October 16, 2012

Mr. Robert Druskin
Executive Chairman, DTCC
Depository Trust & Clearing Corporation

Mr. Michael Bodson
President
Depository Trust & Clearing Corporation

Dear Mr. Druskin and Mr. Bodson:

The groups listed above[*] wish to express their concerns regarding a proposal to increase DTCC fees for municipal securities which the DTCC Board may be addressing at its upcoming October meeting. Our members believe that the proposed increase in DTCC fees for municipal issues with multiple CUSIPs is flawed and should be reconsidered or tabled entirely pending discussions with all interested parties, including issuers, underwriters, and financial advisors. As you know, while the DTCC fees are usually paid by underwriters, such fees have been reimbursed by issuers as a necessary and reasonable transaction expense. Therefore, any increase in DTCC fees is directly borne by state and local governments. Many of the 55,000+ state and local government issuers throughout the nation are facing highly challenging fiscal environments and are ill-equipped to take on additional fees. These fees will fall directly on cities, school districts, utilities, or tax payers, among others.

Specifically, our concerns are the following –

1. Significant Increase in Fees. The suggested changes to the fee structure ($200 for first CUSIP, $150 for each thereafter), are quite significant – and in many issuances will result in fee increases in excess of 500%[1]. It is unclear how this significant increase in fees reflects the actual costs of DTCC's work related to municipal securities. This increase is particularly egregious when all other characteristics of the individual maturities in an issue (except, of course, the maturity and the coupon) are identical. While it is understood that municipal securities usually have considerably more CUSIPs associated with an issuance than their corporate counterparts, we fail to grasp how the differences are so great that such a significant increase in fees is justifiable. This is especially disconcerting since advanced technology undoubtedly eliminates much of the manual effort that was once necessary to add CUSIPs to an issue.

2. Disparate Impact on Small Issuers and Smaller Issuances (by par amount). The proposed fee increases will have a disparate impact on smaller issuers. The new proposed fees would result in a outsized increase in the transaction expenses in relation to the par amount of the issuance. Due to the relative financial disparities that exist between large and small municipal issuers, any fee increase will be disproportionately felt by small communities.

3. FAST vs. Non-FAST Issues. Our understanding of the current fee increase proposal is that it does not take into account the additional work/responsibilities for Non-Fast (Fast Automated Securities Transfer) issues and would result in FAST issues subsidizing the DTCC costs for Non-Fast issues.

[1] The fees for an issue with 20 different maturities (i.e., 20 separate CUSIPs) would be $3,050 as compared to the $500 flat fee currently being assessed for multi-CUSIP issuances.

4. There is No Adjustment for the Size of Issue. While DTCC may argue that the costs in relation to the debt issue may not be significant, the proposal does not allow for fees to be aligned with the size of the issue. For instance, a smaller government, with a $700,000 20-year issue with 20 separate maturities, would face a significant increase in cost in relation to its debt issuance versus an issuer that would face the same total cost increase in fees on a $700 million 20-year issue with 20 separate maturities. The vast majority of securities issuances undertaken by small municipalities tend to reflect the small size of the issuer with respect to the size of the offering. As a result, the par amount of the majority of issuances in the municipal market pale in comparison to the large headline grabbing hundred-million to billion dollar issuances. As such, the impact of a uniform per CUSIP fee will be disproportionately borne by the many small issuers. Although we would prefer that this proposed fee increase be tabled at this time, as an alternative, we strongly suggest that DTCC put in place some type of scale or threshold that would alleviate the burden of these excessive fees on the smaller issuers that tend to issue small amounts of securities.

5. There is No Phase-In Period. If the DTCC moves forward with its planned fee increase, which represents a significant change in what issuers will need to pay, we suggest implementing a phase-in period or otherwise delaying the effective date of the fee increase so that there is adequate time to alert the issuer community of this major change.

6. NIIDS and Underwriting SOURCE Were Designed to Automate Processes and Reduce Costs. DTCC's New Issue Information and Dissemination System (NIIDS) and Underwriting Source (Securities Origination Underwriting & Reliable Corporate Actions Environment) were designed and implemented to create new efficiencies and straight-through processing – specifically to minimize, if not eliminate, manual processes requirements for new issues of municipal securities – essentially automating DTCC's activities. Further, the use of NIIDS is mandated by the MSRB pursuant to MSRB Rule G-34 which is unlike any other asset class. In light of these system improvements, we believe the proposed astronomical fee increases for municipal securities processing are not warranted or justified.

We would welcome the opportunity to further discuss this issue with you and DTCC staff.

Sincerely,

Susan Gaffney, Government Finance Officers Association, 202-393-8468
Jeanine Rodgers Caruso, National Association of Independent Public Finance Advisors, 518-383-3602
David Cohen, Securities Industry and Financial Markets Association, 212-313-1265

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* The *Government Finance Officers Association* (GFOA) is represents over 17,500 public finance professionals across the United States and Canada who are responsible for the budgeting, accounting, investing and debt management for their cities, counties, special districts and states.

The *National Association of Independent Financial Advisors* (NAIPFA) is a professional organization limited to firms that specialize in providing financial advice on bond sales and financial planning on public projects of public agencies. The purpose of the Association is to promote the common interests of independent advisory firm members. NAIPFA member firms are considered independent by virtue of their lack of affiliation to any broker, dealer, or municipal securities dealer.

The *Securities Industry and Financial Markets Association* (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).