The Depository Trust Company
IMPORTANT

B#: 6626R

DATE: July 08, 2004

TO: Participants and Other Users

CATEGORY: Executive Notices

FROM: Product Management

ATTENTION: Managing Partner/Officer, Operations Manager

SUBJECT: REVISED -Fee Revisions Related to DTCC's Response to the Securities and Exchange Commission's Recent Concept Release on Securities Transaction Settlement

On June 23, 2004, The Depository Trust & Clearing Corporation submitted a response to the Securities and Exchange Commission’s recent Concept Release on Securities Transaction Settlement (SEC File No. S7-13-04, dated March 11, 2004); a copy of DTCC’s response letter was previously made available to participants in Important Notice # Z 13.

In its response, DTCC indicated to the Commission that it expects to implement certain fee changes to promote earlier agreement on institutional trades, discourage delayed reclamations on un-agreed institutional trades, and discourage withdrawals of certificates through its Withdrawal by Transfer and other services. DTCC is summarizing the fee changes, consistent with these proposals, it anticipates including in the 2005 Fee Schedule to be finalized later this year. DTCC believes that advising participants at this time of the fee changes being considered will help participants make their own plans to modify behaviors in response to these fee changes or implement “pass through” charges to their customers if they so elect.

These fee changes, consistent with the DTCC response, are intended to act as incentives to encourage earlier trade agreement, discourage delayed delivery reclamations, and strongly discourage withdrawals of physical certificates. The proposed fee revisions are described below.

- **Delivery Fees**. To encourage trade matching, the fee for matched trades processed by means of automated deliveries through DTC (Institutional Deliveries) would be reduced for the third consecutive year from $0.16 to $0.15 to both the receiver and deliverer.

- **Reclamation Fees**. Reclamation processing has been a long-standing challenge for the securities processing industry. Reclaims result in inefficiency primarily for the deliverer who may not have use of the securities all day, only to receive them back too late in the processing day to re-deliver them elsewhere. This forces the deliverer to finance the position overnight. Very often, these deliveries are re-delivered and accepted the following day when additional or corrected information becomes available. These problems are particularly exacerbated when reclamations are delayed significantly beyond the original delivery date; such delays impose risk on the receiver of the reclamation (i.e., the original delivering party) and impair the finality of settlement.

  To encourage participants further to match and agree upon deliveries before processing, DTC would adopt severe financial disincentives for reclamations for trades processed after the original delivery date. Fees for delivery reclamations would escalate based upon the length of time between the original delivery dates and when the reclamation is processed. This addresses the risk exposure and impaired settlement finality attributable to delayed reclamations. A proposed schedule of such fee changes would be as follows:

  For reclamations of trades processed on the original delivery date, maintain existing fees of $0.50 to both the deliverer and receiver of a reclaim

  For reclamations of trades processed beyond the original delivery date,

  - $2.00 to the deliverer and $0.50 to the receiver for reclaims processed one business day after the original delivery date
  - $6.00 to the deliverer and $0.50 to the receiver for reclaims processed from two through four business days after the original delivery date
  - $18.00 to the deliverer and $0.50 to the receiver for reclaims processed more than four business days after the original delivery date

Participants will be encouraged to match or affirm transactions to decrease settlement fees and lower their use of the reclaim process, thereby controlling costs.

- **Immobilization/Dematerialization.** DTCC remains committed to eliminating the use of physical securities in the industry, thereby reducing cost, risk and processing delays.

  For security withdrawals that result in the issuance of a physical certificate, DTC would implement the following fee changes

  - Certificated WTs would increase from the current $9.50 per transaction to $18 in 2005
  - DTC fees for certificates that are directly mailed by the transfer agent, generally referred to as DMA, would increase from the current $5 per transaction, to $12 in 2005

- The disincentive fee that is applied when Participants request a certificate on a DRS-eligible security (meaning a statement form of ownership could have been requested) would be increased from the current $5 to $15 in 2005. The total for such withdrawals would therefore be $27 (not including agent processing and mail costs), in contrast to the fee of $5 applying to a WT on which a DRS position is established.

Additional security withdrawal services, though now generally associated by minimal transaction volume, will also experience price increases.

The proposed revisions are consistent with DTCC's overall pricing philosophy to align service fees with underlying cost, discourage manual and exception processing, and encourage immobilization and dematerialization. DTC believes these steps will encourage Straight Through Processing (STP) and immobilization and dematerialization through economic disincentives.

DTCC management has reviewed the proposed fee increases with its Board of Directors at the June meeting in connection with the Board's consideration of DTCC's response to the SEC Concept Release. DTCC will request formal Board approval of these fee changes in November and submit rule changes to the Securities and Exchange Commission as part of its overall schedule of fee changes for 2005. The 2005 Fee Schedule would become effective on January 2, 2005

Recognizing the impact of these fee changes upon participants and, potentially, their interactions with their customers, this Notice is intended to permit participants to take appropriate steps in advance of these fee revisions. Opportunities exist to mitigate any financial impact of these fee changes by modifying current business practices.

Questions regarding this Notice can be directed to your Relationship Manager or the undersigned at (212) 855-8434.

John Abel
Director
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