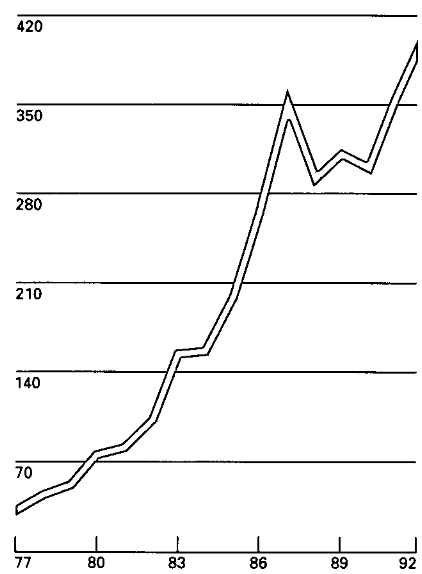
Fifteenth Anniversary

National Securities Clearing Corporation 1992 Annual Report
Responding to Change

Contents

National Securities Clearing Corporation (NSCC), established in 1976, is the nation's leading provider of centralized clearance and settlement services to over 1,800 brokers, dealers, banks and mutual funds. NSCC's mission is to deliver high quality, innovative systems and services that support industry requirements for cost effective, low risk, high volume trade processing of equities, bonds and mutual fund transactions. NSCC also provides clearance and settlement services to U.S. brokers trading in overseas markets through International Securities Clearing Corporation (ISCC), a wholly owned subsidiary of NSCC; and brokers, dealers and banks trading in government securities through Government Securities Clearing Corporation (GSCC), an affiliate. NSCC is a registered clearing agency, owned jointly by the New York and American Stock Exchanges and the National Association of Securities Dealers, Inc.



15 year Combined Average Daily Share Volumes on the NYSE, AMEX & NASD (in millions)

To Our Participants

In 1992, NSCC marked its fifteenth year of service to the financial services industry. On this occasion, we thought it would be interesting to provide a historical perspective on the role of clearance and settlement, and to highlight NSCC's contributions since being approved as a registered clearing agency in 1977.

We have also invited three industry representatives to be part of this year's Annual Report, to share their views on the industry's growth and the issues that will challenge us as we move toward the next century.

Most of us would agree the pace of change in the industry continues to be extraordinary, driven in part by advancements in technology and telecommunications that are revolutionizing how we all do our business.

In the 1980s, the capacity to handle unpredictable trading volumes so essential to the safety and soundness of the markets was a focal point for NSCC. Now, as an example, NSCC has the ability to clear and settle an 850 million share trading day on the NYSE, and the equivalent capacity to handle Amex, OTC and other fixed income securities and mutual fund activity. In addition, through netting, market financial risk associated with volatile, high volumes of trading has been substantially reduced.

Over this next decade, the challenge for NSCC will be to build on our experience and provide participants with ways they can do their work better, develop products and solutions faster, and have access to information that ensures greater internal controls, risk protection and operating flexibility.

Two years ago, NSCC began an effort to fundamentally change how it builds systems, recognizing that our participant base is diverse and growing, with ever-changing requirements.

Many enhancements and new services introduced in 1992, and which NSCC plans for 1993, represent a first wave of this effort to reengineer how software applications are designed.

Providing the industry with low cost, alternative processing solutions is a key element of NSCC's long term strategy, and permits the movement to T+3 and money settlement in same day funds.

As our core business continues to mature, NSCC is working closely with its participants to better understand and respond to the trends that will drive change into the year 2000.

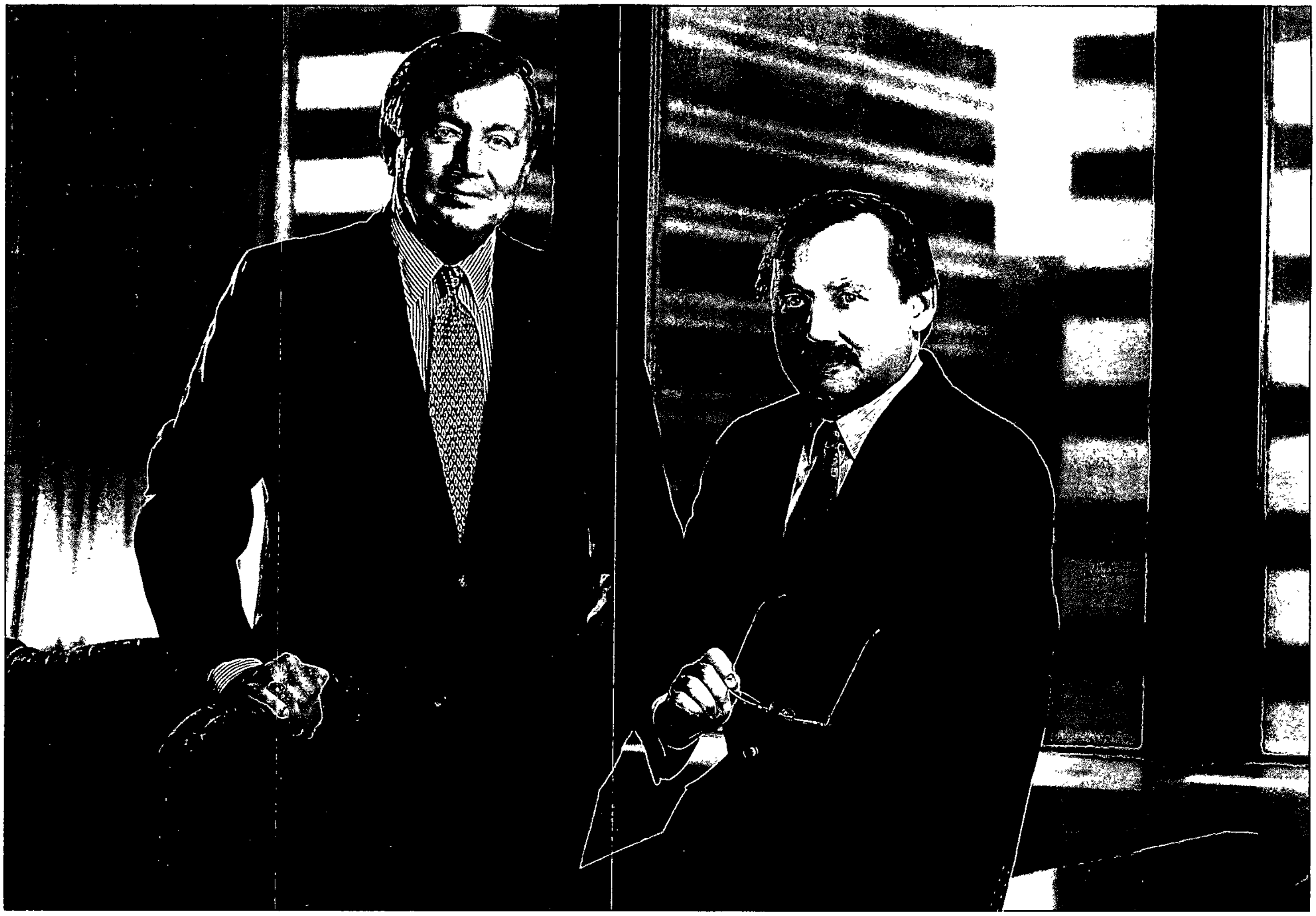
Globalization in securities markets is clearly one of these significant trends, as almost overnight U.S. investors are increasing their asset allocation in foreign securities. ISCC has played an instrumental role in both pioneering relationships with peer organizations abroad and developing services — like Global Clearing Network (GCN) — to support market participants trading in non-U.S. securities.

The growth of trading in government securities is another significant trend, and GSCC has done a very effective job of bringing standardized processing and reduced risk to this market. During 1992, GSCC expanded its services to allow 60 correspondents of current members to execute trades using GSCC's comparison and netting systems and introduced its Yield to Price Service, which offers one-step processing of when issued trades.

Other trends include an ongoing industrywide commitment to further standardization, streamlining expenses, using technology to leverage efficiencies, gaining timely information to minimize risk, and reducing redundant processing. NSCC is increasingly being supported and encouraged by participants to help the industry meet these challenges.

The true measure of success in any service organization is to look back over time and find that we made the right decisions, we added value...and we made a difference in improving the industry.

During the past 15 years, the talent and experienced guidance provided by our Board has been a key reason for NSCC's success. We would like to thank both our current Board, and on this occasion again recognize the many members who have served us over the years. We also would like to express appre-



David M. Kelly (left), Bruce E. Geismar (right)

ciation to those member firms and markets, who work with us regularly and provide valuable insight, and to our colleagues at SIAC and DTC.

And we'd like to express a special debt of gratitude to the hardworking staff at NSCC, both past and present, who deliver every day on the commitment to quality that truly distinguishes this organization.

At the end of 1992, one of those exceptional people retired. Walter Cushman, who came to NSCC after a distinguished banking career, was a valued member of NSCC's senior management, and we'd like to thank him for his many contributions.

Bruce E. Geismar, Chairman of the Board

David M. Kelly, President and Chief Executive Officer

100 Years of Clearance and Settlement

1892 | 1917 | 1942 | 1967

Clearance and Settlement Milestones

1892
NYSE creates the Clearing House, its first successful system for clearance and settlement of securities transactions

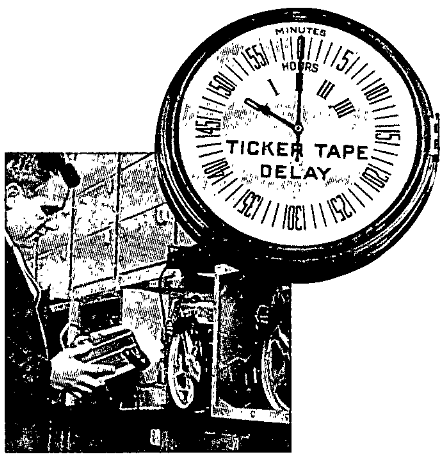
1920
Stock Clearing Corporation founded to succeed Clearing House with more efficient methods

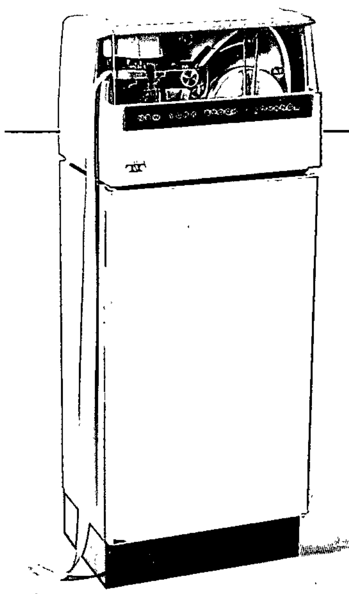
1949
Tabulator-sorted punch cards begin to replace handwritten exchange tickets for reporting transactions in clearing process

1959
Installation of first electronic computer provides greater capacity for clearing at record levels of volume

1961
Input on magnetic tape speeds up computer processing of clearing data

1964
Faster clearing with advanced computers that process data from both buyer and seller in compared clearance method





1968
Paperwork crisis creates backlog of unsettled transactions, forcing NYSE to close on Wednesdays and dramatizing need for more automation

NYSE's new Central Certificate Service transfers some securities electronically, eliminating physical handling of certificates for settlement purposes

1973
The Depository Trust Company succeeds Central Certificate Service and expands its functions with increased automation

1974
Start of Continuous Net Settlement system for clearing and settling trades through automated book entry

86,726,410 shares

1896
After appearing sporadically, Dow Jones Industrial Average begins continuous publication and reaches all-time low of 28.42

1903
Stock Market Cigars made by an Ohio company reflect public fascination with soaring trading on Wall Street (photo)

1914
As World War I engulfs Europe, NYSE shuts down for four and a half months

184,623,000 shares

1923
Prices and volume soar in historic bull market that will surge ahead for six years without letup, with the Dow Jones peaking in 1929 at 381.17 (cartoon)

1929
On Tuesday, October 29, the Dow Jones plunges 30.57 points on record volume of 16.4 million shares — the "crash" that came to symbolize start of the Great Depression

125,685,298 shares

1954
Dow Jones surpasses pre-crash peak of 1929

1964
New "900" ticker is nearly twice as fast as "Black box" (photo)

1965
Talking computers with 126-word vocabulary give telephone callers latest stock quotations (photo)

2,530,000,000 shares

1971
Incorporation of the American Stock Exchange

The National Association of Securities Dealers launches its "automated quotation system" — NASDAQ

1972
Securities Industry Automation Corporation established by NYSE and Amex to develop and operate automated systems — eventually for the entire industry

$15.0 GNP

1892
Henry Ford, 30, road-tests his first "gasoline buggy"

1901
J. P. Morgan underwrites public offering to form U.S. Steel

1903
Wright brothers fly for 59 seconds at Kittyhawk, N.C.

1904
German immigrants popularize hamburger at St. Louis Exposition

$60.7 GNP

1920
Babe Ruth joins the Yankees

1924
Thomas Watson organizes IBM

1928
Schenectady's WGY broadcasts first regular TV programs

1931
Depression grips most of world

1935
Social Security enacted

$159.0 GNP

1944
GI Bill will send millions of returning vets to college

1946
ENIAC is world's first automatic electronic digital computer

1948
Bell Labs' transistor will revolutionize electronics, paving way for ever-smaller microchips

1957
Launching of Sputnik I spurs the space race

$816.4 GNP

1969
Americans become the first to walk on the moon

1970
GNP tops $1 trillion

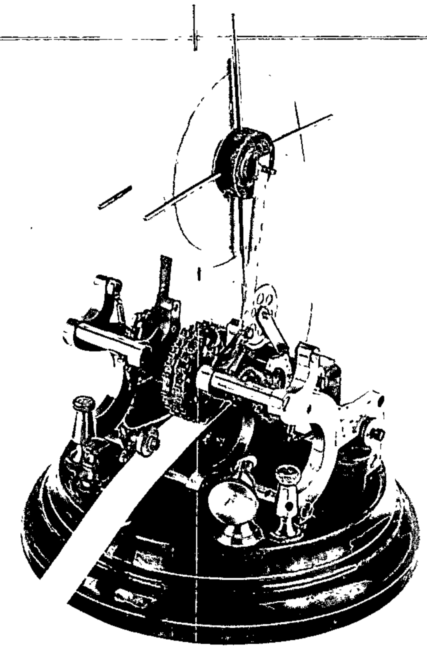
1971
First trade deficit since 1888

1972
President Nixon visits China

1973
Oil embargo by Arab nations

NSCC Responding to Change

One way to imagine the enormous changes realized in clearance and settlement since the nineteenth century is to recall how it was done then. Instead of bits of data flashing through computer networks, flocks of delivery boys scurried through Wall Street, rushing from broker to broker with bags of checks and securities to settle the previous day's transactions. Some of the drama of the technological revolution that transformed this scenario is depicted in the gatefold chart opening beneath these pages. From the early stock ticker to personal computers, the chart chronicles milestones of change in clearance and settlement, the securities marketplace and the U.S. economy.



In 1867, Edward Calahan's stock ticker transformed the securities industry

NSCC was formed in response to crisis and change—the swift increases in trading volume that swept the markets during the 1960s and 70s. We began operations in 1977 and immediately confronted the challenges of rapid change, the explosive progress of technology and the

200 Years of Trading

The text and images on the chart shown here illustrate a number of important milestones in the development of clearance and settlement, securities trading and the U.S. economy during the past two centuries.

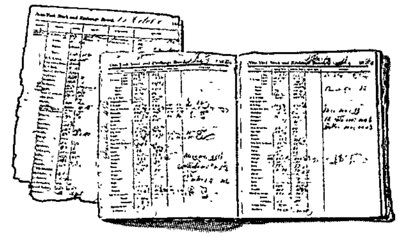
The time line at top begins with the founding of the New York Stock Exchange in 1792. Then, starting in 1892, it depicts the evolution of the process of clearance and settlement, culminating with the launch of National Securities Clearing Corporation in 1977 and its subsequent growth.

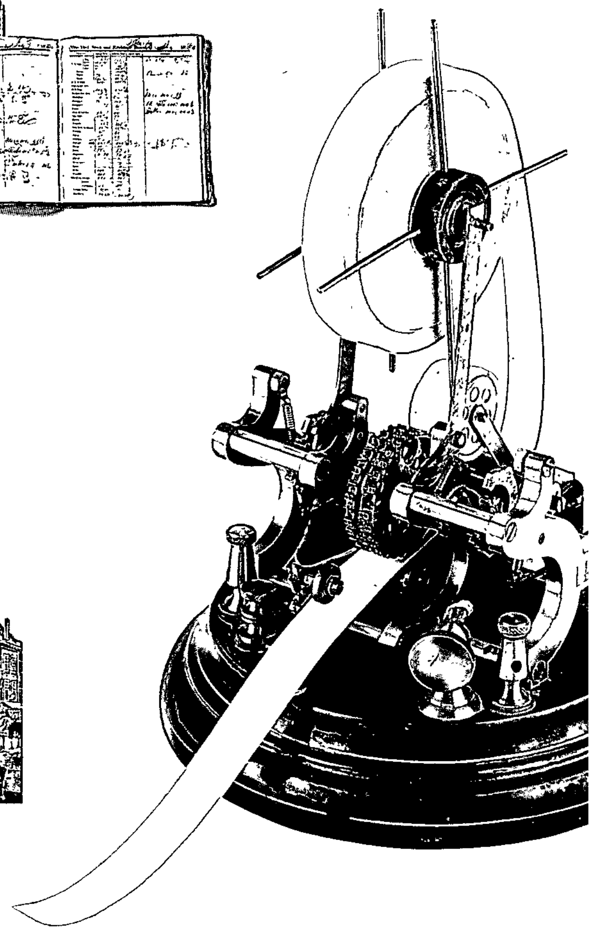
The middle time line details some key events in the history of trading, including milestones marking technological progress. Figures in the dark band denote the total number of shares traded that year. Before 1977, the annual figure represents only the New York Stock Exchange; after 1977, it includes the American Stock Exchange and the National Association of Securities Dealers.

The time line at bottom lists some influential happenings in the growth of the American economy, together with the dramatic rise of the gross national product, detailed here in unofficial government statistics figured in current dollars.

1792	1817	1842	1867

1792
In 1792, brokers who had been trading securities under an old buttonwood tree on Wall Street met to formalize procedures. Two years later, they moved much of their business into the Tontine Coffee House. For decades, quotations and sales would be recorded in pen and ink in ledger books like this one from 1820.





Marketplace Milestones

	50,000 shares (est)	1,300,000 shares (est)	50,000,000 shares (est)

1792
On May 17, beginnings of the New York Stock Exchange take shape when 24 brokers and merchants gather under a buttonwood tree on Wall Street and agree to trade securities there on regular basis (drawing)

1794
Many brokers move their trading indoors to the Tontine Coffee House (painting)

1817
The New York Stock & Exchange Board (NYS&EB) is established at 40 Wall Street

1821
March 14 is one of the dullest days in trading history — no shares traded

1830
First railroad stock, Mohawk & Hudson, is traded on the NYS&EB

1844
Samuel Morse's invention of the telegraph broadens market participation by putting brokers and investors elsewhere in touch with Wall Street trading

1850
To plug gap in new Berlin-Paris telegraph network, carrier pigeons ferry stock prices between Brussels and Aachen

1867
Introduction of the first practical stock ticker, invented by Edward A. Calahan (photo)

1878
First telephone installed on NYSE floor, just two years after Alexander Graham Bell conducted successful tests in Boston

Economic Milestones

			$7.0 GNP (in billions)

1792
Newly established U.S. Mint begins decimal coinage of silver, gold and copper in Philadelphia

1794
Eli Whitney's newly patented gin will generate a revolution in the cotton business

1803
Louisiana Purchase doubles size of the U.S.

1819
First trans-Atlantic crossing assisted by steam propulsion

1824
U.S. Army Corps of Engineers begins to build harbors, dam rivers and develop waterways

1828
Construction begins on first U.S. railroad chartered for transportation of freight and passengers — the Baltimore & Ohio

1848
End of Mexican War adds California to the U.S., and gold is discovered there

1850
German immigrant Levi Strauss, 20, introduces "bibless overalls" in San Francisco

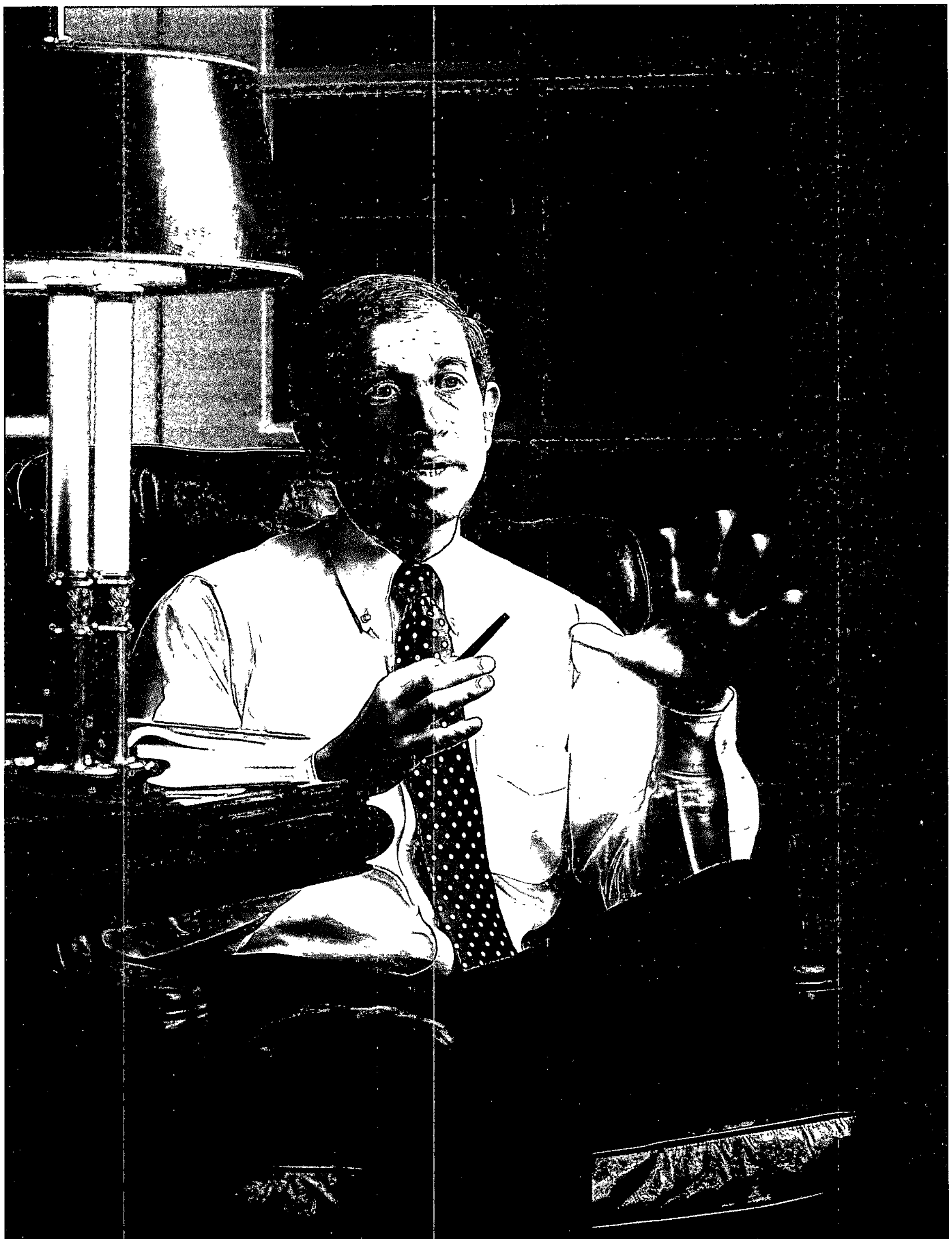
1859
Oil production begins at Titusville, Pennsylvania

1867
U.S. buys Alaska from Russia

1869
Transcontinental rail linkup near Ogden in Utah Territory

1877
Thomas Edison demonstrates his phonograph

1888
George Eastman's Kodak camera makes photography available to almost everyone



"With both brains and brawn, the industry met the challenges. We made massive investments in computers and software. And as an industry we delivered for our customers."

Richard S. Pechter,
Chairman, DLJ Financial Services Group

15 Years of NSCC

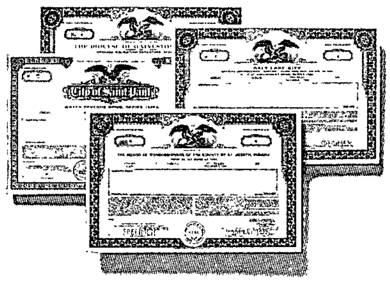
1977

1977
NSCC begins work, taking over clearance and settlement operations of NYSE, Amex and NASD

1979
Consolidation of clearance and settlement of listed and over-the-counter transactions pays off, saving participants $13.1 million

1980
Newly installed IBM 3033N8 computer upgrades processing capacity and shows NSCC's commitment to latest technology (photo)

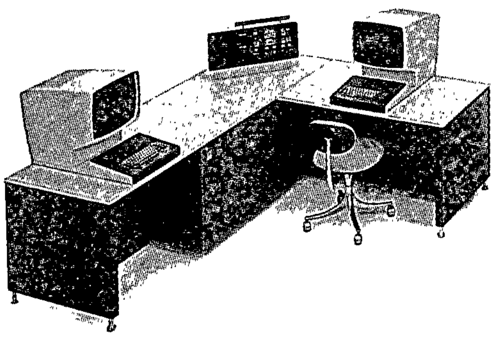
1981
Record marketplace volume of 161.8 million shares handled by NSCC on schedule



NYSE

AMEX

NASD®



1982

1984
Record set on August 6 with processing of one million sides submitted by participants

Successful settlement of complex AT&T divestiture

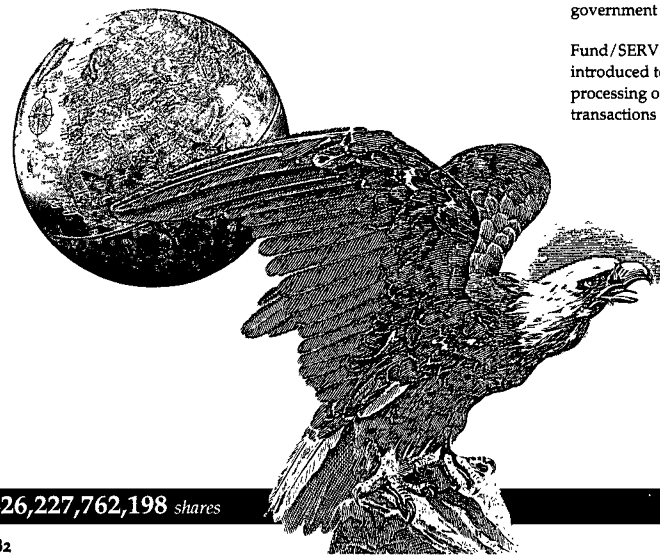
First automated comparison system for municipal bonds is introduced

1985
Automated Customer Account Transfer Service (ACATS) allows for timely and efficient transfer of accounts between brokers

A subsidiary, International Securities Clearing Corporation (ISCC), is incorporated to support U.S. firms in global marketplaces

1986
An affiliate, Government Securities Clearing Corporation (GSCC), is formed to bring automated trade comparison and netting to settlement of U.S. government securities.

Fund/SERV system is introduced to support industry processing of mutual fund transactions



7,905,767,000 *shares*

1978
A key step in the evolution of the national market system: Intermarket Trading System electronically links nine exchanges, allowing brokers to access markets nationwide to find best price for a security

1980
Monthly volume on NYSE reaches one billion shares for the first time

New computers upgrade Amex Market Data System

1981
Amex implements system for electronically routing small orders

26,227,762,198 *shares*

1982
NYSE marks first 100-million-share day and tops that mark 25 times during final five months of the year

1983
On May 27, NASDAQ daily volume surpasses that of NYSE for first time with 79,747,400 shares traded

1984
NYSE has its first 200-million-share day

With SuperDot 250, new NYSE electronic order-routing system that connects member firms to specialists' posts on trading floor, orders are entered, executed and reported back to the originating firm in less than 30 seconds

$1,990.5 *GNP*

1977
Nearly 40,000 miles completed in Interstate Highway System

First MRI (Magnetic Resonance Imaging) scanner dramatizes explosive growth of medical technology

1978
Airlines deregulated

1979
Iranian terrorists seize U.S. embassy in Teheran

OPEC oil goes up 50 percent

Inflation at 13.3 percent

1980
Gold peaks at $875 an ounce

$3,166.0 *GNP*

1982
Honda makes cars in Ohio

Mexico and several other Latin American countries default on foreign debt

1983
New Social Security reforms are designed to assure system's solvency for next 75 years

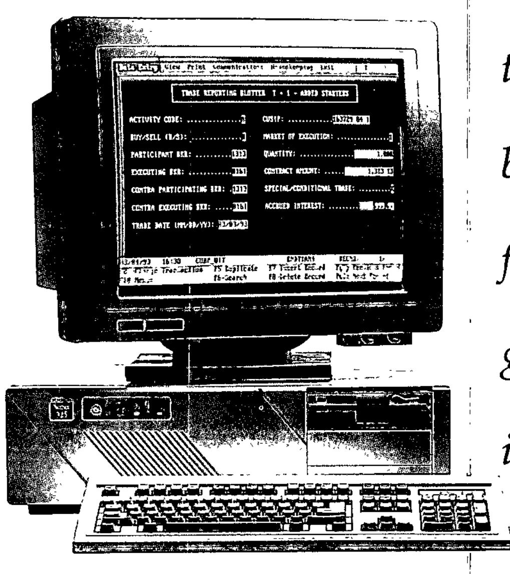
1984
U.S. economic growth rate spurts to 6.8 percent, highest in more than three decades

Ma Bell breaks up as AT&T divests itself of 22 operating companies

1985
High-yield "junk" bonds finance increasing number of corporate mergers and buyouts

1986
Federal debt tops $2 trillion, doubling in four years

expanding needs of the financial services industry. Working closely with our facilities manager, the Securities Industry Automation Corporation (SIAC), and The Depository Trust Company (DTC),



Today, 125 years later, innovations in technology and telecommunications are rapidly changing the industry once again

expanded our scope to embrace municipal bonds and mutual funds. To support the growth of trading in foreign securities, we established the International Securities Clearing Corporation.

NSCC brought standardization, greater efficiency and reduced risk to post-trade processing. NSCC now clears and settles 97% of all equity and bond transactions in the United States and, with DTC, plays a critical role in the safety and soundness of the markets. During the 1980s, we

An affiliate, the Government Securities Clearing Corporation, was formed to clear and settle U.S. government securities. NSCC continues to build on its solid track record and proud history with innovation and experience, as the industry moves toward a new century.

1987 — **1992**

1987
October 19 market break – nearly triple daily average of transactions (1.6 million sides) processed without service disruption

1988
Networking system electronically links mutual funds and brokers for two-way exchange and updating of client information

1989
The Group of Thirty releases its nine recommendations for standardizing clearance and settlement

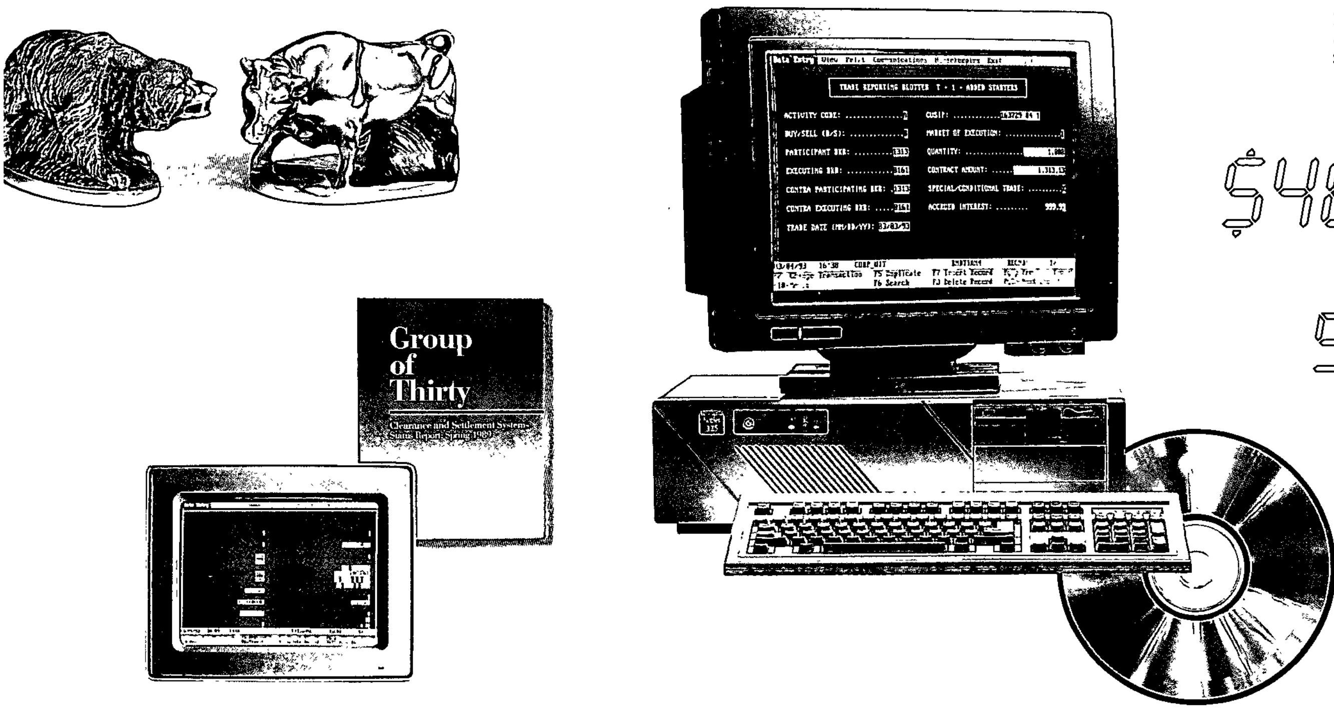
1991
PC Platform provides access to NSCC services through personal computers (photo)

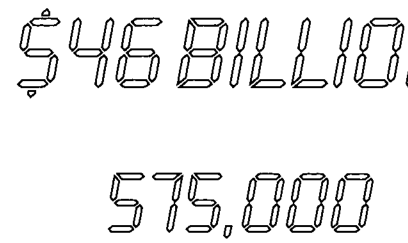
ISCC, in alliance with Citibank, launches Global Clearing Network to provide U.S. brokers trading overseas with single communications access for clearance and settlement

1992
Redesign of bond system launched – Fixed Income Transaction System (FITS) will streamline processing of bonds and Unit Investment Trusts

New Fund/SERV introduced to provide growing mutual fund industry with expanded processing flexibility

In 15 years, average daily volume of transactions processed nearly quadruples, to 575,000 transactions worth $46 billion





89,197,267,735 *shares* — **101,426,460,900** *shares*

1987
American Stock Exchange Index hits record high of 365.01 on August 13

Black Monday, October 19: Dow Jones plummets a record 508 points

On October 20, Dow Jones rebounds 102 points on NYSE record volume of 608,120,000 shares, and Amex sets record of 43,432,760 shares traded

1989
Dow Jones recovers its 1987 loss and continues higher

1990
Some 51.4 million Americans – 21.1 percent of the population – own common stocks and common stock mutual funds

Industry-wide tests demonstrate capacity of improved technology to handle volume of 800 million shares a day on normal basis and peak of one billion shares

1991
On April 17, Dow Jones surpassed the 3000 mark for the first time, closing at 3004.46

1992
In past decade, NYSE has installed more than $600 million worth of new technology

NYSE experiments with hand-held terminals to make trading even more efficient

$4,515.6 *GNP* — **$5,961.9** *GNP*

1987
Despite assets of $34.9 billion, Texaco registers largest bankruptcy filing in history

1988
U.S. savings and loan institutions lose $13.44 billion

Health-care spending accounts for 11.1 percent of U.S. gross national product

1989
Berlin Wall comes down as Communist regimes in East Germany and Eastern Europe crumble

1990
Free enterprise triumphs in the Soviet Union

Recession ends record eight-year economic boom

With Michael Jordan's help, Nike becomes world's largest maker of sneakers

1991
Operation Desert Storm frees Kuwait, restoring oil production

U.S. population tops 250 million; world population reaches 5.5 billion

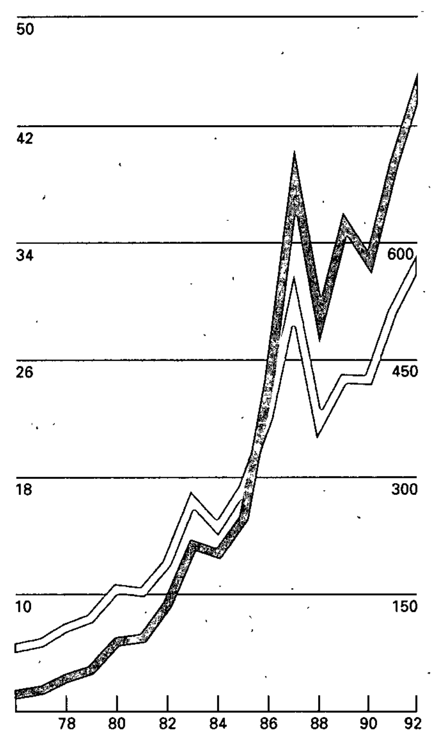
1992
Federal debt tops $4 trillion

Economy grows at annual rate of 4.8 percent in final quarter, highest in five years

Productivity up 2.7 percent, highest in two decades

Equities & Bonds: Transactions processed have quadrupled in 15 years. And the value has grown from $2.6 to $46 billion.

As a former NSCC director, I remember well one of our 1981 Board Meetings. We thought that the securities business was so sophisticated and that the issues and problems facing us were so complicated. After all, volume on the NYSE was averaging nearly 47 million shares per day, and NASDAQ, 31 million. The DJIA stood at 875, and mutual fund sales had reached nearly $10 billion, bringing total fund assets to just under $250 billion. Securities worth nearly $60 billion were being underwritten; out of that, something called "asset backed debt" was almost $1 billion. Municipal bond underwritings hit $2.4 billion. The Federal budget showed a whopping deficit of nearly $80 billion, and the total Federal debt was almost $1 trillion. All of this activity produced industry revenues well in excess of $20 billion.



NSCC Average Daily Transactions Processed from 1977-1992
☐ *Volume (in thousands)*
▩ *Value (in billions of dollars)*

Having solved the operational problems of the Sixties, we really thought that we had it all figured out. The industry handled the new activity with about 175,000 people. We spent $275 million a year on state-of-the-art IBM 360 computers. And our Long-Range Planning Committees felt comfortable knowing that NSCC had anticipated the future. Bring on the business — we were ready.

Of course, none of us had the slightest idea of the dramatic growth that the Eighties would bring. Volumes skyrocketed to more than 200 million shares per day on the NYSE, and just slightly less on NASDAQ. Mutual fund sales rose by a factor of more than 25, with total assets nearly eight times those of a decade earlier. The DJIA hit record levels in excess of 3200. As underwritings of the new asset backed debt products approached $300 billion, corporate underwritings grew 1000%. Finally, the debt markets exploded, with the Federal deficit passing $300 billion and total Federal debt crossing $4 trillion.

Growing with these huge volume increases were a dizzying array of securities, many of which were derivatives — Strips, Straps, IPOs, POs, SCORS, Primes, REMICS, CATS, LYONS, CMOs, Ginnies, Fannies, Sallies — and entire new families of funds, indexes and swaps. And as the world moved toward instantaneous communications, volatility increased.

Markets moved quickly and dramatically, and in 1987, with the Crash, we were suddenly faced with daily volumes averaging 600 million shares. Suddenly, markets could unpredictably move hundreds of points, (Basis or Dow), in either direction, in a single day.

With both brains and brawn, the industry met the challenges. We made massive investments in computers and software. New systems to automate the fixed income and mutual fund business joined the book-entry world of equities. We developed links, networks, contingency plans and circuit breakers. We organized and trained people and managers. And as an industry, we delivered for our customers.

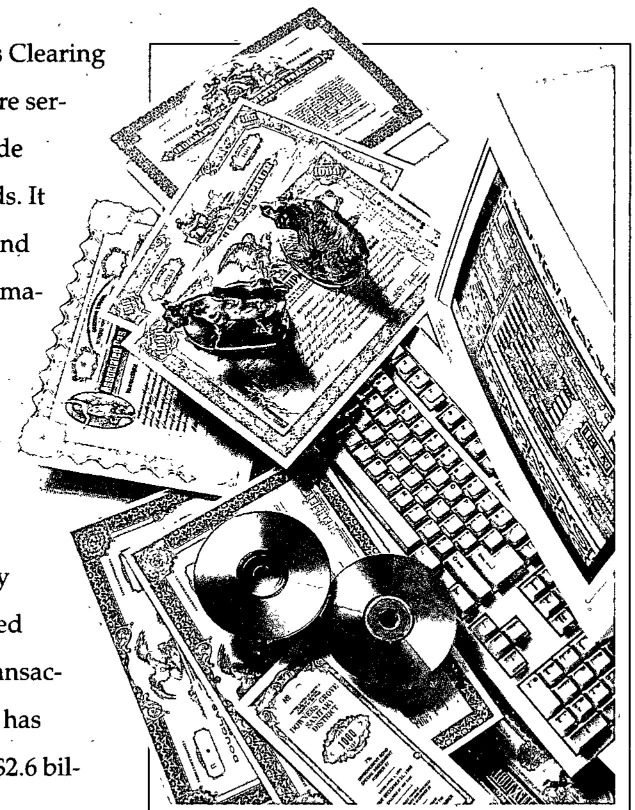
Throughout all this spectacular growth and change, the integrity of the marketplace in the critical area of post-trade processing was maintained. While each of us in the industry can take great pride in the progress and accomplishments of our individual firms, all of us recognize that NSCC, DTC, SIAC, the Exchanges and organizations like them are the essential keys to making all our firms work together as an industry.

Equities & Bonds: NSCC enhances systems capabilities to bring efficiency, standardization and reduced risk.

The story of National Securities Clearing Corporation begins with the core services it provides in the post-trade processing of equities and bonds. It is here that NSCC's Clearance and Settlement systems have made major contributions in bringing greater efficiency, standardization and reduced risk so critical to the national market system.

Over the past 15 years, NSCC has seen its average daily volume of transactions processed nearly quadruple, to 575,000 transactions. The value of transactions has grown from a daily average of $2.6 billion to $46 billion.

But averages really don't tell the whole story. The clearance and settlement systems must have the capacity to handle unpredictable spikes in volume that occur in the marketplace. NSCC demonstrated its capacity during the 1987 crash, and has further enhanced these capabilities so that, for example, it can now handle an 850 million share trading day on the NYSE.



The new Fixed Income Transaction System will offer the same standardized comparison services for bonds, that NSCC currently provides for equities.

Through NSCC's Continuous Net Settlement (CNS) system, the number of positions requiring settlement and the movement of funds to cover settlement is minimized, thereby reducing market risk.

In lay terms, CNS reduces the outstanding financial obligations of each broker by netting the total receive (buy) and deliver (sell) obligations for a given security into one net position. It then simultaneously consolidates all debits and credits from these net positions in all securities into one final net money position for each participant.

On settlement day, all transactions in each security issue are combined with previously unsettled issues to produce a rolling net position. NSCC provides certainty to its members by guaranteeing that receive and deliver obligations will be completed once reported to firms for settlement in CNS.

Protecting participants against the risk of a failing member is critical, and working closely with The Depository Trust Company (DTC), NSCC took additional steps in 1992 toward this objective.

Both organizations agreed to make mandatory their Cross Endorsement program for money settlement, and to make excess collateral of a dual member at one organization available to cover losses at the other.

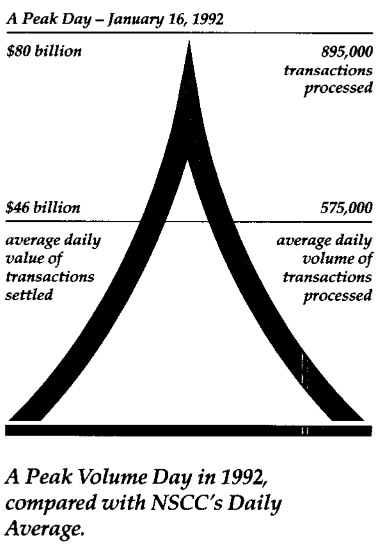
During 1992, significant progress was made on the development of NSCC's new Fixed Income Transaction System (FITS) to further automate and standardize the processing of Municipal and Corporate Bonds and Unit Investment Trusts (UITs).

FITS will allow firms to compare and resolve trades sooner by moving trade submission of bonds to "trade date" from "trade date + 1," and thereby eliminate uncertainty that a trade took place. The system will also provide a better match facility to improve comparison rates, and allow for conversion to an online interactive processing environment as industry needs change.

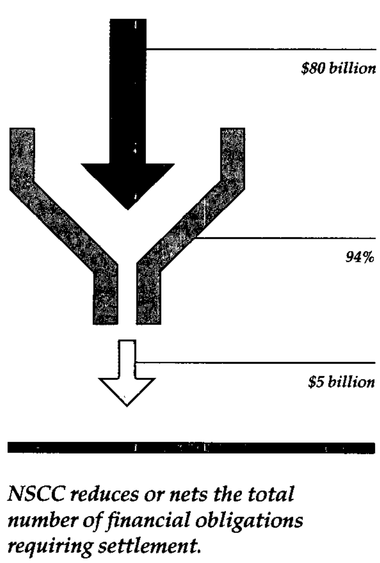
The rollout of FITS is planned in three phases, with Municipals expected in the second quarter of '93, followed by Corporate Bonds and UITs.

While growth in market activity continues at an accelerated rate, NSCC remains steadfast in its commitment to meet — and exceed — industry expectations.

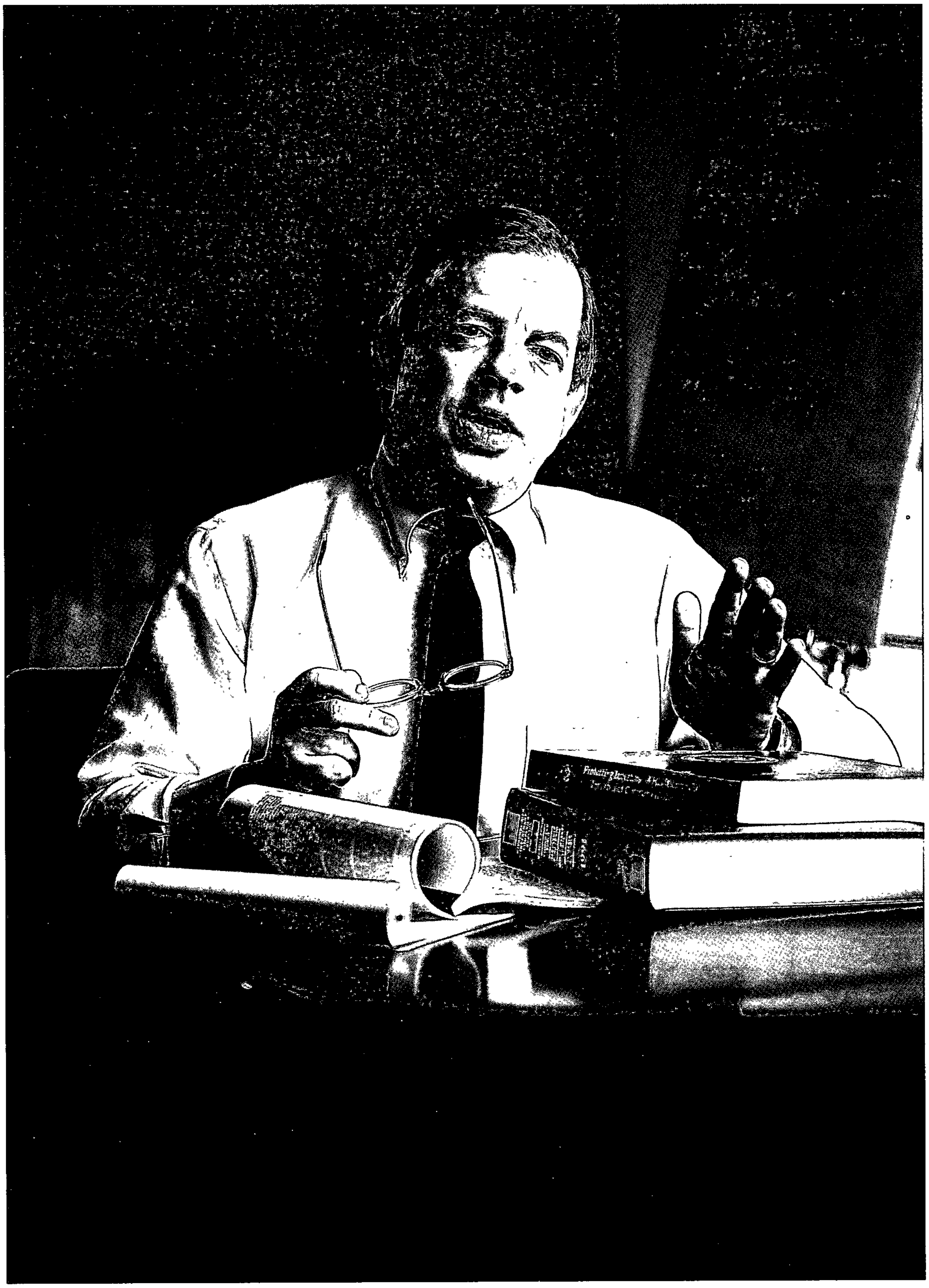
John Fitzgerald, NSCC Vice President, Marketing reviews Phase I of new Fixed Income Transaction System with John Lynch, Jr., EVP of J.F. Hartfield & Co., Inc., William Shackelton, Managing Director at Smith Barney, Harris Upham & Co. and Jan McSherry NSCC Director, Marketing Analysis.



A Peak Volume Day in 1992, compared with NSCC's Daily Average.



NSCC reduces or nets the total number of financial obligations requiring settlement.



"Today, more than 36 million Americans own mutual fund shares, and the competition for market share involves more than investment performance."

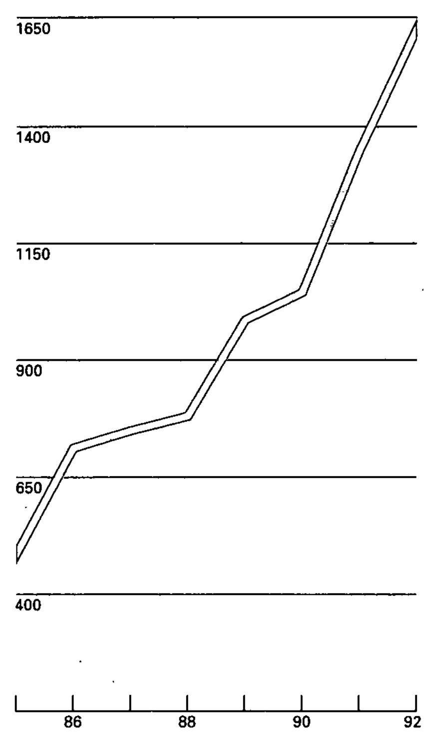
Matthew P. Fink,
President, Investment Company Institute

Mutual Funds: Activity has grown dramatically since 1985 with assets held now exceeding 1.6 trillion dollars.

The success of the mutual fund industry, by any measure, has been truly phenomenal. During the 1980s, total assets under management soared from $94.5 billion to nearly $1 trillion — and now exceed $1.6 trillion.

Part of the reason for this success is the industry's ability to provide innovative products and outstanding service. But the crucial factor is public confidence in the industry, attributable to the strict regulatory regime imposed on mutual funds by the Investment Company Act of 1940.

The fund industry has always recognized the importance of strong regulation and plays an active, positive role communicating with the SEC and other federal agencies, Congressional committees and state regulators on a wide range of subjects, including mutual fund regulation, the government securities market, pension funds, mutual fund shareholder taxation and U.S. funds' competitiveness abroad.



Growth of Total Assets Held by Mutual Funds (in billions of dollars)

Another major factor in the industry's continued growth is the operational efficiency and consistent quality that is delivered to a broadening base of investors.

Today, more than 36 million Americans own mutual fund shares, and the competition for market share involves more than investment performance. Mutual funds are keenly aware of the need to maintain shareholder service quality as a competitive necessity.

In this connection, ICI has worked closely with NSCC to ensure that the industry has the processing flexibility to facilitate growth and meet the requirements of those who market mutual fund shares: mutual funds, broker / dealers, insurance representatives, financial planners and bank representatives.

The development of Fund / SERV in 1985 by NSCC, guided by an ICI user committee, dramatically improved the industry's ability to support the growth of mutual fund customer orders. Before Fund / SERV, the industry utilized varying levels of manual processing. Fund / SERV provided standardization, automated processing and far greater efficiency.

Since the mid-1980s, NSCC has worked with mutual funds and broker / dealers to provide other services, such as Networking and Commission Billing, that help further the infrastructure required to meet the increasingly diverse and future needs of the industry.

The future holds a broad agenda for the mutual fund industry and its shareholders. Growing awareness and interest in global investing opportunities will drive demand for international fund services. In this and other areas, operational capacity, reliability and quality will be crucial to building — and maintaining — investor confidence.

As two service organizations, ICI and NSCC share a common goal in facilitating growth through the provision of the highest levels of service.

Mutual Funds: Transactions processed through Fund/SERV have grown to over 11 million annually.

Less than seven years ago, the process for handling mutual fund transactions was arcane and manually intensive. While the volume of transactions, at the time, was only a fraction of current activity, serious concerns began to surface about the viability of handling continued growth.

NSCC stepped in to provide leadership in 1985, working with industry representatives, to automate and offer standardization for this burgeoning area of the industry.

In place of brokers telephoning orders to fund groups (with confirmations returned by telephone, overnight mail and other means) labor intensive settlement processing and cumbersome registration procedures, NSCC designed a new system — Fund/SERV — specifically to support mutual funds.

A redesign of the Fund/SERV system will provide the processing flexibility to facilitate continued growth in mutual funds.

Since Fund/SERV went live in 1986, manual processing over time has been virtually eliminated. Order entry, confirmation, correction, registration and money settlement has been largely automated with significant benefits accruing to brokers and funds.

In 1992, NSCC completed a major redesign of the system to provide the industry with the processing flexibility to facilitate continued growth. New Fund/SERV offers the communication options of batch, multiple-batch or interactive processing. It can provide for variable settlement cycles, allowing the system to accommodate no-load and money market funds, and it can easily accommodate the industry move toward T+3.

Networking, introduced in 1988, provides a standardized communications pipeline through which customer account level activity can be exchanged in both directions between broker/dealers and funds. Using the system, brokers are able to carry customers' mutual fund positions on their stock record in much the same manner as they do for corporate security positions. Networking also offers centralized settlement of cash dividends and capital gains distributions.

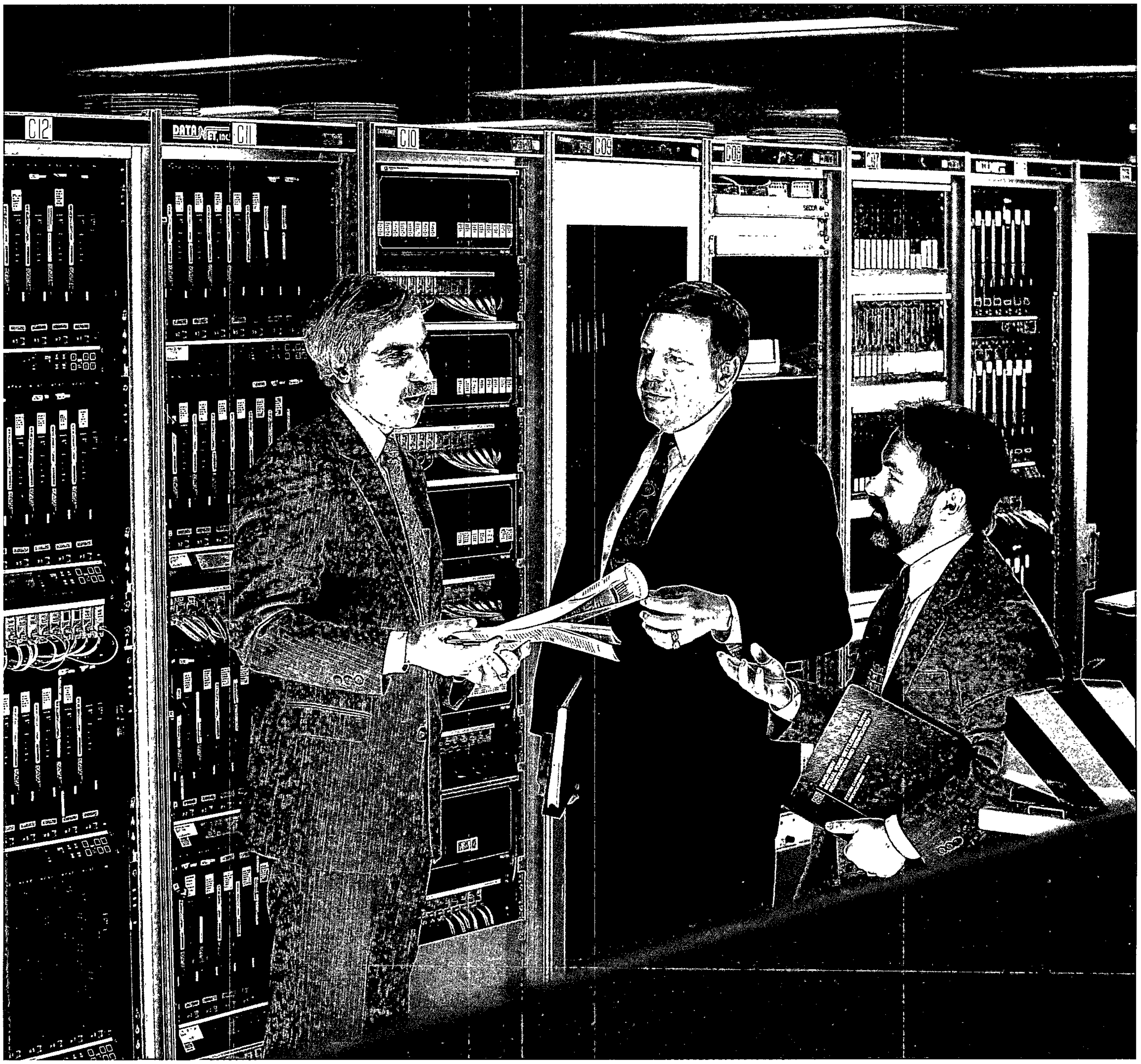
During 1992, Networking participation increased 69 percent, with over 3.5 million sub-accounts supported on the system at year-end.

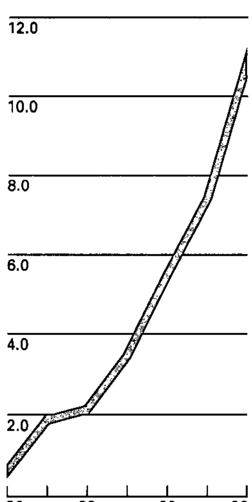
Another major initiative addressed in 1992 was the industry's desire to centralize, standardize and automate the payment of mutual funds commissions in order to reduce costs and increase accuracy.

NSCC's new mutual fund Commission Settlement Service provides an efficient solution to the previously manual process of transferring hard copy or tape records of commission payments between funds and brokers.

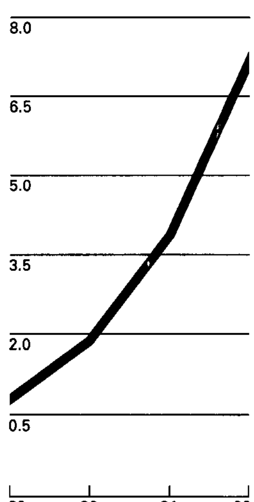
Working closely with our participants and the ICI's Broker Dealer Advisory Committee, NSCC developed a standard format for communicating commission payment data. The automated Commission Settlement Service then facilitates the exchange of information between brokers and funds, and allows commission payments to settle in NSCC's settlement system.

The new service will significantly reduce overhead, speed payment of commissions, and require minimum programming by brokers and funds.



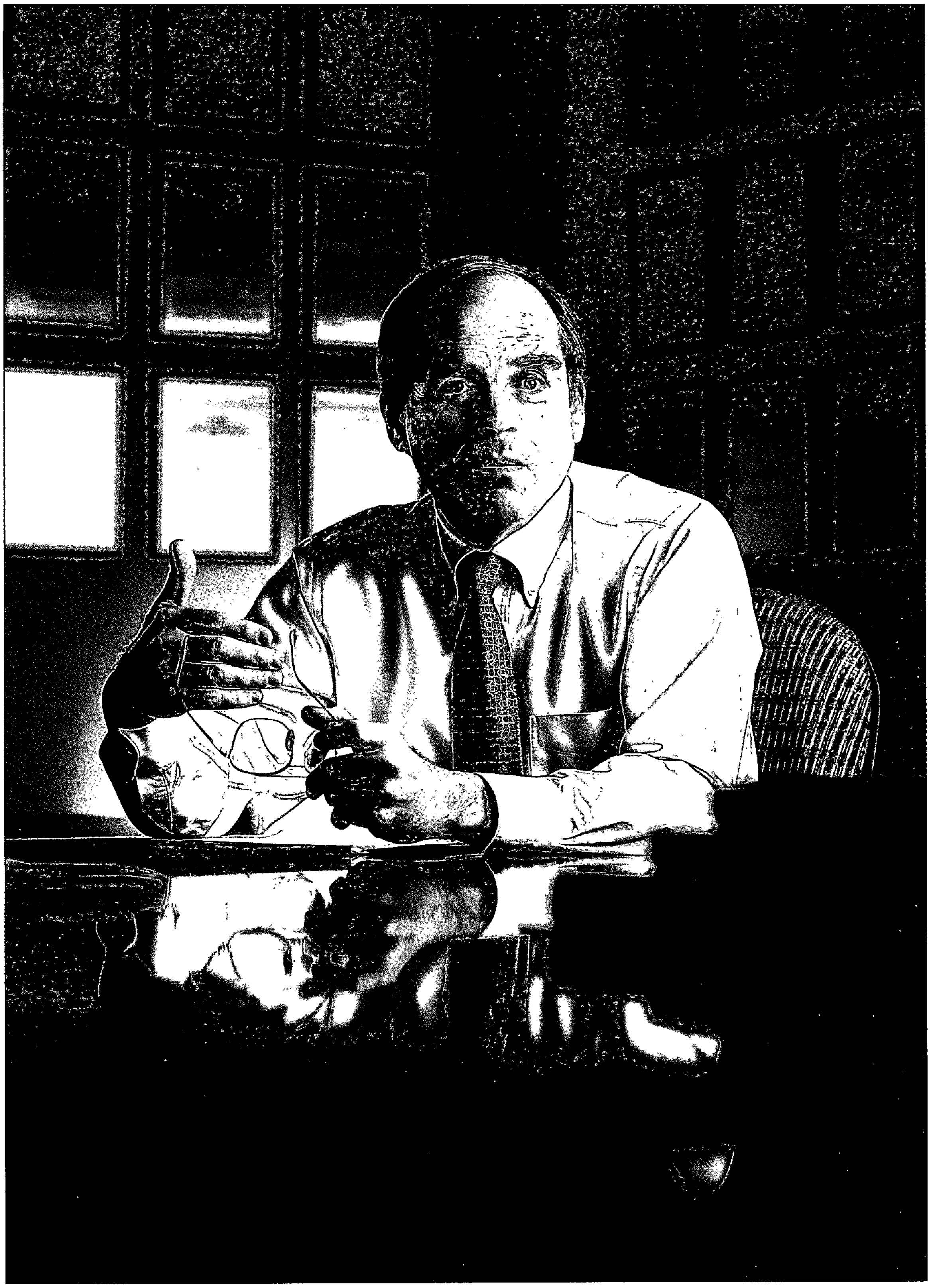


Transactions processed through Fund/SERV from 1986-1992 (in millions)



Growth of Customer Sub-Accounts in Networking from 1989-1992 (in millions)

Christopher Hayes, NSCC Director of Planning and Dennis Macksoud, Director of Marketing review with William Winter, VP at A.G. Edwards & Sons, Inc. telecommunication lines used by brokers in accessing Networking.



"NSCC plays a valuable role in being able to take the shocks, scares and other unintended side effects of events impacting the markets. Their ability to anticipate and prepare gives us a stronger, safer system and positions the industry for the future."

John Bachmann,
Managing Principal, Edward D. Jones & Co.

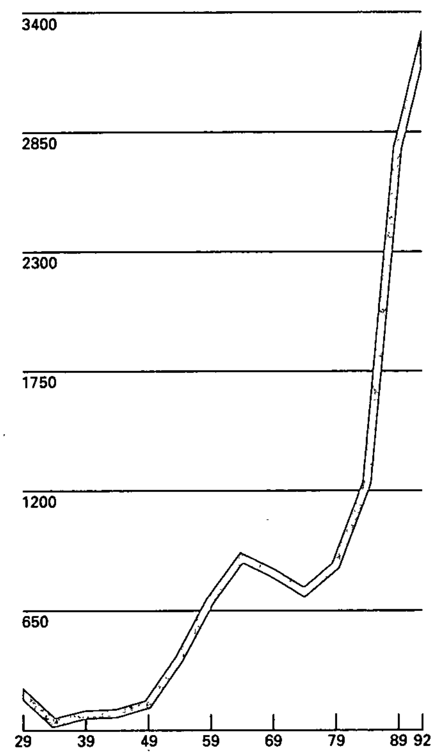
Adapting to Change...Looking to the Year 2000: Deregulation, globalization and technology are shaping the industry's future.

Looking to the future, we find ourselves at the confluence of three powerful forces: deregulation, globalization and technology.

Deregulation spawns competition. New competitors view the market differently because they are blind to old barriers. This allows them to capitalize upon opportunities that established competitors may overlook.

Increased competition puts pressure on profit margins. The highly profitable products of established companies are most vulnerable as price competition erupts. Traditional products fall victim and are treated like commodities. Being a low-cost producer becomes crucial.

To attract business, competitors offer new twists to existing products, combine existing products to create new products, and introduce new products and services. Money market funds, options and indexes, and certificates of deposits, are all the offspring of attempts to remain competitive in a deregulated environment.



Growth of Dow Jones Industrial Average from 1929 - 1992 reflects the dynamic nature of the U.S. markets.

Globalization will further intensify competition within the industry. As new markets emerge and established markets burgeon, the effects of competition will be more keenly felt by companies of every size.

Technology is another major force that shaped the evolution of our financial system, and its impact will continue to be felt in the future. A company can't win because of technology, but it will surely lose without it. Data is our life blood; accessing, shaping, delivering and automating with it are critical to success.

As deregulation and technology level the playing field, effective marketing will become crucial. Our focus will shift from products to customers. Customers must be identified; their wants and needs must be understood and responded to.

Differentiation from competitors will continue to be sought. The rediscovery of retail will continue. Pricing and repackaging will move to the forefront.

To reach higher profit margins, financial services companies will be forced to carry larger inventories and seek additional capital for increased firm trading.

Although risk will increase, there will be less margin for error. Change will have to be dealt with quickly and efficiently. Customers must completely understand new products, their advantages and disadvantages. There must be no unpleasant surprises.

In markets such as I've described, a strong infrastructure is vital. NSCC plays a valuable role in being able to take the shocks, scares and other unintended side effects of events impacting the markets. Their ability to anticipate and prepare, gives us a stronger, safer system and positions the industry for the future.

Management skills must also be sharpened. Corporations and individuals must be organized and disciplined. Managers must systematically think through their businesses to set priorities and allocate scarce resources.

Innovation and management are not mutually exclusive; associates and their varied and valuable resources must be utilized. Quality and service will take on new meaning.

We live in challenging times. Our task is great, but then so are opportunities. Whether we choose to embrace or reject the future and the changes it brings will determine our future in this great industry.

Adapting to Change . . . Looking to the Year 2000: NSCC is building processing flexibility, bringing further standardization and helping reduce costs.

Through this decade and into the next century, the industry will continue to be challenged by two powerfully dynamic forces: rapidly changing business requirements and technology innovations.

NSCC has changed the way technology is applied to systems development, recognizing that our members' business objectives and technology capabilities are extremely diverse.

Processing flexibility is a critical element in how NSCC responds to firms on the leading edge of technology, while continuing to support participants further down the curve.

NSCC has been working to create a mix of solutions, capable of running on multiple types of participant technology platforms.

ISCC actively builds relationships and promotes information sharing by hosting representatives from foreign exchanges, clearing organizations and brokerage firms in over 35 markets.

As a result of helping the industry minimize risk, standardize and eliminate redundant functions, and reduce firm operating costs, NSCC is increasingly being called upon to address a wider range of issues.

For example, NSCC is setting up a New York Window to support the needs of large firms located outside of New York City and large regional firms, which still require a downtown presence to move physical securities.

NSCC is also studying the feasibility of creating a centralized facility or Common Vault to house non-depository eligible securities, which would eliminate expenses related to the physical deliveries of securities, redundant infrastructures and allow for book-entry movements.

Today, more than ever, firms need accurate and timely information to support their processing of securities. One area where NSCC participants have expressed concern — and sought our involvement — is in standardizing the timeliness, quality and cost of pricing information they receive from vendors.

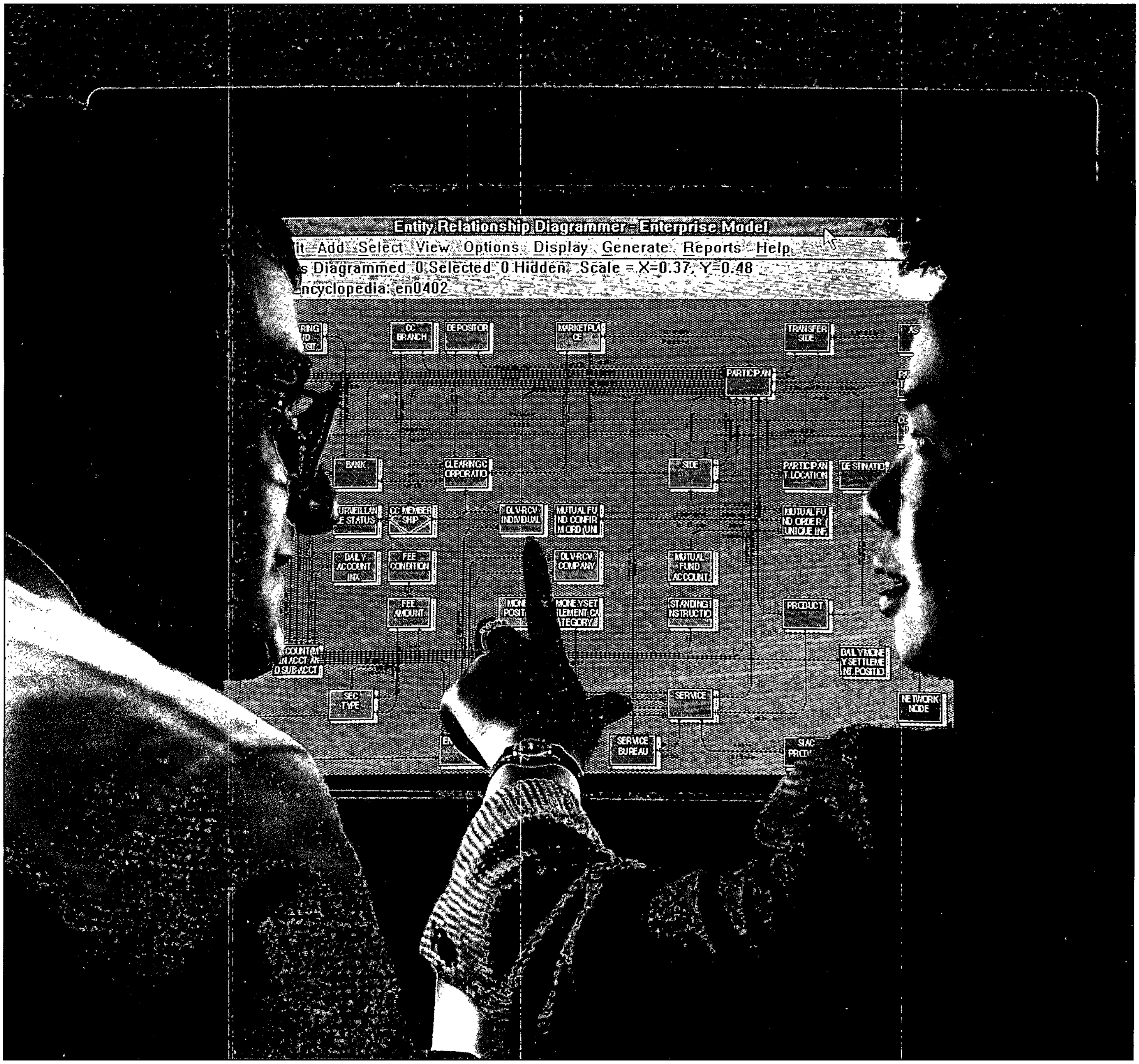
Establishing a Common Glossary or security master file for the industry is another issue where standardization can eliminate the manually intensive and costly maintenance of separate systems by individual firms. NSCC has worked with the Data Management Division of the SIA, DTC and others in 1992 toward finding an approach that best serves the industry.

International Securities Clearing Corporation (ISCC) has developed relationships with exchanges and clearing organizations around the world in anticipation of the now growing trend toward globalization and U.S. brokers trading in foreign securities.

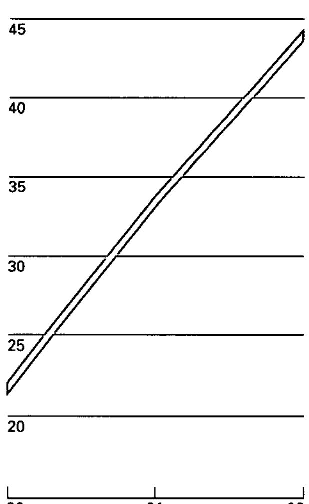
The successful launch of Global Clearing Network (GCN) in 1992 represents a significant step toward opening the doors to the opportunities of global investing and efficient clearance and settlement. GCN participation continues to grow, with 19 firms currently utilizing the service.

GCN, achieved through an alliance with Citibank, provides a single communications access product for broker/dealers and banks to clear and settle foreign securities trades in up to 21 countries, with nine more expected in 1993.

Meanwhile, U.S. government securities trading continues to grow, and so does membership in Government Securities Clearing Corporation (GSCC). In the last three years, GSCC reached 66 members who clear and settle trading in Treasury Bills, Bonds, Notes, non-mortgage backed Agencies and Strips.



Ann Kung, Director of Planning/Interactive Systems and Lewis Missuk, Senior Programmer/Analyst discuss technology strategies that are providing NSCC with the processing flexibility to meet the challenges of the next decade.



Value of Government Securities Trades Settled by GSCC (in trillions of dollars)

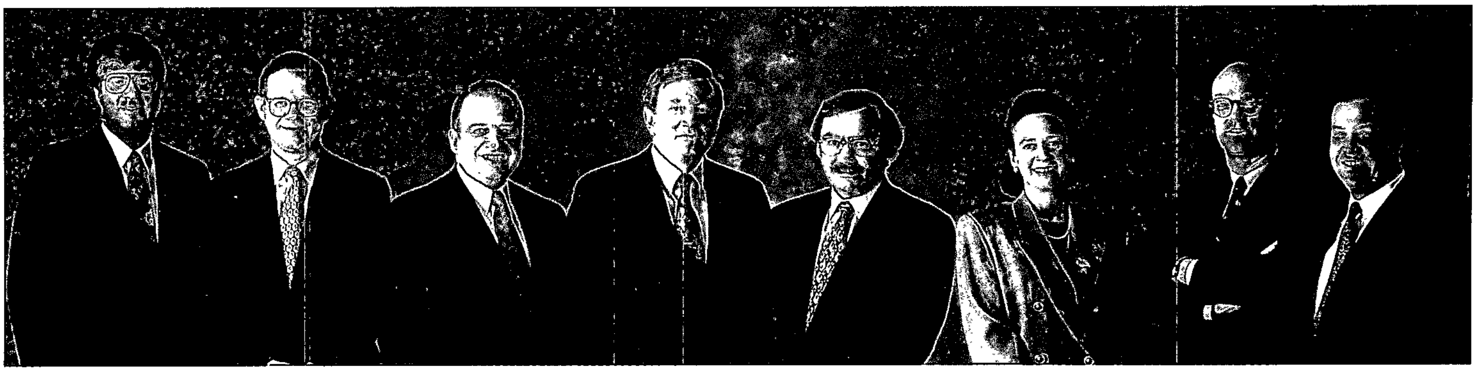
Board of Directors

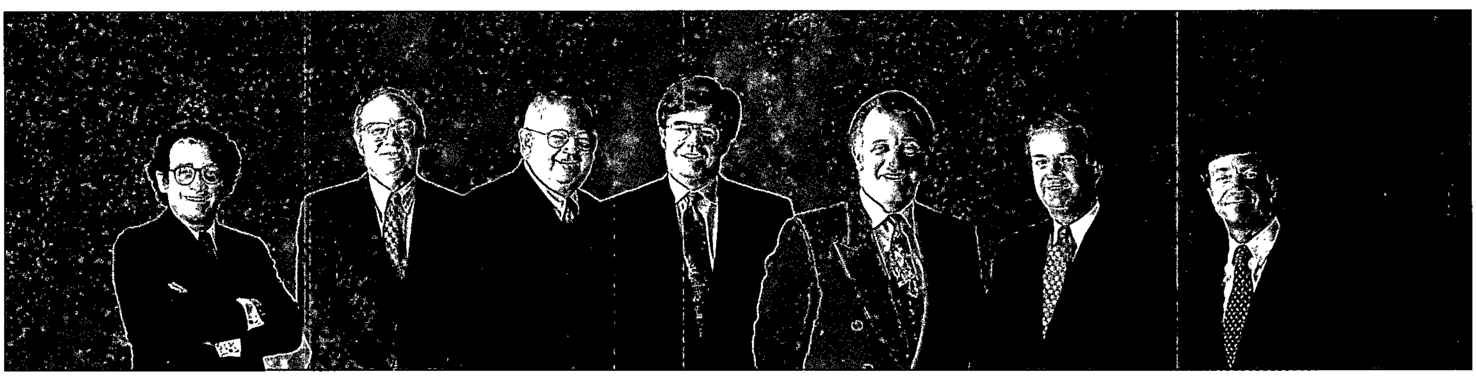
NSCC's Board of Directors plays an integral role in policy development and the establishment of corporate objectives, financial management and operational planning at NSCC and ISCC. Through its professional expertise in executive, financial and corporate management, the Board, in 1992, continued to provide NSCC with guidance and direction.

The Board of Directors is made up of 18 members: 14 Participant Directors elected from participating brokers, dealers and banks, NSCC's President & Chief Executive Officer, and three Shareholder Directors.

GSCC's separate 15-member Board of Directors represents participants in GSCC, a full-service clearing corporation providing automated comparison and netting services for next-day and forward-settling transactions in Treasury Bills, Bonds, Notes and non-mortgage backed Agency securities and Strips. Twelve members of the Board of Directors are participant Shareholder Directors representing six dealers, three brokers and three clearing agent banks. Additional members include two NSCC Designated Directors and the President of GSCC.

NSCC and ISCC Board of Directors





Robert H. Benmosche
Executive Vice President,
Director of Operations, Systems and Administrative Services,
PaineWebber Incorporated

J. Philip Smith
President,
Lewco Securities Corp.

Carlos A. Salvatori
Vice President,
Division Executive,
Worldwide Securities Services
Citibank, N.A.

David M. Kelly
President & CEO,
National Securities Clearing Corporation

Bruce E. Geismar
Chairman of the Board,
National Securities Clearing Corporation,
Senior Managing Director,
Bear, Stearns & Co. Inc.

Catherine R. Kinney
Executive Vice President,
New York Stock Exchange, Inc.

Marshall N. Carter
Chairman, President and CEO,
State Street Boston Corporation

Frank J. DeCongelio
Managing Director,
The First Boston Corporation

George C. McNamee
Chairman,
First Albany Corporation

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

Raymond E. Wooldridge
President & COO,
Southwest Securities, Inc.

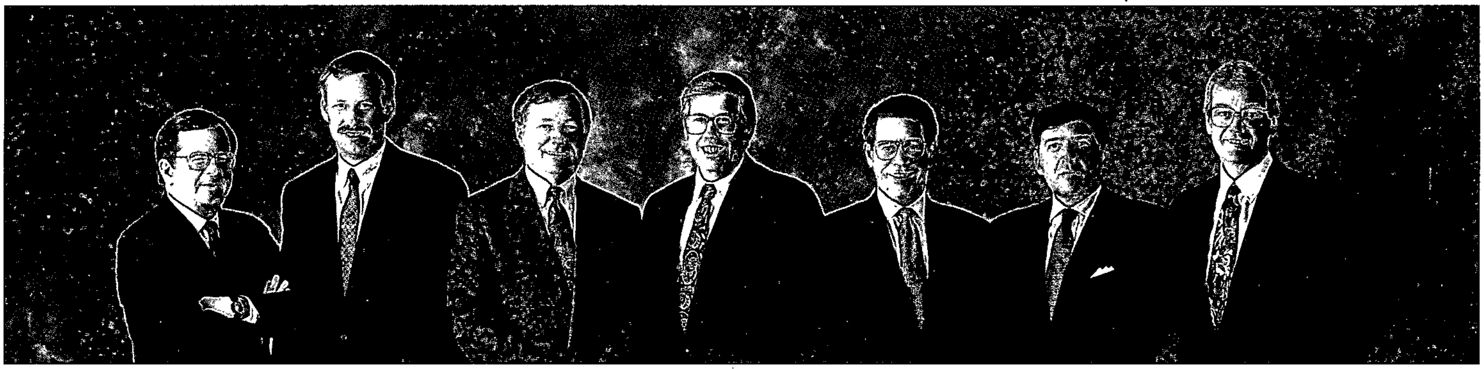
Douglas J. Engmann
President,
Sage Clearing Corporation

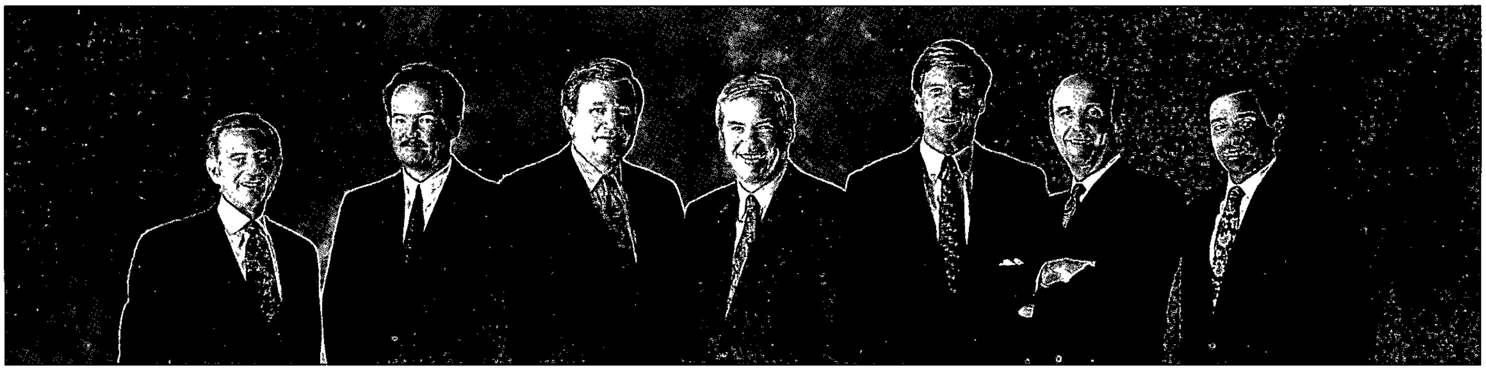
Joseph Anastasio
Managing Director,
Salomon Brothers Inc

Walter F. Siebecker
Executive Vice President and Managing Director,
Securities Operations Division,
Smith Barney, Harris Upham & Co. Incorporated

Darryl L. Pope
Principal, Operations,
Edward D. Jones & Co.

GSCC Board of Directors





Kenneth J. Halpin
Managing Director & Treasurer,
Discount Corporation of New York

Kurt D. Woetzel
Vice President & Division Head,
The Bank of New York

Bruce R. Lakefield
Chairman of the Board,
Government Securities Clearing Corporation,
Managing Director,
Lehman Government Securities, Inc.

Charles A. Moran
President,
Government Securities Clearing Corporation

Edward Watts, Jr.
Vice President,
Goldman, Sachs & Co.

Sal Ricca
Director,
BankAmerica National Trust Company

Allen B. Clark
Senior Vice President,
Chemical Bank

Frank D. Cuoco, Jr.
Executive Vice President,
Garban Ltd.

John M. Gavin, Jr.
Chief Financial Officer,
RMJ Securities Corp.

David M. Kelly
President & CEO,
National Securities Clearing Corporation

James P. Mahoney
Principal,
Morgan Stanley & Co. Incorporated

John G. Macfarlane III
Managing Director & Treasurer,
Salomon Brothers Inc

Thomas J. Basile
Executive Managing Director,
Carroll McEntee & McGinley Incorporated

Joseph A. Malvasio
Executive Vice President,
Cantor Fitzgerald Securities Corp.

Consolidated Balance Sheet

December 31,	1992	1991
Assets	(in thousands)	
Current assets:		
Cash and cash equivalents	$200,233	$201,913
Short-term U.S. Treasury securities	79,162	48,906
Accounts receivable	8,715	6,084
Settlement accounts receivable	3,651	2,153
Other current assets	553	479
Total current assets	292,314	259,535
Clearing fund	218,873	212,534
Fixed assets, less accumulated depreciation of $3,392 and $3,229 at December 31, 1992 and 1991, respectively	2,951	2,326
Deposits and other noncurrent assets	7,762	7,360
Total assets	$521,900	$481,755
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 9,068	$ 10,231
Settlement accounts payable	81,732	94,148
Other current liabilities	5,838	7,003
Total current liabilities	96,638	111,382
Clearing fund:		
Participants' cash deposits	186,389	141,839
Other participant deposits	218,873	212,534
	405,262	354,373
Commitments and contingent liabilities (Note 7)		
Shareholders' equity:		
Common stock authorized, issued and outstanding; 30,000 shares of $.50 par value	15	15
Capital in excess of par	885	885
Retained earnings	19,100	15,100
	20,000	16,000
Total liabilities and shareholders' equity	$521,900	$481,755

The accompanying notes are an integral part of this statement.

Consolidated Statement of Income and Retained Earnings

For the year ended December 31,	1992	1991
	(in thousands)	
Revenues:		
Revenue from clearing services	$109,175	$95,589
Discounts to participants	22,018	16,671
Net revenue from clearing services	87,157	78,918
Interest income	2,971	4,007
Total revenues	90,128	82,925
Expenses:		
Securities Industry Automation Corporation processing expenses	46,059	46,364
The Depository Trust Company fees	13,223	12,684
General and administrative	23,696	20,853
Total expenses	82,978	79,901
Income before income taxes	7,150	3,024
Provision for income taxes	3,150	1,024
Net income	4,000	2,000
Retained earnings, beginning of year	15,100	13,100
Retained earnings, end of year	$ 19,100	$15,100

The accompanying notes are an integral part of this statement.

Consolidated Statement of Cash Flows

For the year ended December 31,	1992	1991
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 4,000	$ 2,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	714	502
Changes in operating assets and liabilities:		
Increase in accounts receivable	(2,631)	(1,080)
Increase in settlement accounts receivable	(1,498)	(720)
Increase in other current assets	(74)	(66)
(Increase) decrease in deposits and other noncurrent assets	(402)	509
(Decrease) increase in accounts payable	(1,163)	2,042
(Decrease) increase in settlement accounts payable	(12,416)	30,989
(Decrease) increase in other current liabilities	(1,165)	2,183
Increase in clearing fund participants' cash deposits	44,550	33,206
Net cash provided by operating activities	29,915	69,565
Cash flows from financing and investing activities:		
(Increase) decrease in short-term U.S. Treasury securities	(30,256)	76,651
Purchases of fixed assets	(1,339)	(1,355)
Net cash (used in) provided by investing activities	(31,595)	75,296
Net (decrease) increase in cash and cash equivalents	(1,680)	144,861
Cash and cash equivalents, beginning of year	201,913	57,052
Cash and cash equivalents, end of year	$200,233	$201,913
Supplementary disclosures:		
Income taxes paid	$ 2,455	$ 684
Interest paid	$ 4	—

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

Organization and Operations:

1 National Securities Clearing Corporation (NSCC), a clearing agency registered with the Securities and Exchange Commission (SEC), provides various services to the financial community, consisting principally of securities trade comparison, clearance and settlement. NSCC's common stock is owned equally by the New York Stock Exchange, Inc. (NYSE), American Stock Exchange, Inc. (Amex) and the National Association of Securities Dealers, Inc. (NASD).

NSCC provides discounts on its billing to participants based upon the amount of earnings to be retained in a given year with due regard to current and anticipated needs, as determined by its independent user Board of Directors.

Summary of Significant Accounting Policies:

2 *Principles of consolidation:* The consolidated financial statements include the accounts of NSCC and its wholly-owned subsidiary, International Securities Clearing Corporation (ISCC). Intercompany accounts and transactions are eliminated in consolidation.

NSCC accounts for its investment in Government Securities Clearing Corporation (GSCC), using the equity method of accounting. NSCC's ownership interest in GSCC was approximately 18% at December 31, 1992 and 1991.

Cash equivalents: NSCC invests funds in overnight reverse repurchase agreements, which are considered cash equivalents. Such agreements provide for NSCC's delivery of cash in exchange for securities having a market value of at least 102% of the amount of the agreement. An independent custodian designated by NSCC takes possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts, which approximates market, and totaled $193,000,000 and $170,000,000 at December 31, 1992 and 1991, respectively. At December 31, 1992, the counterparties to these agreements were four financial institutions.

Overnight investments in the commercial paper of a major U.S. bank holding company totaling $777,000 and $11,601,000 are also included in cash equivalents at December 31, 1992 and 1991, respectively.

Short-term U.S. Treasury securities: U.S. Treasury securities held, which mature in less than one year, are carried at cost adjusted for accretion of discounts. Such carrying value approximates market. At December 31, 1992 and 1991, $48,326,000 and $43,444,000, respectively, of such securities were held in an account for the exclusive benefit of participants to facilitate participants' compliance with customer segregation rules of the SEC.

Settlement accounts: Settlement accounts receivable and payable arise from time lags, primarily one-day, in the settlement process with participants and other registered clearing agencies.

Income taxes: Effective January 1, 1992, NSCC prospectively adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109) for determination of its provision for income taxes. Deferred tax assets and liabilities are provided for the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities. In 1991, the determination of the provision for income taxes was made under Accounting Principles Board Opinion No. 11.

Participants' Clearing Fund Deposits:

3 NSCC's rules require certain participants to maintain minimum clearing fund deposits based on calculated requirements. These requirements are recorded in NSCC's balance sheet. The consolidated clearing fund balance includes NSCC and ISCC clearing funds, which are available to secure

participants' obligations and certain liabilities of NSCC and ISCC, should they occur. A summary of the deposits held including deposits in excess of calculated requirements at December 31, 1992 and 1991 follows:

	1992	1991
Cash	$186,389,000	$141,839,000
Securities issued or guaranteed by the U.S. Government, its states and their political subdivisions, at market	139,761,000	101,913,000
Letters of credit issued by authorized banks	170,131,000	185,454,000

Throughout 1992, NSCC had a $200,000,000 line of credit agreement with a major U.S. bank to provide for potential additional liquidity needs. This line was not used.

Transactions with Related Parties:

4 *SIAC:* Under the terms of an agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by NYSE and Amex, provides computer facilities, personnel and services in support of NSCC's operations. SIAC charges NSCC for these services based on its direct and overhead costs arising from providing such services. The agreement has no expiration date and continues in effect unless prior written notice of cancellation is given by either party. Amounts payable to SIAC at December 31, 1992 and 1991 were $4,656,000 and $6,162,000, respectively.

DTC: NYSE, Amex and NASD own minority interests in The Depository Trust Company (DTC), whose facilities are used by NSCC. DTC fees in 1992 and 1991 included $8,554,000 and $8,539,000, respectively, relating to charges for NSCC participants which NSCC sponsors at DTC. Such amounts are rebilled to the related participants and are included in revenues from clearing services. Amounts payable to DTC at December 31, 1992 and 1991 were $484,000 and $388,000, respectively.

NYSE, Amex and NASD: NSCC collects certain regulatory fees on behalf of NYSE, Amex and NASD. At December 31, 1992, no amounts were due the NYSE, Amex or NASD. At December 31, 1991, $1,876,268 and $377,214 were payable to the NYSE and Amex, respectively; no amounts were payable to the NASD.

GSCC: NSCC has entered into an agreement with GSCC to provide various computer and other support services and office facilities. Charges under this agreement are based on a determination of NSCC's cost of providing these services. The agreement will continue in effect unless cancelled as of May 19, 1993 or thereafter by either party upon prior written notice. Charges under this agreement amounted to $4,466,000 in 1992 and $4,214,000 in 1991. NSCC's expenses are presented net of these charges. At December 31, 1992 and 1991, receivables from GSCC amounted to $277,000 and $507,000, respectively.

GSCC's excess cash may be aggregated with funds held by NSCC for investment purposes. At December 31, 1992 and 1991, accounts payable includes $3,273,000 and $2,683,000, respectively, representing NSCC's obligation to GSCC for such funds.

Income Taxes:

5 NSCC and ISCC file consolidated Federal, combined New York State and combined New York City income tax returns. The difference between NSCC's 44% effective tax rate for the year ended December 31, 1992 and the 34% Federal statutory tax rate is primarily attributable to state and local taxes. NSCC's effective tax rate for 1991 approximated the Federal statutory tax rate.

Notes to Consolidated Financial Statements (continued)

The provisions for income taxes for the years ended December 31, 1992 and 1991 consist of the following:

	1992	1991
Current income taxes	$ 3,040,000	$ 1,054,000
Deferred income taxes	110,000	(30,000)
Total income taxes	$ 3,150,000	$ 1,024,000

As discussed in Note 2, NSCC adopted SFAS 109 as of January 1, 1992. The cumulative effect of this change was not material.

Pension Plan:

6 NSCC has a trusteed noncontributory defined benefit pension plan covering all eligible employees. Benefits under this plan are based on employees' years of service and compensation during the years immediately preceding retirement. NSCC's funding policy is to make contributions under the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. NSCC also has a noncontributory supplemental executive retirement plan (SERP) which provides for certain benefits to identified executives of NSCC upon retirement. NSCC's funding policy with regard to the SERP is to fund benefits accruing to employees meeting certain requirements of the SERP. Aggregate pension costs for 1992 and 1991 for both plans follows:

	1992	1991
Service cost	$ 852,629	$ 641,895
Interest cost	445,701	366,522
Actual return on plan assets	(373,833)	(859,036)
Net amortization and deferral	(46,262)	511,373
Total pension cost	$ 878,235	$ 660,754

The funded status of the plans at December 31, 1992 and 1991 follows:

	1992	1991
Actuarial present value of benefit obligations:		
Vested benefit obligations	($3,497,174)	($2,448,942)
Nonvested benefit obligations	(721,502)	(595,739)
Accumulated benefit obligations	(4,218,676)	(3,044,681)
Effect of salary projections	(2,759,883)	(2,206,746)
Projected benefit obligations	(6,978,559)	(5,251,427)
Fair value of plan assets	6,087,475	5,098,464
Plan assets less than projected benefit obligations	(891,084)	(152,963)
Unrecognized net gain	(379,981)	(1,215,104)
Unrecognized prior service cost	(56,580)	(35,100)
Unrecognized transitional liability	269,262	299,180
Accrued pension cost	($1,058,383)	($1,103,987)

The expected rate of return on plan assets was 8% in 1992 and 1991. The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of accumulated benefit obligations were 7.75% and 6%, respectively, in 1992 and 8.25% and 6%, respectively, in 1991.

Commitments and Contingent Liabilities:

7 The Continuous Net Settlement (CNS) system interposes NSCC between participants in securities clearance and settlement. CNS transactions are guaranteed as of midnight on the day they are reported to the membership as compared. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to re-deliver the securities, results in open positions. Open positions are marked-to-market daily. Such marks are debited or credited to the involved participants through the settlement

process. At the close of business on December 31, 1992, open positions due NSCC approximated $628,728,000 ($580,359,000 at December 31, 1991), and open positions due by NSCC to participants approximated $381,435,000 ($342,350,000 at December 31, 1991) for unsettled positions and $247,293,000 ($238,009,000 at December 31, 1991) for securities borrowed through NSCC's Stock Borrow Program.

In connection with an agreement that ISCC has with the London Stock Exchange (LSE), ISCC has guaranteed the settlement obligations of ISCC's members at LSE and correspondingly, NSCC has guaranteed ISCC's obligations to LSE. ISCC's members collateralize such obligations by depositing clearing fund amounts with ISCC as required pursuant to the ISCC Member's Agreement.

NSCC is contingently liable for the cancellation of certain SIAC office and equipment leases which expire through December 31, 2003. At December 31, 1992, the aggregate contingent commitment of NSCC totals approximately $45,000,000. In accordance with the agreement between NSCC and GSCC (see Note 4), $107,000 of these contingent liabilities are passed through to GSCC.

Net rental expense amounted to $3,107,000 and $2,509,000, in 1992 and 1991, respectively. At December 31, 1992, future minimal rental payments under all noncancellable operating leases follows:

Year	Amount
1993	$ 3,101,000
1994	3,251,000
1995	3,480,000
1996	3,714,000
1997 (year of expiration)	1,279,000
Total minimum annual rental payments	$14,825,000

Off-Balance-Sheet Risk and Concentrations of Credit Risk:

8 In the normal course of business, NSCC guarantees certain obligations of its participants under specified circumstances (see Note 7). If a participant fails to fulfill its obligations, NSCC could be exposed to risk in amounts in excess of that recorded in NSCC's settlement accounts receivable and payable.

NSCC mitigates its exposure to risk by requiring participants to meet NSCC established financial standards for membership, monitoring compliance with other financial standards established by NSCC and by requiring participants to provide clearing fund deposits in the form of cash, marketable securities or letters of credit (see Note 3).

If a participant fails to fulfill its settlement obligations with NSCC and NSCC ceases to act on behalf of the participant, NSCC would liquidate that participant's guaranteed security delivery and receive obligations and apply the clearing fund deposit received to satisfy any net outstanding obligation and / or loss.

In the event that a deficiency still exists, before NSCC may assess the membership, NSCC is required to apply against the deficiency at least 25% of its retained earnings or such greater amount to be determined by the Board of Directors. NSCC may assess the balance needed on a pro-rata basis to the remaining participants based upon their required clearing fund deposits.

As discussed in Note 1, NSCC provides various services to members of the financial community who participate in securities trade comparison, clearance and settlement. As such, NSCC has a significant group concentration of credit risk since its participants may be impacted by economic conditions affecting the securities industry.

Report of Independent Accountants

Price Waterhouse

To the Board of Directors and Shareholders of National Securities Clearing Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of National Securities Clearing Corporation and its subsidiary at December 31, 1992 and 1991, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

New York, New York
February 12, 1993

NSCC, ISCC and GSCC Senior Executives

Robert A. Schultz
Executive Vice President,
Planning and Operations,
National Securities Clearing Corporation

Robert J. Woldow
Executive Vice President,
General Counsel and Secretary,
National Securities Clearing Corporation

Walter H. Cushman
Senior Vice President,
Human Resources,
National Securities Clearing Corporation

Marvin B. Koehler
Senior Vice President, Finance;
Treasurer,
National Securities Clearing Corporation

Steve M. Labriola
Senior Vice President, Marketing and Corporate Communications,
National Securities Clearing Corporation

Sandy Manata
Senior Vice President,
Planning,
National Securities Clearing Corporation

William H. Thomas
Senior Vice President,
Compliance, Membership and Risk Management,
National Securities Clearing Corporation

Richard W. Myers
Executive Vice President & COO,
International Securities Clearing Corporation

Thomas F. Costa
Executive Vice President,
Government Securities Clearing Corporation









NSCC, ISCC and GSCC Officers

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