

THE ASSOCIATION OF GLOBAL CUSTODIANS

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ASSOCIATION OF GLOBAL CUSTODIANS COMPLETES 2002-2003 DEPOSITORY INFORMATION-GATHERING PROJECT

March 12, 2003

The Association of Global Custodians (the "Association") has announced the completion of its third annual depository information-gathering project with the publication of "2002-2003 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 (an electronic copy is available on the Association's web site: www.theagc.com).

"The collective effort of the Association to meet its regulatory compliance requirements with the assistance of the depository respondents is summarized in this report," explains Patrick Costello, Director of Network Management at Mellon Global Securities Services and chair of the Association committee charged with this initiative update. "This year's update was the first following our online rollout of the questionnaire last year," says Costello. "This year, for the first time, return respondents were able to update their previous responses online which saved time for them and in turn, has allowed for the Association to obtain responses from more participants in a shorter period of time."

Andrew Osborne, Senior Vice President of The Northern Trust Company and current Chair of the Association calls the annual project "a truly collaborative effort that continues the Association's commitment to the precise collection of data for Association members to understand each market more fully. Through this understanding, the Association members not only fulfill their regulatory compliance but also learn detailed information about each participant that they can in turn use to educate their own clients about the local markets. Respondents to the questionnaire are key to achieving these goals," Osborne said, "and their participation provides members the ability to respond to the globalization needs of their investor clients."

The questionnaires were distributed electronically through a secure extranet designed by Baker & McKenzie IT professionals and coordinated through the firm's Washington office. Baker & McKenzie serves as counsel and secretariat to the Association and their attorney Margaret Blake, states: "The increased level of participation by depositories in this year's effort shows that respondents continue to recognize the importance of not only providing greater transparency in their operations, but also of their role within the global securities market."

This year's effort, which marks the third year of the project, was launched in September 2002 to maintain compliance with the U.S. Securities and Exchange Commission's Investment Company Act Rule 17f-7. This 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 10 banks that are members of the Association decided to put their collective energies 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 Trust Company Americas, Investors Bank & Trust Company, JPMorgan Chase Bank, Mellon Financial Corporation, The Northern Trust Company, RBC Global Services and State Street Bank and Trust Company.

The Association 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.

- Business recovery mechanisms.
- Cross-depository linkages.

"The Associations' commitment to compliance with Rule 17f-7 has been enormous," explains Costello. "The committee, consisting of representatives of each Association member, meets frequently and often weekly during the annual update to manage the project and assess its status. Participation of the depositories since the September launch has been encouraged through multiple communications from this committee explaining the importance of the information requested by the Association. For the third year, most depositories chose to contribute the information necessary to confirm their continuing status as an 'eligible securities depository' as defined under the Rule."

Questionnaires were sent to 131 depositories in 84 countries and the Association received 114 responses. Five contacted entities were either not yet in operation, were ceasing operations or didn't fall within the scope of Rule 17f-7. "The Association itself does not release questionnaire responses directly to the general public or to other participating depositories, but does encourage depositories to make their own responses available, either through their websites or upon request, and the majority have chosen to do so." Blake says. "We believe this increases efficiencies for the depositories and hope that increasingly, the remaining respondents will also make their questionnaires public."

Osborne concludes: "The Association continues to make the depository information-gathering exercise an annual one, and will continue to review the questionnaire to factor in lessons learned from this year's effort. In addition, respondents have provided useful comments throughout the three years of this exercise that have been beneficial in creating a more successful annual update. We continue to appreciate the dialog this project has created between the participating depositories and the Association members as we work together to achieve a better understanding of the infrastructure issues within foreign markets."

Details regarding the Association members, as well as the objectives and results of the project can be found in the report or online at www.theagc.com. For more information, please contact the Association's counsel, Margaret R. Blake at 202/452-7020; fax 202/452-7074; e-mail: margaret.r.blake@bakernet.com.