1977
Annual Report

The Depository Trust Company

1977 Annual Report

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Summary of Depository Services

The Depository Trust Company performs three major functions: it is a custodian for the securities of its Participants, a channel for communications between Participants and between Participants and the transfer agents of their securities, and an accounting system for the book-entry delivery and pledge among its Participants of securities immobilized in its custody. The nature of its major services is indicated below.

Deposits

DTC accepts deposits of securities certificates from or for its Participants at its office or at cooperating Depository Facilities across the country.

Confirmations and Acknowledgments

DTC provides users the ability to confirm securities trades and to acknowledge those confirmations, whether or not the transactions are in DTC-eligible security issues.

Deliveries and Settlement

DTC makes book-entry deliveries of deposited securities between Participants and between a Participant, clearing corporations and other securities depositories acting for their users. It also receives and makes payment for securities delivered by book-entry, including underwriting distributions.

Pledges

DTC pledges Participants' securities by book-entry to secure their collateral loans from Pledgees.

Custody

DTC holds deposited securities in custody and records each Participant's position on its books in any eligible security issue.

Dividend and Interest Payments

DTC passes on to Participants cash and stock dividends distributions and interest related to securities held in custody.

Voting Rights

DTC facilitates the voting of deposited securities by assigning the voting rights in equity issues to the appropriate Participant.

Withdrawals By Transfer

DTC arranges for the transfer and delivery to Participants of securities registered in the name of any person, reducing Participants' positions accordingly.

Urgent Withdrawals

DTC provides for withdrawals by Participants of certificates on demand (CODs) within approximately three hours.

Options

DTC segregates Participants' securities which underlie options traded on various exchanges and settled through the Options Clearing Corporation.

Chairman's Letter

As in prior years, The Depository Trust Company's growth in 1977 was substantial. A few numbers are indicative: the annual value of securities delivered through the depository increased by almost $50 billion to $357 billion, and equity securities in DTC custody increased by 1.2 billion shares to 5 billion shares at year-end.

But large numbers such as these tell only part of the story. Some smaller numbers are at least equally significant.

Fourteen banks from 10 states became depository Participants in the course of 1977, raising the number of participating banks at year-end to 53 headquartered in 24 states. Many other banks also participate in the depository, indirectly, through the accounts of correspondent banks which are DTC Participants. Broker-dealers having already adapted to the use of depositories, it is the adaptation of institutions which is of primary current importance. The record in 1977 shows that it is taking place.

Such statistics, though, do not adequately indicate DTC's progress last year. I refer to enhancements of existing services, increased efficiencies through automation and new services to our Participants.

The pages which follow give substance to this introduction of our 1977 report.

They indicate why broker-dealers and banks wishing to reduce securities transaction costs and improve client services can achieve these goals through depository usage.

They show how Depository Trust fits into the developing national clearance and settlement system.

And they suggest why the depository's growth in 1978 is likely to be similar to its substantial growth in 1977.

William T. Dentzer, Jr.
Chairman and Chief Executive Officer

Highlights

At the End of the Year:	1977	1976
Participants	**265**	258
Banks	**53**	40
Broker-Dealers	**204**	211
Clearing Agencies	**8**	7
Pledgees	**85**	77
Depository Facilities	**32**	31
Eligible Security Issues	**10,666**	9,870
	(in billions)	
Value of Securities on Deposit	**$139**	$111
Bank Deposits	**$ 81**	$ 61
Broker-Dealer Deposits	**$ 58**	$ 50
Number of Shares on Deposit	**5.0**	3.8
Bank Deposits	**2.1**	1.3
Broker-Dealer Deposits	**2.9**	2.5
Principal Amount of Debt Securities on Deposit	**$ 15.1**	$ 7.7
Bank Deposits	**$ 10.3**	$ 3.5
Broker-Dealer Deposits	**$ 4.8**	$ 4.2
Value of Securities Pledged for Collateral Loans	**$ 8.3**	$ 6.8
Value of FAST Balance Certificates at Transfer Agents	**$ 28.0**	$ 14.3
Total for the Year:	(in billions)	
Market Value of Book-Entry Deliveries	**$357**	$309
Cash Dividend and Interest Payments to Users	**$ 5.5**	$ 3.5

Board of Directors

Dwight L. Allison, Jr.
President and Chief Executive Officer, The Boston Company, Inc., and Chairman of the Board, Boston Safe Deposit and Trust Company

William T. Dentzer, Jr.
Chairman and Chief Executive Officer, The Depository Trust Company

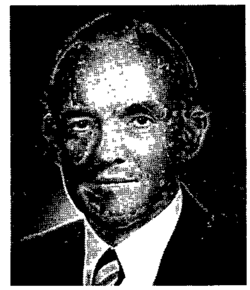
Robert C. Hall
Executive Vice President, New York Stock Exchange, Inc.

James C. Harris
Vice Chairman of the Board and Chairman of the Trust Committee, Northwestern National Bank of Minneapolis

C. Richard Justice
Senior Vice President, National Association of Securities Dealers

Thomas A. Bigelow
Executive Vice President-Operations, Wells Fargo Bank, National Association

Ross B. Kenzie
Executive Vice President, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Director, Merrill Lynch & Co., Inc.



Carl W. Klemme
Executive Vice President, Morgan Guaranty Trust Company of New York

Benjamin L. Lubin
Managing Partner, Bruns, Nordeman, Rea & Co.

Raymond J. Kalinowski
Executive Vice President, Treasurer and Director, A.G. Edwards & Sons, Inc.

John T. Roche
Executive Vice President, Kidder, Peabody & Co., Incorporated

John E. Stoddard
Executive Vice President, Blyth Eastman Dillon & Co. Incorporated

Joseph A. Rice
President, Irving Trust Company, and President, Charter New York Corporation

Joseph A. Vitanza
Senior Executive Vice President, Drexel Burnham Lambert Incorporated

Robert B. White
Executive Vice President, Citibank, N.A.

Retiring from the Board of Directors in March, 1978 were **Elliott Averett**, Chairman and Chief Executive Officer of The Bank of New York, **George E. Doty**, Partner, Goldman, Sachs & Co., and **Francis J. Palamara**, Executive Vice President—Planning and External Affairs of the New York Stock Exchange, Inc., who were among the original Directors of the depository. Also retiring at that time were **Robert S. Driscoll**, Managing Partner of Lord, Abbett & Co., **Arthur Levitt, Jr.**, recently-elected Chairman of the American Stock Exchange, and **George A. Roeder, Jr.**, Vice Chairman of The Chase Manhattan Bank, N.A.

Ownership and Control

The Depository Trust Company is owned and controlled by its Participants or their representatives. The procedures for its governance are carefully framed to reflect the need for objectivity in serving diverse users in the financial community.

The right to purchase capital stock of the depository is based on a formula defining each Participant's use of the depository during the preceding calendar year. The formula calculates such use based equally on fees paid to the depository and the market value of long securities positions in DTC on the last business day of each month. The purchase price of the stock is based on its book value as of the end of that year.

The amount of stock each Participant is entitled to purchase is recalculated each year to reflect annual variations in usage. The Participant then may purchase before the annual stockholders meeting any part of the stock to which it may be entitled, or none at all.

At the annual meeting stockholders elect a Board of Directors under a system of cumulative voting which assures that no group controlling 51 percent of the stock can elect all directors. This makes representation on the Board available to users from all parts of the financial community in proportion to their use of the depository.

After DTC stock entitlement based on 1977 usage was allocated in February 1978, 11 of 199 eligible broker-dealers purchased a total of almost one percent of the depository's outstanding shares. Five of these became owners for the first time. As a result, 26 broker-dealers now own 11.2 percent of DTC stock. The stock entitlements they did not purchase remained with the self-regulatory organizations representing them, so that the New York Stock Exchange now owns almost 46 percent and the American Stock Exchange and the National Association of Securities Dealers now own 6.3 percent each.

Twenty-two of 48 banks entitled to purchase depository stock now hold 30.2 percent of the stock. Eleven New York City-based banks hold 26.6 percent and 11 banks with headquarters outside New York City hold 3.6 percent. Total stock entitlements of banks headquartered outside New York City amounted to about 8 percent.

It is the policy of the depository not to pay dividends to stockholders. This policy is based on the view that distribution of depository ownership should not provide an investment vehicle but rather offer to the diverse users of DTC a means by which to encourage its responsiveness to their needs through exercise of their voting rights.

The Depository Trust Company was created in May 1973 to acquire the business of the Central Certificate Service of the New York Stock Exchange, a securities depository created by the NYSE in 1968 to serve its member firms. The conversion of that

Donna Grant Reilly, Assistant Secretary of DTC.

depository into The Depository Trust Company and the plan for DTC's evolution as a user-controlled entity were developed by the Banking and Securities Industry Committee in 1970-1972.

After amendments of various state laws which had restricted depository ownership, the initial sale of stock by the NYSE from its former 100-percent ownership occurred on October 31, 1975. Thereafter, 24 users or their representatives purchased DTC's capital stock.

In October 1976 the NYSE acted to give broker-dealers the right to own DTC stock directly, and the first exercise of this right occurred in January 1977. Additional purchasers, mainly broker-dealers, increased the number of stockholders to 50 at the time of the second stock reallocation in the spring of 1977.

The present 53 stockholders of DTC other than the NYSE, the American Stock Exchange and the National Association of Securities Dealers, in order of their holdings are:

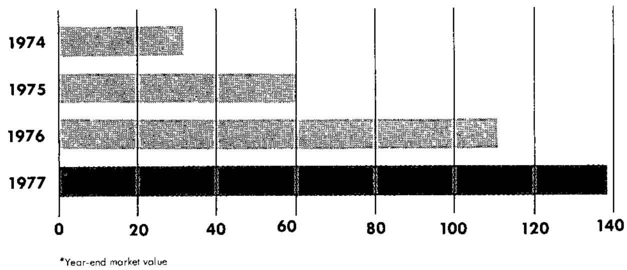
Citibank, N.A.
Merrill Lynch & Co., Inc.
Chase Manhattan Bank, N.A. (The)
Manufacturers Hanover Trust Company
Bank of New York (The)
Bankers Trust Company
Marine Midland Bank
Morgan Guaranty Trust Company of New York
Northwestern National Bank of Minneapolis
United States Trust Company of New York
Goldman, Sachs & Co.
Wells Fargo Bank, National Association
Chemical Bank
Irving Trust Company
State Street Bank and Trust Company
A. G. Edwards & Sons, Inc.
Citizens and Southern National Bank (The)
Morgan Stanley & Co. Incorporated
First & Merchants National Bank
Lewco Securities Corp.
Donaldson, Lufkin & Jenrette Securities Corporation
Weeden & Co.
Stock Clearing Corporation of Philadelphia
First Boston Corporation (The)
Edward A. Viner & Co., Inc.
Blunt Ellis & Simmons Incorporated
Connecticut Bank and Trust Company (The)
Arnhold & S. Bleichroeder, Inc.
Shawmut Bank of Boston, N.A.
F. Eberstadt & Co., Inc.
Wood Gundy Incorporated
Oscar Gruss & Son Incorporated
Hartford National Bank and Trust Company
H. N. Whitney, Goadby & Co.
Equitable Trust Company (The)
Alex. Brown & Sons
Bradford Trust Company
First Wall Street Settlement Corporation
Kingsley, Boye & Southwood, Inc.
First Jersey National Bank
Carl H. Pforzheimer & Co.
La Branche & Co.
Boettcher & Company
Prescott, Ball & Turben
Stillman, Maynard & Co.
Fagenson & Co., Inc.
J. F. Nick & Co.
First National Bank of Atlanta (The)
National Securities Clearing Corporation
Mitchel, Schreiber, Watts & Co., Inc.

It is the policy of DTC to limit profits and return to users, whether or not they are stockholders, such revenues as the Board of Directors believes exceed the funds required for the depository's operation. This refund for 1977 was $1.2 million.

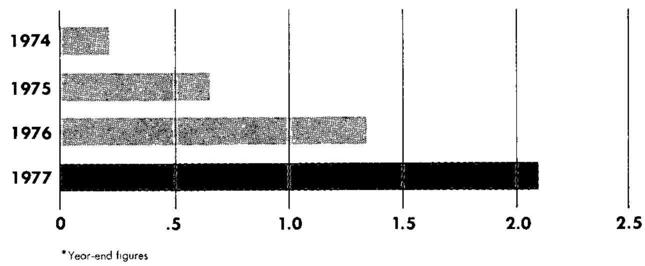
The Depository Trust Company is regulated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. As a member of the Federal Reserve System and a New York State limited purpose trust company, it also is regulated by the Board of Governors of the Federal Reserve System and the New York State Banking Department.

Growth

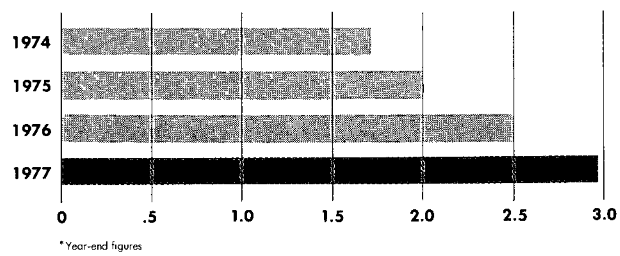
Total Securities on Deposit (in Billions of Dollars)*

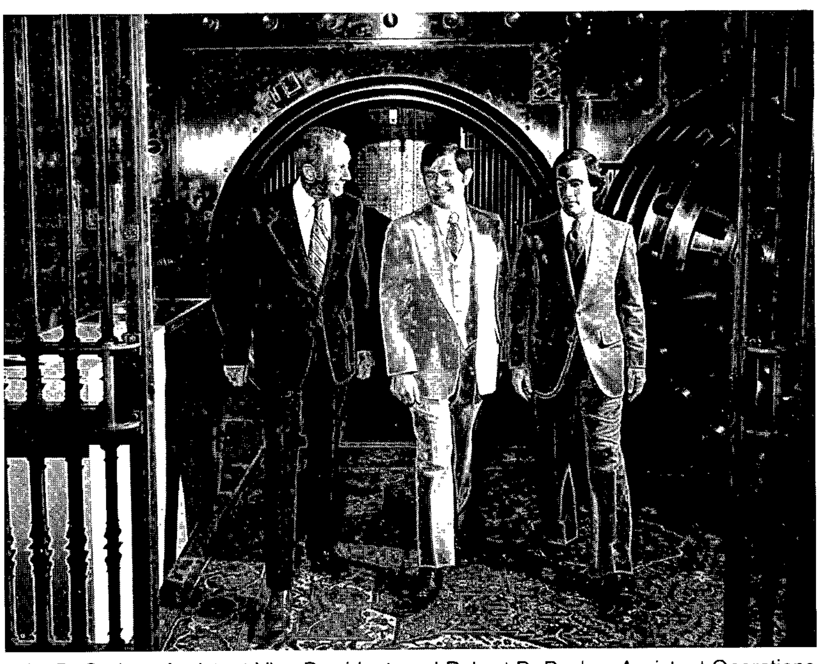


Securities on Deposit from Banks (in Billions of Shares)*



Securities on Deposit from Broker-Dealers (in Billions of Shares)*





John D. Greiner, Assistant Vice President, and Robert D. Becker, Assistant Operations Officer, both of the Mellon Bank in Pittsburgh, tour that bank's vault with Nishan G. Vartabedian, Assistant Vice President at DTC.

1977 was another year of strong growth for The Depository Trust Company. While broker-dealers largely converted to depository use in earlier years, bank participation continued to increase. Of the nation's top 50 banks in terms of trust assets as reported by the Federal Reserve, 28 were either direct or indirect participants in DTC at year-end. By the same measure 44 of the top 100 banks participated in DTC. Fourteen other banks in the top 100 participated in four other securities depositories.

In the course of 1977, 14 banks from ten states became direct Participants, more than in any previous year, increasing their total number to 53. Eighteen of these 53 banks were headquartered in New York State and 35 were located in 22 other states and the District of Columbia. Many banks including two of the top 50 in trust assets became indirect users of DTC through correspondent relationships with other banks which are Participants. Eighteen bank Participants each had more than $1 billion in securities on deposit in DTC.

During 1977 the number of broker-dealer Participants declined by 7 to 204 because of mergers and voluntary liquidations. Approximately 200 other broker-dealers use DTC through the accounts of correspondent broker-dealers which are Participants.

At the end of the year 143 broker-dealer Participants had their principal base of operations in New York City while 61 were from 20 other states.

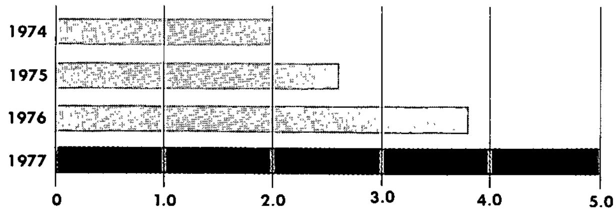
During the year more than 29 million transactions were processed by DTC in connection with its major services—deposits, deliveries, pledges and withdrawals—up from 28 million in 1976.

Other measures of Depository Trust's growth in 1977 were similarly impressive as indicated by the adjacent graphs.

The network of Depository Facilities maintained by cooperating banks in many cities increased from 31 to 32 at year-end. These Facilities enable banks, broker-dealers and other financial institutions in 22 cities to deposit securities in DTC's system and use such securities the same day for deliveries or pledges to others.

The number of banks taking part in DTC's collateral loan program grew during the year from 77 to 85. This program enables a broker-dealer to borrow against pledges of its securities on DTC's books to a lender's account. At year-end 1977 the value of such outstanding pledges was over $8.3 billion, up from $6.8 billion at the end of 1976. Twenty-one banks had more than $100 million in securities pledged to each of them on DTC's books.

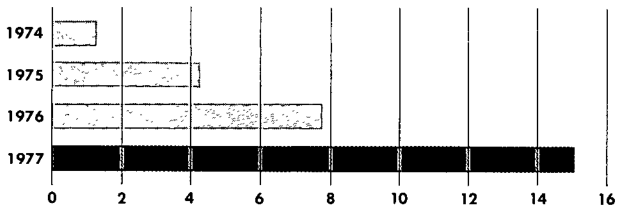
Equity Securities on Deposit (in Billions of Shares)*



*Year-end figures

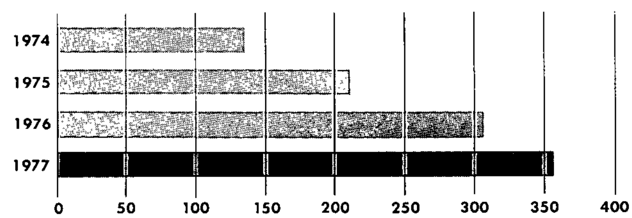
John G. McMurrough, Vice President, and Philip Travaglini, Senior Trust Operations Officer, of The Fidelity Bank in Philadelphia; Robert Beck, Senior Securities Officer at DTC, and Paul N. Wilson, Executive Vice President of Fidelity.

Debt Securities on Deposit (in Billions of Dollars of Principal Amount)*



*Year-end figures

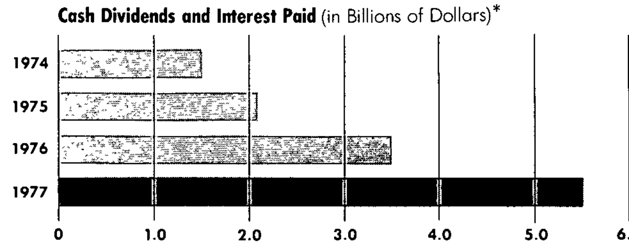
Dollar Value of Deliveries (in Billions of Dollars)*



*Year-end figures

B. James Theodoroff, Executive Vice President and Chief Trust Officer, and Lloyd H. Myas, Vice President and Officer-in-Charge of Trust Operations, both of the Detroit Bank & Trust Company, with William J. Leahy, Assistant Vice President of Bankers Trust Company.

Cash Dividends and Interest Paid (in Billions of Dollars)*



*Year-end figures

Developments

In 1977 Depository Trust received many deposits of pension fund, investment company and insurance company assets from custodian banks. Also during the year DTC inaugurated, expanded or improved a number of its services to users. The most important of these developments are described below.

Deposit of Pension Fund Assets

During 1977 more major public and private pension funds approved the deposit of their assets into DTC through the accounts of their custodian banks. The Bell System Trust once again led the way with five of its pension funds being deposited. United States Trust Company deposited two Bell System pension accounts valued at $260 million. First Union National Bank of North Carolina deposited a $100 million Southern Bell pension account. First National Bank of Denver deposited through Bankers Trust's DTC account two accounts of the Mountain Bell Pension Trust with a market value in excess of $68 million. Total Bell System Trust assets are valued at more than $13 billion with an increasingly large portion on deposit in DTC.

Five states have given permission for their custodians to place pension fund assets in DTC. Prior to 1977, New York, Virginia, Delaware and Georgia took steps to have their public pension funds placed in the depository. One additional state, North Carolina, took a similar step in 1977. In December 1976 Georgia moved the eligible issues of The Teachers Retirement System of Georgia, valued at $537 million, into DTC through its custodian, Citizens & Southern National Bank. During 1977, it also moved the Georgia State Employees Retirement Fund, valued at $150 million, into DTC through its custodian, First National Bank of Atlanta. The State of North Carolina deposited 10 million shares of 55 issues valued at $446 million in DTC through its account with Chase Manhattan Bank.

1977 also brought the deposit of many major master trusts through DTC bank Participants such as Chase Manhattan, United Bank of Denver, First Kentucky Trust Company and Wells Fargo Bank. United Bank of Denver deposited all the eligible issues of Continental Airlines, Inc. master trust valued at $88 million. First Kentucky deposited eligible securities valued at $40 million in DTC under a master trust agreement with the Courier-Journal & Louisville Times Co. and a portion of the assets of the Brown & Williamson Tobacco Company. Both Chase Manhattan and Wells Fargo stated that use of DTC greatly facilitated their handling of master trust business. Also during the year, Wells Fargo transferred more than $1 billion in master trust securities from other banks and settled over $2 billion in master trust trades through DTC.

Deposit of Investment Company Assets

Mutual funds continued to approve deposit of their assets in DTC in 1977 through the accounts of their custodian banks. The

Nicholas A. Durso and Sandy Manata, Trust Officers, and Donald V. Martire, Vice President, all of the United States Trust Company with John H. Barthel, Director of Participant Services at DTC.

level of deposits, however, did not keep pace with the preceding year as many fund managements awaited a final rule from the Securities and Exchange Commission regarding procedures for use of depositories by investment companies. During 1977 the SEC twice published for comment a rule regarding such participation. The second version of proposed Rule 17f-4 represented an improvement of the original proposal but still contained features objected to by DTC and other entities. Adoption of a final rule is anticipated in 1978.

Early in 1977 the United Bank of Denver deposited the eligible securities of five investment companies sponsored by Financial Programs Inc. By the end of March, The Bank of New York had completed depositing seven mutual funds from the National Securities Funds Group. This action raised the value of assets held in DTC by The Bank of New York for its mutual fund clients to over $1 billion.

Several funds were established in 1977 to conduct options transactions. Some of those funds deposited their assets in DTC. In May, First National Bank of Boston deposited the eligible assets of Colonial Option Income Fund and the following month, State Street Bank deposited the Putnam Option Income Trust. Throughout the year, State Street continued to deposit mutual fund assets including those for the W.L. Morgan Growth Fund Inc., the Federated Option Income Fund and the Ivest Fund.

In March 1978, the second largest single deposit in DTC's history took place when State Street Bank deposited $530 million of eligible securities of the Massachusetts Investors Growth Stock Fund Inc. By the end of the first quarter 1978, six custodian banks for 29 mutual funds had on deposit in DTC almost $4.5 billion of mutual fund securities.

Deposit of Insurance Company Assets

In February 1977 the New York State Insurance Department cleared away the last regulatory barrier in that state to allow deposit of insurance company securities in DTC. The Insurance Department issued a Circular Letter and specified revised custodian affidavits concerning obligations of custodians to insurance companies. The Department earlier had approved the use of DTC for the deposit of insurance company securities.

In March, Marine Midland Bank became the first Participant to deposit an insurance company's portfolio in the depository. It did so for the securities of the Dominion Insurance Company of America.

Subsequently the following insurance companies have had eligible assets deposited by their custodian banks:

American and Foreign Insurance Company *(Bankers Trust Company);*
Beneficial National Life Insurance Company *(Manufacturers Hanover Trust Company);*
Equitable Life Assurance Society of the United States *(Chase Manhattan Bank);*
Farmers & Traders Insurance *(Manufacturers Hanover Trust Company);*
Globe Indemnity Company *(United States Trust Company);*
Jefferson Insurance Company *(Manufacturers Hanover Trust Company);*
The London Assurance *(Manufacturers Hanover Trust Company);*
Public Service Mutual Company *(Bank of New York);*
Royal Indemnity Company *(United States Trust Company);*
Sea Insurance Company, Ltd. *(Chase Manhattan Bank);*
Unity Mutual Life Insurance Company *(Chase Manhattan Bank);*
Victory Insurance Company, Ltd. *(Bank of New York);*
Washington National Life Insurance Company *(Manufacturers Hanover Trust Company)*

Progress in other states to address statutory or regulatory barriers to depository custody of insurance company securities has been slow. New Jersey and possibly other states have approved the use of DTC for life insurance companies only. Thus, several insurance companies and their custodian banks which wish to take advantage of DTC's efficiency and safety are still unable to do so. DTC provides support for efforts to obtain enabling state law and regulatory changes and participates on an industry advisory committee under the National Association of Insurance Commissioners (NAIC) studying depository use by insurance companies. The NAIC study, however, has been inactive recently.

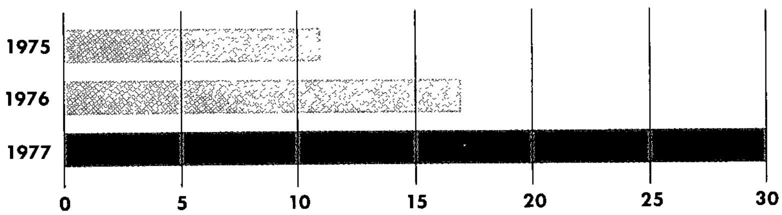
In a new development, four insurance companies began testing the use of Teletype-compatible dial-in terminals to receive their broker trade confirmations from DTC. These companies telephone the depository and by keying their identifying passwords gain access to their Institutional Delivery *(ID)* system data files. Then confirmations are printed on the company's dial-in terminal. College Retirement Equities Fund, Equitable Life Assurance Society of the United States, Prudential Insurance Company of America, and Teachers Insurance and Annuity Association all use this program.

Raymond C. McCron, Senior Vice President and Treasurer of Equitable Life; Cornelius D. Howland, Vice President of Chase Manhattan, and Sydney L. H. Gordon, Senior Securities Officer at DTC.

Henry J. Walsh, Assistant Vice President of Morgan Guaranty Trust Company of New York.

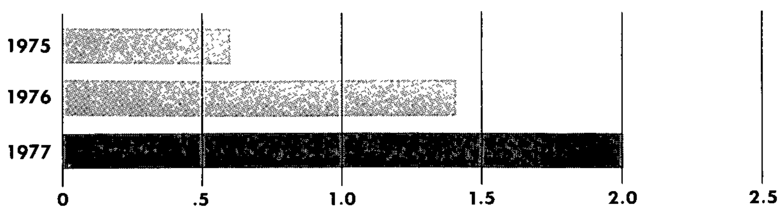
Fast Automated Securities Transfer (*FAST*)

Number of *Fast* Transfer Agents*



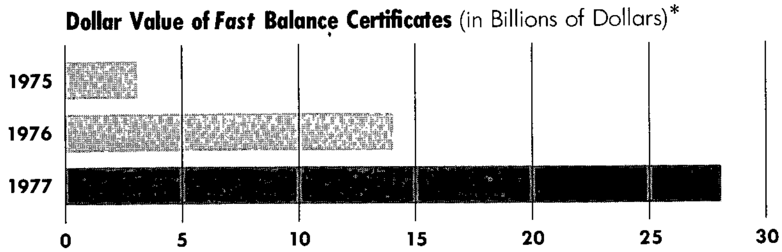
*Year-end figures

Number of *Fast* Issues (in Thousands)*



*Year-end figures

Dollar Value of *Fast* Balance Certificates (in Billions of Dollars)*



*Year-end figures

1977 was the third year of operation for DTC's *FAST* program. During the year *FAST* grew substantially in both the number of issues included and transfer agents participating.

Under the *FAST* program, DTC leaves securities with transfer agents in the form of balance certificates registered in the depository's nominee name—Cede & Co. The balance certificates are adjusted daily for DTC deposit and withdrawal activity.

There are two parts to the *FAST* program—urgent withdrawals the same day or overnight, called certificates on demand (CODs), and routine withdrawals in normal transfer turnaround time, called withdrawals by transfer (WTs). If a transfer agent subscribes to the COD part of *FAST*, the agent must be able to make certificates requested by Participants available to DTC overnight and twice each business day within two hours of notification. This part of *FAST* makes it possible for DTC to eliminate its vault supply of Cede & Co. certificates in eligible issues. If a transfer agent subscribes to the WT part of *FAST*, the agent can fulfill Participant requests in the turnaround time applicable to routine transfers, normally within three business days. A transfer agent may participate in both parts of *FAST* (CODs and WTs) or only the second part (WTs).

FAST benefits corporations and transfer agents by cutting certificate issuance costs through the elimination of hundreds or even thousands of certificates for each issue annually. Transportation, handling and insurance costs are substantially reduced by eliminating the regular shipment of large value certificates between transfer agents and DTC. The cost of researching dividend claims also is reduced and proxy voting made easier by *FAST* CODs since Cede & Co. certificates no longer must be issued and circulate throughout the financial industry.

By the end of the first 1978 quarter, 31 transfer agents were holding balance certificates valued at $31.6 billion in 2,191 issues. Since the program's inception more than 690,000 Cede & Co. certificates were cancelled by agents as issues were converted to *FAST* and into balance certificates. The issuance of more than 775,000 Cede & Co. certificates which would have been required to replenish DTC's vault inventory was avoided.

At the turn of the year Girard Bank, in Philadelphia, became the first transfer agent outside the New York metropolitan area to participate in the COD part of *FAST*. Girard is able to meet the two-hour turnaround requirement for *FAST* CODs because of an arrangement with the transfer processing affiliate of First Jersey National Bank. The affiliate controls a book position in a number of securities and issues *FAST* COD withdrawals on behalf of Girard. The certificates show Girard as transfer agent and registrar.

As of the end of the first 1978 quarter nine transfer agents issued both *FAST* CODs and WTs:

American Transfer Company
Bank of New York (The)
*Chase Manhattan Bank, N.A. (The)**
*Citibank, N.A.**
First Jersey National Bank
Girard Bank
Manufacturers Hanover Trust Company
Marine Midland Bank
Morgan Guaranty Trust Company of New York

*Participation limited

Twenty-two transfer agents executed *FAST* WTs only:

Bank of America, N.T. & S.A.
Chemical Bank
Citizens and Southern National Bank (The)
Connecticut Bank and Trust Company (The)
First & Merchants National Bank
First National Bank of Atlanta (The)
First National Bank of Boston (The)
First National Bank of Chicago (The)
First Pennsylvania Bank, N.A.
First Union National Bank of North Carolina
Hartford National Bank and Trust Company
Irving Trust Company
Litton Industries
New England Merchants National Bank
North Carolina National Bank
Northwestern Trust Company
Registrar and Transfer Company
Riggs National Bank of Washington, D.C.
State Street Bank and Trust Company
United Missouri Bank of Kansas City
United States Trust Company of New York
Wachovia Bank and Trust Company, N.A.

Carl T. Hagberg, Assistant Vice President (standing), with Patricia D'Amico, Assistant Manager, and Dominga Innocent, Terminal Operator, all of Manufacturers Hanover Trust Company.

Richard Santoro, Operations Director, and Jerome Brody, Director of Marketing, both of the American Transfer Company, with Edwin Katz, Operations Consultant at DTC.

Eligible Issues

Eligible issues included in the depository expanded from 9,870 at the end of 1976 to 10,666 at the close of 1977, an increase of 8 percent. Most of the growth occurred in over-the-counter (OTC) equities.

The 10,666 issues eligible at the end of 1977 comprised 3,199 common and preferred stocks listed on the New York and American Stock Exchanges; 3,782 equity issues traded over-the-counter; 3,039 issues of listed and unlisted debt securities; 284 U.S. Treasury and Federal Agency issues, and 362 issues represented by American Depositary Receipts (ADRs).

Participant Terminal System *(PTS)*

One function of The Depository Trust Company is to be a communications system for various parties in the post-trade process—broker-dealers, institutions, and transfer agents. One element of that communications function is DTC's Participant Terminal System *(PTS)*.

In the *PTS* system, computer terminal stations, including printers, in Participants' offices tie directly into DTC's computer to obtain information about Participants' accounts or instruct DTC to update those accounts. One hundred eighteen terminal stations were either installed or on order by Participants by the end of the year. *PTS* traffic grew to more than 42,000 messages a day, accounting for about 35 percent of DTC's non-clearing corporation delivery instructions and 54 percent of urgent withdrawals (CODs).

Charles E. Lewis, Senior Vice President of Finance, and Alicia Anderson, Assistant Vice President, with Patty Wegener, Terminal Operator (seated), all of Stifel, Nicolaus & Co.

PTS is used by Participants in four basic ways:

- Getting up-to-the-minute information about the eligibility of issues, their positions in securities, money settlement and broker trade confirmations.
- Giving DTC instructions to make deliveries and urgent withdrawals. 1977 additions allowed the *PTS* to accept and store night-cycle delivery and urgent withdrawal instructions for next-day processing.
- Receiving messages concerning deliveries to a Participant's account seconds after such transactions take place, giving the Participant more time to consider possible re-deliveries, withdrawals or pledges.
- Receiving reports, such as those related to daily money settlement; the Dropped Delivery Report detailing those delivery instructions not completed due to lack of position in the Participant's DTC account; the Dropped COD Report which indicates those urgent withdrawals that could not be processed because of lack of position; and a Dividend/Interest Report which lists by security the dividends and interest paid to the Participant on the day the report is produced. In addition, DTC also developed the capability of producing Purchases and Sales (P&S) reports for broker-dealers. These reports will be output from the trade comparison system of the National Securities Clearing Corporation.

Also in 1977, DTC continued its development of a lower-cost terminal capability for access to DTC's computer system. Institutions wishing to participate in the Institutional Delivery *(ID)* system can use standard Teletype-compatible dial-in terminals to access *ID* files and receive their printed confirmations. A Participant not wishing to acquire a complete *PTS* unit can use a dial-terminal for inquiry into its DTC accounts to obtain security position and money settlement information and can receive messages about activities affecting its accounts.

Ralph S. Roth, Assistant Vice President and Manager of the Transfer Services Department of Merrill Lynch, Pierce, Fenner & Smith; Dennis J. Dirks, Director of Participant Services at DTC, and Jack W. Carrothers, Vice President of Merrill Lynch.

Magnetic Tape Transfer Instructions

In 1976 Shearson Hayden Stone, Citibank, and DTC began a pilot program using magnetic tape to arrange withdrawals by transfer. The program expanded substantially in 1977 and early 1978 with the addition of E. F. Hutton; Paine, Webber, Jackson & Curtis; Thomson McKinnon Securities; A.G. Edwards & Sons; Bache Halsey Stuart Shields, and Merrill Lynch, Pierce, Fenner & Smith. Their participation resulted at end of first quarter in a daily average of over 7,000 withdrawal-by-transfer instructions on magnetic tape representing nearly 35 percent of DTC's total transfer volume.

The magnetic tape system is designed to improve transfer service and reduce processing costs for Participants and transfer agents by automating the labor-intensive process leading to the registration of securities. It permits Participants to submit transfer instructions to DTC on magnetic tape rather than paper forms. DTC processes the tape and forwards the information to the transfer agent on magnetic tape or printed forms.

The system provides additional benefits not available from manual input of paper forms. DTC rejects paper transfer instructions submitted on a record date or submitted for an issue in which the Participant does not have sufficient securities on deposit to effect the transfer. Participants inputting by magnetic tape, however, can elect to have DTC pend those transactions and process them later, when the record date has passed or sufficient position is available. In addition, occasionally DTC is unable to complete transfers in non-*FAST* issues because certificates have not yet returned from the transfer agent. Instructions submitted on paper are returned to the Participant and later may be resubmitted by the Participant. Instructions on magnetic tape can be pended until sufficient vault certificate inventory is available for processing.

DTC anticipates a continuing increase in the percentage of transfer instructions it receives on magnetic tape from broker-dealers while parallel efforts continue to encourage transfer agents to accept magnetic tape from DTC and to participate in the Fast Automated Securities Transfer *(FAST)* program (page 9). The combination of these three processing efforts can sharply reduce costs and errors in the transfer of corporate securities.

Magnetic Tape Delivery Instructions

An ad hoc committee of several large volume broker-dealers worked with DTC in 1977 to develop specifications for book-entry securities delivery instructions on magnetic tape. A pilot program began in early 1978 with magnetic tape deliveries initiated by Paine, Webber, Jackson & Curtis and E. F. Hutton.

The system is planned for expansion eventually to include magnetic tape notification of deliveries received and possibly the initiation of other depository services.

Participants and DTC expect the exchange of magnetic tape will produce cost benefits and reduce errors by eliminating the repetitive key-entry of data.

Distribution of Underwritings

In 1977, its second full year of operation, DTC's service for the distribution of and payment for securities offered in public underwritings expanded rapidly.

This book-entry service was used by 24 managing underwriters to distribute 252 securities issues. In the last quarter of 1977, 85 of 139 or 61 percent of offerings that could have been distributed through DTC were so distributed. The portion of the 85 issues delivered and paid for through DTC was $4.4 billion in value—72 percent.

The total value of the 135 debt offerings distributed through DTC in 1977 was $13.6 billion. The 117 equity issues distributed through DTC totaled $6.1 billion including the 12-million-share, $718-million issue of American Telephone & Telegraph Company common stock—the largest domestic public common stock offering in value ever underwritten.

Broker-dealer and bank Participants benefitted through:

- Elimination of endorsement, microfilming, packaging, delivery and receipt of certificates with associated documents and
- Rapid delivery turnaround through the use of book-entry.

Underwriters realized lower financing costs through elimination of day loans and, in the case of distant closings, overnight or over-weekend loans.

Issuers benefitted through reductions in issuing and transferring certificates. Over 76 percent of the AT&T issue described above was distributed through DTC, yet only 116 certificates were needed to do so. At least 17,000 certificates would have been needed for initial physical distribution of the same shares, and many of these certificates would have been transferred shortly after distribution.

Robert N. Tiley, Manager-Syndicate Accounting; Jeffrey D. Fein, Vice President-Assistant Cashier, and Henry C. Alexander, Vice President-Cashier, all of Salomon Brothers.

Joaquin R. Ruiz, Manager of DTC's Reorganization Division, and Nicola Caporale, Vice President of Goldman, Sachs & Co.

Voluntary Offerings

During 1977, DTC developed four new services related to voluntary offerings:

- Conversions of convertible securities;
- Exchange offers and tender offers;
- Redemptions of floating rate notes, and
- Rollovers of Government securities.

These services are designed to keep securities immobilized in the depository during periods when Participants have the right to surrender the securities for cash and/or other securities to agents.

The conversion procedures allow Participants to use book-entry to surrender convertible bonds or preferred stock in DTC custody and obtain credit the same day in the underlying securities, usually common stock. Participant processing costs are reduced and costs of financing transactions while certificates are at the conversion agent are eliminated.

Procedures for exchange offers and cash tender offers allow Participants to surrender securities by DTC book-entry to cooperating exchange agents during the offer period or the ensuing "protection period" and subsequently receive credit for securities and/or cash through the depository.

Floating rate notes and other securities with similar repayment options can be redeemed by DTC book-entry, with cash proceeds credited to Participant accounts.

Participants having maturing U.S. Treasury bills on deposit can use DTC to reinvest or "roll-over" the proceeds in new bills issued on the maturity date.

The numbers of transactions in these services are not large but the services are considered important by Participants since they reduce the expense of exception processing.

John J. Flynn, Assistant Vice President of New England Merchants National Bank, and William F. Jaenike, Vice President of DTC.

Dividend Reinvestment Service *(DRS)*

In December 1976, DTC began a pilot program with cooperation from the American Telephone & Telegraph Company to reinvest dividends for Participants on AT&T common stock held by DTC.

Under this program, called the Dividend Reinvestment Service *(DRS)*, Participants can maintain securities on deposit with DTC and, if they wish to do so, reinvest all or a portion of such dividends through DTC. No longer is it necessary to withdraw shares to reinvest the dividend.

During 1977 the program expanded to include the common stock of International Paper Company and Commonwealth Edison Company, and a gradually increasing number of Participants took advantage of it. Also during 1977, AT&T offered an optional procedure for calculating dividend reinvestment payments by Participants' customer sub-totals rather than by gross Participant totals. Such customer-level calculations were based on data furnished directly to AT&T by Participants and did not disclose customer names.

DTC is prepared to offer *DRS* services in other qualifying common stocks. Corporate issuers may find, as AT&T did, that inclusion in DTC's *DRS* plan can help them raise additional capital. In offering this service the depository will continue to serve simply as an intermediary for Participants and dividend reinvestment plan administrators.

Interchangeable Municipal Bonds

During 1977 DTC developed a capability to expand its list of eligible securities to include certain municipal bonds interchangeable between coupon and registered forms. It is anticipated that a limited program to service such issues will begin in 1978. Initially the transfer agent will hold DTC's inventory in a balance certificate and deposits and withdrawals of any bearer securities will be accomplished directly between Participants and the transfer agent. Later, consideration will be given to DTC serving as deposit and pick-up point for such securities, though bearer securities would not remain in DTC custody.

The program is expected to produce some near-term benefits for Participants, demonstrate cost savings to issuers and give DTC useful experience in preparing to process municipal securities.

Arnold Fleisig, Vice President of DTC, and Bernard F. Sergesketter, Assistant Treasurer of the American Telephone and Telegraph Company.

Interfaces in a National Clearance and Settlement System

Depository Trust's interfaces with other clearing agencies—both clearing corporations and other securities depositories—are major elements in an evolving national clearance and settlement system. These ties permit participants in various clearing agencies to use their securities positions in one location to settle transactions in other clearing corporations and with users of other depositories, without inter-regional movement of securities certificates.

Depository Trust since its inception has been closely related to the New York Stock Exchange's Stock Clearing Corporation and the American Stock Exchange Clearing Corporation, permitting broker-dealers to settle transactions on those exchanges by book-entry deliveries. Also, beginning in 1974, DTC conducted an interface with the National Clearing Corporation of the National Association of Securities Dealers to help users of both entities settle over-the-counter transactions by book-entry.

In January of 1977 these three clearing corporations combined as separate operating divisions of a new National Securities Clearing Corporation (NSCC), and DTC continues its past relationship with each division. When NSCC completes consolidation of its three divisions into a single operating entity, Depository Trust will provide increased depository services to that organization.

To facilitate the more efficient settlement of transactions by its Participants in other geographic markets and transactions in New York by users of clearing corporations and depositories elsewhere, Depository Trust has operated interfaces for several years with the Stock Clearing Corporation of Philadelphia, the Midwest Securities Trust Company (MSTC) and the Pacific Securities Depository Trust Company (PSDTC).

Since 1976 the DTC-MSTC interface has been complete, permitting a user of one depository to settle transactions with any user of the second depository. This "third-party" delivery service eliminates the need for a depository user to belong to both depositories to settle securities transactions.

During 1977 Depository Trust and PSDTC operated an interface permitting any user of both depositories to move securities from its account in one depository to its account in the other. The Pacific and New York clearing corporations also settled transactions with each other on behalf of their users through the DTC-PSDTC interface. In 1977 DTC completed its preparations to provide for "third-party" delivery service through its PSDTC interface, as with MSTC and DTC, and in early 1978 this service was implemented.

Also during 1977 DTC and the New England Securities Depository Trust Company (NESDTC) in Boston initiated an interface under which NESDTC became a Participant in DTC. In early 1978 plans were underway to expand that interface to a two-way arrangement in which DTC would become a member of NESDTC. The evolution of this DTC-NESDTC interface follows the pattern established with other regional depositories.

Options

Depository Trust provides an interface with the Options Clearing Corporation (OCC) permitting Participants, both broker-dealers and banks, to satisfy OCC deposit requirements.

The OCC is the common clearing arm for options traded on various exchanges.

Broker-dealers have used DTC since 1973 to segregate the underlying shares supporting call option contracts in a special depository account until option contracts are exercised, expire or are closed.

In 1975 bank users of DTC and their customers were permitted to set aside securities to meet OCC requirements placed on broker-dealers through which they wrote option contracts. If segregated in this manner, OCC's rules limiting the banks which normally issue escrow receipts and the amount of such receipts do not apply. There are no such OCC limitations on DTC Participants using this service.

During 1977, DTC expanded its OCC interface to allow depository Participants to use U.S. Government securities in their DTC accounts to satisfy OCC put and call option margin requirements and their OCC clearing fund obligations.

Robert Ferrentino, Assistant Vice President of E. F. Hutton & Company and Treasurer of the Securities Industry Association's Credit Division; Joseph A. Malloy, Director of Member Services at The Options Clearing Corporation, and Marshall B. Hall, Planning Consultant at DTC.

Institutional Delivery *(ID)* System

The Institutional Delivery *(ID)* system was developed by DTC to reduce the errors, costs and processing necessary for all parties in a trade. To use it an institution does not need to join the depository; only its agent bank needs to be a Participant.

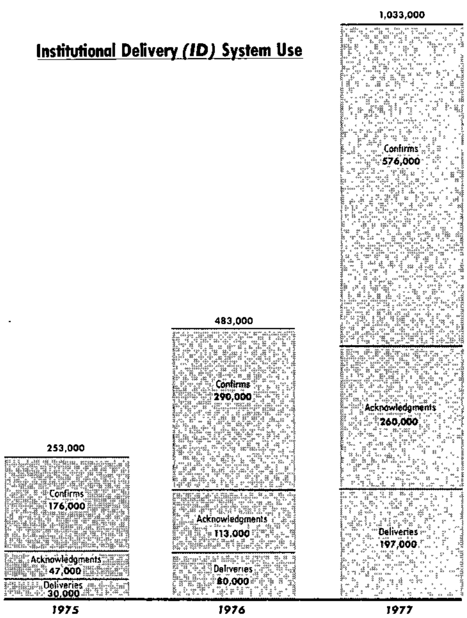
At the turn of the year, 83 institutions were participating fully in *ID*, up from 43 at the end of 1976. Among these were bank trust departments, pension funds, other employee benefit funds, investment companies and insurance companies from all parts of the country. In many cases their investment managers also participated. Ninety-five broker-dealers participated compared to 78 at year-end 1976. These included almost every broker-dealer doing a substantial amount of institutional trading.

The *ID* system greatly simplifies and automates settlement, reduces fails, and eliminates "don't know" (DK) rejected trade deliveries, holdover items, delivery tickets, credit lists, envelopes and certificate movement.

It enables:

- The broker-dealer to furnish its institutional customer with a printed or magnetic tape confirmation in a standard format on the morning following the trade date so errors can be identified and resolved while a trader's recollection is fresh;
- The bank or other institution to acknowledge within three days a trade to which it agrees by forwarding acknowledgments directly to DTC, or to DTC through an agent bank which is a DTC Participant;
- DTC to forward deliver and receive instructions to the agent bank and broker-dealer, with the broker-dealer also receiving for correction a list of unacknowledged trades which are potential rejected trade deliveries, and
- The depository to automatically complete the delivery and receipt of securities by computer book-entry and related money settlement for acknowledged trades on the morning of settlement date.

E. Travis Bradley, Vice President for Administrative Services, and James H. Deily, Jr., Executive Vice President, both of the National Central Bank of Lancaster, Penn., with Jeffrey L. Maier, Assistant Vice President of Citibank.



The initial or confirmation portion of the *ID* system may be used for all securities issues, including those not eligible for settlement in the depository. For this purpose, Depository Trust processes the confirmation and acknowledgment of any trade reported and concludes its action with the printing of the receive and deliver instructions. This eliminates multiple clerical procedures for the parties involved, standardizes information processing and facilitates final delivery between Participants by whatever means they arrange.

ID confirmations meet the requirements of the rules and regulations of the New York Stock Exchange, the American Stock Exchange and the National Association of Securities Dealers which relate to the confirmation of securities transactions. In addition, the Securities and Exchange Commission has issued a "no-action" letter regarding the conformity of such confirmations with certain rules under the Securities Exchange Act of 1934. These actions allow an *ID* confirmation to replace a mailed confirmation. By early 1978 many of the largest volume *ID* institutions were encouraging broker-dealers with which they traded to stop mailing confirmations.

Janice Zhonghetti, Accounting Assistant at the College Retirement Equities Fund.

During 1977 DTC developed four major improvements to *ID* :

- The acknowledgment period was extended from two days to up to three days.
- Acknowledgement and delivery "compression" was successfully tested, permitting institutions having multiple trades in an issue with a broker-dealer during one day to acknowledge all trade confirmations in that issue with one acknowledgment. Then DTC completes a single delivery on settlement day instead of multiple deliveries reflecting multiple trades.
- The Conditional Deliver Order (CDO) was programmed and installed at the beginning of 1978, permitting DTC Participants to borrow securities more easily and inexpensively in order to have sufficient securities to complete their *ID* deliveries. Borrowed securities which are not needed for *ID* deliveries are automatically returned to the lender by DTC's computer system.
- An institution with a Teletype-compatible terminal can dial DTC's computer system on the telephone and, after entering a password, receive its *ID* confirmations.

Shareholder Communications

Depository Trust's custody of securities is necessary to permit book-entry transactions under applicable law. A primary objective of the depository, however, has been to prevent such custody from becoming a barrier to communications between issuers and beneficial owners. Every effort has been made to assure that if securities would otherwise be held by DTC Participants in street name, the deposit of such securities in Depository Trust would not result in any substantive change in the procedures by which issuers and beneficial owners communicate. Moreover, many of the shares now included in DTC and reported to issuer companies are shares which, prior to the existence of the depository, would have been in certificates circulating by endorsement for prolonged periods before re-registration.

Depository Trust registers deposited securities in the name of its nominee, Cede & Co., for several reasons:

1. This permits a prompt determination of whether deposited securities are non-transferable, subject to a stop transfer order, counterfeit or otherwise not capable of negotiation. If such a problem exists, DTC can take appropriate steps quickly to obtain replacement securities from the depositing Participant;
2. This permits DTC to assure that dividends, distributions and voting rights will be attributed through it to the proper depositors, and
3. This permits re-transfer in the simplest manner possible when necessary.

Depository Trust sends a shareholders meeting record date report to an issuer without charge. The depository also can make available to an issuer of any DTC-eligible security similar listings indicating the amount of that issuer's security it has on deposit for each Participant. Issuers may obtain such reports on a daily, weekly, monthly or dividend record date basis for a modest fee.

The depository mails an Omnibus Proxy to the issuer as soon as possible after record date for a shareholders meeting. The Omnibus Proxy in effect assigns to each depositor having shares of the security credited to its account on record date all the voting rights Cede & Co. is entitled to in respect of such shares. Each such depositor is simultaneously notified of the submission of the Omnibus Proxy and the number of shares it is entitled to vote. Thus the depositing Participant is able to ask the issuer or its agent for the number of proxy cards and sets of proxy material necessary for the Participant to discharge its obligations to beneficial owners of the shares under applicable law, regulations and rules, and DTC is removed from the chain of communication between the issuer and beneficial owners.

Protection for Participants' Securities

A complete statement describing DTC's protection for securities and funds in its custody is available in its booklet *Safeguards for Securities*. These safeguards are summarized as follows:

Internal controls consist of a computer record of every certificate DTC holds; swift transfer of certificates deposited into DTC's Cede & Co. nominee; use of large denomination (jumbo) certificates which are extremely difficult to negotiate by unauthorized persons; special legends and restrictive endorsements on jumbo certificates to further ensure their non-negotiability by unauthorized persons; making certificates non-negotiable when deposited into DTC or withdrawn from it; microfilm record of certificates and related documentation at the time of deposit or withdrawal; and daily duplication of computer files and their storage in a remote rural site.

Physical security consists of an automated personnel access control mechanism; armed guards screening personnel and monitoring their movement; extensive closed circuit television to monitor access, and vault and processing areas; silent alarms to detect vibration from an attempt at vault penetration; a smoke and heat detection and fire control system, and a special sensing device capable of detecting the removal of specially encoded jumbo certificates.

User verifications consist of Participants and Pledgees continually comparing their own records of depository activity against DTC's records and statements and are among the most effective depository safeguards. Such users report differences regularly and are required under penalty to confirm the accuracy of their monthly position statements within ten business days after the statement is available.

Internal and external audits of depository records are conducted by DTC's auditing department and by Price Waterhouse & Co., DTC's independent auditors. Through their combined efforts all certificates on deposit with DTC are counted at least once a year.

The internal audit program includes: certificate processing and related operations; data processing operations; financial operations, and certificate inventory, including daily counts of all certificates in selected issues in the vault and a periodic special count of high-value certificates in the vault.

Monthly summary reports are made by DTC's Auditor to the Audit Committee of the Board of Directors. The Committee is comprised of three directors who supervise the Auditor and the Auditing Department, and review and approve the internal audit program.

Price Waterhouse & Co. audits securities records and positions in the course of the

Warren E. Clarke (seated) and Francis P. Moran, both Console Operators; Michael T. Mullen, Director of Security, and Edward E. Reilly, Manager of Security, all of DTC.

year; reviews controls for the safeguarding of securities, dividends, data processing and other depository operations, and performs an examination of DTC's annual financial statements.

The independent auditors issue two reports on their review of DTC's internal controls. Their Report on Review of Internal Accounting Control is available to Participants, their accountants and others who may desire it. Their Memorandum on Principal Procedures and Internal Accounting Controls is prepared especially for use by the independent auditors of Participants.

The Audit Committee also reviews the scope of the auditing procedures of the independent auditors. The committee receives directly all reports issued to the depository by the independent auditors and meets with them periodically to discuss their findings. The Audit Committee reports its conclusions to the Board of Directors.

Insurance coverage with respect to securities deposited in DTC is among the most extensive for any financial institution in the world. DTC coverage (per event) includes $75,000,000 under Primary and Excess Blanket Bonds and a $5,000,000 Lost Instrument Bond Premium Policy for the purchase of approximately $150,000,000 or more additional protection in the event of a loss beyond that covered by the blanket bonds. In addition the depository's insurance program includes both protection from its armored car carrier which stands "in front of" DTC's own policies, and special mail and messenger policies.

In addition, bank and broker Participants who are covered by standard blanket bonds have available to them riders to their own policies providing that such bonds will cover securities held by DTC for the account of the Participant. These riders provide additional coverage for Participants. The bank or broker having this rider to its blanket bond, to the extent of such coverage, would be reimbursed by its own insurer for its pro rata share of securities losses by DTC in the unlikely event that such losses exceeded DTC's insurance and other coverage.

The Participants Fund is a reserve fund available to satisfy liabilities not covered by DTC's insurance policies. DTC Rules provide that any such loss suffered by Depository Trust normally would be charged initially against undivided profits or retained earnings, but that the Board of Directors may charge it instead to the Participants Fund.

At year-end 1977 DTC's undivided profits or retained earnings were $1,404,000 and the Participants Fund amounted to $50,436,000.

Any loss caused by a Participant would be charged first to the Participant's contribution to the Fund. Any additional or other loss which would be charged to the Participant's Fund would be charged *pro rata* against the contributions of all Participants, as such contributions are fixed at the time the loss or liability is discovered. In the event of a *pro rata* charge, each Participant would be required to contribute to the Participants Fund an amount equal to the charge.

To date no claim has ever been made on the Fund of either DTC or its predecessor organizations.

Other depository procedures also are available to protect Participants. Depository Trust's Rules provide a variety of remedies by which it can minimize the possibility of loss due to the unexpected insolvency of a Participant. Depository Trust watches Participants for signs of operational or financial inadequacy and, in the event of such signs or advice from self-regulatory or other agencies, monitors activity by the firm carefully. If events warrant, it will implement its remedies including acting so that attempted securities deliveries to such a firm which has not paid for them may not be completed without payment.

Regulatory examinations are an important part of the depository's safeguards. The Depository Trust Company is a limited purpose trust company organized under the banking laws of New York State and a member of the Federal Reserve System. As a result, DTC is examined on an unannounced basis annually by the New York State Banking Department and the Federal Reserve Bank of New York, which report their findings to DTC's Board of Directors.

Michael A. Agnes, Comptroller, Kent S. Warner, Treasurer, Ronald A. Garguilo, Director General Services, and John P. Crowley, Vice President Finance & Administration, all of DTC.

Administration

Since The Depository Trust Company functions as a mutualized service organization for its Participants, it seeks to operate at the lowest possible cost in the context of offering overall cost savings to its users. Thus, either the further automation of depository functions which assist DTC and its users or the addition of services which increase DTC's operating costs but create net savings for its Participants may be appropriate.

It is the policy of Depository Trust to limit profits and return to its users such revenues as the Board of Directors believes exceed the funds required for the depository's operations.

Based on this policy, the Board of Directors in December, 1977 authorized a return of $1,200,000 to Participants, Pledgees and Depository Facilities served during that year. Each user's share of this refund was in proportion to the amount of the fees it paid as compared with total service fees paid to the depository for the first eleven months of 1977.

This action marked the third consecutive year the depository has returned all estimated excess income to users.

As a result largely of processing requirements arising out of new services and increased eligibility of security issues, Depository Trust's full-time staff increased from 907 at the end of 1976 to 952 at the close of 1977.

February 3, 1978

To the Board of Directors of
The Depository Trust Company

We have examined the statement of condition of The Depository Trust Company at December 31, 1977 and 1976 and the related statements of income and undivided profits and of changes in financial position for the years then ended. Our examinations 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. Our examinations also extended to the records of securities held for others by the Company and included physical examination of selected securities on hand during each year and such confirmation and additional auditing procedures as we considered necessary.

In our opinion, the accompanying financial statements present fairly the financial position of The Depository Trust Company at December 31, 1977 and 1976 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 applied on a consistent basis after restatement for the change, with which we concur, in accounting for certain lease transactions, as described in Note 1.

Price Waterhouse & Co.

153 East 53rd Street
New York, New York

The Depository Trust Company

Statement of Condition

	December 31, 1977	1976
Assets		
Cash	**$ 3,783,000**	$ 4,405,000
Repurchase agreements (Note 1)	**42,985,000**	39,875,000
U.S. Government Securities (Note 1)	**6,285,000**	
Receivables:-		
Participants:		
For settlements	**1,606,000**	2,529,000
For services	**2,433,000**	2,419,000
Affiliates	**407,000**	1,635,000
Dividends, interest and other (Note 5)	**5,808,000**	4,069,000
Prepaid expenses and deposits	**468,000**	502,000
Equipment and leasehold improvements, less accumulated depreciation of $1,448,000 in 1977 and $1,115,000 in 1976	**1,599,000**	1,381,000
Leased property under capital leases, less accumulated amortization of $1,902,000 in 1977 and $1,276,000 in 1976 (Notes 1 & 7)	**4,463,000**	4,808,000
Contributions to Participants Fund, callable on demand (Note 3)	**47,391,000**	36,532,000
	$117,228,000	$ 98,155,000
Liabilities and Stockholders' Equity		
Liabilities:-		
Drafts payable	**$ 8,668,000**	$14,331,000
Accounts payable and accrued expenses	**2,417,000**	2,079,000
Payable to participants:		
On settlements	**8,465,000**	7,655,000
On receipt of securities	**13,216,000**	10,093,000
Dividends and interest received (Note 5)	**24,753,000**	15,147,000
Payable to affiliates	**1,067,000**	961,000
Obligations under capital leases, including $702,000 in 1977 and $610,000 in 1976 due within one year (Notes 1 & 7)	**4,463,000**	4,808,000
	63,049,000	55,074,000
Participants Fund (Note 3):		
Deposits received	**3,045,000**	2,813,000
Contributions callable on demand	**47,391,000**	36,532,000
	50,436,000	39,345,000
Stockholders' Equity:		
Capital stock - authorized, issued and outstanding, 18,500 shares of $100 par value	**1,850,000**	1,850,000
Surplus	**489,000**	489,000
Undivided profits	**1,404,000**	1,397,000
	3,743,000	3,736,000
	$117,228,000	$ 98,155,000

Certain amounts for 1976 have been reclassified for comparative purposes.

The Depository Trust Company

Statement of Income and Undivided Profits

	For the years 1977	1976
Income:		
Services to participants	**$ 31,198,000**	$ 30,190,000
Less - Refund to participants (Note 2)	**1,200,000**	1,950,000
	29,998,000	28,240,000
Services to affiliates	**564,000**	565,000
Interest income	**2,780,000**	1,972,000
	33,342,000	30,777,000
Expenses:		
Employee costs	**18,923,000**	17,635,000
Rent, maintenance and utilities	**2,947,000**	2,658,000
Data processing rentals and supplies	**2,655,000**	2,473,000
Charges from affiliates (Note 4)	**2,229,000**	2,183,000
Amortization and interest on capital leases (Notes 1 & 7)	**1,073,000**	1,057,000
Other expenses	**5,501,000**	4,737,000
	33,328,000	30,743,000
Income before income taxes	**14,000**	34,000
Income tax provision (benefit) (Note 6)	**7,000**	(23,000)
Net income	**7,000**	57,000
Undivided profits, beginning of year	**1,397,000**	1,346,000
	1,404,000	1,403,000
Less-Transfer to surplus		6,000
Undivided profits, end of year	**$ 1,404,000**	$ 1,397,000
Net income per share	**$ .41**	$ 3.08

Certain amounts for 1976 have been reclassified for comparative purposes.

The Depository Trust Company

Statement of Changes in Financial Position

	For the years 1977	1976
Financial resources were provided by:		
Operations:		
Net income	**$ 7,000**	$ 57,000
Noncash charges included in net income -		
Depreciation	**338,000**	324,000
Amortization on capital leases	**626,000**	584,000
Other operating items, net	**216,000**	60,000
Resources provided from operations	**1,187,000**	1,025,000
Increase in payable to participants	**13,539,000**	3,046,000
Decrease in receivable from affiliates	**1,228,000**	382,000
Decrease (increase) in receivable from participants	**909,000**	(1,971,000)
Capital lease obligations	**281,000**	
Increase (decrease) in cash contributions to Participants Fund	**232,000**	(332,000)
Increase (decrease) in payable to affiliates	**106,000**	(1,088,000)
Other, net	**355,000**	108,000
	17,837,000	1,170,000
Financial resources were used for:		
Decrease (increase) in drafts payable	**5,663,000**	(7,354,000)
Increase in dividends, interest and other receivables	**1,922,000**	2,794,000
Decrease in capital lease obligations	**640,000**	584,000
Leased property under capital leases	**281,000**	
Equipment and leasehold improvements	**558,000**	264,000
	9,064,000	(3,712,000)
Net increase in cash, repurchase agreements and U.S. Government securities during the year	**8,773,000**	4,882,000
Cash, repurchase agreements and U.S. Government securities, beginning of year	**44,280,000**	39,398,000
Cash, repurchase agreements and U.S. Government securities, end of year	**$ 53,053,000**	$ 44,280,000

Certain amounts for 1976 have been reclassified for comparative purposes.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1977

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Securities on deposit

Securities held by the Company for participants, which aggregated approximately 5.0 billion share units ($139 billion at market value) at December 31, 1977 and 3.8 billion share units ($111 billion at market value) at December 31, 1976 are not recorded in the accompanying financial statements. Cash dividends and interest received or due on such securities and in process of distribution or awaiting claim are recorded in the statement of condition.

(b) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost. Equipment is depreciated over estimated useful lives (generally eight years), principally on the sum of the years-digits method. Leasehold improvements are amortized over the life of the related lease in equal annual instalments.

(c) Leases

In 1977, the Company adopted the provisions of Financial Accounting Standard No. 13, "Accounting for Leases" (FAS 13), and has recorded as capital assets as at December 31, 1977 and 1976 those leases meeting the appropriate criteria. The effect of adoption of FAS 13 on net income for 1977 and prior years is not material and has been recorded in 1977.

Leased property under capital leases, principally data processing equipment and related facilities, is amortized on a straight-line basis over the lease term and interest expense is accrued on the basis of the outstanding lease obligation.

(d) Pension plan

The Company's eligible employees are included in the pension plan of New York Stock Exchange, Inc. and its subsidiary companies. Pension costs charged to expense and paid to New York Stock Exchange, Inc. in 1977 for funding were $846,000 (1976—$654,000) and comprise normal costs and amortization over ten years of unfunded prior service costs. The value of the assets of the pension plan of New York Stock Exchange, Inc. at December 31, 1976 (the latest valuation date) exceeded the vested liability thereof.

(e) Marketable securities

Repurchase agreements represent U.S. Government and U.S. Government Agency securities purchased under agreements to resell at current prices, generally over periods of three days or less. These agreements are recorded at cost and interest is accrued as earned.

U.S. Government securities are recorded at amortized cost, which approximates market value.

(f) Income taxes

Investment tax credits on property acquired and leased are applied as a reduction of the income tax provision when the property is placed in service.

(g) Surplus

Transfers to surplus of 10% of net income will be made annually until such time as surplus equals 65% of capital stock as required by the New York State Banking Law.

NOTE 2—ORGANIZATION AND OWNERSHIP

The Company is a limited purpose trust company providing central securities depository and related services to the securities, banking and related industries. At December 31, 1977, New York Stock Exchange, Inc. owned approximately 47% of the capital stock of the Company, with the remainder owned by certain participants or their representatives. A Stockholder's Agreement provides for an annual reallocation of the entitlement to purchase outstanding capital stock by eligible participants or their representatives based on relative depository activity of participants during the prior year.

Pursuant to a policy adopted by the Board of Directors in 1975, the Company does not pay dividends to stockholders, but refunds to its participants each year revenues in excess of current needs. In addition, an agreement with New York Stock Exchange, Inc. prior to the adoption of this policy (see Note 4) precludes payment of cash dividends in any year until June 30, 1983 in excess of 6% of stockholders' equity as at the close of the preceding year.

NOTE 3—PARTICIPANTS FUND

Participants in the depository are required to contribute to the Participants Fund amounts which relate to their activity in the depository. The Fund is available to secure the participants' obligations to the Company, and certain uninsured losses, if such should occur, could be charged to the Fund. Required contributions are received in cash or are callable on demand and secured by securities of the United States or instrumentalities of the United States, states and political subdivisions and certain eligible nonconvertible registered corporate debt securities.

NOTE 4—TRANSACTIONS WITH AFFILIATES

The Company is party to an agreement to purchase software and software related improvements from New York Stock Exchange, Inc. The terms of the agreement provide for the Company to pay 6.5% of its gross revenues from services during the period January 1, 1976 to June 30, 1983, up to a maximum payment of $13,500,000. Amounts due, which totaled $2,014,000 in 1977 (1976—$1,962,000) are determined monthly and paid quarterly over the period of the agreement. Through December 31, 1977, $3,976,000 has been recorded with respect to such agreement.

Revenues for 1977 include $3,877,000 (1976—$3,266,000) received from two divisions of National Securities Clearing Corporation, an affiliate of New York Stock Exchange, Inc., for services related to continuous net settlement deliveries. The Company has been advised that National Securities Clearing Corporation has passed such charges directly on to its participants.

NOTE 5—DIVIDENDS AND INTEREST ON SECURITIES ON DEPOSIT

The Company receives cash and stock dividends and interest on securities registered in the name of its nominee which it distributes to the owners of the securities. Amounts received on securities withdrawn before the record date but not transferred from the name of the Company's nominee cannot be distributed unless claimed by the owner of the security. At December 31, 1977, cash dividends and interest payable and unclaimed amounted to $24,753,000 and stock dividends payable and unclaimed (which are not recorded in the accompanying financial statements) totaled $5,400,000 at market value, representing amounts received by the Company since July 1, 1974. Unclaimed dividends received prior to July 1, 1974 have been transferred to New York State in accordance with abandoned property laws.

Cash dividends and interest receivable at December 31, 1977 amounted to $5,898,000 and have been reduced by allowances of $270,000 for possible losses. Stock dividends receivable (which are not recorded in the accompanying financial statements) amounted to $1,900,000 at market value and an accrual of $110,000 has been established for estimated losses on such receivables.

NOTE 6—INCOME TAXES

The net income tax provision (benefit) for 1977 and 1976 is summarized as follows:

	1977	1976
Current:		
Federal	$94,000	$32,000
State and local	49,000	32,000
Deferred	(88,000)	(27,000)
Investment tax credits	(48,000)	(60,000)
	$ 7,000	($23,000)

At December 31, 1977, the Company has available for federal income tax purposes investment tax credit carryforwards of $89,000, of which $9,000 expires in 1983 and $80,000 in 1984.

NOTE 7—LEASES AND OTHER COMMITMENTS

Capital leases—See Note 1 regarding the treatment of capital leases. The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 1977:

Year ending December 31:	
1978	$1,087,000
1979	1,087,000
1980	1,087,000
1981	771,000
1982	695,000
1983-1987	1,081,000
Total minimum lease payments	5,808,000
Less-Amount representing interest	1,345,000
Present value of net minimum lease payments (including current instalments of $702,000)	$4,463,000

Operating leases—The leases are for improved office space as a subtenant of New York Stock Exchange, Inc. and data processing equipment. The lease for office space provides for base rentals and escalations, plus increases in rental escalations subsequent to 1977. Presented below are the future minimum rental payments required under operating leases having initial noncancelable lease terms in excess of one year as of December 31, 1977:

	Data processing equipment	Office space	Total
Year ending December 31:			
1978	$ 559,000	$ 2,294,000	$ 2,853,000
1979	559,000	2,294,000	2,853,000
1980	559,000	2,294,000	2,853,000
1981	559,000	2,294,000	2,853,000
1982		2,294,000	2,294,000
1983-1988		9,141,000	9,141,000
Total minimum payments required	$2,236,000	$20,611,000	$22,847,000

Rent expense in 1977 was $2,308,000 (1976—$2,055,000) for office space and $1,865,000 (1976—$1,732,000) for computer equipment.

See Note 4 for the commitment under the software purchase agreement.

Participants*

Banks (53)

Bank of New York (The)
Bankers Trust Company
Bank of Tokyo Trust Company (The)
Boston Safe Deposit and Trust Company
Bradford Trust Company
Brown Brothers Harriman and Co.
Central National Bank of Richmond (The)
Chase Manhattan Bank, N.A. (The)
Chemical Bank
Citibank, N.A.
Citizens and Southern National Bank (The)
Citizens and Southern National Bank of South Carolina (The)
Connecticut Bank and Trust Company (The)
Equitable Trust Company (The)
Fidelity Bank (The)
Fidelity Union Trust Company
Fiduciary Trust Company of New York
First-City National Bank of Binghamton, N.Y.
First & Merchants National Bank
First Jersey National Bank
First Kentucky Trust Company (The)
First National Bank in Dallas
First National Bank in Palm Beach
First National Bank in St. Louis
First National Bank of Atlanta (The)
First National Bank of Birmingham
First National Bank of Boston (The)
First Pennsylvania Bank, N.A.
First Union National Bank of North Carolina
Hartford National Bank and Trust Company
Industrial National Bank of Rhode Island
Irving Trust Company
Lincoln First Bank of Rochester
Manufacturers Hanover Trust Company
Manufacturers and Traders Trust Company
Marine Midland Bank
Mellon Bank, N.A.
Mercantile-Safe Deposit and Trust Company
Merchants National Bank & Trust Company of Indianapolis
Morgan Guaranty Trust Company of New York
National Bank of Detroit
New England Merchants National Bank
Northwestern National Bank of Minneapolis
Riggs National Bank of Washington D.C. (The)
Shawmut Bank of Boston, N.A.
State Street Bank and Trust Company
Swiss Bank Corporation, New York Branch
Toledo Trust Company (The)
United Bank of Denver, National Association
United States Trust Company of New York
Wachovia Bank and Trust Company, N.A.
Wells Fargo Bank, National Association
Zions First National Bank

Broker-Dealers (204)

ABD Securities Corporation
Adams & Peck
Adler, Coleman & Co.
Advest, Inc.
American Securities Corporation
Amivest Corporation
Arnhold & S. Bleichroeder, Inc.
Asiel & Co.
Babbitt, Meyers & Company
Bache Halsey Stuart Shields Incorporated
Bacon, Whipple & Co.
Baird, Patrick & Co., Inc.
Baird (Robert W.) & Co., Incorporated
Bear, Stearns & Co.
Beauchamp & Co.
Becker Securities Incorporated
Bell & Beckwith
Benton, Tompane & Co.
Bernstein (Sanford C.) & Co., Inc.
Blair (William) & Company
Blunt Ellis & Simmons Incorporated
Blyth Eastman Dillon & Co. Incorporated
Boesky (Ivan F.) and Co.
Boettcher & Company
Bradford (J.C.) & Co.
Branch, Cabell & Co.
Brown (Alex.) & Sons
Bruns, Nordeman, Rea & Co.
Burgess & Leith Incorporated
Burns Fry and Timmins Inc.
Butcher & Singer Inc.
Carmcley Corporation
Chicago Corporation (The)
Christopher (B.C.) & Company
Cohn (S.D.) & Company
Colin, Hochstin & Co.
Conklin, Cahill & Co.
Conning & Company
Cowen & Co.
Daiwa Securities America, Inc.
Davenport & Co. of Virginia, Inc.

*As of December 31, 1977

Davis (Shelby Cullom) & Co.
de Cordova, Cooper & Co.
De Haven & Townsend, Crouter & Bodine, Inc.
Dexter Securities Corporation
Dillon, Read & Co. Inc.
Doft & Co., Inc.
Dominick Investor Services Corporation
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.
Eppler, Guerin & Turner, Inc.
Ernst & Co.
Evans & Co., Inc.
Execution Services Incorporated

Fagenson & Co., Inc.
Fahnestock & Co.
First Albany Corporation
First Boston Corporation (The)
First Manhattan Co.
First Wall Street Settlement Corporation
Foster & Adams
Fowler & Rosenau
Frank (Walter N.) & Co.
Freehling & Co.
Fried (Albert) & Co.

Garvin Bantel Corp. (The)
Gintel & Co.
Goldman, Sachs & Co.
Goldstein (M.E.) & Co., Inc.
Gradison & Company Incorporated
Granger & Company
Gruntal & Co.
Gruss (Oscar) & Son Incorporated

Hardy & Co.
Haupt, Andrews, Fraiman & Hug
Henderson Brothers, Inc.
Henderson, Harrison & Co.
Herzfeld & Stern
Herzog, Heine & Co., Inc.
Hilliard (J.J.B.), Lyons (W.L.), Inc.
Hirshon, Roth & Co.
Hornblower, Weeks, Noyes & Trask Incorporated
Howard, Weil, Labouisse, Friedrichs Incorporated
Hummer (Wayne) & Co.
Hutton (E.F.) & Company Inc.

Icahn & Co., Inc.
Illinois Company Incorporated (The)
Ingalls & Snyder
Institutional Equity Corporation
Interstate Securities Corporation

Jacobson (Benjamin) & Sons
Janney Montgomery Scott Inc.
Jefferies & Company, 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.

La Branche & Co.
Laidlaw-Coggeshall Inc.
Lasker, Stone & Stern
Lawrence (Cyrus J.) Incorporated
Lawrence, O'Donnell & Co.
Lazard Frères & Co.
Lenart, McHugh & Co.
Lewco Securities Corp.
Loewi & Co. Incorporated

Mabon, Nugent & Co.
Madoff (Bernard L.)
Manley, Bennett, McDonald & Co.
Marcus Schloss & Co., Inc.
Masten (A.E.) & Co., Incorporated
McDonald & Company
Meehan (M.J.) & Company
Merkin & Co., Inc.
Merrill Lynch, Pierce, Fenner & Smith Incorporated
Mesirow & Company
MidSouthwest Securities, Inc.
Mitchel, Schreiber, Watts & Co., Inc.
Moore, Leonard & Lynch, Incorporated
Moore & Schley, Cameron & Co.
Morgan, Olmstead, Kennedy & Gardner, Incorporated
Morgan Stanley & Co. Incorporated
Muir (John) & Co.
Murphey, Marseilles & Smith
Murphy & Durieu
Mutual Clearing Corp. of New York

Neuberger & Berman
Neuberger Securities Corporation
Newhard, Cook & Co. Incorporated
Nick (J.F.) & Co.
Nomura Securities International, Inc.

Oppenheimer & Co., Inc.

Paine, Webber, Jackson & Curtis Incorporated
Pasternack Securities
Pforzheimer (Carl H.) & Co.
Prescott, Ball & Turben
Pressprich (R.W.) & Co. Incorporated
Purcell, Graham & Co., Inc.

Rauscher Pierce Securities Corporation
Raymond, James & Associates, Inc.

Reaves (W.H.) & Co., Inc.
Reich & Co., Inc.
Reinholdt & Gardner
Reynolds Securities Inc.
Richardson Securities, Inc.
Robb, Peck, McCooey & Co., Inc.
Robertson, Colman, Siebel & Weisel
Robinson-Humphrey Company, Inc. (The)
Rodman & Renshaw, Inc.
Roney (Wm. C.) & Company
Rotan Mosle Inc.
Rothschild (L.F.), Unterberg, Towbin
Roulston and Company, Inc.
Rowland (R.) & Co., Incorporated

Sade & Co.
Salomon Brothers
Securities Settlement Corporation
Seligman (J. & W.) & Co.
Seskis & Co.
Shaine (H.B.) & Co., Inc.
Shearson Hayden Stone Inc.
Simon (I.M.) & Co.
Singer & Mackie Inc.
Smith Barney, Harris Upham & Co., Incorporated
Spear, Leeds & Kellogg
Stern & Kennedy
Stern, Lauer & Co.
Sterne, Agee & Leach, Inc.
Stifel, Nicolaus & Company Incorporated
Stillman, Maynard & Co.
Stokes, Hoyt & Co.
Streicher (J.) & Co.
Stuart Brothers
Sutro & Co. Incorporated
Swiss American Securities Inc.

Thomson McKinnon Securities Inc.
Tucker, Anthony & Day (R.L.), Inc.
Tweedy Browne Clearing Corporation

UBS-DB Corporation

Vincent (Burton J.), Chesley & Co.
Viner (Edward A.) & Co., Inc.

Wagner, Stott & Co.
Weber, Hall, Cobb & Caudle, Inc.
Wedbush, Noble, Cooke, Inc.
Weeden & Co.
Weiss, Peck & Greer
Wellington & Co.
Westminster Securities Corporation
Wheat, First Securities, Inc.
White, Weld & Co. Incorporated
Whitney (H.N.), Goadby & Co.
Witter (Dean) & Co. Incorporated
Wood Gundy Incorporated
Wreszin, Prosser, Romano & Co.

Yamaichi International (America), Inc.

Clearing Agencies (8)

Midwest Securities Trust Company
National Securities Clearing Corporation —ASECC Division
National Securities Clearing Corporation —NCC Division
National Securities Clearing Corporation —SCC Division
New England Securities Depository Trust Company
Options Clearing Corporation (The)
Pacific Securities Depository Trust Company
Stock Clearing Corporation of Philadelphia

Depository Facilities*

Atlanta, Georgia
Citizens and Southern National Bank (The)
First National Bank of Atlanta (The)

Baltimore, Maryland
First National Bank of Maryland (The)

Birmingham, Alabama
First National Bank of Birmingham

Boston, Massachusetts
New England Securities Depository Trust Company
Shawmut Bank of Boston, N.A.
State Street Bank and Trust Company

Charlotte, North Carolina
First Union National Bank of North Carolina

Cleveland, Ohio
Cleveland Trust Company (The)

Dallas, Texas
First National Bank in Dallas
Republic National Bank of Dallas

Denver, Colorado
United Bank of Denver, National Association

Hartford, Connecticut
Connecticut Bank and Trust Company (The)
Hartford National Bank and Trust Company

Indianapolis, Indiana
Merchants National Bank & Trust Company of Indianapolis

Jersey City, New Jersey
First Jersey National Bank

Los Angeles, California
American City Bank
Wells Fargo Bank, National Association

Louisville, Kentucky
Citizens Fidelity Bank & Trust Company
First Kentucky Trust Company (The)

Milwaukee, Wisconsin
First Wisconsin Trust Company

Minneapolis, Minnesota
First National Bank of Minneapolis
Northwestern National Bank of Minneapolis

Nashville, Tennessee
United American Bank

Philadelphia, Pennsylvania
First Pennsylvania Bank N.A.
Provident National Bank

Providence, Rhode Island
Industrial National Bank of Rhode Island

Richmond, Virginia
First & Merchants National Bank

Rochester, New York
Lincoln First Bank of Rochester

St. Louis, Missouri
First National Bank in St. Louis
Mercantile Trust Company National Association

San Francisco, California
Wells Fargo Bank, National Association

*As of December 31, 1977

Pledgees*

Algemene Bank Nederland N.V., New York Branch
American Security and Trust Company, N.A.
Arizona Bank (The)
Banco Urquijo, S.A.—New York Agency
Bank Leumi Trust Company of New York
Bank of America N.T. & S.A.
Bank of California N.A. (The)
Bank of New York (The)
Bank of Nova Scotia (The)
Bank of Oklahoma, N.A.
Bank of Tokyo Trust Company (The)
Bankers Trust Company
Barclays Bank International Limited
Boatmen's National Bank of St. Louis (The)
Bradford Trust Company
Brown Brothers Harriman & Co.
California First Bank
Canadian Imperial Bank of Commerce
Chase Manhattan Bank, N.A. (The)
Chemical Bank
Citibank, N.A.
Citizens Fidelity Bank and Trust Company
Cleveland Trust Company (The)
Connecticut Bank and Trust Company (The)
Continental Illinois National Bank and Trust Company of Chicago
Credit Lyonnais New York Branch
Credito Italiano
Crocker National Bank
Daiwa Bank Limited (The), New York Agency
Detroit Bank & Trust Company (The)
Equitable Trust Company (The)
European-American Bank & Trust Company
Fidelity Bank (The)
First & Merchants National Bank
First Jersey National Bank
First National Bank and Trust Company of Oklahoma City
First National Bank in Dallas
First National Bank in St. Louis
First National Bank of Arizona
First National Bank of Atlanta (The)
First National Bank of Chicago (The)
First National Bank of Louisville
First National Bank of Maryland (The)
First National Bank of Minneapolis
First Pennsylvania Bank, N.A.
Harris Trust and Savings Bank
Hartford National Bank and Trust Company
Houston National Bank
Irving Trust Company
Israel Discount Bank Limited
Lincoln First Bank of Rochester
Marine Midland Bank
Manufacturers Hanover Trust Company
Maryland National Bank
Mellon Bank, N.A.
Mercantile-Safe Deposit and Trust Company
Mercantile Trust Company National Association
Merchants National Bank & Trust Company of Indianapolis
Midlantic National Bank
Morgan Guaranty Trust Company of New York
National Bank of Detroit
National Bank of North America
North Carolina National Bank
Northern Trust Company (The)
Pittsburgh National Bank
Provident National Bank
Republic National Bank of Dallas
Royal Bank of Canada (The), New York Agency
Seattle First National Bank
Security Pacific National Bank
Shawmut Bank of Boston, N.A.
State Street Bank and Trust Company
Swiss Bank Corporation, New York Branch
Swiss Credit Bank
Texas Commerce Bank National Association
Toledo Trust Company (The)
Toronto-Dominion Bank (The)
Union Bank of Switzerland, New York Branch
Union First National Bank of Washington
United Bank of Denver, National Association
United California Bank
United States Trust Company of New York
United Virginia Bank
Wachovia Bank and Trust Company, N.A.
Wells Fargo Bank, National Association

*As of December 31, 1977

Institutions Participating Fully In the Institutional Delivery (*ID*) System*

Akzona Pension Fund
Alaska National Bank of the North
Alaska Statebank
Allied Chemical Credit
American Bank & Trust Co. (Reading, Pa.)
American Utility Shares
Bank of New York (The)
Bank of Tokyo Trust Company (The)
Bank Von Ernst & Cie.
Bankers Trust Company
Banque Gutzwiller, Kurz, Bungenev S.A.
Batterymarch Financial Management Corporation
Boston Safe Deposit and Trust Company
Bullock Fund
Canadian Fund
Central National Bank (The)
Chase Manhattan Bank, N.A. (The)
Chase Manhattan Bank (Switzerland)
Citibank, N.A.
Citizens & Southern National Bank (The)
Citizens & Southern National Bank of South Carolina (The)
Den Norske Creditbank
Dividend Shares Inc.
Equitable Life Assurance
Equitable Trust Company (The)
Fidelity Union Trust Company
Financial Bond Shares, Inc.
Financial Dynamic Fund, Inc.
Financial Industrial Fund, Inc.
Financial Industrial Income Fund, Inc.
Financial Daily Income Shares, Inc.
First-City National Bank of Binghamton, N.Y.
First Index Investment Trust, Inc.
First International Bank in Houston
First Kentucky Trust Company (The)
First National Bank in Dallas
First National Bank in Palm Beach
First National Bank of Boston (The)
First National Bank of Denver (The)
First National Bank of Orange County
Industrial National Bank of Rhode Island
Investors Stock Fund Inc.
Irving Trust Company
Ivest Fund Inc.
Lincoln First Bank of Rochester
Manufacturers Hanover Trust Company
Marine Midland Bank
Massachusetts Financial Development Fund
Mechanics Bank of Richmond
Mercantile Safe-Deposit & Trust Company (Baltimore, Md.)
Monsanto Savings & Investment Plan
Monthly Income Shares
Morgan (W.L.) Growth Fund, Inc.
Morgan Guaranty Trust Company
Nation-Wide Securities Co.
National Bank of Alaska
New York Venture Fund, Inc.
Nomura Securities International, Inc.
Northwestern National Bank of Minneapolis
Prudential Insurance Company of America
Putnam Option Income Trust
Republic National Bank of Dallas
St. Louis Union Trust Company
Southern Methodist University Endowment Fund
State Street Trust Division
Union Bank of Switzerland (Basle)
Union Bank of Switzerland (Berne)
Union Bank of Switzerland (Chiasso)
Union Bank of Switzerland (Geneva)
Union Bank of Switzerland (Lausanne)
Union Bank of Switzerland (Lugano)
Union Bank of Switzerland (Zurich)
Union Trust Company (New Haven, Conn.)
Union Trust Company (Stamford, Conn.)
United Bank of Denver, N.A.
University of Rochester
Wachovia Bank and Trust Company, N.A.
Wells Fargo Bank, National Association

*As of December 31, 1977

Officers

William T. Dentzer, Jr.
Chairman and Chief Executive Officer

Vice Presidents
John P. Crowley
Arnold Fleisig
David Fuchs
William F. Jaenike
Thomas J. Lee

Secretary/Counsel
Edward J. McGuire, Jr.

Assistant Vice Presidents
Nicholas J. Arrigan
Alan D. Kahn
James V. Reilly
Nishan G. Vartabedian

Comptroller
Michael A. Agnes

Treasurer
Kent S. Warner

Auditor
Thomas F. Coleman

Director of Security
Michael T. Mullen

Assistant Secretary
Donna Grant Reilly

Assistant Treasurer
Leonard A. Miele

THE DEPOSITORY TRUST COMPANY
55 Water Street • New York, New York 10041

MEMBER
FEDERAL RESERVE
SYSTEM