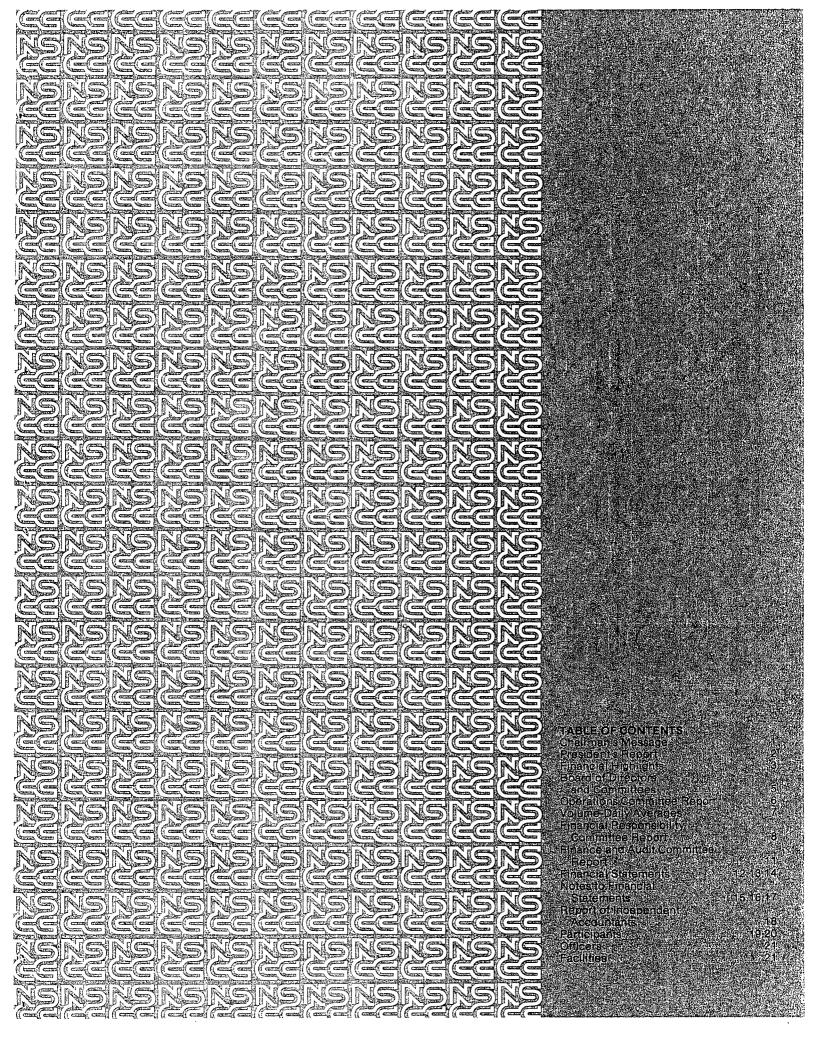
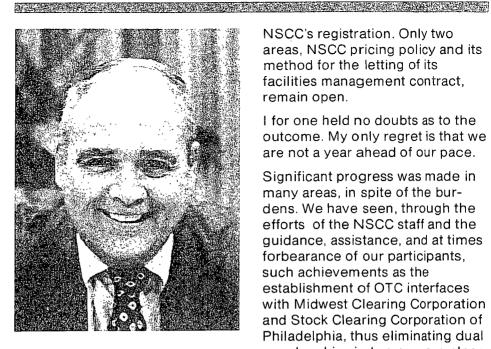
National Securities Clearing Corporation







## Chairman's Message

Both as Chairman of the Board and as a participant. I take particular pride in presenting National Securities Clearing Corporation's second Annual Report. The years of planning, perseverence, and hard work on the part of so many resulted in 1978 in significant benefits for our participants.

Since its registration by the Securities and Exchange Commission in January 1977. NSCC's major efforts have been directed, in the courts and before the Commission, towards justifying its creation and its planned operations. The benefits that NSCC's registration were to produce were in many cases delayed, stayed, and even denied. But questions of the propriety of a combined clearing entity were put to rest in 1978 through affirmation by the courts and the Commission of

NSCC's registration. Only two areas, NSCC pricing policy and its method for the letting of its facilities management contract. remain open.

I for one held no doubts as to the outcome. My only regret is that we are not a year ahead of our pace.

Significant progress was made in many areas, in spite of the burdens. We have seen, through the efforts of the NSCC staff and the guidance, assistance, and at times forbearance of our participants, such achievements as the establishment of OTC interfaces with Midwest Clearing Corporation and Stock Clearing Corporation of Philadelphia, thus eliminating dual memberships in two or more clearing entities. When coupled with expanded security eligibility lists. this increase in member participation has laid the foundation for a truly national system.

Participants have already begun to see the actual benefits in cost savings and operational efficiency, benefits the NSCC combination promised. This application of the "common sense approach" to securities processing, however, has just begun to bear fruit. As Chairman of the Board and on behalf of the staff. I pledge that NSCC will continue to strive to provide cost-effective, operationally sound securities processing, responsive to the needs of all our participants.

Robert M. Flanagan Robert M. Flanagan Chairman of the Board March 30, 1979



## **President's Report**

As our Chairman, Bob Flanagan, has stated, 1978 was a significant year for both NSCC and its participants. By the end of 1977 NSCC had satisfied all but two of the original conditions imposed on its registration. On December 28, 1977, NSCC had forwarded to the Securities and Exchange Commission an alternative conversion plan to provide the means for satisfying the "OTC interface condition" without the assistance of its NCC Division facilities manager. If approved, only one condition, "listed in the branches," would remain open. Also during 1977, NSCC had joined with the Commission in opposition to the challenge by two subsidiaries of Bradford National Corporation to NSCC's registration before the U.S. Circuit Court of Appeals.

Early in 1978, the Commission called for hearings to evaluate progress made towards a national clearance and settlement system and specifically NSCC's progress in satisfying the conditions to its registration. During the four days of hearings in March 1978, in addition to NSCC Board and staff officials, the Commission heard

testimony from representatives of the various stock exchanges, the National Association of Securities Dealers, Inc., the Securities Industry Association, and other registered clearing agencies. A significant representation of clearing agency participants also testified and, I am gratified to say, overwhelmingly supported NSCC's efforts to satisfy the conditions to its registration and its plans to bring about one-account settlement, the foundation of the national clearance and settlement system.

Hearings were reconvened by the Commission in April for an additional three days. During this session, considerable emphasis was put on the means of satisfying the "OTC interface condition" and the potential benefits of consolidating NSCC's operations under one facilities manager. As a direct outgrowth of these hearings and as a tribute to the overwhelming support given NSCC's efforts, an interim accord was reached by NSCC with its NCC Division facilities manager that paved the way for the establishment of an OTC interface with the Midwest Clearing Corporation and Stock Clearing Corporation of Philadelphia.

In May, NSCC and the Commission participated in oral arguments before the U.S. Court of Appeals. The final decision of the Court. however, was not rendered until September 19, 1978, Except for two narrow areas, NSCC's policy of charging the same fees for a given service without regard to a participant's geographic location and the appropriateness of employing competitive bidding for NSCC's facilities management arrangement, which were remanded to the Commission for further study and explanation, the Court affirmed in total the Commission's grant of registration to NSCC.

A week before the Court of Appeals' decision, the Commission

authorized NSCC to terminate its NCC Division facilities manager and to begin the conversion of former NCC Division participants to the Corporation's SCC Division.

On October 6, 1978, the Commission approved NSCC's consolidated rules filing permitting operation of all services within the SCC Division under a uniform rate package, approved on the same day. Further challenges before the Commission and the courts were initiated, but these were resolved on October 12, 1978 through a settlement agreement between NSCC and Bradford National Corporation that provided for cessation of all challenges to NSCC's registration, rules, and programs necessary for achieving consolidation.

At year-end the NCC Division and ASECC Division operations had been discontinued, the operation of all NSCC services under a single facilities manager had begun, and a refund policy for excess revenues had been implemented. As of this writing, NSCC has received final approval from the Commission to begin implementing listed processing in the branches, the last hurdle to be overcome before single-account processing can be achieved.

We look back at 1978 as the year of the courts and the Commission. We look forward in 1979 to bringing the membership the benefits for which NSCC was created.

Jack Nelson
President

March 30, 1979

Financial Highlights	For the Year	1978	1977	
	REVENUES	\$ 39,177,000	\$ 35,527,000	
	EXPENSES (including taxes)	38,195,000	34,790,000	
	NET INCOME	982,000	737,000	
	At Year End	1978	1977	
	CLEARING FUND	1370	1011	
	NCC Division	\$ 10,412,000	\$ 15,816,000	
	SCC Division	49,159,000	49,105,000*	

<sup>\*</sup>Reflects consolidation of SCC and ASECC Clearing Funds.

## **ANNUAL MEETING OF SHAREHOLDERS**

The Annual Meeting of Shareholders of the Corporation for the election of directors and the transaction of such other business is held on the third Wednesday in April in each year.

## INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co. 153 East 53rd Street New York, New York 10022



## **BOARD OF DIRECTORS**

Robert M. Flanagan (Chairman) Executive Vice President Dean Witter Reynolds Inc.

Joseph Cattivera Financial Vice President Morgan, Olmstead, Kennedy & Gardner, Incorporated

Robert T. Eckenrode Executive Vice President American Stock Exchange, Inc.

William J. Fields Executive Vice President & Treasurer

Wheat, First Securities, Inc.

John Herzoa President Herzog, Heine, Geduld, Inc. Raymond C. Holland Senior Vice President A G Becker Incorporated C. Richard Justice Senior Vice President National Association of

Donald D. Kittell Senior Vice President New York Stock Exchange, Inc.

Securities Dealers, Inc.

Jack Nelson President National Securities Clearing Corporation

Gilbert L. Pamplin Executive Vice President & Treasurer J.J.B.Hilliard, W.L.Lyons, Inc.

Robert P. Rittereiser Executive Vice President Merrill Lynch, Pierce, Fenner & Smith Inc.

Donald R. Sammet Senior Vice President Regis Management Corporation Milan S. Soltis Vice President The Chase Manhattan Bank, N.A. Paul Underwood Senior Vice President E.F. Hutton & Company Inc. George A. Vonder Linden

Senior Vice President-Director Smith Barney, Harris Upham & Co. Incorporated

John D. Weeden Executive Vice President Weeden & Co.

#### **BOARD COMMITTEES**

**Executive Committee** Robert M. Flanagan, Chairman Raymond C. Holland Jack Nelson Robert P. Rittereiser Donald R. Sammet Paul Underwood George A. Vonder Linden

**Finance & Audit Committee** Paul Underwood. Chairman Gilbert L. Pamplin Robert P. Rittereiser Donald R. Sammet Milan S. Soltis

**Financial Responsibility Committee** Robert P. Rittereiser, Chairman John Herzog Raymond C. Holland George A. Vonder Linden John D. Weeden

**Operations Committee** Raymond C. Holland, Chairman Joseph Cattivera William J. Fields Paul Underwood George A. Vonder Linden

### 1980 NOMINATING COMMITTEE

Benjamin F. Edwards, III President A.G. Edwards & Sons, Inc. Bernard L. Madoff Prop. Bernard L. Madoff John J. Maloney, Jr. President Thomson McKinnon Securities, Inc. R.D.McFarland President Dain, Kalman & Quail, Inc. Vincent B. Murphy, Jr. Partner Salomon Brothers John T. Roche Executive Vice President

Kidder Peabody & Co., Inc.



Standing: George A. Vonder Linden, Joseph Cattivera. Seated: Paul Underwood, Raymond C. Holland and William J. Fields

## **Operations Committee Report**

NSCC's Operations Committee monitors the Corporation's performance in providing services to its participants and gives direction to its operations and systems planning efforts. In 1978, much of the efforts of the Committee and the staff were directed to the consolidation of NSCC's separately operated listed and OTC Continuous Net Settlement (CNS) clearance operations into a single system operated under contract for NSCC by the Securities Industry Automation Corporation (SIAC).

In preparation for the consolidation, the OTC interface that had existed between the NCC Division and Pacific Clearing Corporation since 1974 was expanded in June to include participants of Midwest Clearing Corporation and Stock Clearing Corporation of Philadelphia. Inter-clearing corporation settlement of these transactions was accomplished via

NSCC's SCC Division. This provided SIAC, our SCC Division facilities manager, with experience in handling OTC transactions that proved valuable when participant OTC trades were compared and cleared directly in that Division.

Another step toward consolidation occurred in August when the interface that was initially implemented between the NCC Division and The Depository Trust Company (DTC) in 1974 was expanded to include all dually eligible issues. This expansion simplified the eventual consolidation process by allowing most participant "fully paid for" positions at the NCC Division to be moved to DTC via book entry rather than physically. It also simplified securities settlement during the transition period when participants had settling trades and securities positions at both the NCC and SCC Divisions.

In October, the SEC gave NSCC the necessary approvals to begin the transfer of all OTC activity from the NCC Division to the SCC Division. Within the ensuing threemonth period, branch offices were established in ten cities; 160 participants were trained and their OTC activity transferred to the SCC Division system; operation of the OTC interfaces was transferred to the SCC Division: and approximately \$800 million in participant free positions at the NCC Division, represented by approximately 260,000 stock certificates, were moved from the NCC Division to DTC or physically delivered to participants.

Also, during the latter part of the year, approximately 3,000 additional OTC securities were made eligible at DTC, thus making these issues eligible for CNS processing. On December 29, the end of the three-month transition period, the remaining unsettled positions

at the NCC Division were transferred to the SCC Division, and the NCC Division system was discontinued.

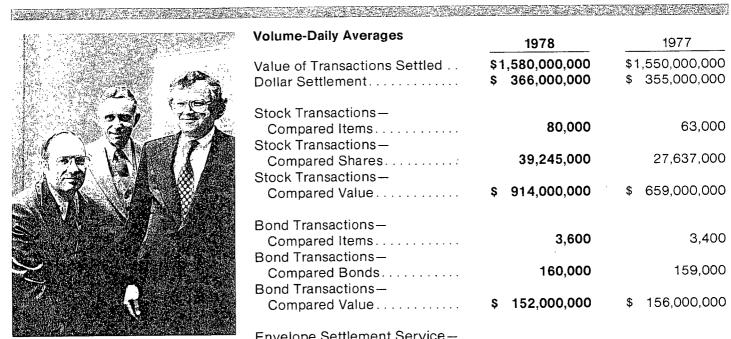
Until just before this writing, NSCC was restricted by the Commission from satisfying the one remaining condition to its original registration, the establishment of listed capabilities in regional facilities. In 1979, NSCC can now look forward to satisfying this condition and then to the total consolidation of our CNS processing to "one-account settlement."

With the consolidation now largely behind us, NSCC will be devoting its efforts to improving our existing services through enhancements and to developing new services for our participants. For your review, on the following page, you will find a table showing daily averages of activity processed by the Corporation for 1978 and 1977.

The Committee wishes to express its gratitude to all our participants for the patient and cooperative support provided to NSCC and its staff during this difficult consolidation period. Without such support, the accomplishments of 1978 would not have been possible.

Laymel Ballan.

Raymond C. Holland, *Chairman Operations Committee March 30, 1979* 



SHAREHOLDER DIRECTORS
C. Richard Justice, Robert T. Eckenrode, and Donald D. Kittell.

Volume-Daily Averages	1978	1977			
Value of Transactions Settled Dollar Settlement	\$1,580,000,000 \$ 366,000,000	\$1,550,000,000 \$ 355,000,000			
Stock Transactions — Compared Items	80,000	63,000			
Stock Transactions — Compared Shares	39,245,000	27,637,000			
Stock Transactions — Compared Value	\$ 914,000,000	\$ 659,000,000			
Bond Transactions — Compared Items	3,600	3,400			
Bond Transactions — Compared Bonds	160,000	159,000			
Bond Transactions — Compared Value	\$ 152,000,000	\$ 156,000,000			
Envelope Settlement Service— Items Envelope Settlement Service—	12,300	13,300			
Value	\$1,187,000,000	\$1,107,000,000			
National Envelope Settlement Service—Items	90	100			
National Envelope Settlement Service – Value	\$ 700,000	\$ 700,000			
Correspondent Delivery and Collection Service—Items	240	240			
Correspondent Delivery and Collection Service — Value	\$ 25,000,000	\$ 25,000,000			
Dividend Settlement Service — Items Dividend Settlement Service —	580	480			
Value	\$ 380,000	\$ 315,000			
National Transfer Service — Items	4,100	4,900			
Clearing Interfaces— Incoming Items Clearing Interfaces—	8,200	4,100			
Incoming Shares	5,675,000	3,125,000			
Outgoing Items	3,500	2,100			
Outgoing Shares	1,265,000	655,000			



Standing: Raymond C. Holland, John Herzog. Seated: George A. Vonder Linden, Robert P. Rittereiser and John D. Weeden.

# Financial Responsibility Committee Report

The function of the Financial Responsibility Committee is threefold. It reviews the administration of the Corporation's rules and stated policies with respect to qualifications for initial and continued participation, as well as disciplinary actions and suspensions. It reviews and makes recommendations to the Board of Directors regarding proposed changes to or interpretations of rules relating to participants. It also serves as an "appeals board" for participants or applicants for membership wishing to register a grievance against the Corporation for its actions or the operation of its various services.

During the past year two significant steps were taken by the Corporation that had an impact in the membership area. These were the approval of a consolidated rules package (SR-NSCC-77-10) and the combination of the Corporation's divisional activities within the SCC Division. With the approval of the Corporation's consolidated rules, eligibility standards for membership were broadened and the criteria for initial entrance were conformed. The combination of all operations within a single division has enabled us to merge Clearing Fund obligations. Many participants, at the time of this writing, have already received refunds of excess Clearing Fund deposits which multiple divisional memberships had previously required.

Single-division operation also makes possible uniform surveillance techniques. As a result, during 1978, in addition to working with several participants that experienced operational and/or financial problems, the Committee began work on improving in-house surveillance techniques. For the first time, it began production for distribution of a formal code of

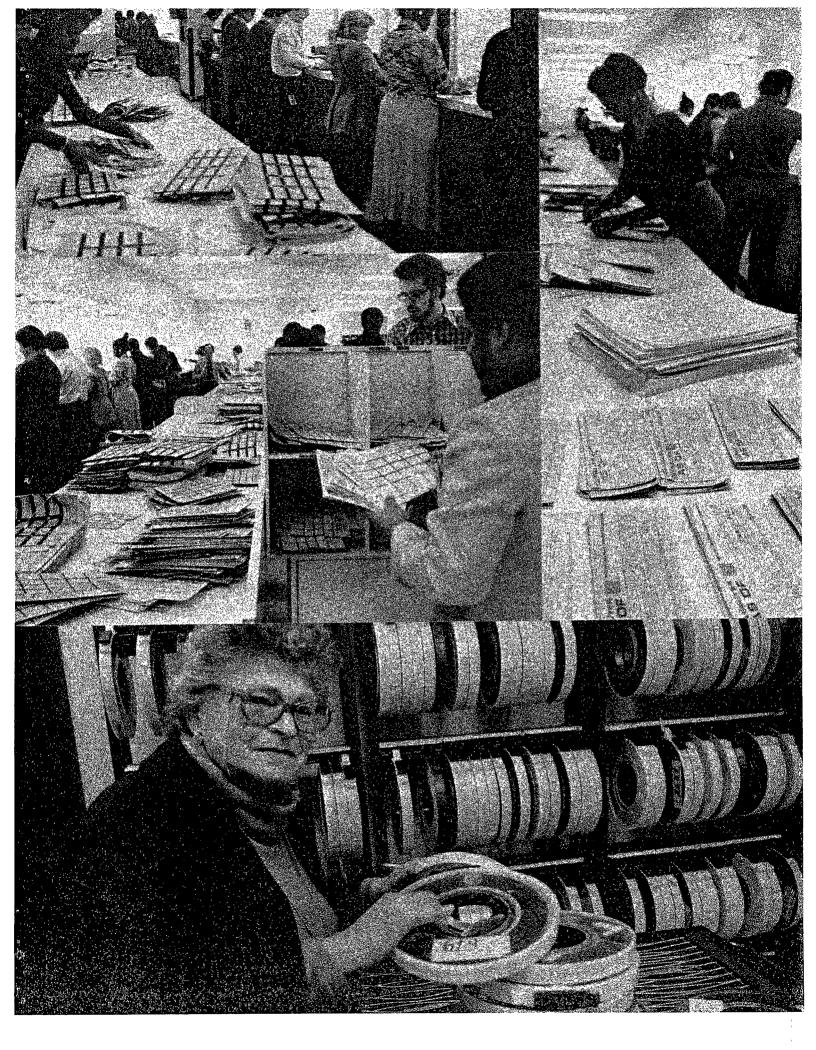
procedures and quidelines to be applied by the Corporation in reviewing the financial accountability and operational capability of participants. The Committee also spent a considerable amount of time in the development of an arbitration mechanism that would relate not only to disputes between participants, arising under the Corporation's rules, but also to disputes against the Corporation for which appeal has not been provided. Key to this area has been the solicitation of views from and coordination with other selfregulatory organizations and the Securities and Exchange Commission to ensure that the Corporation's actions will be consistent with the industry movement towards eliminating duplication and standardizing practices and procedures.

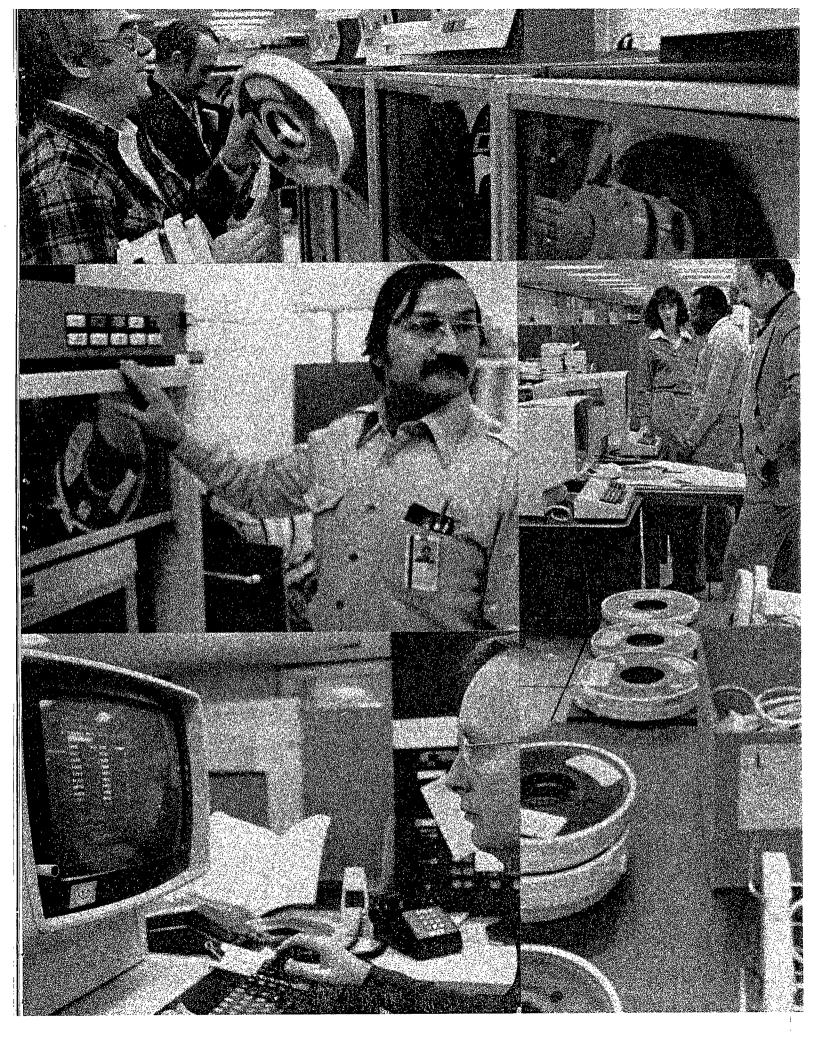
Two further areas in which work has begun are the restructuring of the Corporation's Clearing Fund in order to relate Clearing Fund requirements more closely to actual risks and exposure, and a review of the impact on Corporate liability of sponsored accounts and their relationship with qualified securities depositories. This latter review has already resulted in the adoption of joint rule interpretations by the Corporation and The Depository Trust Company in the area of reducing loss exposure.

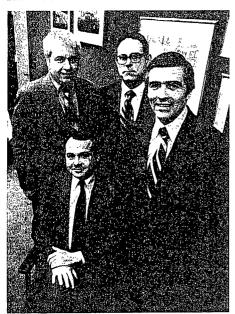
As these and other projects develop, the Corporation and the Committee will be calling upon participants to supplement existing in-house expertise. Only with such participant input can the Committee and Corporation accomplish the goal of insuring the safety and security of the cash and securities entrusted to the Corporation by participants.

- Robert - Rotherenser

Robert P. Rittereiser, Chairman Financial Responsibility Committee March 30, 1979







Standing: Donald R. Sammet, Gilbert L. Pamplin, Robert P. Rittereiser. Seated: Paul Underwood.

## **Finance and Audit Committee** Report

This past year the Finance and Audit Committee has continued its active program of monitoring the financial integrity and viability of the Corporation. In this regard the Committee met with representatives of Price Waterhouse & Co., NSCC's independent accountants, to discuss the scope of their 1978 examination and to review other work performed during the year.

We are pleased to report that substantial progress has been made in all financial areas, and we have now begun to pass on significant savings to our participants. In 1978, operating revenues totalled \$38,557,000, an increase of 10% over 1977 revenues of \$35,121,000. This is attributable to a 42% increase in share volume. Interest income in 1978 rose to \$620,000 from the 1977 level of \$406,000, primarily as a result of higher interest rates available on Treasury Bills and Repurchase Agreements. Expenses were \$36,925,000, up 9% over 1977 expenses of \$33,861,000, with

approximately \$2,000,000 of the increase attributable to the recently cancelled facilities management contract for our NCC Division. The balance is attributed to start-up expenses for OTC processing at SIAC and inflationary increases. Net income after taxes in 1978 was \$982,000. bringing retained earnings to a level of \$1,719,000. Of the total net income in 1978, approximately 90% was realized during the first 9 months of the year, before the institution of our new pricing structure with its attendant discount feature.

In view of realizing 86% of our total retained earnings goal of \$2,000,000, the NSCC Board has decided to slow the retained earnings accumulation program. This new policy will result in decreased charges to our participants by effectively discounting revenues except those necessary to earn the balance of our retained earnings goal over the next four years. The \$2,000,000 retained earnings goal provides a contingency against potentially low-volume periods and also provides a fund for the development of new systems and enhancement of existing systems as required.

As our financial performance during 1978 shows, costs have been controlled relative to volume processed, even though NSCC had to bear the expense in 1978 of having two facilities managers. At the end of the year, the processing of OTC transactions was consolidated into our SCC Division and as a result, many duplicative costs have been eliminated. Assuming comparable volume levels, we project total billings in 1979 to be approximately \$27,800,000, a decrease of \$10,757,000, or 28% from 1978.

The elimination of multiple divisional deposits in the Clearing

Fund, which was in process at year end, contributed to a decrease of \$5,350,000 from last year's level. At December 31, 1978, the Clearing Fund totalled \$59,571,000, comprised of \$9,706,000 in cash received and \$49.865.000 due on demand from participants collateralized by Federal and state obligations with a market value of \$70,473,000. This collateral is deposited according to the rules of NSCC and kept under control of the Corporation to act as a buffer against potential participant impairment. The cash balance in the fund, along with other temporarily available cash, is invested in Federal obligations in order that interest earnings may accrue to NSCC and effectively result in lower fees to our participants.

> During the year, NSCC instituted a formal policy whereby settlement adjustments for the previous day's balances are accomplished by Federal Funds in those instances where net settlement adjustments differ by \$500,000 or more from actual net settlement. This procedure is viewed as most equitable to all participants and enhances the financial viability of the Corporation.

> The financial reports included in the Annual Report portray a favorable financial performance in 1978 compared with 1977, particularly in view of the significantly increased volume processed and the fact that the previously cited costs of two processors were borne for the entire year. We look forward to significantly improved results in 1979 and pledge that we will continue to work towards this goal while maintaining the financial viability of the Corporation for all NSCC participants.

Paul Underwood, Chairman Finance and Audit Committee March 30, 1979

## **Balance Sheet**

	December 31,	
	1978	1977*
Assets		
Current assets:		
Cash	\$ 2,319,000	\$ 5,666,000
Temporary investments at cost (approximates market)	6,615,000	7,913,000
Accounts receivable, less allowance for doubtful accounts of		
\$867,000 in 1978 and 1977 (Note 6)	2,885,000	3,301,000
Settlement accounts receivable	21,553,000	5,173,000
Other current assets	45,000	27,000
Total current assets	33,417,000	22,080,000
Clearing Fund (Note 3)	49,865,000	57,007,000
Other noncurrent assets	148,000	365,000
	\$ 83,430,000	\$ 79,452,000
Liabilities and Shareholders' Equity  Current liabilities: Accounts payable.  Regulatory fees payable (Note 4).  Settlement accounts payable.  Accrued taxes and other expenses.  Unclaimed dividends.  Total current liabilities.  Clearing Fund (Note 3): Cash received.  Amounts due from members on demand.	\$ 3,228,000 1,068,000 15,213,000 720,000 1,011,000 21,240,000 9,706,000 49,865,000 59,571,000	\$ 3,097,000 954,000 7,774,000 461,000 608,000 12,894,000 7,914,000 57,007,000 64,921,000
Commitments and contingent liabilities (Notes 5, 7 and 9)		
Shareholders' equity: Common stock, authorized, issued and outstanding, 30,000 shares of \$.50 par value	15,000 885,000 1,719,000 2,619,000	15,000 885,000 737,000 1,637,000
	\$ 83,430,000	\$ 79,452,000
	<del>+ 00, 100,000</del>	, ,

The accompanying notes to financial statements are an integral part of this statement.

<sup>\*</sup>Reclassified for comparative purposes.

## Statement of Income and Retained Earnings

For the year ended December 31,

Revenue from clearing services	1978 \$ 38,557,000 620,000 39,177,000	1977* \$ 35,121,000 406,000 35,527,000
Expenses:  Securities Industry Automation Corporation processing fees (Notes 4 and 5)	14,645,000 10,928,000 4,711,000 4,153,000 1,200,000 712,000 576,000 36,925,000	13,529,000 8,946,000 3,583,000 4,571,000 1,034,000 784,000 547,000 32,994,000
Income before other expense and income taxes  Other expense:  Unallocated settlement loss (Note 6)	2,252,000 	2,533,000 <u>867,000</u> 1,666,000 929,000
Net income	982,000 737,000 \$ 1,719,000	737,000  \$ 737,000

The accompanying notes to financial statements are an integral part of this statement.

<sup>\*</sup>Reclassified for comparative purposes.

## Statement of Changes in Financial Position

	For the year ended December 31,		
	1978	1977*	
Financial resources were provided by (used for):			
Net income	\$ 982,000	\$ 737,000	
Add—Charges not affecting working capital:			
Depreciation and amortization	185,000	181,000	
Write-off of fixed assets	61,000	26,000	
Working capital provided from operations	1,228,000	944,000	
Increase (decrease) in Clearing Fund deposits	1,792,000	(420,000)	
Other—mainly purchase of fixed assets	(29,000)	(123,000)	
Increase in working capital	\$ 2,991,000	\$ 401,000	
Analysis of Changes in Working Capital			
Increase (decrease) in current assets:			
Cash	\$ (3,347,000)	\$ 5,063,000	
Temporary investments	(1,298,000)	1,832,000	
Accounts receivable	(416,000)	1,260,000	
Settlement accounts receivable	16,380,000	(17,682,000)	
Other current assets	18,000	(89,000)	
	11,337,000	(9,616,000)	
(Increase) decrease in current liabilities:			
Accounts payable	(131,000)	(1,405,000)	
Regulatory fees payable	(114,000)	(328,000)	
Settlement accounts payable	(7,439,000)	12,438,000	
Accrued taxes and other expenses	(259,000)	(457,000)	
Unclaimed dividends	(403,000)	(231,000)	
	(8,346,000)	10,017,000	
Increase in working capital	\$ 2,991,000	\$ 401,000	

The accompanying notes to financial statements are an integral part of this statement.

<sup>\*</sup>Reclassified for comparative purposes.

## Notes to Financial Statements

## NOTE 1—Summary of Significant Accounting Policies:

## (a) Retained earnings:

The Company is attempting to establish a contingency fund of \$2,000,000 from its revenue. In general, it does not propose to earn profits in excess of that amount or declare dividends. Net income for 1978 and 1977 was retained for this purpose.

## (b) Clearing Fund:

The Company records the Clearing Fund based on cash deposited in the fund and amounts due from members on demand, which are secured by obligations issued or guaranteed by the United States Government, its states and their political subdivisions.

#### (c) Temporary investments:

Temporary investments consist of U.S. Treasury Bills and U.S. Treasury Notes purchased under agreements to resell. The Board of Directors has mandated that the Company's investments cannot exceed a maturity of five years from the date of purchase.

## (d) Settlement accounts:

Settlement accounts receivable and payable arise from temporary time lags in the cash settlement process between the Company and clearing members, non-member participants, other clearing organizations, depositories or dividend disbursing agents.

## (e) Revenue from clearing services:

Revenue from clearing services reflects discounts to SCC Division participants under the consolidated rate structure as described in Note 2.

#### NOTE 2—History and Organization:

On January 13, 1977, the application of the Company for registration as a clearing agency was approved by the Securities and Exchange Commission (SEC). This application called for the consolidation into the Company of Stock Clearing Corporation (SCC), [a wholly owned subsidiary of the New York Stock Exchange (NYSE)], American Stock Exchange Clearing Corporation (ASECC), [a wholly owned subsidiary of the American Stock Exchange (AMEX)] and National Clearing Corporation (NCC), [a wholly owned subsidiary of the National Association of Securities Dealers (NASD)]. On January 20, 1977, the Company assumed the operations of the three clearing facilities retroactive to the opening of business on January 1, 1977 and offered to all participants substantially all of the services formerly offered by SCC, ASECC and NCC. On October 1, 1978, ASECC Division participants were converted to the SCC Division system. During the last quarter of 1978, NCC Division participants were converted to the SCC Division system. This conversion was completed effective December 29, 1978.

The Company is managed by its own staff and guided by an independent user Board of Directors which is responsible for its policies, operations and financing. The SEC approved a new consolidated rate structure (effective October 1, 1978) based upon the Company's cost of providing services to its SCC Division participants. Discounts to SCC Division participants under this new rate structure amounted to \$1,914,000 in the last quarter of 1978.

## NOTE 3—Clearing Fund:

The rules of the Company require each clearing member to contribute to the clearing fund of each operating division an amount based on its activity. The fund is available to secure member obligations to the Company and

## Notes (continued)

certain losses, should they occur. Amounts above a \$10,000 minimum cash requirement may be secured by bearer bonds issued or guaranteed by the United States Government, its states and their political subdivisions. The interest on these securities accrues to the respective clearing member. The market value of these securities was \$70,473,000 and \$69,734,000 at December 31, 1978 and 1977, respectively.

#### NOTE 4—Transactions with Related Parties:

The NYSE, AMEX and NASD each own an equal share of the Company. These organizations provide regulatory services which include: periodic examinations of the records and operations of clearing members; the monitoring and investigation of the financial and operating condition of clearing members and new applicants for membership; and notification to the Company of unusual market conditions which may affect securities cleared. Amounts billed to the Company by these organizations during 1978 and 1977 and amounts unpaid at December 31, 1978 and 1977 are as follows:

		1978		_	1977			
		Billed	_	Unpaid	_	Billed		Unpaid
NYSE	\$	3,291,000	\$	786,000	\$	2,525,000	\$	662,000
AMEX		616,000		90,000		484,000		122,000
NASD	-	804,000		192,000	_	574,000		170,000
TOTAL	\$	4,711,000	\$_	1,068,000	\$_	3,583,000	\$	954,000

As described in Note 5, the Company has a facilities management agreement with Securities Industry Automation Corporation (SIAC) which is owned by the NYSE and AMEX. The Company also has a rental agreement for office space with SIAC and payments under this agreement amounted to \$138,000 and \$91,000 during 1978 and 1977, respectively. The NYSE also owns a minority interest in The Depository Trust Company (DTC), whose facilities are used by the Company. Amounts unpaid at December 31, 1978 and 1977 to SIAC and DTC are as follows:

	 1978	1977		
SIAC	\$ 1,518,000	\$	1,199,000	
DTC	\$ 348,000	\$	371,000	

At December 31, 1978 and 1977, the Company had certain receivables (payables) resulting from the cash settlement process, as follows:

	1976	1977		
DTC	\$ 2,106,000	\$	111,000	
NYSE	\$(1,506,000)		_	

## NOTE 5—Facilities Management Agreements:

Under the terms of an agreement, SIAC provides the necessary facilities, personnel and services in support of the Company's clearing services and related functions. The SCC and ASECC Divisions were operated under the terms of this agreement in 1977 and for the first nine months of 1978, and consolidated SCC Division processing commenced in October 1978. SIAC's fee is based on its direct, computer, and general overhead costs arising from providing such services. The agreement is for the five-year period ending December 31, 1981, and is renewable in the absence of notice of cancellation by either party. The agreement may be cancelled after two years upon monthly payments of up to \$225,000 for the remaining term of the initial five-year period.

Bradford National Corporation (Bradford) was the facilities manager for the NCC Division during 1978 and 1977. Under the terms of an agreement,

## NATIONAL SECURITIES CLEARING CORPORATION

## Notes (continued)

Bradford agreed to provide the necessary facilities, personnel and services in support of certain of the Company's clearing services and related functions. Bradford's fee under this agreement for 1977 and the first three quarters of 1978 ranged from 80% to 84% of the applicable monthly revenues with the balance retained by the Company. Additionally, the agreement provided that the Company's minimum monthly share was not to be less than \$70,000.

The October 1, 1974 agreement with Bradford was terminated effective January 4, 1979. Pursuant to a separate termination contract, Bradford was compensated in the amount of \$2,079,000 for services provided from October 1, 1978 to January 4, 1979. Additional costs of \$260,000 associated with the termination were charged to income in 1978.

## NOTE 6-Unallocated Settlement Loss:

As a result of one member's inability to settle his security trades, the Company incurred a loss in 1977 of \$867,000. In June 1977, the Board of Directors of the Company decided to absorb the loss rather than allocate it to its clearing members through the Clearing Fund. The Company has filed a claim against the estate of the member, but recovery, if any, cannot be presently assessed.

## NOTE 7—Contingencies:

The Continuous Net Settlement (CNS) system interposes the Company with a member in each daily security settlement. The total long and short security settlements are in balance each day.

The failure of members to deliver securities to the Company, and the corresponding failure of the Company to redeliver such securities results in unsettled transactions. Unsettled CNS transactions are marked to market and charged or credited daily to the members involved.

At December 31, 1978, there were unsettled transactions of approximately \$278,000,000 (\$316,000,000 at December 31, 1977).

## NOTE 8—Income Taxes:

Total income tax expense, which substantially represented current taxes payable, amounted to \$1,270,000 (an effective rate of 56.4%) for 1978 and \$929,000 (an effective rate of 55.8%) for 1977. The differences between the federal statutory income tax rate of 48% and the effective rates were mainly due to state and local income tax expenses.

#### NOTE 9—Pension Plan:

In 1977, the Company made its initial payment to a trusteed non-contributory pension plan which covers most of its employees. The Company's policy is to fund pension cost accrued. Total pension expense was \$65,000 and \$39,000 for the years 1978 and 1977, respectively.

At December 31, 1978, the liability for unfunded past service costs amounted to \$93,000 (1977—\$121,000). This liability is being funded over a period of 10 years. The actuarially computed value of vested benefits exceeded the pension fund net assets at December 31, 1978 by \$82,000 (1977—\$55,000).

# Report of Independent Accountants



153 EAST 53RD STREET NEW YORK, N. Y. 10022

March 30, 1979

Price Watrhouse & Co.

To the Board of Directors of National Securities Clearing Corporation

In our opinion, the accompanying balance sheet and the related statements of income and retained earnings and of changes in financial position present fairly the financial position of National Securities Clearing Corporation at December 31, 1978 and 1977, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

## Participants of National Securities Clearing Corporation

ABD Securities Corp. Adler, Coleman & Co.

Advest, Inc.

Allen & Company Incorporated
Amalgamated Bank of New York
American Securities Corporation
American Stock Exchange Clearing
Corporation

Anderson & Strudwick, Inc.

Arnhold & S. Bleichroeder, Inc.

Asiel & Co.

Atlantic Capital Corporation

Bache Halsey Stuart Shields Incorporated

Bacon, Whipple & Co. Baird, Patrick & Co., Inc.

Bank Leumi Trust Company of New York

Bank of Montreal (Agency)
Bank of New York (The)
Bankers Trust Company
Bear, Stearns & Co.
Beauchamp & Co.

Becker (A.G.) Incorporated

Bell & Beckwith

Bellamah, Neuhauser & Barrett, Inc.

Bernstein (Sanford C.) & Co., Inc.

Blair (William) & Company

Blunt Ellis & Loewi Incorporated

Blyth Eastman Dillon & Co. Incorporated

Boesky (Ivan F.) and Co. Boettcher & Company

Boseco, Inc.

Boston Stock Exchange Clearing

Corporation Bradford (J.C.) & Co.

**Bradford Securities Processing** 

Services, Inc.

Bradford Trust Company Branch, Cabell & Co. Brown (Alex.) & Sons

Brown Brothers Harriman & Co. Bruns, Nordeman, Rea & Co. Burgess & Leith Incorporated

Burns Fry and Timmins Inc.

Burns, Pauli & Co., Inc.

Canadian Depository for Securities

Limited (The)

Canadian Imperial Bank of Commerce

Cantor (S.B.) & Co., Inc. Carmoley Corporation

Carr & Thompson, Inc.
Carr Securities Corporation

Cartwright (L.) & Co. CBT Clearing Corp.

Chase Manhattan Bank, N.A. (The)

Chemical Bank

Chicago Corporation (The) Christopher (B.C.) & Company

Citibank, N.A.
Colin, Hochstin Co.
Conklin, Cahill & Co.
Conning & Co.
Cowen & Co.

Craig-Hallum, Inc.

Dain, Kalman & Quail, Incorporated Daiwa Securities America Inc.

Davenport & Co. of Virginia, Inc. Davis (Shelby Cullom) & Co.

de Cordova, Cooper & Co. Defco Securities, Inc.

Deltec Securities Corporation Dexter Securities Corporation

Dillon, Read & Co., Inc.

Doft & Co., Inc.

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Donaldson, Lufkin & Jenrette Securities Corporation

Drexel Burnham Lambert Incorporated

Dritz, Goldring, Wohlreich & Co. Drysdale Securities Corporation

Easton & Co.

Eberstadt (F.) & Co., Inc. Edwards (A.G.) & Sons, Inc.

Einhorn & Co.

Engler & Budd Company Eppler, Guerin & Turner, Inc. Equity Securities Trading Co., Inc.

Ernst & Company

**EuroPartners Securities Corporation** 

Evans & Co., Incorporated

\ Execution Services Incorporated

Fagenson & Co., Inc. Fahnestock & Co.

Ferris & Company, Incorporated

Fidelity Union Trust Co.

Fiduciary Trust Company of New York

Financial America Securities, Inc.

First Albany Corporation

First Boston Corporation (The)

First Independent Stock Transfer

Agent, Inc.

First Jersey National Bank First Jersey Securities, Inc.

First Manhattan Co.

First National Boston Clearance Corp.

First Southwest Company

First Wall Street Settlement Corporation

Flagship First National Bank

Folger Nolan Fleming Douglas, Incorporated Foster & Marshall Inc.

Fowler & Rosenau Frances (E.G.) & Co. Frank (Walter N.) & Co. Frankel (Wm. V.) & Co., Inc.

Freehling & Co.

Freeman Securities Company, Inc. French American Banking Corp.

Fried (Albert) & Co.

Gintel & Co.

Goldberg Securities
Goldman, Sachs & Co.
Goldstein (M.E.) & Co., Inc.
Gowell Securities Corporation

Gradison & Company, Incorporated

Granger & Company

Gruntal & Co.

Gruss (Oscar) & Son Incorporated

Hartford National Bank and Trust Company

Haupt, Andrews, Fraiman & Hug Hawthorne Securities Corporation

Heitner Corporation (The) Henderson Brothers, Inc. Henderson, Harrison & Co.

Herzfeld & Stern

Herzog, Heine, Geduld, Inc. Hill, Thompson, Magid & Co., Inc. Hilliard (J.J.B.), Lyons (W.L.), Inc.

Hirshon, Roth & Co.
Howard, Weil, Labouisse,
Friedrichs Incorporated
Hudson (R.S.) & Co., Inc.
Hummer (Wayne) & Co.

Hutton (E.F.) & Company Inc. Icahn & Co., Inc.

Illinois Company Incorporated (The)

Ingalls & Snyder

Institutional Equity Corporation

## Participants of National Securities Clearing Corporation (continued)

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Jacobson (Benjamin) & Sons

Janney Montgomery Scott Inc.

Jones (Edward D.) & Co.

Josephthal & Co., Incorporated

Kalb. Voorhis & Co. Kaufmann, Alsberg & Co.

Kidder, Peabody & Co. Incorporated

Kingsley, Boye & Southwood, Inc.

Krieger (Henry) & Co. Labranche & Co.

Laidlaw Adams & Peck Inc.

Lasker, Stone & Stern

Lawrence (Cyrus J.) Incorporated

Lawrence, O'Donnell & Co.

Lazard Freres & Co.

Lenart, McHugh & Co.

Lewco Securities Corp.

Lincoln First Bank of Rochester

Mabon, Nugent & Co. Madoff (Bernard L.)

Manley, Bennett, McDonald & Co.

Manufacturers Hanover Trust Company Manufacturers National Bank of Detroit

Manufacturers & Traders Trust Company

Marcus Schloss & Co., Inc.

Marine Midland Bank-New York

Marks (Carl) & Co., Inc.

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Mayer & Schweitzer, Inc. McDonald & Company

Meehan (M.J.) & Co.

Merrill Lynch, Pierce, Fenner & Smith Inc.

Mesirow & Company

MidSouthwest Securities, Inc. Midwest Clearing Corporation

Mitchel, Schreiber, Watts & Co., Inc.

Mitchum, Jones & Templeton, Incorporated

MKI Securities Corp.

Montgomery Securities

Moore, Leonard & Lynch, Incorporated

Moore & Schley, Cameron & Co.

Morgan Guaranty Trust Company

of New York

Morgan, Keegan & Company, Inc.

Morgan, Olmstead, Kennedy & Gardner,

Incorporated

Morgan Stanley & Co. Incorporated

Muir (John) & Co.

Muller and Company

Murphey, Marseilles & Smith

Murphy & Durieu

National Bank of North America

Neuberger & Berman

Newhard, Cook & Co. Incorporated

Nick (J.F.) & Co.

Nomura Securities International, Inc.

Norris & Hirshberg, Inc. Northwestern Trust Company

Oppenheimer & Co., Inc.

Paine, Webber, Jackson & Curtis,

Incorporated

Parker, Weissenborn & Moynahan, Inc.

Pasternack Securities

Pforzheimer (Carl H.) & Co.

Piper, Jaffray & Hopwood Incorporated

Pitfield, Mackay & Co., Inc. Prescott, Ball & Turben

Purcell, Graham & Co., Inc. Q & R Clearing Corporation

Quinn (E.J.) & Co., Inc.

Rauscher Pierce Refsnes, Inc. Raymond, James & Associates, Inc.

Reaves (W.H.) & Co., Inc.

Regis Management Corporation

Reich & Co., Inc.

Republic National Bank of New York

Rice Securities Inc.

Richardson Securities, Inc. Riviere Securities Corporation

Robb, Peck, McCooey & Co., Inc.

Robertson, Colman, Stephens & Woodman Robinson-Humphrey Company, Inc. (The)

Rodman & Renshaw, Inc. Roney (Wm. C.) & Co.

Rotan Mosle Inc.

Rothschild (L.F.), Unterberg, Towbin

Roulston & Company, Inc.

Rowland (R.) & Co. Incorporated

Ryan (John J.) & Co.

Sade & Co.

Salomon Brothers

Schapiro (M.A.) & Co., Inc.

Scherck, Stein & Franc, Inc. Schroder Trust Co.

Securities Settlement Corporation

Seligman (J. & W.) & Co.

Shaine (H.B.) & Co., Inc.

Shawmut Securities Clearance Corp.

Shearson Hayden Stone Inc.

Simon (I.M.) & Co.

Smith Barney, Harris Upham

& Co. Incorporated

Smith (E.H.) Jacobs & Co.

Spear, Leeds & Kellogg

State Street Bank and Trust Company

Steichen (R.J.) & Co. Stern & Kennedy

Sterne, Agee & Leach, Inc.

Stifel, Nicolaus & Company Incorporated

Stillman, Maynard & Co. Stock Clearing Corporation

Stock Clearing Corporation of Philadelphia

Stokes, Hoyt & Co. Streicher (J.) & Co.

Stuart Brothers

Suez American Corporation Sutro & Co. Incorporated

Swiss American Securities Inc.

Swiss Bank Corporation

Thomson McKinnon Securities Inc.

Tompane (A.B.) & Co.

Toronto-Dominion Bank (The)

Tucker, Anthony & R.L. Day, Inc.

Tweedy Browne Clearing Corporation

United Missouri Bank of Kansas City, N.A.

United States Trust Company of New York

Vincent (Burton J.), Chesley & Co.

Viner (Edward A.) & Co., Inc. Wagner, Stott & Co.

Weber, Hall, Cobb & Caudle, Inc.

Wechsler & Krumholz, Inc.

Wedbush, Noble, Cooke, Inc.

Weiss, Peck & Green

Wellington & Co.

Wells Fargo Securities

Clearance Corporation

Westminster Securities Corp.

Wheat, First Securities, Inc.

Whitney (H.N.), Goadby & Co.

Wien (M.S.) & Co., Inc.

Williams (Jerry), Inc. Witter (Dean) Reynolds Inc.

Wood Gundy Incorporated

Wreszin, Prosser, Romano & Co. Yamaichi International (America), Inc.

The above listed firms are participants of National Securities Clearing Corporation as defined by the Securities Exchange Act of 1934. Other organizations use certain limited services offered by NSCC. For a complete listing of services provided and member participants, please write to the Director of Membership, NSCC, 55 Water Street, New York, New York 10041. Data compiled as of March 30, 1979.

#### OFFICERS OF NATIONAL SECURITIES **CLEARING CORPORATION**

Robert M. Flanagan Chairman of the Board

Jack Nelson President

John F. Elberfeld Vice President, Finance and Administration; Treasurer

John J. Quirke Vice President, Marketing

Robert A. Schultz Vice President, Planning and Operations

Robert J. Woldow Vice President and General Counsel Secretary

David F. Hoyt Assistant Secretary Alvin W. McGee Assistant Treasurer

#### CORPORATE OFFICE:

**National Securities Clearing** Corporation

55 Water Street New York, New York 10041

#### **FACILITIES**

#### Atlanta

2 Peachtree Street N.E. Atlanta, Georgia 30303

## **Boston**

c/o Boston Stock Exchange Clearing Corp. 53 State Street Boston, Massachusetts 02109

#### Chicago

c/o Midwest Clearing Corp. 120 S. LaSalle Street Chicago, Illinois 60603

## Cleveland

900 Euclid Avenue Cleveland, Ohio 44101

### **Dallas**

First National Bank Bldg. Dallas, Texas 75202

#### Jersey City

1 Exchange Place Jersey City, New Jersey 07302

#### Milwaukee

777 East Wisconsin Avenue Milwaukee, Wisconsin 53201

#### Minneapolis

120 South Sixth Street Minneapolis, Minnesota 55402

## **New York City**

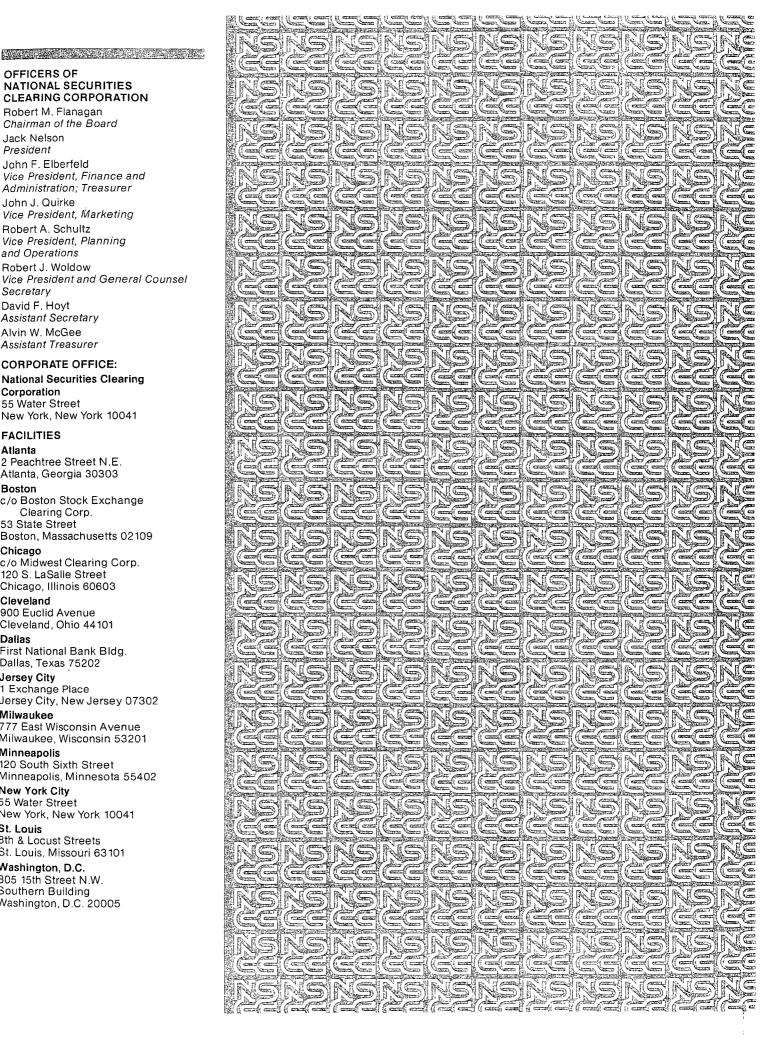
55 Water Street New York, New York 10041

## St. Louis

8th & Locust Streets St. Louis, Missouri 63101

Washington, D.C.

805 15th Street N.W Southern Building Washington, D.C. 20005



National Securities Clearing Corporation 55 Water Street New York, New York 10041

