



SPECIAL REPORT

FOR NASD MEMBERS

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC., 1700 K STREET, N.W., WASHINGTON, D.C.

June 20, 1972

Progress Report on National Clearing Corporation

The substantial industry task of building a standard nationwide OTC clearing system to serve all members of the Association has been greatly accelerated in the first six months of 1972. Previously established time tables have been moved ahead as a result of the successful initial operations in New York City. As of June 5, 1972, all of the National Clearing Corporation's 250 clearing members in New York have been converted from the daily balance order to the continuous net method of clearance and settlement for their OTC transactions. About 15,000 trades made locally each day between New York broker/dealer members of NCC now go through the continuous net process. This represents approximately \$200,000,000 worth of securities traded daily. Less than \$3,000,000 was required to organize NCC, design the system, make ready the New York facility, and educate and convert members.

In addition to serving New York members, clearing was extended on a pilot basis to Boston (May 8) and Philadelphia (May 22). The objective is to be able to clear all local and inter-city trades within and between the three cities by the end of the year. This should account for over 40% of the NASD membership's over-the-counter activity, now estimated nationally at 50,000 to 60,000 transactions daily. PBW and Boston Stock Clearing Corporations provide the operational support required in the two cities. NCC is also operating a pilot inter-regional continuous net clearing procedure between several of its New York member firms and several broker/dealer firms on the West Coast which belong to the Pacific Coast Stock Exchange Clearing Corporation.

THE REST OF 1972

Present clearing members want NCC's system to be expanded in order to further help cut down paperwork processing. This will be done through the establishment of a "free account/safekeeping" subsystem.

The systems design modification required to tie together the free account and the New York depository (Central Certificate Service) is presently being developed, and NCC plans to inaugurate this service in New York by the beginning of next year. NCC and CCS personnel, assigned to this project both consider the approach set forth above feasibly sound and practical. NCC's planned method of interface will provide the flexibility to give its members access to other depositories, wherever they eventually may be.

Also important, NCC and the NASD have embarked upon an in-depth analysis of how the continuous net settlement system can better serve the function of self-regulation. Without yet having developed specific methods, it is obvious that a system which can account for open (fail) positions which are marked to the market daily, should provide a valuable extension to the NASD's existing regulatory framework.

The NASD and NCC technical staff also is currently working on the design of a trade reporting system via NASDAQ. The *first* phase will be to provide members with the capability to report trades through the NASDAQ system for comparison, clearance and settlement by NCC. Trades so reported will be compared by NCC and listings furnished members on the day after the trade. Present plans are to have this phase operating in 1973.

1973 AND BEYOND

Certainly, the systems revisions described above will give NCC capability to provide clearing and settlement services, not to mention a standard means to "interface" with depositories, to regions with

major cities (such as Dallas and Atlanta) not otherwise served locally by regional clearing corporations. Plans are to add service in cities such as these as soon as possible. Each community will have to be analyzed in order to determine the most feasible means of servicing it—whether through the use of local financial institutions acting as NCC agents, or by establishing and operating permanent NCC facilities. Unless outweighing factors point to the contrary, it is not planned to duplicate clearing facilities already established elsewhere.

INDUSTRY PLANS

Both the NASD and NCC have devoted considerable time over the last several months to industry matters. The NASD is represented on both the Banking and Securities Industry Committee and the National Coordinating Group.

In signing a Memorandum of Understanding, the NASD supports BASIC's plan to develop a comprehensive securities depository in New York, using the present Central Certificate Service. As mentioned earlier, NCC plans to "interface" with CCS, and BASIC's "Ad Hoc Communications Committee," on which the NASD was represented, set forth in its March report a description of the "sub-net system" required for this purpose.

The National Coordinating Group will play an important role in coordinating the various efforts of regional communities which will be developing independent depositories. The eligibility of membership and securities as well as other procedures affecting nationwide services through interdepository activities is being planned in order to assure fair and comprehensive access.

The Securities Industry Association has made clear its members' views favoring standardization of clearing systems which can be interfaced with a national depository system. It is apparent that NCC can help the industry achieve this objective.

Membership on the NCC's 12-man Board of Directors, includes ten industry representatives from California to New York, reflecting the geographical dispersion of the over-the-counter market. There are representatives from small regional firms as well as large New York based firms. The areas of expertise of the Board members include trading, operations, underwriting, general securities business, and bonds. NCC will provide to all NASD members access to its nationwide clearing system. It is financed by the industry, self-supported through its charges; thus, through both its structure and its financing, the NCC is truly an industry owned and operated vehicle.

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