

Managing Risk in a Challenging Environment – A Letter to Stakeholders

Amid the unprecedented turmoil that engulfed our customers and the financial services sector in 2008, DTCC continued to deliver the rock-solid risk management and reliability our customers have counted upon for more than three decades. Our years of proven experience in identifying and managing a broad set of industry risks, coupled with our ability to see these exposures from a central vantage point, were instrumental in helping the industry mitigate the year's volatile markets and system-shaking events. The year was one of the most challenging, but also one of the most successful, in DTCC's history.

In the year's "headline" event, we successfully protected our members and the nation's securities clearance and settlement system throughout the days following the Lehman Brothers' bankruptcy – including resolving \$500 billion in exposure, the largest liquidation in U.S. financial history, without having to draw upon our members' clearing fund.

Our Trade Information Warehouse also successfully managed 11 credit events in the over-the-counter derivatives markets in 2008, including Lehman Brothers Holding Inc., Fannie Mae, Freddie Mac and Washington Mutual. Approximately \$285 billion (in aggregate gross notional value) of credit default swap (CDS) contracts were netted down to \$12 billion in actual payments, completed through the Warehouse link with CLS Bank.

We helped steady the industry during the March bailout of Bear Stearns. Our support for the transfer of Bear Stearns' deal book of about 150,000 open CDS contracts to multiple JPMorgan Chase subsidiaries, most of which were handled in just 48 hours over a weekend, worked to eliminate uncertainty in the market and operational risk for our members.

In another example of DTCC's battle-tested capabilities, our equity clearing subsidiary took responsibility for all trades members had open with Bernard Madoff Investment Securities through December 12, 2008 – the firm's last trading day – and subsequently closed out all of those trades with no loss to member firms.

And throughout all these extraordinary events, we continued to process seamlessly in excess of \$1.88 quadrillion in securities transactions in 2008. We continued to deliver excellent results across all areas of our business, with flawless systems reliability amid record volumes; tight expense management, including the largest fee cuts in our history; service enhancements completed on schedule and within budget; and further initiatives to strengthen our internal processes, capped by our certification as a CMMI Level 3 organization.

During 2008, we also made plans for further growth, with the successful launch of our EuroCCP clearing subsidiary in Europe; we reached agreement on a combination of our confirmation services for OTC derivatives and those of Markit; and we completed the first stage of discussions toward a merger with LCH.Clearnet Group, Ltd. The case for the merger with LCH.Clearnet also is truly compelling – a seamless transatlantic infrastructure would provide enormous benefits to the industry in both Europe and the U.S., leveraging IT capabilities and platforms to reduce the costs, enhance operating efficiency, create new services for users and help manage the risk of any single firm more effectively from a central vantage point. The transatlantic governance contemplated in the merger proposal would ensure that European and U.S. market participants could continue to control those services most crucial to their operations, while benefiting from the global perspective and scale the combined organizations can bring.