre-trade service providers, communications networks, and ETC service providers, permitting seamless communication and connectivity among broker-dealers, investment managers, and custodian banks.

DTC's translation services will reformat messages from the sending party's format to the receiving party's format.

Another part of DTC's strategy is to enrich its ETC messages through the use of settlement data, such as its Standing Instructions Database (SID), to include information on commission structures, legal disclosure, customer account information, and settlement instructions. SID facilitates error-free settlement by supplying investment managers, brokers, and custodians with up-to-date, accurate customer settlement data.

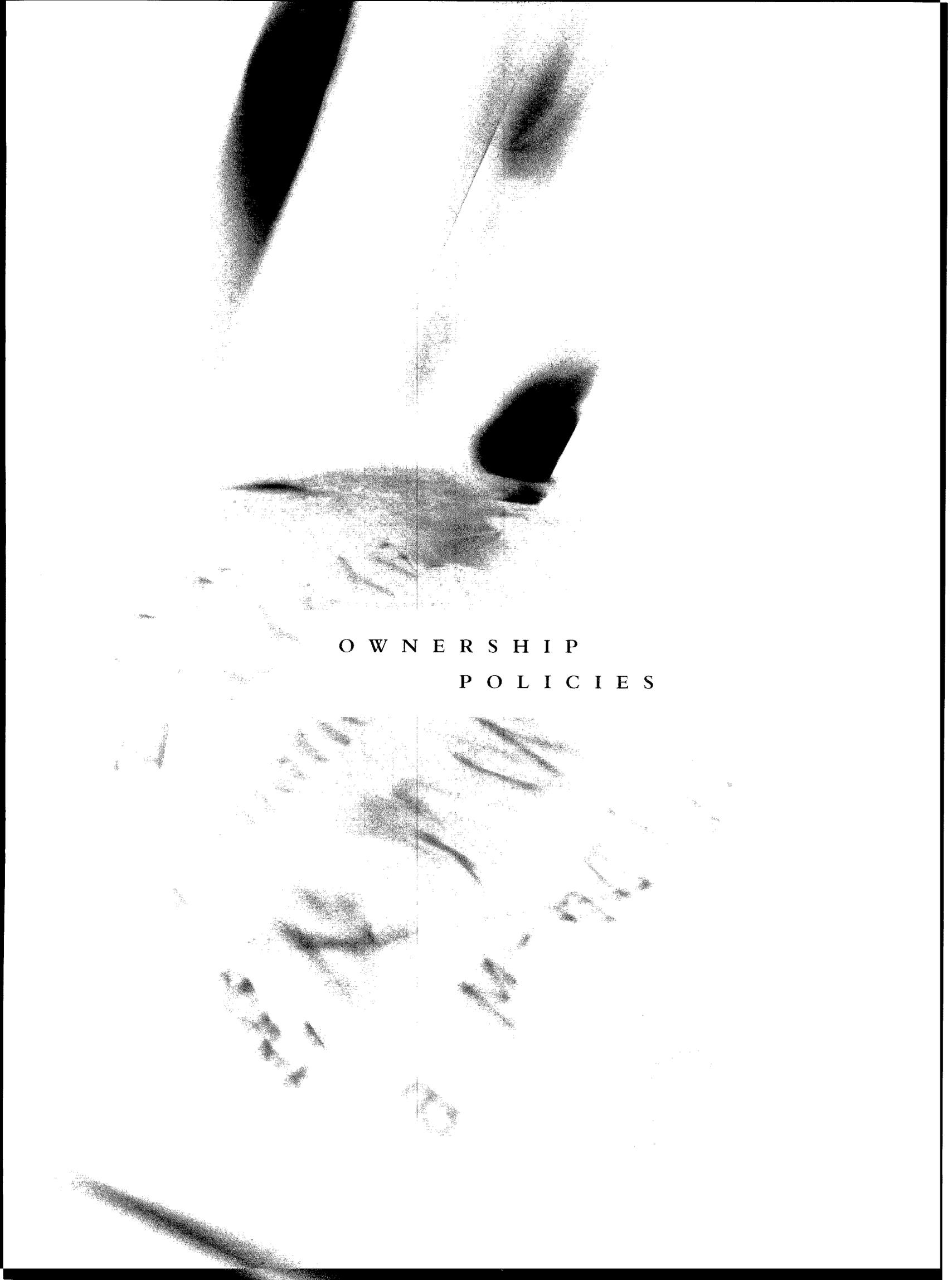
The SEC's approval in April 1998 of a Matching service, proposed by DTC, which compares broker-dealer trade input to investment manager allocation input, will also play an important role in helping the industry streamline trade processing and move to a shorter settlement cycle.

#### OTHER INITIATIVES

Work will continue on TradeSuite™, a comprehensive software system, introduced last year to the institutional market. TradeSuite™ is one example of DTC's use of intelligent workstations, uniting a series of related ID applications within a user-friendly, Windows environment. An intelligent broker-dealer workstation is under development and will be released later in 1998.

DTC's Foreign Tax Withholding Services, available to Participants holding foreign securities at the depository, will add more countries to its Tax Withholding Information (TAXI) database and make more tax forms accessible electronically through the Participant Terminal System (PTS). Looking further ahead, DTC plans to build its TAXI database into an interactive research and tax relief processing resource.

The first phase of DTC's Industry Standard Glossary, a standardized, high-quality, securities master file for use by Participants, will be piloted by yearend. This phase will cover newly issued corporate securities that are distributed through the depository's Underwriting Department and securities distributed through the Money Market Instrument program. Future phases will expand the current scope of Glossary-eligible securities based on industry needs and requests.



OWNERSHIP  
POLICIES

DTC's governance, policies, and practices are designed to meet the needs of its diverse users. DTC is owned and controlled by its Participant stockholders through a Board of Directors elected through cumulative voting.

The amount of DTC's capital stock each Participant may purchase is recalculated every year to reflect variations in depository use. Because DTC stock ownership offers limited financial incentive, and the depository does not distinguish between stock-

66 broker-dealers, 57 banks, and 6 self-regulatory organizations and clearing agencies. Broker-dealer Participants owned 17.3% and bank Participants owned 37.6% of DTC stock. Ownership interests of the self-regulatory organizations, on behalf of broker-dealer Participants, were 35.7% for the NYSE, 4.7% for the American Stock Exchange, and 4.7% for the National Association of Securities Dealers. Current stockholders are identified at the end of this report.

A basic policy of the depository is to limit

Working with the Domestic Tax Reporting Committee, DTC solicited issuers and agents for information about reclarification of 1997 income distributions, and plans to automate reporting tax information during the 1998 tax year. Members of the committee included, from left, Prudential Securities Incorporated Vice President Steven Neiss; CIBC Oppenheimer Corp. Director Sammy Dunbar; Prudential



holder and non-stockholder Participants, many Participants have not exercised their annual entitlement to purchase DTC stock. A substantial portion of DTC stock available to broker-dealer Participants therefore remains with the New York Stock Exchange, Inc. (NYSE), the original owner of the depository's stock, and other self-regulatory organizations that became owners in 1975.

At yearend 1997, after retirement or merger of certain stockholders during the year, there were 129 DTC stockholders:

its annual profit, so that the depository returns to its Participants excess income not required for its operations.

As a registered clearing agency, DTC is regulated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. A member of the Federal Reserve System and a New York State limited-purpose trust company, DTC is also regulated by the Board of Governors of the Federal Reserve System and the Banking Department—State of New York.

THE NATIONAL CLEARANCE AND  
SETTLEMENT SYSTEM

A close working relationship between DTC and the National Securities Clearing Corporation (NSCC) permitted hundreds of broker-dealers that participate in both NSCC and DTC to clear and settle the record trading volumes experienced in 1997. Established in 1976, NSCC provides centralized trade recording, trade guarantee, netting and settlement services for broker-dealers' streetside activity in equities, bonds, and

ing Corporation (OCC) enables banks and broker-dealers to pledge securities satisfying segregation and margin requirements for put and call option contracts and obligations to OCC's clearing fund. This eliminates repeated paper movements between the parties and provides an alternative to escrow receipts. Through the OCC Stock Loan Hedge System, an OCC clearing member can borrow stock underlying an option contract from another clearing member using DTC's deliver order (DO) service, with OCC acting as the



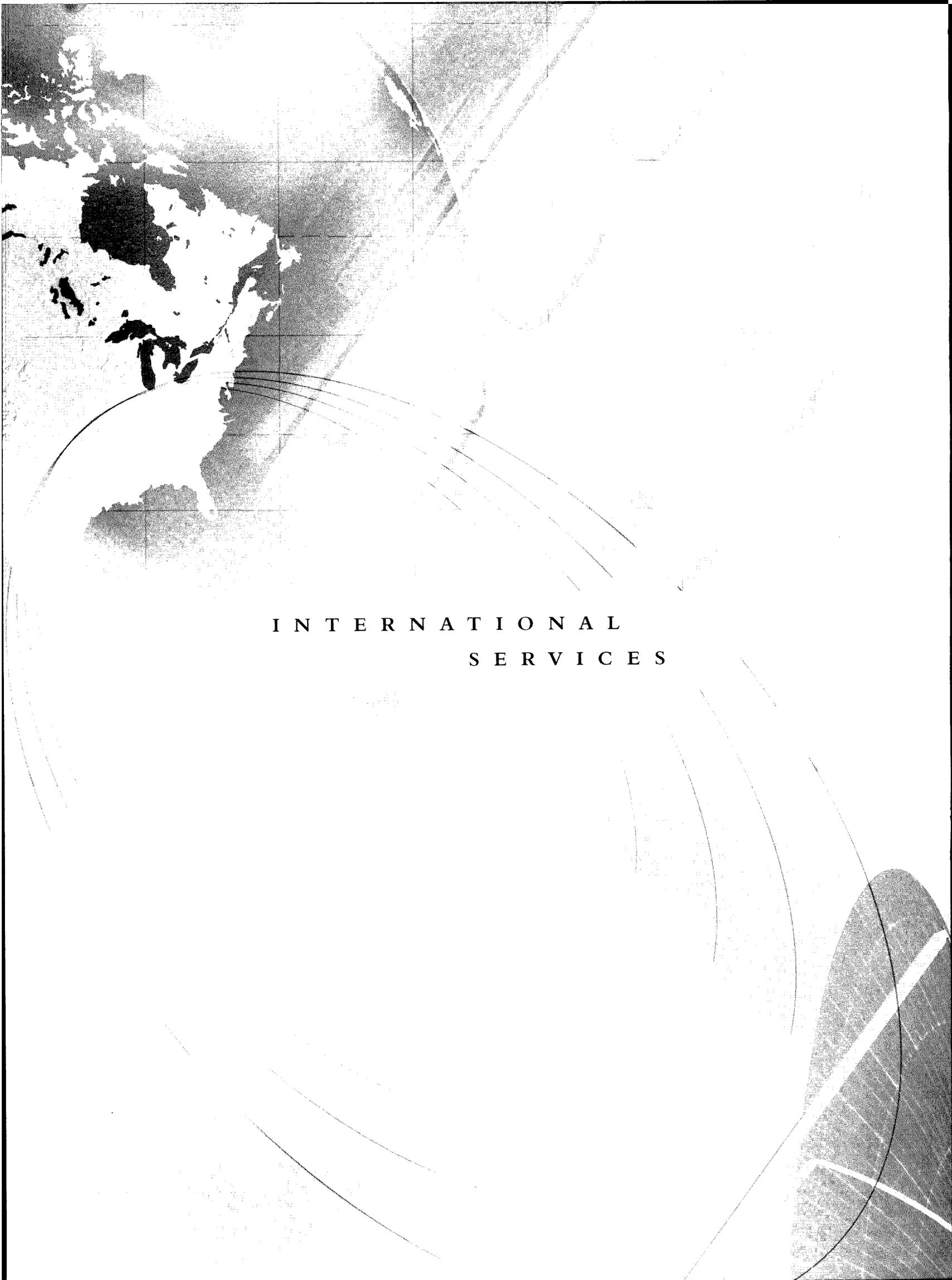
Securities Incorporated Senior Vice President Gerald Parchment; Smith Barney Inc. First Vice President Jerry Polito; and DTC Dividends Manager Barry Messing. Other members, from left, are DTC Dividends Group Director Michael Tulaney; Herzog, Heine, Geduld, Inc. Dividend Manager Priscilla Matamoros; Merrill Lynch Vice President John Scrobola; and Bear, Stearns Securities Corp. Managing Director Joseph Kruszka.

Unit Investment Trusts from all the nation's exchanges and marketplaces. NSCC feeds computer files to the depository for seamless processing of book-entry changes in custody. NSCC also provides processing services for mutual fund, defined contribution and annuity transactions. DTC provides direct interfaces to NSCC mutual fund services for those low-volume DTC Participants who desire easy access.

A DTC account for The Options Clear-

middleman in the transaction. OCC acts as the borrower to the lender and the lender to the borrower.

DTC's interface with the Federal Reserve's Book-Entry System allows Participants to maintain securities positions of U.S. Government and Agency securities in their DTC accounts. Participants may deliver and receive these securities free of payment to and from other members of the Federal Reserve's Book-Entry System over the interface.



I N T E R N A T I O N A L  
S E R V I C E S



Representing some of the firms involved in the Global Straight-Through Processing Committee (GSTPC) are (from left) committee member D. Arthur Barton, Principal at Clay Finlay Inc., committee Chairman and Merrill Lynch Senior Vice President Arthur Thomas, and committee member Albert Petersen, Executive Vice President at State Street Bank. Also pictured (far right) is IDC Managing Director William Hodash who coordinated DTC's STP strategy, supporting the model proposed by GSTPC.

**A**s retail and institutional investors continue to look to global markets for investment opportunities, DTC's Participants, serving those investors, seek to improve their operations and reduce their costs in those markets.

**A**s a result, DTC is prepared to provide its services in international markets where value to Participants can be realized. Several initiatives took place in 1997 that furthered that goal.

#### **BUILDING A CONSENSUS**

Driven by the growing volume of cross-border trading and requests for assistance from the industry, the International Depository & Clearing, LLC (IDC)—the jointly owned subsidiary of DTC and the National Securities Clearing Corporation (NSCC)—sponsored an industry initiative outlining options for global Straight-Through Processing (STP). At mid-



year, IDC distributed a white paper, entitled *A New Processing Model for Cross-Border Transactions*. This presented the collective view of 15 investment managers, broker-dealers, and custodians on streamlining and

reducing the costs of clearing and settling cross-border trades to allow for shortened settlement cycles, enabling firms to achieve STP. Since then, the firms behind this effort have grown to more than 25 and have formalized their group as the Global Straight-Through Processing Committee (GSTPC). Subsequently, early in 1998 in a memorandum entitled *DTC's Role in the Future of Electronic Trade Confirmation (ETC) and Straight-Through Processing (STP)*, DTC outlined plans to enhance its Institutional

Delivery (ID) system to interface with both complementary and competing systems.

Committed to supporting two-way interfaces with all providers, DTC is reengineering its ID system to allow all users to benefit from STP. As a result, ID will be enhanced to translate various standard message formats and to link with other Electronic Trade Confirmation (ETC) systems and trading systems, enabling all parties to

**T**he first conference on U.S. Clearance and Settlement hosted by NSCC, IDC, and DTC in November drew 39 staff members from 19 Central Securities Depositories in 17 countries. Visitors especially valued the contacts they established. DTC valued the opportunity to help promote ongoing communication among the Central Securities Depositories around the world.

communicate through a single entry point with counterparties, regardless of the ETC provider and message format used by these counterparties.

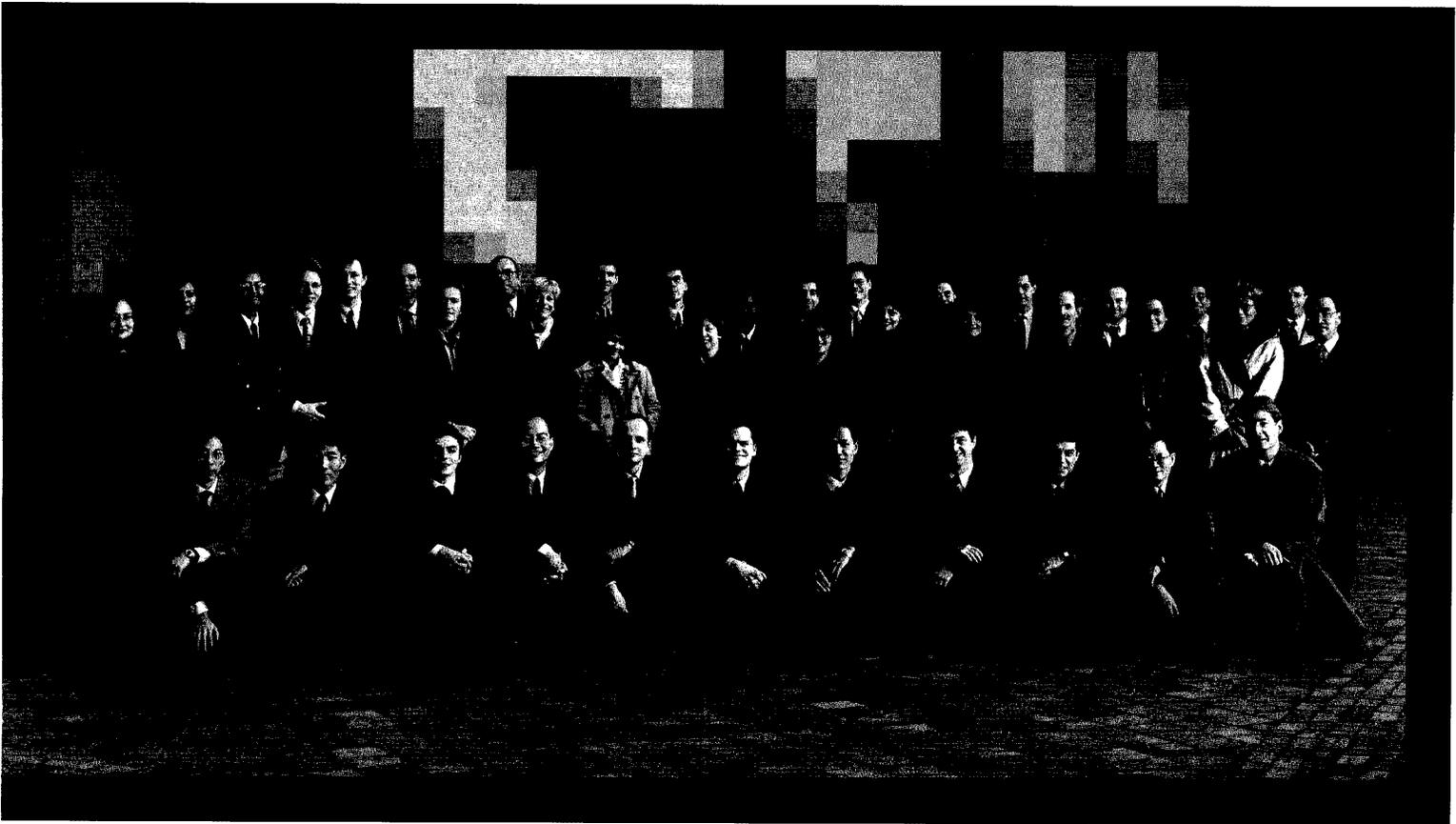
Helping to promote ongoing communication among the Central Securities Depositories around the world, in November, DTC organized the first U.S. Clearance and Settlement Conference for Central Securities

Depositories. Thirty-nine representatives from 17 countries attended the conference, which served as a forum for DTC, NSCC, and IDC to foster information sharing among Central Securities Depositories and communicate their roles in the U.S. clearance and settlement systems.

Through the International Visitors Program, DTC, NSCC, and IDC continued to act as liaisons to securities business leaders

of the services and systems needed to accommodate cross-border activity.

To support its Participants' increasing global trading activity, DTC expanded its role as an ETC service provider, linking its more than 10,000 ID users to the Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.) with its 6,000 users. Members of ID and S.W.I.F.T. can now communicate with each other



worldwide interested in understanding the U.S. clearance and settlement systems. During the year, 368 visitors from 79 countries sought first-hand experience to establish or improve the capital market infrastructure in their own countries. In turn, the program helps DTC and IDC gain a better understanding of the various settlement systems throughout the world to help in the develop-

ment of the services and systems needed to accommodate cross-border activity.

#### CROSS-BORDER CLEARANCE AND SETTLEMENT

An expanded link brought greater operational efficiencies to cross-border securities activity between the United States and Canada. The Canadian Depository for Securities Ltd. (CDS) integrated its American and Canadian Connection for Efficient

Securities Settlement (ACCESS) service with DTC and NSCC. Canadian securities, dually eligible at DTC and CDS but held at CDS, can now be withdrawn from CDS and redeposited at DTC through CDS's four Canadian locations and be available, same-day, for ACCESS settlements. Participants on both sides of the border can now easily interconnect between the settlement processes of CDS, and NSCC and DTC.

In another joint effort between CDS and DTC, our Elective Dividend Service (EDS)

now allows Participants with direct or indirect relationships with CDS to choose to receive Canadian dollar dividend and interest payments on Canadian issues in either Canadian or U.S. dollars.

#### OTHER EFFORTS

The adoption of revised Uniform Commercial

Code Article 8 in New York State in August enacted provisions enabling DTC to use foreign banks as custodians. As a result, it is anticipated that more types of foreign securities, as well as other financial products or instruments, will become depository eligible. DTC participated in the work of the drafting committee that produced the revised Article 8 and was active, together with other New York-based organizations in the financial services industry, in helping to

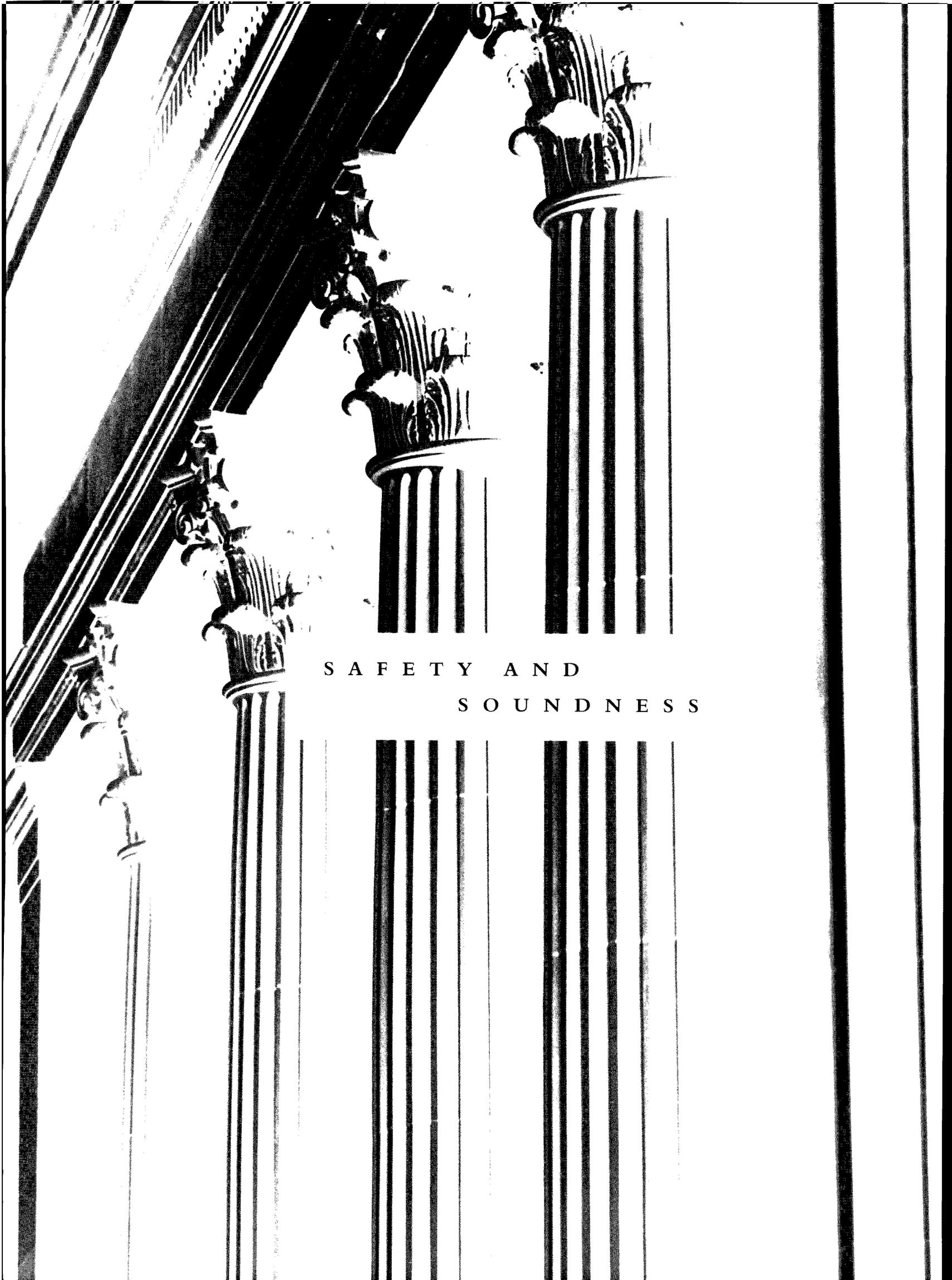
persuade the New York State legislature of the importance of the revision.

DTC expanded its Foreign Tax Service to enable Participants to quickly access information about a country's specific tax requirement, through the new Participant Terminal System (PTS) function—Tax Withholding Information (TAXI). TAXI information, accessible by country, account type, or both, was initially made available for the United Kingdom and France. Information for other countries will be added during 1998.

In 1997, Participants made greater use of the London Depository Facility. Established in 1996, the Facility processed 3,071 deposits of DTC-eligible securities on behalf of Participants' London offices to obtain same-day credit and fee discounts using DTC's Deposit Automation Management system.

The market for U.S. securities abroad is fast-paced and complex. To operate more effectively, Participants are equipping their overseas offices with tools to track U.S. securities processing. In 1997, nine Participant-affiliated offices in Europe were linked to DTC's PTS network, providing them with timely information on transactions such as principal and income payments and corporate actions. This capability reduces the need for Participant offices in Europe to obtain this type of information indirectly from their U.S. offices, thus increasing productivity.





S A F E T Y   A N D  
S O U N D N E S S

**D**TTC's systems are designed to provide its primary services—book-entry settlement, custody, and related services—reliably and securely. To do this, the movement of all securities and funds is closely monitored and the control and balancing of DTC's records are subject to strict checks and balances.

Participants play an important role in this process. Each day, Participants review all security and money activities affecting their accounts, alerting DTC to any discrepancies.

#### DATA SECURITY

DTC understands the confidentiality Partic-



ipants expect concerning their security positions and activity. The depository places great emphasis on security controls over its computers and data network. To test these security controls, outside data security experts

periodically conduct reviews of DTC systems, especially, system penetrability. To reinforce DTC's commitment to systems security, a Corporate Information Security Officer was hired to bring additional resources to bear on the security of the depository's data systems. In 1997, an audit of DTC's physical security was conducted by a leading security consulting firm that endorsed the security program.

#### RISK MANAGEMENT

DTC performs ongoing risk assessments of its operations, data processing systems, and facilities. Whenever a new or expanded service is proposed, management assesses any potential risks. DTC's Risk Management

Committee—six corporate officers with different areas of expertise who report to the Audit Committee of the Board of Directors—provides a layer of oversight in addition to that of the internal auditors, independent accountants, and regulators.

Another key to DTC's risk management process is a rigorous review of Participant applicants. Before admitting a firm as a



**DTC, in conjunction with The Bond Market Association, expanded its Collateral Loan Program to include a new account type for securities involved in repurchase or Repo transactions. The new Repo account enables Participants to distinguish repurchase transactions from pledges of collateral. From left are The Bond Market Association President Heather Ruth, DTC Vice President Vincent Mauro, The Bond Market Association Senior Vice President Joseph Sack, DTC Vice President Kenneth Scholl, and Goldman, Sachs & Co. Vice President William Le Comte.**

Participant, DTC reviews its financial history, operational ability, and the potential liability to which it may expose other Participants or the depository. Each Participant makes a mandatory contribution to the Participants Fund, which could be used if the Participant were unable to meet its daily settlement obligation or became insolvent.

DTC maintains relationships with self-regulatory organizations such as the New York Stock Exchange, the National Association of Securities Dealers, and the National Securities Clearing Corporation to exchange information concerning the operational and financial soundness of Participants. In the event of a reported problem, DTC carefully monitors a Participant's daily activity and

its debit liability in the event of insolvency. If a Participant fails to satisfy its net debit, DTC would use, as needed, its \$400 million Participants Fund and a \$700 million line of credit to complete settlement. If the failing Participant did not repay DTC the following day, securities delivered to the failing Participant could be returned to the original deliverer against payment or

may require additional collateral or limit the Participant's access to DTC services.

Each Participant has an intraday limit on the size of the net debit it may accrue—the net amount owed in settlement at any point in time—based on its net-debit history. In addition, DTC's collateral monitor controls assure that each Participant has sufficient collateral in its account to satisfy

sold on the open market, and other securities designated by the failing Participant as collateral could be liquidated to repay the line of credit loan or the Participants Fund.

Through a combination of interlocking blanket bonds and all-risk insurance policies, DTC maintains one of the most extensive insurance programs in the industry.



1. Michael Minikes, *Senior Managing Director-Treasurer*, The Bear Stearns Companies Inc.; William F. Jaenike, *Chairman & Chief Executive Officer*, The Depository Trust Company; Thomas A. Williams, *President*, The Depository Trust Company; Steven G. Elliott, *Senior Vice Chairman & Chief Financial Officer*, Mellon Bank Corporation; Albert E. Petersen, *Executive Vice President*, State Street Bank and Trust Company; Edward A. Kwalwasser, *Group Executive Vice President*, New York Stock Exchange, Inc.

2. Richard G. Ketchum, *President & Chief Operating Officer*, National Association of Securities Dealers, Inc.; Edward L. Goldberg, *Executive Vice President*, Merrill Lynch & Co., Inc.; Jill M. Considine, *President*, The New York Clearing House Association L.L.C.; Donald R. Monks, *Senior Executive Vice President*, The Bank of New York; Wilbert A. Thiel, *President & Chief Operating Officer*, ABN AMRO Incorporated; James L. Bailey, *Executive Vice President*, Citibank

3. Richard A. Fama, *Executive Vice President*, The Chase Manhattan Bank; James H. Messenger, *Chief Executive Officer*, National Financial Services Corporation; David M. Kelly, *President & Chief Executive Officer*, National Securities Clearing Corporation; John A. Thain, *Managing Director & Chief Financial Officer*, Goldman, Sachs & Co.; James D. Dixon, *President*, NationsBanc Services, Inc.

*Retiring from the Board in March 1998, at the end of their terms were Michael Minikes and Wilbert A. Thiel. Elected to the Board at the March 31, 1998 Stockholders Meeting were Steven L. Scheid, Chief Financial Officer, The Charles Schwab Corporation and Melvin B. Taub, Senior Executive Vice President and Director of Technology and Operations, Salomon Smith Barney.*



#### COMMITTEES OF THE BOARD OF DIRECTORS

##### Nominating Committee

Jill M. Considine  
*Chair*  
Steven G. Elliott  
Michael Minikes  
John A. Thain

##### Audit Committee

Donald R. Monks  
*Chair*  
Edward A. Kwalwasser  
James H. Messenger

##### Compensation Committee

Edward L. Goldberg  
*Chair*  
James L. Bailey  
John A. Thain

##### Operations and Planning Committee

Albert E. Petersen  
*Chair*  
James H. Messenger  
Donald R. Monks  
Wilbert A. Thiel



4. Richard B. Nesson, *Executive Vice President & General Counsel*; Thomas C. Cardile, *Senior Vice President, Human Resources*; Donald F. Donahue, *Executive Vice President & Chief Information Officer*; Edward J. McGuire, Jr., *Secretary*

5. Robert J. McGrail, *Executive Vice President, Participant Services*; Michael A. Agnes, *Senior Vice President & Chief Financial Officer*; Glenn E. Mangold, *Executive Vice President, Operations*; Dennis J. Dirks, *Senior Executive Vice President & Chief Operating Officer*; Larry E. Thompson, *Senior Vice President & Deputy General Counsel*

6. John Colangelo, *Senior Vice President, Operations*; Raymond DeCesare, *Senior Vice President, Information Services*; Stuart A. Fishbein, *Senior Vice President & General Auditor*; Joseph J. Bellantoni, *Senior Vice President, Information Services*; Neil F. Brander, *Senior Vice President, Information Services*



#### VICE PRESIDENTS\*

Joseph J. Arney  
 Robert Beauchea  
 Gary M. Burkhardt  
 Ronald J. Burns  
 Anthony DiMurro  
 Robert E. Dunn  
 Jacob Feuchtwanger  
 Susan French  
 Ronald A. Garguilo  
 Vincent P. Hilly  
 Charles J. Horstmann  
 Elizabeth A. Keller  
 James Koster  
 Cheryl T. Lambert  
 John C. Martin, Jr.  
 Vincent A. Mauro  
 Michael T. Mullen  
 Richard J. O'Brien  
 George Perretti  
 Joseph F. Reale  
 John L. Scheuermann  
 Kenneth M. Scholl  
 Nicholas A. Sziklai  
 Carl H. Urist  
 Ann Vece  
 Jack B. Wiener  
 Andrew J. Zelenka  
 Lori Klebous-Zivny

**Vice President & Comptroller**  
 Gary J. LaCara

**Vice President & Treasurer**  
 Anthony J. Alizzi

**Assistant Secretary**  
 Jane C. Klueger

**Assistant Treasurer**  
 Leonard A. Miele



\* As of January 1, 1998.

The background features a complex abstract design. It consists of several thick, irregular black lines that form a jagged, somewhat organic shape. Within and around these lines is a pattern of small, dark dots of varying sizes, some of which are arranged in a roughly linear fashion. The overall effect is reminiscent of a stylized map or a technical drawing. The text is centered within a white rectangular box that is placed over the middle of the graphic.

FINANCIAL  
INFORMATION

THE DEPOSITORY TRUST COMPANY  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 1997 AND 1996

CONSOLIDATED  
STATEMENT  
OF CONDITION

DOLLARS IN THOUSANDS AT DECEMBER 31,

1997

1996

ASSETS

Cash and money market accounts	\$ 383,713	\$ 355,955
Repurchase agreements	881,877	812,672
Investments	44,869	14,197
Receivables:		
From Participants for services	35,263	30,064
Dividends, interest, and other	132,352	124,304
Deferred income taxes	49,509	46,120
Prepaid expenses, deferred charges, and other assets	34,888	28,675
Equipment and leasehold improvements, net of accumulated depreciation of \$131,476 in 1997 and \$119,759 in 1996	73,097	35,852
Leased property under capital leases, net of accumulated depreciation of \$3,343 in 1997 and \$3,840 in 1996	3,081	4,924
Non-compete covenants, net of accumulated amortization of \$7,178 in 1997 and \$3,177 in 1996	32,836	28,592
	<u>\$1,671,485</u>	<u>\$1,481,355</u>

LIABILITIES, PARTICIPANTS FUND, AND STOCKHOLDERS' EQUITY

*Liabilities:*

Drafts payable	\$ 13,734	\$ 144,770
Accounts payable and accrued expenses	217,859	174,046
Payable to Participants:		
Refunds	14,059	4,187
Short position collateral	31,270	40,541
Dividends, interest, and other	591,169	400,910
Obligations under capital leases	2,474	4,664
Notes payable	63,552	17,359
	<u>934,117</u>	<u>786,477</u>
Participants Fund	717,475	675,171

*Stockholders' Equity:*

Capital stock—authorized, issued, and outstanding 18,500 shares of \$100 par value	1,850	1,850
Surplus	950	950
Undivided profits	17,093	16,907
	<u>19,893</u>	<u>19,707</u>
	<u>\$1,671,485</u>	<u>\$1,481,355</u>

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

CONSOLIDATED STATEMENT  
OF REVENUES AND EXPENSES  
AND UNDIVIDED PROFITS

	DOLLARS IN THOUSANDS FOR THE YEARS ENDED DECEMBER 31,	
	1997	1996
<b>REVENUES</b>		
Service revenues	\$382,774	\$346,039
Interest income	12,850	22,299
	<u>395,624</u>	<u>368,338</u>
Less: refunds to Participants	(16,494)	(13,694)
	<u>379,130</u>	<u>354,644</u>
<b>EXPENSES</b>		
Employee costs	216,939	205,762
Rent, maintenance, and utilities	40,479	42,279
Data processing rentals and supplies	23,709	19,359
Professional and other services	48,071	38,907
Depreciation and amortization	19,508	16,788
Stationery, supplies, and postage	5,308	5,380
Interest expense	5,525	3,755
Other expenses	19,405	13,826
Special charge for lease termination	—	8,287
	<u>378,944</u>	<u>354,343</u>
Excess of revenues over expenses and refunds	186	301
Undivided profits, beginning of year	16,907	16,606
Undivided profits, end of year	<u>\$ 17,093</u>	<u>\$ 16,907</u>

CONSOLIDATED STATEMENT  
OF CASH FLOWS

	DOLLARS IN THOUSANDS FOR THE YEARS ENDED DECEMBER 31,	
	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenues over expenses and refunds	\$ 186	\$ 301
<i>Adjustments to reconcile excess of revenues over expenses and refunds to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	19,508	16,788
Pension and deferred compensation	(517)	4,772
Special charge for lease termination	—	8,287
Provision for uncollectible dividends and interest receivables	707	284
Deferred income tax benefit	(3,389)	(10,981)
(Increase) decrease in receivables from Participants	(5,199)	2,888
(Increase) decrease in dividends, interest, and other receivables	(8,755)	226,941
Increase (decrease) in accounts payable, accrued expenses, and other, net	39,226	(122,253)
Increase (decrease) in Participants Fund deposits	42,304	214,660
Increase (decrease) in drafts payable	(131,036)	(3,248,812)
Increase (decrease) in payables to Participants	190,860	(468,709)
Total adjustments	<u>143,709</u>	<u>(3,376,135)</u>
Net cash provided by (used in) operating activities	<u>143,895</u>	<u>(3,375,834)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of equipment and leasehold improvements	(49,799)	(14,738)
Acquisition of non-compete covenants	(8,246)	(31,769)
Investment in IDA bonds	(29,672)	(14,197)
Investment in International Depository & Clearing, LLC	(1,000)	—
Capital lease additions	(1,109)	(4,245)
Net cash (used in) investing activities	<u>(89,826)</u>	<u>(64,949)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings	50,523	20,000
Principal payments on capital leases	(3,299)	(2,024)
Principal payments on notes	(4,330)	(2,641)
Net cash provided by financing activities	<u>42,894</u>	<u>15,335</u>
Increase (decrease) in cash and cash equivalents	<u>96,963</u>	<u>(3,425,448)</u>
Cash and cash equivalents, beginning of year	1,168,627	4,594,075
Cash and cash equivalents, end of year	<u>\$1,265,590</u>	<u>\$1,168,627</u>

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

NOTES TO  
CONSOLIDATED  
FINANCIAL  
STATEMENTS

DOLLARS IN THOUSANDS  
AT DECEMBER 31, 1997  
AND 1996

**NOTE 1 BUSINESS AND OWNERSHIP**

The Depository Trust Company (“DTC”) is a limited purpose trust company providing central securities depository and related services to the securities, banking and related industries. At December 31, 1997, the New York Stock Exchange, Inc. owned approximately 36% of the capital stock of DTC, with the remainder owned by the American Stock Exchange, Inc., the National Association of Securities Dealers, Inc. and a number of DTC Participants or their representatives. A Stockholders Agreement provides for an annual reallocation of the entitlement to purchase outstanding capital stock by eligible Participants or their representatives based on relative depository activity of Participants during the prior year.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION:** The consolidated financial statements include the accounts of DTC and its wholly owned subsidiaries, DTC Limited Funding Corporation and NYDTC Corp. DTC Limited Funding Corporation was established in 1996 to purchase certain bonds issued by the New York City Industrial Development Agency (see Note 2C). NYDTC Corp. was established in 1997 as DTC’s corporate nominee to eliminate tax withholding requirements associated with interest payments received on certain foreign issues. All intercompany balances and transactions have been eliminated.

These consolidated financial statements are presented in conformity with generally accepted accounting principles and necessarily include management’s estimates and assumptions in determining the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**B. CASH, MONEY MARKET ACCOUNTS, REPURCHASE AGREEMENTS, AND CASH FLOWS:** DTC invests available federal funds in repurchase agreements and money market accounts and, at the same time, makes certain disbursements in clearinghouse funds. The resulting book overdrafts are included in drafts payable and are eliminated the next business day when the repurchase agreements and money market accounts are converted back to cash.

Repurchase agreements represent U.S. Government and U.S. Government Agency securities purchased under agreements to resell at predetermined prices on the next business day. These agreements, primarily with certain money center banks and broker-dealers, are recorded at cost and interest is accrued as earned.

For cash flow reporting, cash and cash equivalents include cash, money market accounts and repurchase agreements. The carrying amounts of money market accounts, repurchase agreements, and drafts payable reported in the consolidated financial statements are not materially different from their fair values.

**C. INVESTMENTS:** DTC received an exemption from sales tax on certain equipment and other purchases in connection with the renewal of its lease at 55 Water Street in 1995 which will be realized during the term of the lease which expires on December 31, 2012. Under the terms of the project agreement with the New York City Industrial Development Agency (“IDA”), DTC Limited Funding Corporation purchases certain IDA bonds to support project expenditures. At December 31, 1997, DTC Limited Funding Corporation owned IDA bonds totaling \$43,869 (1996—\$14,197). The bonds pay 7.5% interest and mature on December 31, 2012. These investments are intended to be held-to-maturity and, accordingly, are carried at cost.

On February 3, 1997, DTC contributed \$1 million for a 50% interest in International Depository & Clearing, LLC (“IDC”), a joint venture with National Securities Clearing Corporation (“NSCC”). DTC’s contribution consisted of a cash payment, furniture, equipment and leasehold improvements. IDC coordinates the international activities of DTC, NSCC and NSCC’s wholly owned subsidiary, International Securities Clearing Corporation.

**D. DEPRECIATION AND AMORTIZATION:** Equipment is depreciated over estimated useful lives ranging from five to seven years, using principally 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. Non-compete covenants are amortized using the straight-line method over their respective lives of five and 10 years.

**E. INCOME TAXES:** DTC recognizes the current and deferred tax consequences of all transactions that have been recognized in the consolidated financial statements. The net deferred tax asset of \$49,509 as of December 31, 1997 (1996—\$46,120) resulted from differences between amounts of assets and liabilities as measured for income tax return and financial reporting purposes. Such differences that comprise the net deferred tax asset relate to liabilities for pension, other post-retirement and postemployment benefits for covered active and retired employees. The deferred tax asset is expected to be fully realized and, accordingly, no valuation reserve has been established.

**F. REFUNDS:** Pursuant to a policy adopted by the Board of Directors, DTC does not pay dividends to stockholders. The Board of Directors has also adopted a policy to refund to its Participants each year all revenues in excess of current and anticipated needs. In 1997, this refund amounted to \$12,845. There was no refund in 1996. The Board of Directors has adopted an additional refund policy to provide for a monthly refund to Participants of income earned from the overnight investment of unallocated cash dividends and corporate interest and reorganization funds payable to Participants. Such net monthly refunds, which were reduced substantially as a result of the conversion to same-day funds settlement in 1996, totaled \$3,649 in 1997 (1996—\$13,694).

**G. SECURITIES ON DEPOSIT:** Securities held 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 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.

**H. YEAR 2000 SURCHARGE:** DTC implemented a surcharge of 3.5% on service fees charged to Participants effective January 1, 1997, to recover the costs relating to Year 2000 compliance. This surcharge generated \$11,599 in 1997, which substantially offset allocated Year 2000 expenses of approximately \$11,900. Management anticipates maintaining this surcharge in 1998 and 1999 to recover ongoing Year 2000 compliance costs.

**NOTE 3 EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements included the following items at December 31, 1997 and 1996:

	1997	1996
Furniture and equipment	\$111,143	\$ 88,396
Leasehold improvements	69,926	64,903
Construction-in-progress	23,504	2,312
Total Cost	204,573	155,611
Less: accumulated depreciation and amortization	(131,476)	(119,759)
	<u>\$ 73,097</u>	<u>\$ 35,852</u>

Construction-in-progress represents expenditures for DTC's new disaster recovery facility. Additional capital expenditures of approximately \$6 million are anticipated to complete this facility. Amortization will commence in mid-1998 when the facility is scheduled to be placed in service.

**NOTE 4 PARTICIPANTS FUND**

Participants are required to deposit to DTC's Participants Fund amounts that relate to their activity in the depository. The Fund is available to be applied to the Participants' obligations to DTC, and to be applied to certain uninsured losses incurred by DTC, if such should occur. All deposits are made in cash.

**NOTE 5 DIVIDENDS, INTEREST, AND OTHER PAYABLES**

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 that it distributes to its Participants for the owners of the securities. 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 through a Participant or other financial institution. At December 31, 1997, cash dividends, interest, reorganization and redemption payables amounted to \$585,584, of which \$446,575 was awaiting distribution to Participants and \$139,009 was held pending claims on behalf of the record date owners of the applicable securities. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws. Stock dividends payable and unclaimed are not reported in the consolidated financial statements.

Cash dividends, interest, and other receivables at December 31, 1997, amounted to \$133,052 (1996—\$124,804) before reduction by an allowance of \$700 (1996—\$500) for possible losses. Stock dividend receivables are not reported in the consolidated financial statements.

**NOTE 6 PENSION BENEFITS**

DTC has a noncontributory defined benefit pension plan covering substantially all full-time employees. The pension plan is qualified under section 401(a) of the Internal Revenue Code. Pension benefits are based on a formula percentage of annual earnings for each year of continuous participation with vesting after five years. DTC's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes.

Retirement benefits are also provided under supplemental non-qualified pension plans for certain officers. 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. DTC maintains certain assets in a Rabbi Trust to meet its non-qualified retirement benefit obligations.

The following table reconciles the funded status of DTC's defined benefit plans with the amounts reflected in the consolidated financial statements:

	1997	1996
Plan assets at fair value, primarily equity securities and deposits under group annuity contracts	\$109,581	\$ 88,909
<i>Accumulated benefit obligation for service rendered:</i>		
Vested	98,501	87,944
Non-Vested	3,706	3,285
	102,207	91,229
Additional amounts related to projected compensation increases	20,884	19,159
Projected benefit obligation for service rendered	123,091	110,388
Projected benefit obligation in excess of plan assets	(13,510)	(21,479)
Unrecognized net asset remaining from the initial application of FAS No. 87	(3,213)	(4,017)
Unrecognized net (gain) loss from past experience different from that assumed and the effects of changes in assumptions	(13,577)	(4,917)
Unfunded defined benefit pension obligation included in accounts payable and accrued expenses	(\$ 30,300)	(\$ 30,413)

The discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5% for 1997 (1996—7.5%). The assumed rate of future compensation levels was based on anticipated inflation and merit increases. The expected long-term rate of return on assets was 8.75% in 1997 (1996—8.75%). The unrecognized net asset that existed when Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," was adopted, as of January 1, 1986, is being amortized over 16 years.

Net defined benefit pension costs for 1997 and 1996 included the following components:

	1997	1996
Service cost—benefits earned during the year	\$ 6,745	\$ 6,100
Interest cost on projected benefit obligation	8,232	7,434
Actual return on assets	(16,714)	(10,680)
Net amortization and deferral	8,873	3,668
	\$ 7,136	\$ 6,522

**NOTE 7 POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS**

DTC provides certain unfunded health care and life insurance benefits for retired employees. The cost of these benefits is recognized in accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The unrecognized obligation that existed when this standard was adopted, as of January 1, 1994, is being amortized over 20 years. At December 31, 1997, the unamortized transition obligation was \$9,325.

Accounts payable and accrued expenses include \$25,160 (1996—\$23,154) for these benefits.

Net periodic postretirement benefit costs for 1997 and 1996 included the following components:

	1997	1996
Service cost—benefits attributed to service during the year	\$1,245	\$1,547
Interest cost on accumulated benefit obligation	1,306	1,519
Net amortization and deferral	400	622
	<u>\$2,951</u>	<u>\$3,688</u>

The actuarial present value of DTC's accumulated postretirement benefit obligation as of December 31, 1997 was \$19,867 (1996—\$19,467) including an unrecognized net gain of \$5,293 (1996—\$3,688) using a discount rate of 7.5% (1996—7.5%). The assumed health care cost trend used to measure the expected cost of benefits reflects rates decreasing from 10.3% currently to an ultimate rate of 5% in 2007 and beyond. A one-percentage-point increase in the health care cost trend rates assumed would increase the 1997 cost by \$580 and the accumulated postretirement benefit obligation by \$3,664.

DTC also provides certain postemployment benefits to former or inactive employees who are not retirees. These benefits include salary continuance and disability health care. The cost of postemployment benefits is recognized under the accrual method as required by Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits." At December 31, 1997, \$950 was accrued for such benefits.

**NOTE 8 INCOME TAXES**

Income tax expense is reflected in other expenses. The provisions for 1997 and 1996 are summarized as follows:

	1997	1996
<i>Current provision:</i>		
Federal	\$2,827	\$7,569
State and local	1,376	4,361
<i>Deferred (benefit):</i>		
Federal	(2,692)	(7,071)
State and local	(697)	(3,910)
Net income tax expense	<u>\$ 814</u>	<u>\$ 949</u>

Cash payments for income taxes totaled \$5,323 in 1997 (1996—\$9,714).

**NOTE 9 LINES OF CREDIT**

DTC maintains committed lines of credit totaling \$1.4 billion to support operations. A \$700 million line of credit with a commercial bank supports the processing of principal and income payments through the depository with borrowing at the federal funds rate plus 3/8%. A \$700 million line of credit with certain commercial banks supports the Same-Day Funds Settlement System with borrowing at the federal funds rate plus 3/8%. Commitment fees are required on these facilities. DTC also maintains a line of credit of \$10 million to support potential short-term operating cash requirements. At December 31, 1997 there were no outstanding balances under any of DTC's credit lines.

**NOTE 10 LEASES AND OTHER COMMITMENTS**

DTC leases office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 1997. Rent expense in 1997 was \$27,122 (1996—\$29,329) for office space and \$16,569 (1996—\$14,555) for data processing and other equipment.

Cash payments of interest on capital leases and other obligations totaled \$1,787 in 1997 (1996—\$1,641).

Presented below are the future minimum payments, by year and in the aggregate, under capital leases and under operating leases having noncancelable lease terms in excess of one year as of December 31, 1997:

	CAPITAL LEASES	OPERATING LEASES
1998	\$1,884	\$ 32,720
1999	489	26,771
2000	133	25,674
2001	133	21,354
2002	21	21,461
Thereafter	—	234,540
Total future minimum lease payments	2,660	\$362,520
Less: amount representing interest on capital leases	186	
Present value of net minimum lease payments under capital leases	<u>\$2,474</u>	

**NOTE II ACQUISITION**

As of June 18, 1997, DTC assumed certain depository services of the Philadelphia Depository Trust Company ("PHILADEP"). DTC paid \$8.2 million consisting of \$2.7 million in cash and a \$5.5 million note payable. The note bears interest at 7% and is payable annually through June 18, 2004.

The transaction was accounted for using the purchase method. The cost of the transaction was allocated to a five-year non-compete covenant signed by PHILADEP.

**REPORT OF  
INDEPENDENT  
ACCOUNTANTS**

To the Board of Directors  
and Shareholders of  
The Depository Trust Company

In our opinion, the accompanying consolidated statement of condition and the related consolidated statements of revenues and expenses and undivided profits and of cash flows present fairly, in all material respects, the financial position of The Depository Trust Company and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. 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 audits of these statements in accordance with generally accepted auditing standards 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 audits provide a reasonable basis for the opinion expressed above.



PRICE WATERHOUSE LLP

New York, New York

February 6, 1998

## BANKS

Alex. Brown Capital Advisory & Trust Company	Daiwa Securities Trust Company	Mercantile-Safe Deposit & Trust Company
Amalgamated Bank of Chicago	Deutsche Bank A.G., New York Branch	Michigan National Bank
Amalgamated Bank of New York (The)	Edwards (A.G.) Trust Company	Mitsubishi Trust & Banking Corporation (U.S.A.)
American Express Trust Company	Fiduciary Trust Company International	Mitsui Trust Bank (U.S.A.)
American National Bank & Trust Company of Chicago	Fiduciary Trust Company of Boston	Morgan Guaranty Trust Company of New York
American Stock Transfer & Trust Company***	Fifth Third Bank (The)	Morgan Stanley Trust Company
AmSouth Bank	First Chicago Trust Company of New York***	NBD Bank
Associated Bank Green Bay, National Association	First National Bank of Chicago (The)	National Bank of South Carolina (The)
Bank of America National Trust and Savings Association	First National Bank of Commerce	National City Bank
Bank of Bermuda (New York) Limited	First National Bank of Maryland (The)	NationsBank of Texas, National Association
Bank of Cherry Creek, N.A. (The)	First National Bank of Omaha	Nomura International Trust Company
Bank of New York (The)	First of America Bank – Michigan, N.A.	Northern Trust Company (The)
Bank of New York (The)***	First Premier Bank	Norwest Bank Colorado, National Association
Bank of Nova Scotia <sup>‡</sup>	First Security Bank, National Association	Norwest Bank Minnesota, National Association
Bank of Nova Scotia, New York Agency (The)	First Tennessee Bank N.A. Memphis	Norwest Bank Minnesota, National Association***
Bank of Tokyo-Mitsubishi Trust Company	First Trade Union Trust Company	Old Kent Bank
Bank One, Kentucky, N.A.	First Trust Corporation	Pitcairn Trust Company
Bank One, Oklahoma, N.A.	First Union National Bank	PNC Bank, National Association
Bank One Trust Company, N.A.	Firststar Trust Company	Provident Bank (The)
BankBoston, N.A.	Fleet National Bank	Regions Bank
BankBoston, N.A.***	Fort Wayne National Bank	Republic National Bank of New York
Bankers Trust Company	French American Banking Corporation	Resources Trust Company
Barclays Bank PLC, New York Branch	Fuji Bank and Trust Company (The)	Riggs Bank National Association
Barclays Global Investors, N.A.	Glenmede Trust Company (The)	SEI Trust Company
Barnett Bank, N.A.	Goldman Sachs Trust Company (The)	Sakura Trust Company
Boatmen's Trust Company	Harris Trust & Savings Bank	Santa Barbara Bank & Trust
Boston Safe Deposit and Trust Company	Harris Trust & Savings Bank***	Sanwa Bank California
Brown Brothers Harriman & Co.	Home Federal Bank of Tennessee, F.S.B.	Sanwa Bank, Limited New York Branch (The)
CNA Trust Corporation	Huntington National Bank	Societe Generale, New York Branch
Caldwell Trust Company	IAA Trust Company	SouthTrust Bank of Alabama, N.A.
Central Fidelity Bank	IBJ Schroder Bank & Trust Company	Star Bank, National Association, Cincinnati
Central Trust Bank (The)	Imperial Trust Company	State Street Bank and Trust Company
Centura Bank	Industrial Bank of Japan Limited, New York Branch (The)	Sterling National Bank
Charles Schwab Trust Company (The)	Industrial Bank of Japan Trust Company (The)	Sumitomo Bank of California
Chase Manhattan Bank (The)	Investors Bank & Trust Company	Sumitomo Bank of New York Trust Company
ChaseMellon Shareholder Services, L.L.C.***	KeyBank National Association	Sumitomo Trust & Banking Co. (U.S.A.)
Citibank, N.A.	LTCB Trust Company	Summit Bank
City National Bank	Lakeside Bank	SunTrust Bank, Atlanta
Comerica Bank	LaSalle National Bank	Swiss Bank Corporation New York Branch
Commerce Bank of Kansas City, N.A.	Lombard Odier Trust Company <sup>‡</sup>	Texas Commerce Bank, National Association
Compass Bank	M&I Marshall & Ilsley Bank	Texas Treasury Safekeeping Trust Company
Continental Stock Transfer & Trust Company***	Magna Bank, N.A.	Toronto-Dominion Bank (The) <sup>‡</sup>
CoreStates Bank, N.A.	Manufacturers and Traders Trust Company	Toyo Trust Company of New York
Crestar Bank	Marine Midland Bank, N.A.	Trustmark National Bank
Custodial Trust Company	Mellon Bank, N.A.	
Dai-Ichi Kangyo Bank, Limited, New York Branch (The)	Mercantile Bank of St. Louis National Association	

UMB Bank, National Association  
 U.S. Bank National Association  
 Union Bank of California, N.A.  
 Union Bank of Switzerland,  
 New York Branch  
 Wachovia Bank of Georgia, N.A.  
 Wachovia Bank, N.A.  
 Wells Fargo Bank, National  
 Association  
 Wesbanco Bank Wheeling  
 Wilmington Trust Company  
 Yasuda Bank and Trust Company  
 (U.S.A.)  
 Zions First National Bank

**B R O K E R - D E A L E R S**

A.B. Financial, L.L.C.\*  
 ABN AMRO Incorporated  
 A.G. Edwards & Sons, Inc.  
 A & S Trading\*  
 Adams, Harkness & Hill, Inc.  
 Advantage Trading Group, Inc.  
 Advest, Inc.  
 Affina Brokerage Services Inc.  
 Alexander (J.) Securities, Inc.\*  
 Alger (Fred) & Company,  
 Incorporated  
 Allen & Company Incorporated  
 Alpine Associates  
 Alpine Securities Corp.  
 American Enterprise Investment  
 Services Inc.  
 AmeriTrade Clearing, Inc.  
 Andover Securities Corporation\*  
 Arnhold and S. Bleichroeder, Inc.  
 Asiel & Company LLC  
 BA Investment Services, Inc.  
 BBV LatInvest Securities Inc.  
 BHC Securities, Inc.  
 BHF Securities Corporation  
 BNP Securities (U.S.A.), Inc.  
 BNY Capital Markets, Inc.  
 BSE Specialist Account\*  
 BT Alex. Brown Incorporated  
 BT Brokerage Corporation  
 Baird (Robert W.) & Co.  
 Incorporated  
 BancBoston Securities Inc.  
 Banc One Capital Corporation  
 Barr Brothers & Co., Inc.  
 Baum (George K.) & Company  
 Bear, Stearns Securities Corp.  
 Bernstein (Sanford C.) & Co., Inc.  
 Beyer & Co.\*  
 Bidwell & Company  
 Billings & Co.\*  
 Black (James L.) & Co.\*  
 Blair (C.M.), Foster (W.O.) & Co.\*  
 Boss Securities\*  
 Boyle Securities Inc.\*  
 Bozarth & Turner Securities Inc.\*  
 Brawley Cathers Limited\*  
 Brown & Company Securities  
 Corporation  
 Bunting Warburg Inc.\*

Burke, Christensen & Lewis  
 Securities, Inc.  
 Butler Larsen Pierce & Company,  
 Inc.\*  
 Butler, Wick & Co., Inc.  
 C & A Trading\*  
 CIBC Oppenheimer Corp.  
 CIBC Wood Gundy Securities Inc.\*  
 CT Securities Services Inc.\*  
 Caldwell Securities Ltd.\*  
 Canaccord Capital Corporation\*  
 Cantor Fitzgerald & Co.  
 Cantor Fitzgerald Partners  
 Cantor (S.B.) & Co., Inc.\*  
 Carr Securities Corporation  
 Carty & Company, Inc.  
 Cassels Blaike & Co., Ltd †\*  
 Cazenove Incorporated  
 Centennial Securities Company,  
 Inc.\*  
 Chapdelaine & Co.\*  
 Chapdelaine Corporate Securities  
 Co.\*  
 Charles Schwab & Co., Inc.  
 Charles Schwab & Co., Inc.  
 Specialist\*  
 Chase Securities Inc.  
 Chicago Match\*  
 Chicago Securities Group\*  
 Childs (S.W.) Management  
 Corporation  
 Citicorp Securities, Inc.  
 Citicorp Securities Services, Inc.  
 City Securities Corporation  
 Coastal Securities Ltd.  
 Commerzbank Capital Markets  
 Corporation  
 Computer Clearing Services Inc.\*  
 Connors & Co., Inc.  
 Cosse International Securities, Inc.\*  
 Cowen & Co.  
 Cowen & Co.\*  
 Craigie Incorporated  
 Credit Agricole Securities, Inc.  
 Credit Lyonnais Securities (USA)  
 Inc.  
 Credit Suisse First Boston  
 Corporation  
 Crews & Associates, Inc.  
 Cronin & Co., Inc.  
 Crowell, Weedon & Co.  
 Crowell, Weedon & Co.  
 Specialist\*  
 DLG Securities Corp.\*  
 Daiwa Securities America Inc.  
 Darier, Hentsch (Canada) Inc.\*  
 Datek Securities Corporation  
 Davenport & Company LLC  
 Davidson (D.A.) & Co., Inc.\*  
 Davidson (D.A.) & Co., Inc.  
 Specialist\*  
 Deacon Capital Corporation\*  
 Dean Witter Reynolds, Inc.  
 Dean Witter Reynolds Inc.  
 Specialist\*  
 Deltec Asset Management  
 Corporation\*  
 Dempsey & Co.\*

Dempsey & Company  
 Desjardins Securities Inc.\*  
 Deutsche Morgan Grenfell  
 Canada Inc.\*  
 Deutsche Morgan Grenfell Inc.  
 Diamant Investment Co.\*  
 Direct Access Brokerage Services,  
 Inc.\*  
 Dominick & Dominick,  
 Incorporated  
 Donaldson, Lufkin & Jenrette\*  
 Donaldson, Lufkin and Jenrette  
 Securities Corporation  
 Dougall & Associates\*  
 Dougherty Summit Securities  
 LLC  
 Dresdner Kleinwort Benson  
 North America LLC  
 Dreyfus Brokerage Services, Inc.  
 Dreyfus Investment Services  
 Corporation  
 E\*Trade Securities, Inc.  
 E.D. & F. Man International Inc.  
 Edward D. Jones & Co.  
 ESI Securities Company  
 Einhorn & Co.  
 Elwood (R.W.) & Co., Inc.\*  
 Emmer & Co., Inc.  
 Engelman Securities Inc.\*  
 Ernst & Co.  
 Everen\*  
 Everen Clearing Corp.  
 Everen Clearing Corp. Specialist\*  
 Exco RMJ International Inc.  
 Fagenson & Co., Inc.  
 Fahnestock & Co., Inc.  
 Fechter, Detwiler & Co., Inc.\*  
 Feldman Investment Group\*  
 Ferris, Baker Watts, Incorporated  
 First Albany Corporation  
 First of America Securities, Inc.  
 First Chicago Futures, Inc.  
 First Manhattan Co.  
 First Marathon Securities  
 Limited‡\*  
 First Marathon America Inc.‡  
 First Marathon (U.K.) Limited‡  
 First Miami Securities, Inc.  
 First Options of Chicago, Inc.  
 First Southwest Company  
 First Union Brokerage Services, Inc.  
 Fleet Clearing Corporation  
 Fleet Securities, Inc.  
 Fowler, Rosenau & Geary, LLC  
 Frankel (Wm. V.) & Co., Inc.\*  
 Freeman Securities Company, Inc.  
 Freeman Welwood & Co., Inc.  
 Fried (Albert) & Co.  
 Furman Selz Financial Services LLC  
 GVR Company\*  
 G.V.R. Co.\*  
 Garat & Co. Specialist\*  
 Garban Corporates GP  
 Gewecke (Roger L.) Inc. Specialist\*  
 Gill & Company L.P.  
 Glickenhau & Co.  
 Goepel Shields & Partners Inc.‡  
 Goldman Sachs Canada\*

Goldman, Sachs & Co.  
 Gordon & Co.  
 Gordon Capital Corporation\*  
 Gowell Securities Corporation\*  
 Griffiths McBurney & Partners\*  
 Gruntal & Co., L.L.C.  
 Gruss (Oscar) & Son Incorporated  
 H.C. Denison Co.\*  
 H.G. Wellington & Co. Inc.  
 HSBC James Capel Canada Inc.\*  
 HSBC Securities, Inc.  
 Hanauer (J.B.) & Co.  
 Hanifer, Imhoff Clearing Corporation  
 Hartfield (J.F.) & Co., Inc. \*  
 Henderson Brothers, Inc.  
 Herzog, Heine, Geduld, Inc.  
 Highlander Securities Corp.\*  
 Hill, Thompson, Magid & Co., Inc.  
 Hilliard (J.J.B.), Lyons (W.L.), Inc.  
 Holt & Collins\*  
 Hopkins, Harbach & Co. Specialist\*  
 Howe Barnes Investments, Inc.  
 Huntleigh Securities Corporation  
 Hummer (Wayne) Investments L.L.C.  
 Hutchinson, Shockey, Erley & Co.  
 ING Baring (U.S.) Securities, Inc.  
 ING (U.S.) Securities, Futures & Options Inc.  
 Icahn & Co., Inc.  
 Ingalls & Snyder, L.L.C.  
 Instinet Corporation  
 Interactive Brokers LLC  
 Interra Clearing Services Inc.  
 Interstate/Johnson Lane Corporation  
 J. A. Glynn & Co.  
 J.C. Bradford & Co., L.L.C.  
 JMC Securities, Inc.\*  
 JW Charles Clearing Corp.  
 Jacobson (Benjamin) & Sons, LLC  
 Janney Montgomery Scott Inc.  
 Jefferies & Company, Inc.  
 John A. Siberell & Co.  
 Julius Baer Securities Inc.  
 K Securities Inc.\*  
 KWS Associates Inc.\*  
 Kahn Investment Group\*  
 Kalb, Voorhis & Co., LLC  
 Kankaku Securities (America) Inc.  
 Kawano (H.) & Co., Inc.\*  
 Kellner, DiLeo & Co.  
 Kenny (J. J.) Drake, Inc.\*  
 Key Clearing Corp.  
 King (C. L.) & Associates Inc.  
 King Financial Services, Inc.\*  
 KirkPatrick, Pettis, Smith, Polian Inc.  
 Koonce Securities, Inc.  
 LIT Clearing Services, Inc.  
 La Branche & Co.  
 Lafferty, Harwood & Partners Ltd.\*  
 Larkin (Emmett A.) & Co., Inc.\*  
 Lawrence, O'Donnell, Marcus LLC  
 Lazard Frères & Co. LLC  
 Legg Mason Wood Walker, Inc.  
 Lehman Brothers, Inc.  
 Lerner (David) Associates, Inc.  
 Lewco Securities Corp.  
 Lipper & Company, L.P.  
 Llama Company  
 M.J. Meehan & Co., LLC  
 MPAC Capital Partners L.P. Specialist\*  
 Mabon Securities Corp.  
 MacAllaster Pitfield Mackay Inc.  
 MacDougall, MacDougall & MacTier, Inc.\*  
 Madoff (Bernard L.)  
 Marcus Schloss & Co., Inc.  
 Market Traders\*  
 Mayer & Schweitzer, Inc.  
 May Financial Corporation  
 McDonald & Company Securities, Inc.  
 Mees Pierson Inc.  
 Melville (Ronald E.) Inc. Specialist\*  
 Melvin Securities Trading\*  
 Merrill Lynch Government Securities Inc.  
 Merrill Lynch, Pierce, Fenner & Smith Incorporated  
 Merrill Lynch Professional Clearing Corp.  
 Merrimack Valley Investment Inc.\*  
 Mesirow Financial, Inc.  
 Midland Walwyn Capital Inc.\*  
 Miller, Johnson & Kuehn, Inc.  
 Miller & Schroeder Financial, Inc.  
 Morgan (J. P.) Securities Inc.  
 Morgan, Keegan & Company, Inc.  
 Morgan Stanley & Co. Incorporated  
 Moses Financial Corporation\*  
 Murphey, Marseilles, Smith & Nammack Inc.  
 Murphy & Durieu  
 NBC Clearing Services Incorporated\*  
 NBC Securities, Inc.  
 NPE Financial Corp.\*  
 Nathan & Lewis Securities, Inc.  
 National Financial Services Corporation  
 NationsBanc Montgomery Securities LLC  
 National Financial Services Corp. Specialist\*  
 National Investor Services Corp.  
 National Securities Corporation  
 NatWest Securities Corporation  
 Nesbitt Burns Inc.\*  
 Nesbitt Burns Securities, Inc.  
 Neuberger & Berman, LLC  
 New Japan Securities International, Inc.  
 Newcrest Capital Inc.\*  
 Nike Securities L.P.  
 Nikko Securities Co. International, Inc. (The)  
 Nomura Securities International, Inc.  
 Norwest Investment Services, Inc.  
 Nuveen (John) & Co. Incorporated  
 O'Connor & Company LLC  
 Odd Lot Execution Service\*  
 Odium Brown Limited\*  
 Ohio Company (The)  
 Old Oak Securities\*  
 Olde Discount Corporation  
 Olsen, Payne & Company, Inc.\*  
 Oxford (JB) & Company  
 PAX Clearing Company Limited Partnership  
 PaineWebber Incorporated  
 PaineWebber Specialists Inc.\*  
 Paribas Corporation  
 Parker/Hunter Incorporated  
 Payson (H.M.) & Co.\*  
 Peninsular Securities Co.\*  
 Pension Financial Services, Inc. A Division of Service Asset Management Company\*  
 Perelman-Carley & Associates, Inc.  
 Perkins, Wolf, McDonnell & Company  
 Pershing Trading Company L.P. Specialist\*  
 Peters & Co. Limited\*  
 Peters Securities Co.  
 Pflueger & Baerwald Inc.\*  
 Phelps & Woodhead Inc.\*  
 Pictet (Canada) and Company, Limited\*  
 Piper Jaffray Inc.  
 Portfolio Brokerage Services, Inc.\*  
 Preferred Technology, Inc.\*  
 Primevest Financial Services, Inc.  
 Private Brokers Clearing Corporation  
 Prudential Securities Incorporated  
 RBC Dominion Securities Corporation  
 RBC Dominion Securities Inc.†\*  
 RSF Partners  
 Ragen MacKenzie Incorporated  
 Raymond James\*  
 Raymond, James & Associates, Inc.  
 Raymond, James & Associates, Inc. Specialist\*  
 Redwood Trading Inc. Specialist\*  
 Refco Securities, Inc.  
 Regions Investment Company, Inc.  
 Republic New York Securities Corporation  
 Research Capital Corporation\*  
 Rickel Securities, Inc.  
 Rich Options Company\*  
 Richards, Merrill & Peterson, Inc.\*  
 Robb, Peck, McCooey & Co., Inc.  
 Robert C. Wilson & Co.\*  
 Robinson & Lukens Inc.\*  
 Rock Island Securities, Inc.\*  
 Rock Island Specialists Inc.\*  
 Rocky Mountain Securities & Investments, Inc.  
 Romano Brothers & Co.  
 Roney & Co.  
 Roosevelt & Cross Incorporated  
 Rubicon Securities, Inc. Specialist\*  
 SBC Warburg Dillon Read Inc.  
 SJS Securities\*

Sage Clearing L.P.	Swiss American Securities Inc.	Yamaichi International (America), Inc.
Salomon Brothers Inc	Sydan & Co.*	Yorkton Securities Inc.*
Salvatore & Co., Inc.*	TCW, Inc. Specialist*	Ziegler (B.C.) and Company
Schapiro (M.A.) & Co., Inc.	TD Securities Inc.*	Ziegler Thrift Trading, Inc.
Schonfeld Securities Inc.*	Tasse & Associates, Limited*	Ziv Investment Co.
Schwartz & Co.	Theodoor Gilissen First Marathon Limited‡	
Scotia McLeod Inc.*	Thomson Kernaghan & Co., Ltd.*	
Scotia Capital Markets (USA) Inc.	Timber Hill LLC	
Scott & Stringfellow, Inc.	Titus & Donnelly Inc.*	
Scottsdale Securities Inc.	Tomac*	
Seasongood & Mayer	Transatlantic Securities Company	
Seattle-Northwest Securities Corporation	UBS Securities LLC	
Security Research Associates, Inc.	U.S. Clearing Corp.	
Security Traders Inc.*	Van Kampen American Capital Distributors, Inc.	
Seidler Companies, Inc. Specialist (The)*	W&D Securities, Inc.	
Shelby Cullom Davis & Co., L.P.	W.H. Reaves & Co., Inc.	
Smith Barney Inc.	WSI Stock Loan*	
Smith Barney Inc. Specialist*	Wachovia Investments, Inc.	
Smith, Moore & Co.*	Wachtel & Co., Inc.	
Societe Generale Securities Corporation	Wall Street Equities Incorporated*	
Soloway & Co.*	Waters, Parkerson & Co., Inc.*	
Southwest Securities, Inc.	Wedbush Morgan Securities, Inc.*	
Spear, Leeds & Kellogg	Wedbush Morgan Securities, Inc. Specialist*	
Steichen (R.J.) & Company	Weiss, Peck & Greer, L.L.C.	
Stephens, Inc.	Wheat, First Securities, Inc.	
Stern & Kennedy	William Blair & Company, L.L.C.	
Stern (M. L.) & Co., Inc.*	William R. Hough & Co.	
Sterne, Agee & Leach, Inc.	Wilshire Associates Incorporated*	
Stifel, Nicolaus & Company Incorporated	Wilson-Davis & Co., Inc.	
StockCross, Inc.*	Wilson (L.W.) & Co., Inc. Specialist*	
Stoeber, Glass & Co., Inc.	Wolfe & Hurst Bond Brokers, Inc.	
Stone & Youngberg*	Wolfe & Hurst Bond Brokers, Inc.*	
Streicher (J.) & Co. L.L.C.	Worldco, Inc.*	
Summit Discount Brokerage	Wulff, Hansen & Co.	
Sunpoint Securities, Inc.	Xanadu*	
Sweney Cartwright & Co.		

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**CLEARING AGENCIES**

American Stock Exchange Clearing Corporation  
Boston Stock Exchange Clearing Corporation\*  
Caja De Valores, S.A.\*\*  
Canadian Depository for Securities Limited (The)  
Canadian Depository for Securities Ltd. (The)\*  
Central Depository (Pte.) Ltd. (Singapore)\*\*  
Cincinnati Stock Exchange (The)  
Deutscher Kassenverein AG  
International Securities Clearing Corporation  
Japan Securities Clearing Corp.\*\*  
National Securities Clearing Corporation  
New York Stock Exchange, Inc.  
Options Clearing Corporation (The)  
Stock Clearing Corporation of Philadelphia\*

‡ Canadian Depository for Securities Limited-Sponsored Account

\* National Securities Clearing Corporation-Sponsored Account

\*\* International Securities Clearing Corporation-Sponsored Account

\*\*\* Direct Registration/Limited Participant

A.G. Edwards & Sons, Inc.  
 ABN AMRO Incorporated  
 American Express Trust Company  
 American Stock Exchange  
 Clearing Corporation  
 American Stock Exchange Inc.  
 AmSouth Bank  
 Arnhold and S. Bleichroeder, Inc.  
 Bank of America National Trust  
 and Savings Association  
 Bank of New York (The)  
 Bank of Tokyo-Mitsubishi Trust  
 Company  
 Bank One, Oklahoma, N.A.  
 Bank One Trust Company, N.A.  
 BankBoston, N.A.  
 Bankers Trust Company  
 Barclays Bank PLC, New York  
 Branch  
 Barnett Bank, N.A.  
 Bear, Stearns Securities Corp.  
 Boston Safe Deposit and Trust  
 Company  
 Brown Brothers Harriman & Co.  
 BT Alex. Brown Incorporated  
 Cantor Fitzgerald & Co.  
 Cantor Fitzgerald Partners  
 Carty & Company, Inc.  
 Cazenove Incorporated  
 Central Trust Bank (The)  
 Chase Manhattan Bank  
 CIBC Oppenheimer Corp.  
 Cincinnati Stock Exchange (The)  
 Citibank N.A.  
 Citicorp Securities, Inc.  
 City National Bank  
 City Securities Corporation  
 Compass Bank  
 CoreStates Bank, N.A.  
 Craigie Incorporated  
 Credit Suisse First Boston  
 Corporation  
 Crews & Associates, Inc.  
 Custodial Trust Company  
 Daiwa Securities America Inc.  
 Davenport & Company LLC  
 Dominick & Dominick,  
 Incorporated  
 Donaldson, Lufkin & Jenrette  
 Securities Corporation  
 Dreyfus Investment Services  
 Corporation  
 E\*Trade Securities, Inc.  
 Edward D. Jones & Co.  
 ESI Securities Company  
 Fagenson & Co., Inc.  
 Fahnstock & Co., Inc.  
 Fiduciary Trust Company  
 International  
 Fiduciary Trust Company of  
 Boston  
 First Albany Corporation  
 First National Bank of Chicago  
 (The)  
 First National Bank of Maryland  
 (The)  
 First Tennessee Bank N.A. Memphis  
 First Union National Bank  
 Fleet National Bank  
 Fort Wayne National Bank  
 Furman Selz Financial Services LLC  
 Goldman, Sachs & Co.  
 Gruss (Oscar) & Son Incorporated  
 Home Federal Bank of Tennessee,  
 F.S.B.  
 Huntington National Bank  
 Imperial Trust Company  
 ING Baring (U.S.) Securities, Inc.  
 Interra Clearing Services Inc.  
 Investors Bank and Trust Company  
 J.A. Glynn & Co.  
 Julius Baer Securities Inc.  
 Key Clearing Corp.  
 KeyBank National Association  
 LaBranche & Co.  
 Lehman Brothers, Inc.  
 Lewco Securities Corp.  
 MacAllaster Pitfield Mackay Inc.  
 Manufacturers and Traders Trust  
 Company  
 Marcus Schloss & Co., Inc.  
 Marine Midland Bank  
 May Financial Corporation  
 Mayer & Schweitzer, Inc.  
 Mellon Bank, N.A.  
 Merrill Lynch & Co., Inc.  
 Michigan National Bank  
 Miller & Schroeder Financial, Inc.  
 Morgan Guaranty Trust Company  
 of New York  
 Morgan Stanley & Co.  
 Incorporated  
 National Association of Securities  
 Dealers, Inc.  
 National City Bank  
 National Financial Services  
 Corporation  
 National Investor Services Corp.  
 NationsBanc Montgomery  
 Securities LLC  
 NationsBank of Texas, National  
 Association  
 NatWest Securities Corporation  
 NBD Bank  
 New York Stock Exchange, Inc.  
 Nikko Securities Co.  
 International, Inc. (The)  
 Nomura Securities International,  
 Inc.  
 Northern Trust Company (The)  
 Norwest Bank Minnesota,  
 National Association  
 PaineWebber Incorporated  
 Paribas Corporation  
 Parker/Hunter Incorporated  
 Regions Investment Company, Inc.  
 Republic New York Securities  
 Corporation  
 Roosevelt & Cross Incorporated  
 Salomon Brothers Inc  
 Santa Barbara Bank & Trust  
 Sanwa Bank California  
 SBC Warburg Dillon Read Inc.  
 Scott & Stringfellow, Inc.  
 Seattle-Northwest Securities  
 Corporation  
 Star Bank, National Association,  
 Cincinnati  
 State Street Bank and Trust  
 Company  
 Stock Clearing Corporation  
 SunTrust Bank, Atlanta  
 Swiss American Securities Inc.  
 Swiss Bank Corporation  
 New York Branch  
 Texas Commerce Bank, National  
 Association  
 Timber Hill LLC  
 UMB Bank, National Association  
 U.S. Bank National Association  
 Union Bank of California, N.A.  
 Van Kampen American Capital  
 Distributors, Inc.  
 W.H. Reeves & Co., Inc.  
 Wachovia Bank of Georgia, N.A.  
 Wachovia Bank, N.A.  
 Wells Fargo Bank, National  
 Association  
 William R. Hough & Co.  
 Wilmington Trust Company  
 Zions First National Bank



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