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**ANNUAL MEETING OF SHAREHOLDERS'**  
 The Annual Meeting of Shareholders of the Corporation is held on the third Wednesday in April each year.

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

**Annual  
Highlights**

**Total Stock,  
Bond and Other  
Transactions  
Settled**

1979	28,794,000
1978	27,402,000

**Total Value  
of Transactions  
Settled**

1979	\$589,102,000,000
1978	\$513,928,000,000

**Costs to  
Participants**

1979	\$26,746,000
1978	\$38,557,000

**Clearing Fund**

12/31/79

cash	government securities	\$70,713,000
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12/31/78

cash	government securities	\$59,571,000
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## Report of the Chairman and President

We are pleased to introduce National Securities Clearing Corporation's 1979 Annual Report by emphasizing two areas of significant achievement: reduced costs and increased services. During the past year, in contrast to previous ones when legal and regulatory requirements occupied much of the attention of the Board of Directors and management, we were able to focus on providing clearance and settlement services to a national market of broker-dealers and banks. The results of these efforts have been significant.


In 1979, NSCC reduced participants' clearing charges by \$11.8 million, an amount which greatly exceeded our predictions. These reductions, achieved during a period of increasing volume and high inflation, were reflected immediately in the monthly billings to participants through discounts which averaged 45% for the year. Most of the savings were as a result of the consolidation of NSCC's listed and over-the-counter processing. The new single system achieved the projected operating efficiencies, and at long last, the "New York problem" of duplicate clearing facilities, incurring redundant expenses, has been resolved. NSCC also returned nearly \$5 million in excess cash deposits to participants as a result of merging the listed and over-the-counter Clearing Funds.

In addition to reducing fees and Clearing Fund deposits, the consolidation also lowered participants' in-house costs. Several years ago, when the consolidation was in the planning stage, in-house savings were expected to total between

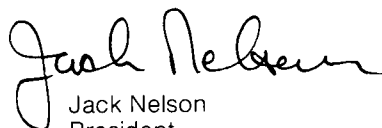
\$10 million and \$13.3 million per year. Actual savings in 1979 were significantly larger, due to the effects of inflation and increased volume.

Trading volume increased throughout 1979 and continued to climb in the first months of 1980. In addition to keeping pace with these volume increases, NSCC was also able to enhance existing procedures, assist participants in solving the problems caused by the added volume, develop new services, add to the number of eligible issues in the CNS (continuous net settlement) system, increase and broaden participation, and expand the interfaces with other clearing agencies. We expect that our organization will face even greater challenges in the future from volume increases and broadening industry needs. As a result, we enter 1980 with a clear goal of expanding the capacity of our systems and further maximizing their efficiencies.

Key among NSCC's corporate objectives is the determination to be responsive to participants' needs and to be effective in solving clearing problems. We have made significant progress toward these goals in 1979 and are prepared to go further in the 1980's.



Robert M. Flanagan  
Chairman



Jack Nelson  
President

**NSCC BOARD OF DIRECTORS**

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

Joseph Cattivera  
Executive Vice President  
Mitchel, Schreiber, Watts & Co. Inc.

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

Francis C. Farwell  
Partner  
William Blair & Company

William J. Fields  
Executive Vice President & Treasurer  
Wheat, First Securities, Inc.

- † Edward C. Gilmore, Jr.  
Senior Vice President  
Rauscher Pierce Refsnes, Inc.

- † Joseph L. Gitterman III  
Partner  
LaBranche & Co

John Herzog  
President  
Herzog, Heine, Geduld, Inc.

- Raymond C. Holland  
Senior Vice President  
A.G. Becker Incorporated

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

Jack Nelson  
President  
National Securities Clearing Corporation

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

Vincent W. Plaza  
Senior Vice President  
New York Stock Exchange, Inc.

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

- Donald R. Sammet  
Senior Vice President  
First Mid America Inc

- † J. Philip Smith  
Executive Vice President  
Lewco Securities Corp

Milan S. Soltis  
Vice President  
The Chase Manhattan Bank, N.A.

Paul Underwood  
Senior Vice President  
E.F. Hutton & Company, Inc.

George A. Vonder Linden  
Executive Vice President  
Smith Barney, Harris Upham & Co., Inc.

Stephen L. Williams  
Vice President  
American Stock Exchange, Inc.



**Robert P. Rittereiser**



**Donald R. Sammet**



**Raymond C. Holland**



**Milan S. Soltis**



**George A. Vonder Linden**



**Jack Nelson**



**C. Richard Justice**



**Joseph L. Gitterman III**

• Completing term of office, April 1980  
† Director-elect, April 1980  
\* Resigned as director, January 1980



**Francis C. Farwell**



**Paul Underwood**



**William J. Fields**



**John Herzog**



**Robert M. Flanagan**



**Gilbert L. Pamplin**



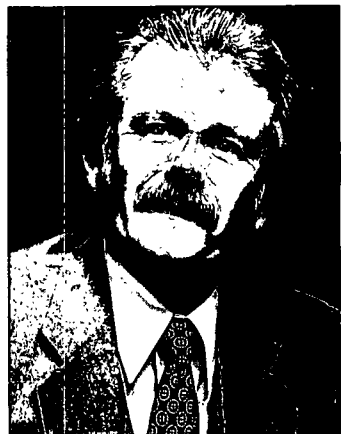
**Joseph Cattivera**



**Robert T. Eckenrode**



**Vincent W. Plaza**



**Edward C. Gilmore, Jr.**



**J. Philip Smith**



**Stephen L. Williams**

## Participants of National Securities Clearing Corporation

ABD Securities Corporation  
Adams, Harkness & Hill, Inc.  
Adler, Coleman & Co.  
Advest, Inc.  
Allen & Company Incorporated  
Alistead, Strangis & Dempsey Incorporated  
Amalgamated Bank of New York  
American Securities Corporation  
American Stock Exchange Clearing Corporation  
Ames (A.E.) & Co., Incorporated  
Anderson & Strudwick, Inc.  
Arnhold & S. Bleichroeder, Inc.  
Asiel & Co.  
Atlantic Capital Corporation  
Bache Halsey Stuart Shields Incorporated  
Bacon, Whipple & Co.  
Baird (Robert W.) & Co., Incorporated  
Baird, Patrick & Co., Inc.  
Bank Leumi Trust Company of New York  
Bank of Montreal (Agency)  
Bank of New York (The)  
Bankers Trust Company  
Bear, Stearns & Co.  
Beauchamp & Co.  
Becker (A.G.) Incorporated  
Bell & Beckwith  
Bellamah, Neuhauser & Barrett, Inc.  
Benton, Newman, Mosca & Co.  
Bernstein (Sanford C.) & Co., Inc.  
Blair (William) & Company  
Blunt, Ellis & Loewi Incorporated  
Boesky (Ivan F.) and Co.  
Boettcher & Company  
Boseco, Inc.  
Boston Stock Exchange Clearing Corporation  
Bradford (J.C.) & Co.  
Bradford Securities Processing Services, Inc.  
Bradford Trust Company  
Bradford Trust Company of Boston  
Branch, Cabell & Co.  
Brandt (H.A.) & Associates, Inc.  
Brown (Alex.) & Sons  
Brown Brothers Harriman & Co.  
Bruns, Nordeman, Rea & Co.  
Burgess & Leith Incorporated  
Burns Fry and Timmins Inc.  
Burns, Pauli & Co., Inc.  
Canadian Depository for Securities Limited (The)  
Canadian Imperial Bank of Commerce  
Cantor (S.B.) & Co., Inc.  
Cantor, Fitzgerald & Co., Inc.  
Carmcley Corporation  
Carr & Thompson, Inc.  
Carr Securities Corp.  
Cartwright (L.) & Co.  
CBT Clearing Corp.  
Chase Manhattan Bank, N.A. (The)  
Chemical Bank  
Chicago Corporation (The)  
Christopher (B.C.) & Company  
Citibank, N.A.  
Colin, Hochstin Co.  
Conklin, Cahill & Co.  
Conning & Co.  
Cosentino & DeFelice, Inc.  
Cowen & Co.  
Craig-Hallum, Inc.  
Dain Bosworth Incorporated  
Daiwa Securities America Inc.  
Davenport & Co. of Virginia, Inc.  
Davis (Shelby Cullom) & Co.  
Dean Witter Reynolds Inc.  
de Cordova, Cooper & Co.  
Deltec Securities Corporation  
Dillon, Read & Co., Inc.  
Doft & Co., Inc.  
Dominick Investor Services Corp.  
Donaldson, Lufkin & Jenrette Securities Corporation  
Drexel Burnham Lambert Incorporated  
Drysdale Securities Corporation  
Easton & Co.  
Eberstadt (F.) & Co., Inc.  
Edwards (A.G.) & Sons, Inc.  
Einhorn & Co.  
Engler & Budd Company  
Eppler, Guerin & Turner, Inc.  
Equity Securities Trading Co., Inc.  
Ernst & Company  
EuroPartners Securities Corporation  
Evans & Co., Incorporated  
Execution Services Incorporated  
Fagenson & Company, Inc.  
Fahnestock & Co.  
Famco Options, Inc.  
Ferris & Company, Incorporated  
Fidelity Union Trust Co.  
Fiduciary Trust Company of New York  
Financial America Securities, Inc.  
First Albany Corporation  
First Boston Corporation (The)  
First Independent Stock Transfer Agent, Inc.  
First Jersey National Bank  
First Jersey Securities, Inc.  
First Manhattan Co.  
First Mid America Inc.  
First National Boston Clearance Corp.  
First Southwest Company  
First Wall Street Settlement Corporation  
Flagship First National Bank  
Folger Nolan Fleming Douglas, Incorporated  
Foster & Marshall Inc.  
Frances (E.G.) & Co.  
Frank (Walter N.) & Co.  
Frankel (Wm. V.) & Co., Inc.  
Freehling & Co.  
Freeman Securities Company, Inc.  
French American Banking Corp.  
Fried (Albert) & Co.  
Gintel & Co.  
Goldberg Securities  
Goldman, Sachs & Co.  
Gowell Securities Corp.  
Gradison & Company, Incorporated  
Granger & Company  
Gruntal & Co.  
Gruss (Oscar) & Son Incorporated  
Hartford National Bank and Trust Company  
Haupt, Andrews, Fraiman & Hug  
Hawthorne Securities Corporation  
Heitner Corporation (The)  
Henderson Brothers, Inc.  
Herzfeld & Stern  
Herzog, Heine, Geduld, Inc.  
Hill, Thompson, Magid & Co., Inc.  
Hilliard (J.J.B.), Lyons (W.L.), Inc.  
Hirshon, Roth & Co.  
Howard, Weill, Labouisse, Friedrichs Inc.  
Hudson (R.S.) & Co., Inc.  
Hummer (Wayne) & Co.  
Hutton (E.F.) & Company, Inc.  
Icahn & Co., Inc.  
Illinois Company Incorporated (The)  
Ingalls & Snyder  
Institutional Equity Corporation  
Interstate Securities Corporation  
Irving Trust Company  
Jacobson (Benjamin) & Sons  
Janney, Montgomery, Scott, Inc.  
Jones (Edward D.) & Co.  
Josephthal & Co., Inc.  
Kalb, Voorhis & Co.  
Kaufmann, Alsberg & Co.  
Kidder, Peabody & Co. Incorporated



Kingsley, Boye & Southwood, Inc.  
Krieger (Henry) & Co.  
LaBranche & Co.  
Laidlaw Adams & Peck Inc.  
Lasker, Stone & Stern  
Lawrence (Cyrus J.) Incorporated  
Lawrence, O'Donnell & Co.  
Lazard Freres & Co.  
Lewco Securities Corp.  
Lincoln First Bank of Rochester  
Mabon, Nugent & Co.  
Madoff (Bernard L.)  
Manley, Bennett, McDonald & Co.  
Manufacturers Hanover Trust Company  
Manufacturers National Bank of Detroit  
Manufacturers and Traders Trust Company  
Marcus & Company  
Marcus Schloss & Co., Inc.  
Marine Midland Bank— New York  
Marks (Carl) & Co., Inc.  
Masten (A.E.) & Co., Incorporated  
Mayer & Schweitzer, Inc.  
McDonald & Company  
McLeod Young Weir Incorporated  
Meehan (M.J.) & Co.  
Merrill Lynch, Pierce, Fenner & Smith Inc.  
Mesirow & Company  
Midwest Clearing Corporation  
Mitchel, Schreiber, Watts & Co., Inc.  
Mitchum, Jones & Templeton Incorporated  
MKI Securities Corp.  
Montgomery Securities  
Moore & Schley, Cameron & Co.  
Morgan Guaranty Trust Company  
of New York  
Morgan, Keegan & Company, Inc.  
Morgan, Olmstead, Kennedy & Gardner, Inc.  
Morgan Stanley & Co. Incorporated  
Muir (John) & Co.  
Muller and Company  
Murphey, Marseilles & Smith  
Murphy, Durieu & Naddell  
National Bank of North America  
Neuberger & Berman  
Newhard, Cook & Co. Incorporated  
Nick (J.F.) & Co.  
Nomura Securities International, Inc.  
Norris & Hirshberg, Inc.  
Northwestern Trust Company  
Oppenheimer & Co., Inc.

Paine, Webber, Jackson & Curtis,  
Incorporated  
Parker, Weissenborn & Moynahan, Inc.  
Pasternack Securities  
Pforzheimer (Carl H.) & Co.  
Piper, Jaffray & Hopwood Incorporated  
Pitfield, Mackay & Co., Inc.  
Prescott, Ball & Turben  
Purcell, Graham & Co., Inc.  
Q & R Clearing Corporation  
Quinn (E.J.) & Co., Inc.  
Rauscher Pierce Refsnes, Inc.  
Raymond, James & Associates, Inc.  
Reaves (W.H.) & Co., Inc.  
Reich & Co., Inc.  
Republic National Bank of New York  
Rice Securities Inc.  
Richardson Securities, Inc.  
Riviere Securities Corporation  
Robb, Peck, McCooey & Co., Inc.  
Robertson, Colman, Stephens & Woodman  
Robinson-Humphrey Company, Inc. (The)  
Rodman & Renshaw, Inc.  
Roney (Wm. C.) & Co.  
Rose & Company Investment Brokers, Inc.  
Ross (Arthur H.), Inc.  
Rotan Mosle Inc.  
Rothschild (L.F.), Unterberg, Towbin  
Roulston & Company, Inc.  
Rowland (R.) & Co. Incorporated  
Ryan (John J.) & Co.  
Sade & Co.  
Salomon Brothers  
Schapiro (M.A.) & Co., Inc.  
Scherck, Stein & Franc, Inc.  
Schroder (J. Henry) Bank & Trust Company  
Securities Settlement Corporation  
Security Pacific Clearing & Services Corp.  
Seligman (J. & W.) & Co.  
Shaine (H.B.) & Co., Inc.  
Shawmut Securities Clearance Corp.  
Shearson Loeb Rhoades Inc.  
Simon (I.M.) & Co.  
Smith Barney, Harris Upham  
& Co. Incorporated  
Smith (E.H.), Jacobs & Co.  
Source Securities Corporation  
Southwest Securities, Inc.  
Spear, Leeds & Kellogg  
State Street Bank and Trust Company  
Steichen (R.J.) & Co.  
Stern & Kennedy

Sterne, Agee & Leach, Inc.  
Stifel, Nicolaus & Company Incorporated  
Stillman, Maynard & Co.  
Stock Clearing Corporation  
Stock Clearing Corporation of Philadelphia  
Stokes, Hoyt & Co.  
Streicher (J.) & Co.  
Stuart Brothers  
Stubro, Incorporated  
Sutro & Co. Incorporated  
Swiss American Securities Inc.  
Swiss Bank Corporation  
Thomson McKinnon Securities Inc.  
Thrift Trading Incorporated  
Tompane (A.B.) & Co.  
Toronto-Dominion Bank (The)  
Tucker, Anthony & R.L. Day, Inc.  
Tweedy Browne Clearing Corporation  
United Missouri Bank of Kansas City, N.A.  
United States Trust Company of New York  
Vincent (Burton J.), Chesley & Co.  
Viner (Edward A.) & Co., Inc.  
Wagner, Stott & Co.  
Weber, Hall, Cobb & Caudle, Inc.  
Wechsler & Krumholz, Inc.  
Wedbush, Noble, Cooke, Inc.  
Weiss, Peck & Greer  
Wellington & Co.  
Wells Fargo Securities  
Clearance Corporation  
Wheat, First Securities, Inc.  
Whitney, Goadby, Inc.  
Wien (M.S.) & Co., Inc.  
Williams (Jerry), Inc.  
Wood Gundy Incorporated  
Wreszin, Prosser, Romano & Co.  
Yamaichi International (America) Inc.

The above firms are participants of National Securities Clearing Corporation as defined by the Securities Exchange Act of 1934. Other organizations use certain limited services offered by NSCC. For a complete listing of services provided and participants, please write to the Director of Membership, NSCC, 55 Water Street, New York, New York 10041. Data compiled as of March 13, 1980.



**NSCC Directors Herzog, Fields and Vonder Linden en route from November meeting in Dallas. The Board of Directors has held meetings in several branch-office cities during the past year.**

Financial results for 1979 show that participants saved a total of \$11.8 million in clearing fees when 1979 revenues are compared with those of 1978. These savings, which resulted largely from the consolidated operation of over-the-counter and listed clearance and settlement, were passed along to participants through the discounting of monthly invoices. These discounts averaged 45% in 1979 and reached a monthly high of 70% in December. In addition, NSCC returned almost \$5 million in cash to participants as a result of consolidating the over-the-counter and listed Clearing Funds.

The \$11.8 million saved has several components, the most significant of which is the reduced cost of operating through a single facilities manager as opposed to the dual environment that had been required in previous years. This one component amounted to \$9 million and was net of the impact of increased volume, usage of services and inflation. Taking into consideration these factors, NSCC's cost of operation in an unconsolidated mode in 1979 would have increased by \$2.1 million over 1978. As such, a more realistic estimate of reduced operating cost as a result of consolidation is \$11.1 million for the first year.

A second factor in the reduction of fees was the planned decrease in the rate of revenues retained by the corporation. In 1976, the Board of Directors determined that it would be appropriate to increase NSCC's capital base by \$2 million in order to provide a reserve for contingencies. By the end of 1978, \$1.7 million had been accumulated, and at that time the Board determined to raise the additional \$300,000 over a four-year period. Further, NSCC adopted a procedure in October 1978 that allows for discounting fees so that, except for the creation of the contingency reserve, revenues collected would equal actual cost of operation on a current basis. As a combined result of these policies, NSCC's before-tax profit of \$120,000 in 1979 was some \$2.1 million less than in 1978.

In addition to the reduced fees charged by



(Top) Jerry McCallion, President of S.B. Cantor & Co., Inc., discussing the safekeeping of securities at The Depository Trust Company with DTC Senior Vice President Bill Jaenike and President Conrad Ahrens and Jack Quirke, Vice President of NSCC.

(Middle) NSCC President Jack Nelson describes service capabilities to Ron Hillman, Vice President of Wells Fargo Bank, N.A., and Dick LaRossa, Partner of Robertson, Colman, Stephens & Woodman.

(Left) Touring the SIAC (Securities Industry Automation Corporation) computer center are SIAC Senior Vice President Sam Alward, NSCC Director-elect Phil Smith, SIAC President Charles McQuade and Ray Holland, Chairman of NSCC's Operations Committee.

the clearing corporation and the returned Clearing Fund cash deposits, participants were also able to reduce their own costs as a result of the consolidation as well as through other enhancements implemented in 1979. NSCC, in its initial filing with the Securities and Exchange Commission in 1976, projected that participant in-house savings would total between \$10 million and \$13.3 million per year when consolidation was accomplished. Although actual results have not been calculated, savings achieved are believed to be significantly greater because of increases in the base level of participant in-house costs caused by larger-than-forecast volume, as well as the high rate of inflation experienced during this three-year period.

A major effort was also expended in 1979 by NSCC in winding down the residue operations of its NCC Division, which previously handled over-the-counter clearance. Even though this division had stopped accepting new transactions in late 1978, there were some \$800 million of securities in various stages of processing and a significant amount of NCC Division nominee-name stock outstanding. As a result, it was necessary to establish an interim operation to insure that all of these items would be settled, and any attendant problems resolved. During the year, a number of procedures, including the transferring of open physical delivery requirements between NSCC and its participants into the CNS book-entry system, were installed to expedite prompt satisfaction of open obligations to participants and encourage the transfer of stock out of the name of our nominee. As a result of these wind-down efforts, all participant delivery obligations have now been satisfied and all dividend claim processing is current.

As trading volume accelerated and set new records both in 1979 and in the first months of 1980, NSCC met the unprecedented need for efficient, orderly clearance and settlement services. The average number of shares submitted daily for comparison rose 17% to 45.9 million in 1979, and the average size of trades processed increased to 564 shares, a 14% upswing from a year earlier. The daily value of transactions settled in 1979 averaged



**(Top) Steve Soltis, an NSCC Director, and NSCC Vice President John Elberfeld discuss report to Finance Committee.**

**(Middle) Bob Bety, Administrative Officer of Bacon, Whipple & Co.; Bill Rogers, Managing Partner of Wayne Hummer & Co.; and Ken McLellan, Senior Vice President of The Chicago Corporation, discuss branch office enhancements with Steve Labriola of NSCC.**

**(Bottom) Directors Farwell, Ritterelser and Cattivera confer prior to a board meeting.**

\$2.38 billion and rose to a record \$4.4 billion on October 17, the settlement date for the largest single day of equity trading in history.

NSCC saw its challenge as much more than meeting processing schedules with existing systems and procedures. For more than a year, the clearing corporation had anticipated a volume increase and had been working with participants to develop programs that would expedite trade comparison, the most labor-intensive and error-prone phase of post-trade processing. One improvement, affecting active OTC processing, created an advisory capability for As Of and Withhold trades, providing a two-day error-correction processing cycle. Another change carried over open OTC As Ofs and Withholds to Added Trade contracts, for better overall control. The same automatic carryover to Added Trade contracts was introduced for open uncomparred and advisory items from T+1 and T+2 supplemental contracts. These improvements give participants added information on open trades still to be resolved.

NSCC also added comparison processing for OTC when-issued transactions. This enhancement was made possible when the National Association of Securities Dealers, Inc. amended its Uniform Practice Code to conform OTC ex-dividend procedures for new issues and stock distributions with those of the listed markets. Now participants can submit and compare listed and OTC when-issued transactions, and the system will pend these transactions until the issues go "regular way."

In conjunction with the New York Stock Exchange, NSCC developed analytical reports designed to identify areas where comparison differences were creating unusual problems in that market. These reports were used during the 1979 period in a number of ways by the participants of the comparison system and, along with other enhancements, were a major contributor to a reduction of over 20% in the uncomparred item rate for NYSE transactions.

In addition to the comparison enhancements, NSCC reduced the number of physical delivery orders generated from OTC transactions by introducing a system for New York metropolitan area participants which nets and allots issues that are not eligible for CNS.

Further, in 1979, the capability to process New York and American Stock Exchange transactions through NSCC's branch facilities was made available to participants, satisfying a precondition to consolidation defined by the SEC in its 1977 order granting NSCC's registration. Currently, regional NSCC participants are using various aspects of the listed capability. In addition to receiving comparison and clearance reports in the branch facilities, regional participants are availing themselves



(Above) Gil Pamplin and Don Sammet, leaving a Board of Directors meeting in New York.

(Top left) NSCC Vice President Bob Woldow elaborates on the role of NSCC's Clearing Fund with Walt Cushman, Senior Vice President of The Bank of New York; Frank Penna, Vice President of National Bank of North America; and Tom Price, Senior Vice President of Bankers Trust Company, at The New York Clearing House Association.

(Bottom left) Throughout the year, NSCC's systems processed the increasing trade volume. Ten branch offices and six other clearing corporations interact with NSCC's computer facility in New York.



of various NSCC delivery services for securities and money movements. At the branches, participants can also send securities to transfer agents through the National Transfer Service; initiate deliveries through the envelope delivery services; process dividend claims through the Dividend Settlement Service; and manage their securities positions at the Depository Trust Company.

In late November, an automated Stock Borrow Program was introduced on a limited basis and more recently has been expanded to include all interested participants. Through this program, NSCC has increased the number of securities available to meet certain CNS system needs, including buy-ins, priority requests, and deliveries against omnibus accounts with interfacing clearing corporations. When the system has a need to borrow shares, the lending participant is advanced their full market value until they are returned.

A procedural change in the New York State Stock Transfer Tax Rebate Program made in 1979 eliminated the need for participants to summarize each quarter the tax information they already report daily to NSCC. NSCC now has an automated history file of New York State Transfer Taxes which accumulates the daily rebates and prepares the quarterly reports.

During 1979, NSCC expanded in several other ways. In conjunction with DTC, over 1,000 new equity issues were added to our list of CNS eligible issues. CNS eligibility offers participants better control, by allowing securities to be moved through book-entry procedures rather than physically. In the second quarter, a Stock List Department was established at NSCC to coordinate all activities relating to eligibility for both listed and OTC issues. This new department handles participants' inquiries and serves as the contact point for requests for the addition of new securities to the clearance master file.

(Top right) Stan Deudney, Chief Operating Officer of The Canadian Depository for Securities Limited; Jim Gayneau of NSCC, and Barry Salt of the Canadian Depository discuss joint efforts in securities processing.

(Right) Vince Grippa, NSCC Director of Marketing, reviews consolidation progress with Chuck Lewis, Senior Vice President of Stifel, Nicolaus & Company, Incorporated, and Dave Masterson, Vice President of Newhard, Cook & Co. Incorporated.





The Special Order Out Service was expanded in 1979. This service, developed as part of the original plan for consolidation, enables participants to make settlement-day physical deliveries by directing NSCC to withdraw a specific number of shares from their CNS and/or DTC accounts. These certificates can then be routed to receiving parties through existing NSCC delivery services. The delivery systems and Special Order Outs are so closely integrated that they enable participants to accomplish what can be considered "same-day" physical deliveries of securities from their CNS and DTC accounts. One of the delivery systems which is linked to Special Order Outs, the Correspondent Delivery and Collection Service, also was expanded in 1979, with the

**(Top)** Lazard Frères & Co. Partner George Rose reviews comparison procedures for New York Stock Exchange trades with Bob Schultz, NSCC Vice President, and Director-elect Joseph Gitterman.



**(Middle)** NSCC's 1980 Nominating Committee members McFarland, Edwards, Roche, Madoff and Maloney at a meeting.

**(Bottom)** Dan Murphy, Treasurer of Burgess & Leith Incorporated, and Dean Fowler, Senior Vice President of State Street Bank and Trust Company, talk with NSCC's Jim O'Connor about services available through NSCC's Boston facility.



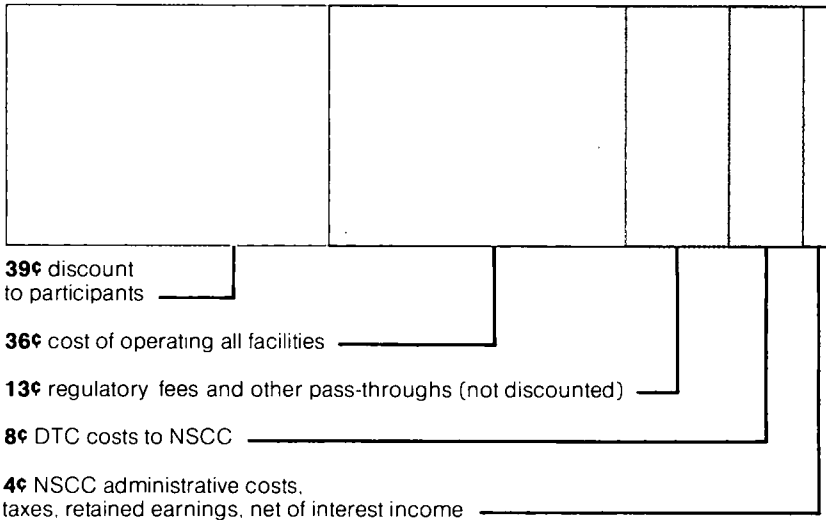
addition of all financial institutions located in the Minneapolis financial district, and continued to grow in 1980 by adding Milwaukee and Washington, D.C.

Additionally, the interface capabilities of NSCC were expanded to accept compared trades from the Cincinnati Stock Exchange. This means that participants now can have their CSE trades settle at NSCC along with trades executed at the New York, American, Midwest, Philadelphia and Pacific Stock Exchanges, in the over-the-counter market and through an exercise or assignment of an option position generated through the facilities of the Options Clearing Corporation.

During the year, the Board of Directors instituted a policy whereby participants and the clearing corporation would exchange Federal funds if the adjusted final settlement resulted in more than a \$500,000 difference from the settlement money paid, based on preliminary calculations. The Board also approved the concept of accepting letters of credit as an alternate form of collateralization for participants' Clearing Fund requirements. This change in policy will provide interested participants with a method of satisfying Clearing Fund requirements at lower expense.

NSCC has continued to urge the Securities and Exchange Commission to approve a rule

**1979 Average Per-Dollar  
Distribution of NSCC Gross Revenue**



filing that would allow NSCC to compare and clear municipal bonds. NSCC's most recent appeal was made after the value of such a system was dramatically demonstrated as a result of heavy trading in certain New York State urban rental bonds last fall. At that time, the Public Securities Association and National Association of Securities Dealers, Inc. asked NSCC to activate its system to aid in settling these transactions. NSCC accepted data from most dealers having open commitments and, through its netting process, was able to net out 91% of the deliveries and 87% of the value of compared open items. To date, however, the Commission has not taken any action on the proposed rule which was originally filed in January 1978.

Two issues remanded by the U.S. Court of Appeals in 1978, when it upheld the SEC's approval of NSCC's registration, still remain open. The first, geographic price mutualization (GPM), relates to NSCC's proposed policy of charging all participants the same fees for services, regardless of their location. In the past year, the SEC directed NSCC to impose a surcharge on listed processing in each regional facility "as a temporary measure." Until such time as the question is resolved, the regional surcharge will be billed to participants electing to use the branch facilities for listed processing and will be discounted each month.

Competitive bidding for NSCC's facilities management contract, the other remanded issue, is also still under review by the SEC. NSCC's position is that blanket mandatory requirements for soliciting competitive bids (or any other inflexible procedures for the letting of contracts) in the selection of a facilities manager or any other outside contractor should not be permitted to supplant the business judgment of NSCC's participant Board of Directors. On both issues, NSCC has submitted extensive opinions including analyses prepared by a noted economist.

At the end of 1979, three individuals were nominated to become new members of the Board of Directors. Edward C. Gilmore, Jr. of Rauscher Pierce Refsnes, Inc.; Joseph L. Gitterman III of LaBranche & Co.; and J. Philip Smith of Lewco Securities Corp. were nominated to fill the vacancies created by Robert M. Flanagan, Raymond C. Holland and Donald R. Sammet, who, by NSCC's bylaws, were not eligible for re-election. In addition, Stephen L. Williams was appointed by the American Stock Exchange to fill the vacancy created by the resignation of Robert T. Eckenrode.

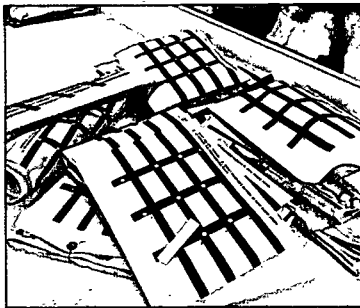


Discussing open questions about NSCC's registration are NSCC Director Paul Underwood, former SEC Market Regulation Counsels Rob Millstone and Tony Nuland; and NSCC President Jack Nelson.





**NSCC Director-elect Ed Gilmore reviews branch data with Tommy Turner, Assistant Vice President of First National Bank in Dallas, and Diana Hatfield, who supervises NSCC's Dallas facility, which the bank operates.**



**NSCC's envelope settlement services transport thousands of items throughout a national delivery network each day.**

Value of Transactions Settled .....	\$2,380,000,000
Dollar Settlement .....	\$ 291,300,000
Stock Transactions—Compared Items .....	81,500
Stock Transactions—Compared Shares .....	45,940,000
Stock Transactions—Compared Value .....	\$1,115,000,000
Bond Transactions—Compared Items .....	3,200
Bond Transactions—Compared Bonds .....	190,000
Bond Transactions—Compared Value .....	\$174,500,000
Envelope Settlement Service—Items .....	11,700
Envelope Settlement Service—Value .....	\$ 914,200,000
Intercity Envelope Settlement Service—Items .....	75
Intercity Envelope Settlement Service—Value .....	\$ 1,100,000
Correspondent Delivery and Collection Service—Items .....	260
Correspondent Delivery and Collection Service—Value .....	\$ 25,300,000
Dividend Settlement Service—Items .....	660
Dividend Settlement Service—Value .....	\$ 470,000
National Transfer Service—Items .....	3,800
Clearing Interfaces—Incoming Items .....	10,500
Clearing Interfaces—Incoming Shares .....	7,865,000
Clearing Interfaces—Outgoing Items .....	3,400
Clearing Interfaces—Outgoing Shares .....	1,350,000

**Balance  
Sheet**

**National Securities Clearing Corporation**

		December 31,	
		<u>1979</u>	<u>1978</u>
<b>Assets</b>	Current Assets:		
	Cash .....	\$ 247,000	\$ 2,319,000
	Temporary investments at cost (approximates market) .....	6,721,000	6,615,000
	Accounts receivable, less allowance for doubtful accounts of \$867,000 in 1979 and 1978 (Note 6) .....	1,700,000	2,885,000
	Settlement accounts receivable .....	19,742,000	21,553,000
	Other current assets .....	182,000	45,000
	Total current assets .....	<u>28,592,000</u>	33,417,000
	Clearing Fund (Note 3) .....	65,811,000	49,865,000
	Other noncurrent assets .....	316,000	148,000
		<u>\$ 94,719,000</u>	<u>\$ 83,430,000</u>
<b>Liabilities and Shareholders' Equity</b>	Current Liabilities:		
	Accounts payable .....	\$ 2,265,000	\$ 3,228,000
	Regulatory fees payable (Note 4) .....	1,022,000	1,068,000
	Settlement accounts payable .....	16,987,000	15,213,000
	Accrued taxes and other expenses .....	384,000	720,000
	Unclaimed dividends .....	658,000	1,011,000
	Total current liabilities .....	<u>21,316,000</u>	<u>21,240,000</u>
	Clearing Fund (Note 3):		
	Participants' cash deposits .....	4,902,000	9,706,000
	Amounts due from members on demand .....	65,811,000	49,865,000
		<u>70,713,000</u>	<u>59,571,000</u>
	Commitments and contingent liabilities (Notes 5, 7 and 8)		
	Shareholders' equity:		
	Common stock authorized, issued and outstanding, 30,000 shares of \$.50 par value .....	15,000	15,000
	Capital in excess of par .....	885,000	885,000
Retained earnings .....	1,790,000	1,719,000	
	<u>2,690,000</u>	<u>2,619,000</u>	
	<u>\$ 94,719,000</u>	<u>\$ 83,430,000</u>	

The accompanying Notes to Financial Statements are an integral part of this statement.

**Statement of  
Income and  
Retained  
Earnings**

**National Securities Clearing Corporation**

	For the year ended December 31,	
	<u>1979</u>	<u>1978*</u>
Revenue from clearing services (Note 2) . . . . .	<b>\$ 26,746,000</b>	\$ 38,557,000
Interest income . . . . .	<b>907,000</b>	549,000
	<b><u>27,653,000</u></b>	<u>39,106,000</u>
Expenses:		
Securities Industry Automation Corporation processing fees (Notes 4 and 5) . . . . .	<b>16,595,000</b>	14,645,000
NCC Division processing fees (Note 5) . . . . .	—	10,928,000
Regulatory fees (Note 4) . . . . .	<b>4,581,000</b>	4,711,000
The Depository Trust Company fees (Note 4) . . . . .	<b>3,849,000</b>	4,153,000
Employee compensation and related benefits . . . . .	<b>1,376,000</b>	1,200,000
General and administrative . . . . .	<b>807,000</b>	641,000
Professional fees . . . . .	<b>325,000</b>	576,000
	<b><u>27,533,000</u></b>	<u>36,854,000</u>
Income before income taxes . . . . .	<b>120,000</b>	2,252,000
Provision for income taxes . . . . .	<b>49,000</b>	1,270,000
Net income . . . . .	<b>71,000</b>	982,000
Retained earnings, beginning of the year . . . . .	<b>1,719,000</b>	737,000
Retained earnings, end of the year . . . . .	<b><u>\$ 1,790,000</u></b>	<u>\$ 1,719,000</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

\*Reclassified for comparative purposes.

**Statement of  
Changes in  
Financial  
Position**

**National Securities Clearing Corporation**

	For the year ended December 31,	
	<u>1979</u>	<u>1978*</u>
Financial resources were provided by (used for):		
Net income . . . . .	<b>\$ 71,000</b>	\$ 982,000
<i>Add</i> — Charges not affecting working capital:		
Depreciation and amortization . . . . .	<b>29,000</b>	185,000
Write-off of fixed assets . . . . .	<b>—</b>	61,000
Working capital provided from operations . . . . .	<b>100,000</b>	1,228,000
Increase (decrease) in Clearing Fund cash deposits . . . . .	<b>(4,804,000)</b>	1,792,000
Other . . . . .	<b>(197,000)</b>	(29,000)
Increase (decrease) in working capital . . . . .	<b>\$ (4,901,000)</b>	<b>\$ 2,991,000</b>
Analysis of Changes in Working Capital		
Increase (decrease) in current assets:		
Cash . . . . .	<b>\$ (2,072,000)</b>	\$ (3,347,000)
Temporary investments . . . . .	<b>106,000</b>	(1,298,000)
Accounts receivable . . . . .	<b>(1,185,000)</b>	(416,000)
Settlement accounts receivable . . . . .	<b>(1,811,000)</b>	16,380,000
Other current assets . . . . .	<b>137,000</b>	18,000
	<b>(4,825,000)</b>	11,337,000
(Increase) decrease in current liabilities:		
Accounts payable . . . . .	<b>963,000</b>	(131,000)
Regulatory fees payable . . . . .	<b>46,000</b>	(114,000)
Settlement accounts payable . . . . .	<b>(1,774,000)</b>	(7,439,000)
Accrued taxes and other expenses . . . . .	<b>336,000</b>	(259,000)
Unclaimed dividends . . . . .	<b>353,000</b>	(403,000)
	<b>(76,000)</b>	(8,346,000)
Increase (decrease) in working capital . . . . .	<b>\$ (4,901,000)</b>	<b>\$ 2,991,000</b>

The accompanying Notes to Financial Statements are an integral part of this statement.

\*Reclassified for comparative purposes.

# Notes to Financial Statements

## National Securities Clearing Corporation

### Note 1 Summary of Significant Accounting Policies:

*(a) Retained earnings:*

National Securities Clearing Corporation (the Company) is retaining earnings to establish a contingency fund of \$2,000,000. In general, it does not propose to retain profits in excess of that amount or declare dividends. The Company determines the amount of earnings it wishes to retain in a given year and adjusts its rate of discount to participants accordingly.

*(b) Clearing Fund:*

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

*(c) Temporary investments:*

Temporary investments consist of U.S. Treasury Bills and U.S. Treasury Bills and Notes purchased under agreements to resell.

*(d) Settlement accounts:*

Settlement accounts receivable and payable arise from temporary time lags in the cash settlement process between the Company and participants, registered clearing agencies or dividend disbursing agents.

*(e) Revenue from clearing services:*

Revenue from clearing services reflects discounts to Company participants.

### Note 2 Organization and Operations:

All the Company's shares are owned equally by the New York Stock Exchange, Inc. (NYSE), American Stock Exchange, Inc. (AMEX), and the National Association of Securities Dealers, Inc. (NASD). The Company is managed by its own staff and controlled by an independent user Board of Directors which is responsible for its policies, operations, and financing. In October 1978, the Securities and Exchange Commission approved a consolidated rate structure, based upon the company's cost of providing services to its participants, which anticipated discounting regular billings on a current basis so that revenues would not exceed costs plus increases in retained earnings. Gross billings for clearing services amounted to \$43,591,000 and \$40,471,000 in 1979 and 1978, respectively, and discounts amounted to \$16,845,000 for the year 1979 and \$1,914,000 for the last quarter of 1978.

### Note 3 Clearing Fund:

The rules of the Company require each member to deposit in the Clearing Fund an amount based on its activity. The fund is available to secure member obligations to the Company and certain losses, should they occur. Amounts above a \$10,000 minimum cash requirement may be secured by bearer bonds issued or guaranteed by the United States Government, its states and their political subdivisions. The interest on these securities accrues to the respective member. The market value of these securities was \$68,902,000 and \$70,473,000 at December 31, 1979 and 1978, respectively.

### Note 4 Transactions with Related Parties:

The NYSE, AMEX and NASD provide regulatory services which include periodic examinations of the records and operations of members, the monitoring and investigation of the financial and operating condition of members and new applicants for membership, and notification to the Company of unusual market conditions which may affect NSCC and/or its membership. Amounts billed to the Company by these organizations during 1979 and 1978 and amounts unpaid at December 31, 1979 and 1978 are as follows:

	1979		1978	
	Billed	Unpaid	Billed	Unpaid
NYSE	\$3,184,000	\$ 710,000	\$3,291,000	\$ 786,000
AMEX	550,000	69,000	616,000	90,000
NASD	847,000	243,000	804,000	192,000
<b>TOTAL</b>	<b>\$4,581,000</b>	<b>\$1,022,000</b>	<b>\$4,711,000</b>	<b>\$1,068,000</b>

As described in Note 5, the Company has a facilities management agreement with Securities Industry Automation Corporation (SIAC) which is owned by the NYSE and AMEX. The Company also has a rental agreement for office space with SIAC and payments under this agreement amounted to \$154,000 and \$138,000 during 1979 and 1978, respectively. The NYSE also owns a minority interest in The Depository Trust Company (DTC), whose facilities are used by the Company. Amounts unpaid at December 31, 1979 and 1978 to SIAC and DTC are as follows:

	1979	1978
SIAC	\$ 1,445,000	\$ 1,518,000
DTC	399,000	348,000

At December 31, 1979 and 1978, the Company had certain receivables (payables) resulting from the cash settlement process, as follows:

	1979	1978
DTC	\$ 4,239,000	\$ 2,106,000
NYSE	226,000	(1,506,000)
AMEX	72,000	—

**Note 5  
Facilities  
Management  
Agreements:**

Under the terms of an agreement, SIAC provides the necessary facilities, personnel and services in support of the Company's clearing services and related functions. SIAC's fee is based on its direct, computer and general overhead costs arising from providing such services. The agreement is for the five-year period ending December 31, 1981, and is renewable in the absence of notice of cancellation by either party. The agreement may be cancelled upon six months' notice and if cancelled, provides for monthly payments of up to \$225,000 for the remaining term of the initial five-year period.

Bradford National Corporation (Bradford) was the facilities manager for the Company's NCC Division during 1978. Bradford's contracted fee for these services through September 30, 1978 ranged from 80% to 84% of the applicable monthly revenues with the balance retained by the Company.

Bradford was terminated effective January 4, 1979 and, pursuant to a termination contract, was compensated in the amount of \$2,079,000 for services provided from October 1, 1978 to date of termination. This cost and the additional costs of \$260,000 associated with the termination were charged to income in 1978.

**Note 6  
Unallocated  
Settlement Loss:**

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

**Note 7  
Contingencies:**

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

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

At December 31, 1979, there were unsettled transactions of approximately \$411,000,000 (\$278,000,000 at December 31, 1978).

**Note 8  
Pension Plan:**

In 1977, the Company made its initial payment to a trustee non-contributory pension plan which covers most of its employees. The Company's policy is to fund pension cost accrued. Total pension expense was \$57,000 and \$65,000 for the years 1979 and 1978, respectively. At December 31, 1979, the liability for unfunded prior service costs amounted to \$113,000. This liability is being funded over a period of 10 years.

The actuarially computed value of vested benefits exceeded the pension fund net assets at December 31, 1979 by \$136,000.

**Report of  
Independent  
Accountants**



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

March 13, 1980

To the Board of Directors of  
National Securities Clearing Corporation

In our opinion, the accompanying balance sheet and the related statements of income and retained earnings and of changes in financial position present fairly the financial position of National Securities Clearing Corporation at December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Price Waterhouse & Co.*

**OFFICERS OF  
NATIONAL SECURITIES  
CLEARING CORPORATION**

Robert M. Flanagan  
Chairman of the Board

Jack Nelson  
President

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

John J. Quirke  
Vice President, Marketing

Robert A. Schultz  
Vice President, Planning and Operations

Robert J. Woldow  
Vice President and  
General Counsel; Secretary

David F. Hoyt  
Assistant Secretary

**BOARD COMMITTEES**

**Executive Committee**

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

**Finance Committee**

Paul Underwood, Chairman  
Gilbert L. Pamplin  
Robert P. Rittereiser  
Donald R. Sammet  
Milan S. Soltis

**Membership Committee**

Robert P. Rittereiser, Chairman  
John Herzog  
Raymond C. Holland  
Paul Underwood  
George A. Vonder Linden

**Operations Committee**

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

**1980 NOMINATING  
COMMITTEE MEMBERS**

John T. Roche, Chairman  
Executive Vice President  
Kidder, Peabody & Company, Inc.

Benjamin F. Edwards, III  
President  
A.G. Edwards & Sons, Inc.

Bernard L. Madoff  
Proprietor  
Bernard L. Madoff

John J. Maloney, Jr.  
Vice Chairman and Chief Executive Officer  
Thomson McKinnon Securities, Inc.

Richard D. McFarland  
President  
Dain Bosworth Incorporated

Vincent B. Murphy, Jr.  
Partner  
Salomon Brothers

**1981 NOMINATING  
COMMITTEE NOMINEES**

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Executive Vice President  
American Securities Corporation

Ross L. Cobb  
President  
Sutro & Co., Inc.

John F. Curley, Jr.  
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Paine, Webber, Jackson & Curtis Inc.

Frank E. Dominach, Jr.  
Executive Vice President  
Bache Halsey Stuart Shields Incorporated

George E. Doty  
Partner  
Goldman, Sachs & Co.

Benjamin L. Lubin  
Partner  
Bruno, Nordeman, Rea & Co.

Donald E. Weston  
President  
Gradison & Co., Inc.

**CORPORATE OFFICE:**

55 Water Street  
New York, New York 10041

**FACILITIES:**

**Atlanta**

2 Peachtree Street, N.E.,  
Atlanta, Georgia 30303

**Boston**

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

**Chicago**

c/o Midwest Clearing Corporation  
120 South LaSalle Street  
Chicago, Illinois 60603

**Cleveland**

900 Euclid Avenue  
Cleveland, Ohio 44101

**Dallas**

First National Bank Building  
Dallas, Texas 75202

**Jersey City**

One Exchange Place  
Jersey City, New Jersey 07302

**Milwaukee**

777 East Wisconsin Avenue  
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**Minneapolis**

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# NS

