

THE ASSOCIATION OF GLOBAL CUSTODIANS

THE BANK OF NEW YORK MELLON CORPORATION
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HSBC SECURITIES SERVICES
JPMORGAN CHASE BANK, N.A.
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STATE STREET BANK AND TRUST COMPANY

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12 January 2010

By Electronic Delivery

Janet Wynn
Managing Director
The Depository Trust and Clearing Corporation
New York, New York

RE: **Industry-Wide Initiative to Review the Use and Risks of Protect Guarantees and Letters of Liability in Corporate Actions**

Dear Janet:

We write on behalf of the members of the Association of Global Custodians (the "Association") to follow up our earlier correspondence with you regarding the risks associated with protect guarantees and related letters of liability in the context of corporate actions and our members' recent review of statistics DTC provided sampling dimensions of the risks intermediaries encounter on uncovered guarantees. Association members thank you very much your prompt and valuable work in retrieving that data set. As described briefly below, members believe the data confirm the existence of an industry-wide set of risks of significant scale and support the development of an industry-wide effort to improve practices and reduce risks in this area.

Following receipt of DTC's data last fall, Association members reviewed the information you provided and the risks custodians face when issuing protect guarantees against pending-but-unsettled transactions during corporate action events. Such transactions typically involve securities loaned-but-not-returned or securities pending trade settlement prior to a key event response date. For each party issuing a protect guarantee, the obligation is strict and irrevocable, as that party is fully dependent on meeting the guarantee's commitments as defined by the given event.

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Janet Wynn, DTCC

12 January 2010

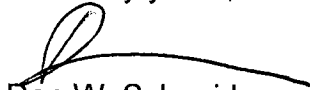
Page 2

The data sample you supplied covered about 50 events, for which 120 protect guarantees were transmitted by DTC to the relevant agent on behalf of AGC member banks, acting on client instructions. That 120-guarantee universe encompassed about 17 million shares/bonds having a total value of \$159 million. Of that amount, 5.5 million shares/bonds, having a value of \$26.5 million, remained uncovered by the critical event action date. In summary, then, for the 50 events reviewed, the uncovered financial risk to AGC members alone amounted to more than 26 Million dollars. Annually, of course, that risk to AGC members on all corporate actions would be much greater -- and greater still across the entire intermediary community.

The Association believes that it is timely and would be prudent to launch an industry-wide review and evaluation of the handling models and underlying regulatory principles that trigger reliance on protect guarantees and liability letters. Such an evaluation should include a set of recommendations to mitigate these risks and improve the overall processes. The Association encourages the Depository Trust and Clearing Corporation to play the lead role -- as it has in other contexts -- in setting up and facilitating such an industry-wide initiative. While the Association would expect to be an active participant in the initiative, Association members recognize that the initiative should include SIFMA representatives as well as representatives of other organizations whose members are affected.

We appreciate DTC's consideration of Association members' views on this matter. Members stand ready to discuss next steps with you once you have had a chance to confer internally at DTC. We hope to hear from you for a preliminary conversation at your convenience later in January. To initiate follow up, please contact Debbie Mercer-Miller (212.816.6861) or the undersigned at 312.861.2620.

Sincerely yours,



Dan W. Schneider
Baker & McKenzie LLP
Counsel to the Association

Cc: Don Donahue
Peter Gleeson