

THE ASSOCIATION OF GLOBAL CUSTODIANS

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ASSOCIATION OF GLOBAL CUSTODIANS COMPLETES 2002 DEPOSITORY INFORMATION-GATHERING PROJECT

May 20, 2002

The Association of Global Custodians (the "Association") has announced the completion of its second annual depository information-gathering project with the publication of "2002 Depository Information-Gathering Project: A Report for Clients and Participating Depositories." Given the significance of the project and the interest it has attracted, the Association has decided to make a copy of its report available to the industry media and other interested persons.

"This report represents only a small part of the extensive efforts by depository respondents and Association members to collectively update depository information to meet regulatory compliance requirements," explains Beth Stubenrauch, Senior Vice President, at Brown Brothers Harriman, and head of the Association committee charged with this initiative update. "This year's project is notable for two reasons – First, the Association fine-tuned its questionnaire in response to information gathered in the first year, as well as to suggestions of participating depositories. Second, it developed an on-line questionnaire response format that facilitates analysis of information provided and will ease the burden on participating depositories in responding to updates going forward," says Stubenrauch.

Mary Fenoglio, Executive Vice President of State Street and current Chair of the Association calls the revised project "a clear sign of the Association's commitment to the precise collection of data that will help to assist Association members in understanding each market more fully." She continued: "Investors are demanding more information than ever before and through this annual project, the members of the Association not only fulfill their regulatory requirements but also assist their own clients in obtaining a thorough understanding of the local markets. The globalization of the securities market place has focused the attention of the U.S. investor on international investment possibilities," Fenoglio said, "and depositories responding to the questionnaire truly aid Association members in presenting depository risk information to their clients."

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For the first time, the questionnaires were distributed electronically through a secure extranet designed by Baker & McKenzie IT professionals and coordinated through the firm's Washington office which acts as counsel and secretariat to the Association. Daniel Goelzer, a partner in Baker & McKenzie and former General Counsel of the U.S. Securities and Exchange Commission, states: "Upon completion of the 2002 effort, it is evident from the level of cooperation we received from depositories and the nature of the discussions we have had with participants that depositories recognize the importance of their role in the modern securities market and want to provide greater transparency in their operation. The on-line format was one way in which the Association incorporated depositories' feedback and worked to make responding easier."

The second-year effort was launched in September 2001 to maintain compliance with the U.S. Securities and Exchange Commission's Investment Company Act Rule 17f-7. The Rule requires continuous monitoring of depositories and details how U.S. mutual funds may hold securities through foreign depositories. In addition, the Rule requires funds to receive an analysis of the custody risks associated with maintaining assets with a foreign depository. The nine banks that are members of the Association decided to put their collective weight behind a joint information gathering effort, believing that this would produce a higher response rate from depositories and reduce the number of different requests from individual members. The members of the Association are The Bank of New York, Brown Brothers Harriman, Citibank, NA, Deutsche Bank AG, Investors Bank & Trust Company, JPMorgan Chase Bank, Mellon Trust/Boston Safe Deposit & Trust Company, The Northern Trust Company, and State Street Bank and Trust Company.

The Association committee reviewed and clarified the types of information needed to assist its members in preparing the risk analyses required by Rule 17f-7. This information falls into 10 broad areas of inquiry:

- Scope, structure, ownership, capital, regulation, and audit oversight.
- Participant identification and eligibility criteria.
- Functionality and services, including the use of agents.
- Account structures and recordkeeping.
- Settlement processes.
- Ownership of securities held in the depository.
- Standard of care, loss prevention, and asset recovery methods.

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- Business recovery mechanisms.
- Cross-depository linkages.

"Compliance with Rule 17f-7 has been a huge undertaking" explains Stubenrauch. "The committee, consisting of representatives of each Association member, has been meeting several times a month, sometimes every week, since it was formed. Communication with the depositories has been continuous in order to encourage participation or to explain the importance of the information requested in the Association questionnaire. For the second year, most depositories chose to contribute the information necessary to confirm their continuing status as an 'eligible securities depository' as defined under the Rule."

Of 129 questionnaires sent, the Association received 112 responses and concluded that five entities were either not yet in operation, were ceasing operations or didn't fall within the scope of Rule 17f-7. Says Goelzer, "While the Association will not itself release questionnaire responses directly to the general public or to other participating depositories, we have encouraged depositories to make their own responses available, either through their websites or upon request, and a considerable number have chosen to do so. We hope that number will increase as depositories realize the efficiencies that this will create."

Fenoglio concludes: "The Association will continue to make the depository information-gathering exercise an annual one, and will be reviewing the questionnaire to factor in lessons learned from this year's effort. We continue to appreciate the dialog this project has created between the participating depositories and the Association members. Such a dialog provided the framework through which we were able to improve the questionnaire project, and work with participating depositories to achieve a better understanding of foreign markets' infrastructure issues."

Details regarding the Association members, as well as the objectives and results of the project can be found in the report. For more information, please contact the Association's counsel, Daniel L. Goelzer at 202/452-7013; fax 202/452-7074; e-mail daniel.l.goelzer@bakernet.com.