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Officer of ISCC.

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ISCC has formalized an agreement
with Cols de Valores, SA (CVSA),
Argentina's central securities deposit
link, to establish a U.S. custody
link, to establish a U.S. custody

ISCC received approval from the
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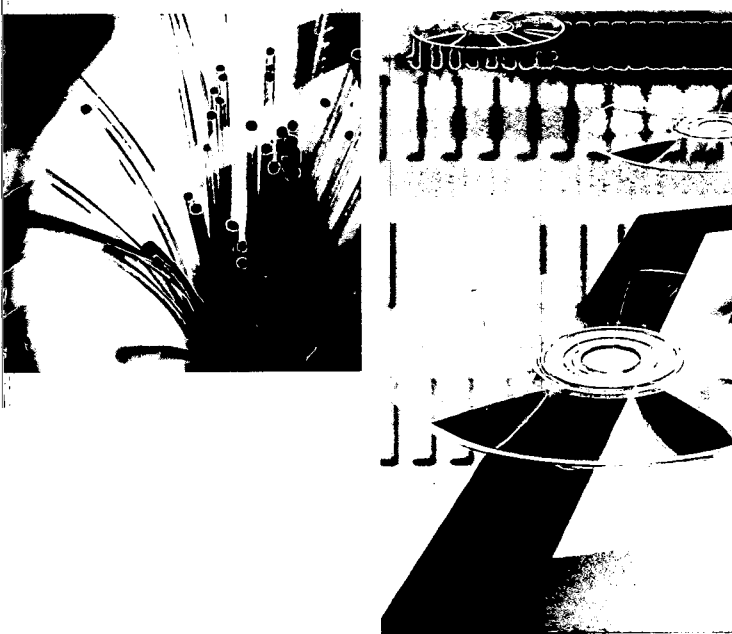
**ISCC, C
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Provides IPO Service to
New York Window

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Partnering Change



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Marketplaces

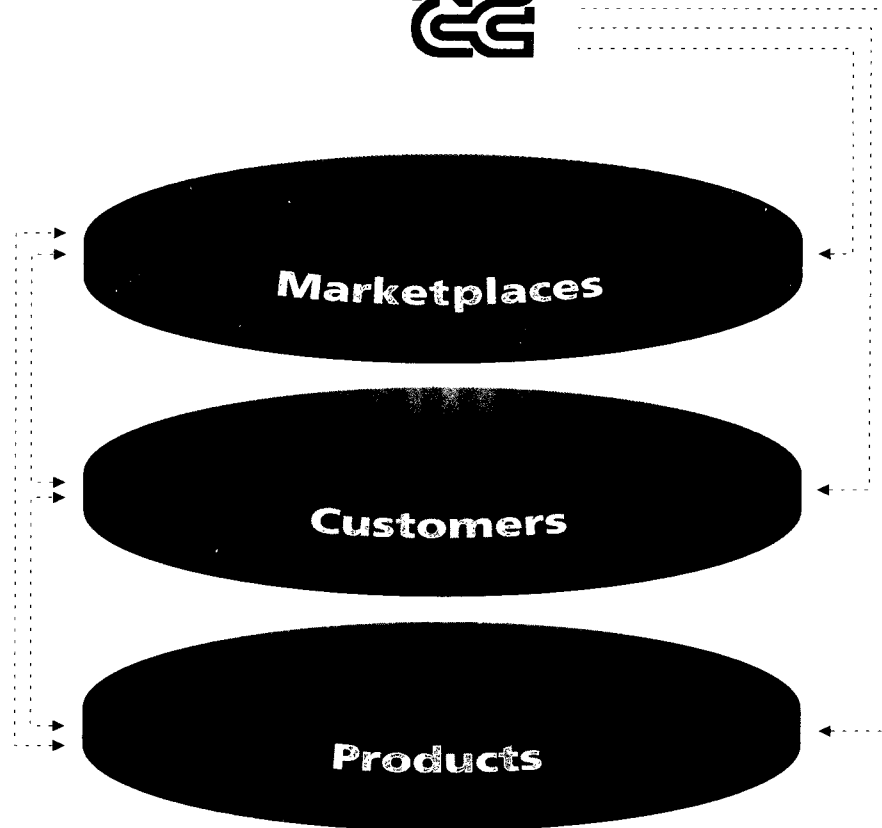
NSCC serves vibrant, dynamic marketplaces that are constantly changing to meet investor expectations and provide broader financial opportunities.

Customers

NSCC's customer base includes participants representing diverse segments of the financial services industry. At the same time, each customer we support is unique in terms of size, business objectives, technology capabilities and the markets in which they operate.

Products

NSCC products and services must have both the flexibility and functionality to meet the current and future needs of our Participants and the marketplaces. To serve them successfully, we are committed to maintaining a thorough understanding of issues affecting the financial services industry, as well as trends in technology and telecommunications that will influence our product development efforts going forward.



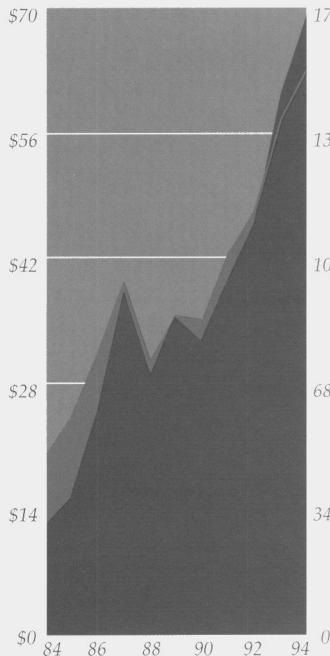
National Securities Clearing Corporation (NSCC), established in 1976, is the nation's leading

provider of centralized clearance, settlement and information services to over 1900 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.

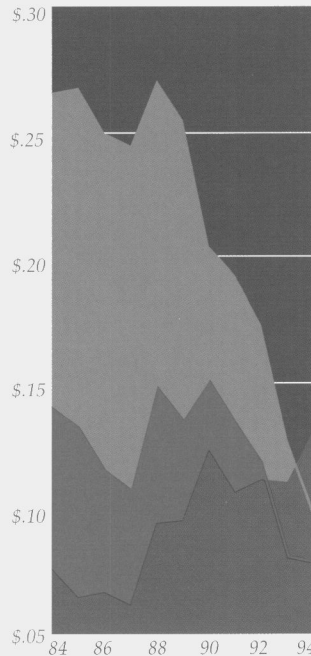
NSCC is a registered clearing agency, and is owned jointly by the New York and American Stock Exchanges and the National Association of Securities Dealers, Inc.

NSCC Average Daily Transactions Processed from 1984 - 1994



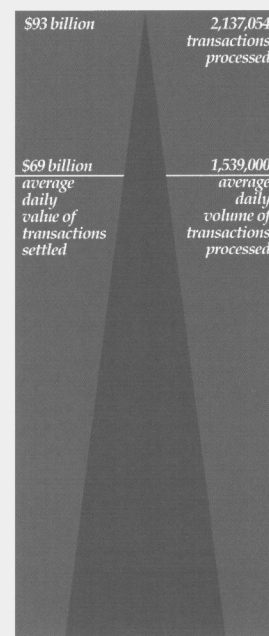
■ Volume in thousands
■ Value in billions of dollars

Average Cost Per Transaction (in dollars)



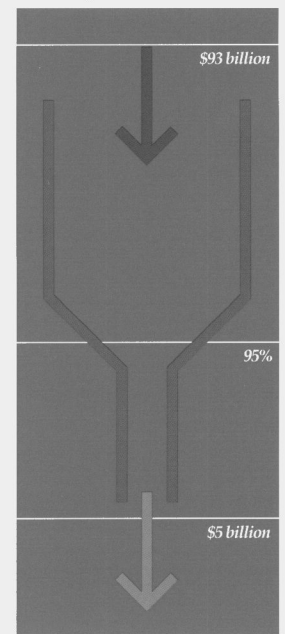
■ Trade Processing
■ Clearance & Settlement
■ ACATS, Mutual Funds and Other

A Peak Day - Nov. 23, 1994



A Peak Volume Day in 1994 compared with NSCC's Daily Average

Netting Factor for a Peak Day, 1994



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

To Our Participants

Throughout our industry, the trend toward globalization and the expanding need for new capital is dramatically changing the financial services business. While market participants pursue their individual strategies, each has unique requirements from NSCC for securities processing solutions that eliminate redundancies, add value and further their competitiveness.

Both 1994 and 1995 are significant in our history as we bring to fruition solutions to issues that have concerned the financial services sector since the market correction of 1987.

NSCC's success in developing services and systems to meet the ever evolving dynamic changes occurring in the financial services industry is based on the premise of partnering change with our customers.

In this Annual Report, we feature some of the many industry representatives who work closely with us throughout the year. These individuals serve on our Board of Directors, NSCC advisory committees and industry trade groups, to help guide our efforts and build consensus across an increasingly diverse participant base.

Nowhere is the success of partnering change more evident than in major initiatives worked on and completed in 1994. These include NSCC's role in supporting the move to three day settlement (T+3); the development of a same-day funds settlement system; the roll-out of the Fixed Income Transaction System (FITS) Phase II; the successful conversion of the industry to new Fund/SERV; and the progress made on Vision 2000 reforms.

Despite disappointing market trends in 1994, trading activity remained particularly brisk. As a result, NSCC experienced record transaction processing volumes. This volume, coupled with our continuing drive to manage expenses, allowed us to return a 51% discount to our members on certain discountable services. In addition, we lowered trade comparison and recording fees in January, 1994.

NSCC's T+3 Advisory Committee has been an invaluable asset during 1994, working with us to better understand and ensure a smooth transition as we move to the June 1995 change to T+3. We would also like to thank our Participants for their efforts and cooperation in this process. Few industries have set the bar so high and pursued a goal with such a single-minded purpose as the financial services industry has to improve the safety and soundness of the U.S. marketplaces.

*David M. Kelly,
President and Chief
Executive Officer (left)*

*Frank J. DeCongelio,
Chairman of the Board*



We began developing a Same-Day Funds Settlement (SDFS) system in 1994, to allow participants who now settle on a next day basis using checks, to settle in Fed Funds daily. NSCC and the Depository Trust Company have been working closely to support the industry's conversion to a SDFS environment, which is targeted for late 1995.

NSCC recognizes that the markets of tomorrow will require us to provide customers with a mix of new tools, technologies and efficiencies gained from increased cooperation with and among industry service organizations.

In 1994, our Fixed Income Transaction System (FITS) demonstrated that in addition to offering more flexible processing capabilities, it is also a powerful information resource. FITS is providing data to support the Municipal Securities Rulemaking Board's effort to settle municipal bond transactions on T+3 and to support increased disclosure of municipal bond pricing.

Significant progress was made this past year on several Vision 2000 reforms. The industry buy-out of MBS Clearing Corporation from the Chicago Stock Exchange and subsequent move to NSCC offices in New York was an important first step toward achieving Vision 2000 recommendations for greater synergy and coordination among clearing corporations and depositories.

NSCC's Collateralization Management System (CMS), completed in 1994, addresses another Vision 2000 recommendation to give firms a clearer picture of their collateral deposits across all clearing agencies and depositories. This effort is just the beginning, as we look to expand CMS to increase collateral certainty and more efficient use of firm assets.

Our affiliate, GSCC contributed to the record books this past year with three significant milestones: processing U.S. government securities transactions with a combined one day settlement value in excess of \$1 trillion; implementing a service that delivers Fed auction takedowns to member firm accounts at GSCC; and developing a system for processing repurchase agreements.

ISCC's Global Clearing Network (GCN) continued to chart a cost-effective road map in 1994 for broker dealers looking to expand their trading in overseas markets. GCN registered impressive transaction volume growth and easier access to investment centers around the globe.

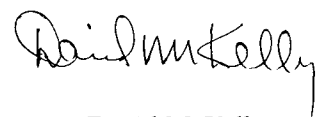
ISCC's success in building strong cross-border relationships and contributing to the development of global standards for clearance, settlement and data communication, continues to provide meaningful benefits for our participants.

Our Board of Directors plays a crucial role in partnering change through its valued guidance and support to NSCC management. The Board's contributions to NSCC's success is deeply appreciated.

In closing, we would like to thank the people at SIAC for their diligence throughout the year. We also want to recognize the efforts and uncompromising standards of quality demonstrated by our staff. Their untiring commitment and determination during this past year have set the stage for improvements that will serve the industry well into the next century.



Frank J. DeCongelio,
Chairman of the Board



David M. Kelly,
President and Chief Executive Officer

Shaping the Future

National Securities Clearing Corporation operates in one of the most dynamic industries imaginable. Our financial markets are in a constant state of growth and change. The needs of the exchanges and our customers are diverse, and likewise changing at a rapid rate to capitalize on market opportunities. And while technology innovations are streamlining and improving the speed at which transactions can be executed, telecommunication advancements are expanding global reach.

Whether the transactions involve equities, bonds, mutual funds, government securities or non-U.S. securities, NSCC and its affiliates operate at the center of these financial markets and help shape the future by providing a changing array of post-trade processing solutions that increase operating efficiency, lower costs and minimize risk.

While at one time managing risk was associated with the capacity to handle not only routine but also unpredictable spikes in trading volume, today the success of NSCC's Clearance and Settlement systems seems almost transparent. Our systems can handle a trading day in excess of 2 billion shares from across all markets or twice the volume ever experienced by NSCC.

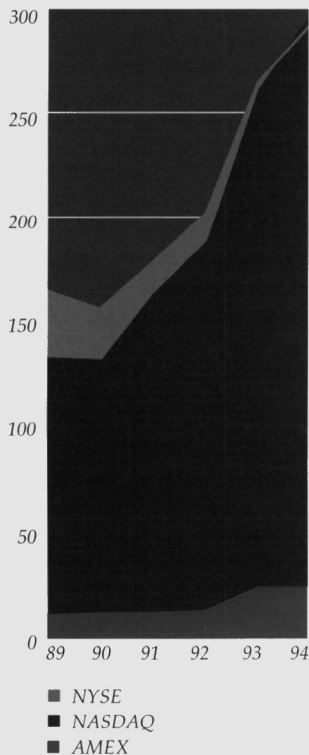
In addition, our Continuous Net Settlement (CNS) system has significantly reduced the number of positions and the movement of funds required to cover settlement. On a peak day in 1994, for example, the volume of transactions jumped 39% over the daily average, to 2.1 million transactions from 1.5 million. Through CNS, the financial obligations requiring settlement on a peak day were reduced from \$93 billion to \$5 billion.

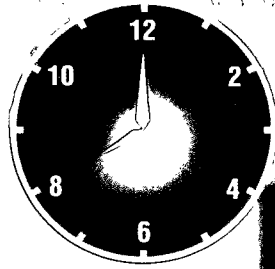
Since the late 1980s, financial markets in the U.S. and around the globe have increasingly equated market risk with the length of time required for settlement.

Once the SEC ruled last year that the settlement cycle for equities and corporate bonds should be shortened by June 1995, to three days (T+3) from the current five-day (T+5) period, NSCC took an active role to ensure a smooth transition for the industry. The Municipal Securities Rulemaking Board (MSRB) soon followed the SEC by requiring municipal bonds to also meet the T+3 deadline.

The move to T+3 required changes in over 19 major NSCC systems, and modifications to over 800 software programs. Since T+3 also represents

Average Daily Share Volume on the NYSE, AMEX & NASDAQ from 1989 - 1994 (in millions)

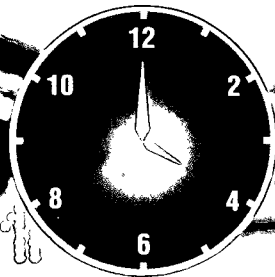




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major changes for our customers, NSCC established a T+3 Settlement Advisory Committee in 1994, representing more than 19 firms and two service bureaus, to identify and address issues affecting the transition.

Significant among the efforts was NSCC's success in winning widespread support from the stock exchanges, other clearing and depository organizations and the SEC for its recommendation to phase in the industry's conversion to T+3 over a four-day period, using two double settlement days.

This approach will provide greater flexibility and guard against trading and processing problems for member firms that could occur with an overnight conversion to T+3.

NSCC and the T+3 Advisory Committee have worked tirelessly to incrementally introduce changes, establish rigorous testing schedules and aggressively educate participants.

The introduction of changes began last September with the launch of the Consolidated Trade Summary report, which provides participants with a summary of their settlement information the day before settlement.

Other changes include accelerating NSCC's Automated Customer Account Transfer Service (ACATS) settlement cycle for transferring customer assets between brokers to conform with T+3 settlement; and plans to implement a one-day settlement capability early in 1995.

In addition to asking each firm to establish a T+3 Coordinator, NSCC has set up a parallel testing schedule in March, April and May of 1995 to allow customers to operate their systems on a T+3 processing basis for test purposes in advance of the June deadline.

NSCC's strategy has emphasized communicating information to our customers regularly through newsletters, important notices and training guides. Thirteen regional training seminars in 12 cities around the country will reach over 1,000 staff members at 250 member firms by the spring of 1995 and a special NSCC T+3 telephone hot line has been set up to address questions.

While NSCC's T+3 efforts are changing the industry's processing of equities and bonds, our affiliate, Government Securities Clearing Corporation (GSCC), is playing an equally critical role in the U.S. government securities market.

GSCC's automated comparison and netting systems not only increase operating efficiency and eliminate risk, they reduce

Thomas K. McCarthy, VP/Director of Operations (left), reviews the upcoming T+3 testing schedule with NSCC T+3 Advisory Committee members, including John D. Panchery, First VP at Robb, Peck, McCooney Clearing Corporation (center), and Fred Enriquez, First VP at Merrill Lynch (right).



► Muire Turkus, VP & Group Manager at Dean Witter Reynolds Inc. (left) discusses the benefits of new Fund/SERV, joined by other ICI Broker Dealer Advisory Committee members, Alan Halfenger, SVP at Alliance Capital (center), and Thomas J. Iandolo, Director of Broker/Dealer Operations at Lord, Abnett & Co.



the number of financial obligations requiring settlement.

A new record was set by GSCC in 1994, when the combined settlement value of transactions on March 31, reached over \$1 trillion. Of the transactions processed, GSCC's netting factor of 89% eliminated \$950 billion in settlement obligations. During 1994, GSCC compared and settled transactions valued at \$63 trillion, up 17% from the previous year.

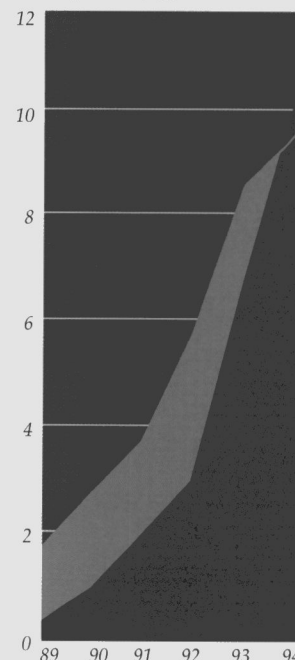
With the conversion to NSCC's new Fund/SERV system now completed, broker/dealers and fund families are better positioned to continually shape their future through a highly flexible operating platform that can be tailored to meet their current and changing requirements.

More than 223 fund families and 172 broker/dealers used Fund/SERV to process a daily average of 38,100 mutual fund transactions with a gross value in excess of \$440 million in 1994. Average daily transactions processed through Fund/SERV were up 13% last year and have more than tripled since 1990.

Designed with the support of the Investment Company Institute's (ICI) Broker Dealer Advisory Committee, new Fund/SERV provides communication enhancements that allow participants to set their own processing time frames and send their transactions in a single-batch, multi-batch or interactive environment.

These are but a few examples of NSCC working closely with its customers to more effectively partner solutions that will shape the future of our industry.

■ Transactions Processed through Fund/SERV
 ■ Growth of Customer Sub-Accounts in Networking (in millions)





INS

**Dow Jones Industrial Average
Standard & Poor's 500 Index**





Providing New Tools

Over the last three years, NSCC has completed a major reengineering effort in its approach to building technology platforms and defining new strategies to meet the information technology needs of the industry into the next century.

This reengineering effort is built around the concept of "technology preparedness." In developing information technology strategies, NSCC is looking not only to address the immediate needs of customers, but to help shape the future. NSCC achieves this goal by building new, flexible technology-based tools that enable the industry to move and respond faster and more cost-effectively to market opportunities.

The Fixed Income Transaction System (FITS), which NSCC introduced for municipal bonds in 1993, and for corporate bonds and Unit Investment Trusts (UITs) in 1994, provides one example of technology preparedness.

FITS offers enhanced automated trade comparison of fixed income securities, including moving the submission of trades to trade date from T+1, allowing customers to resolve trade discrepancies sooner and expanding functionality to improve the match process for new issues. In addition, the system offers the flexibility to process trades on a single-batch, multi-batch or interactive basis.

Although FITS was designed in 1991, long before the industry decided to move to T+3, the system can accommodate a shortened settlement cycle and is positioned to handle additional fixed income instruments as the industry moves to a same-day funds environment.

Equally important, FITS illustrates a new emphasis at NSCC to try and leverage transaction data captured in our processing systems and provide value-added information back to the industry.

FITS has emerged as a powerful information tool which is providing daily trade pricing data to the MSRB to increase disclosure in the municipal securities marketplace, and generating bond comparison statistics to regulators and member firms to measure progress toward achieving T+3.

Another example of trying to provide new information tools is an effort begun in 1994 by NSCC to develop an automated method of giving participants benchmarking

information comparing a firm's activities with the rest of the industry. Member firms have expressed interest in seeing this concept developed further. NSCC is also looking at other areas where information can be utilized to support participants.

NSCC is moving away from the premise that every system must be built on a mainframe and users must conform to proprietary messaging standards. By working closely in partnership with our customers, NSCC has benefited from a shared learning experience in building technology solutions which are easier for customers to utilize, can be modified quickly and are less costly to develop.

A critical first step in NSCC's strategy to create a mix of technology solutions was completed in 1994, with the development of a Corporate Production LAN (Local Area Network), which now serves as a platform to house and build new LAN applications.

During 1994, NSCC also introduced its first line of LAN-based applications in a time frame which would have been cost-prohibitive if attempted in a mainframe environment — for NSCC and for our customers.

These LAN applications are currently used to support the processing and information needs of NSCC's New York Window, Collateralization Management System, Autofocus, and ISCC's Global Clearing Network (GCN). And another application, NSCC's Money Settlement System, is planned for delivery in 1995.

LAN-based applications allow NSCC to capture information in a relational database and offer customers more facile capabilities to generate different management information reports required by participants.

NSCC has also committed itself to providing leadership in promoting standardized messaging protocols. With the adoption of more widely accepted messaging standards, like ISO's 7775, for NSCC's New York Window and ISCC's GCN system, NSCC has begun moving away from the more

Dominick Antonelli, Chairman at Roosevelt & Cross (standing) making a point about the information NSCC's new bond system is providing to help the municipal bond market achieve greater transparency in pricing. He is joined by other members of the FITS Advisory Committee, William Stabenow, VP & Treasurer, John Nuveen & Co. (left), John Lynch, EVP at J.F. Hartfield & Co.(center), and Ed Byrne, Director at Coven & Co.(right).



traditional approach used by many service organizations which force users to adapt to unique protocols and messaging formats. NSCC wants to reduce expenses and delays, and make it easier for participants to access services.

Technology preparedness also means that NSCC is attempting to broaden the mix of technologies and communication software capabilities so firms will have more options to match against their own internal capabilities. In telecommunications, for example, this can represent

significant savings by avoiding the need to develop separate networks, including both hardware and software.

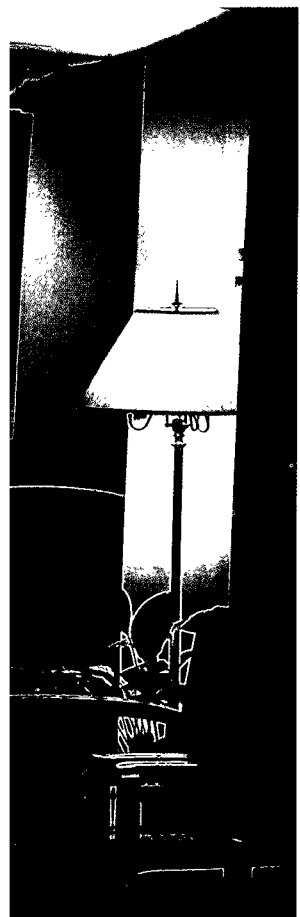
For some segments of the industry, the transmittal of data is time-critical. In response, NSCC has begun designing systems, like FITS and Fund/SERV, to accommodate real-time interactive processing. This past year NSCC completed testing on message queuing software for firms looking to take advantage of this capability.

Edward D. Jones was the first firm to begin using these interactive capabilities with Fund/SERV, followed by the Templeton Fund. Merrill Lynch is using real-time processing for transactions handled by NSCC's New York Window service.

In providing new tools, NSCC is also looking to take advantage of existing technology platforms, where possible. For example, in 1994, NSCC built a communications link with the Depository Trust Company's (DTC) Participant Terminal System (PTS). The link will permit NSCC to offer our products and services through the PTS Network.

NSCC's use of the PTS Network offers particular benefits as the industry moves toward a same-day funds environment. Rather than NSCC having to build a separate communications network for broker/dealers and clearing banks, the PTS Network can be used to convey the financial obligations of participants.

While change may be the only constant in the markets of tomorrow, NSCC continues to adapt and respond with a range of new technology tools and information capabilities.



Streamlining Operations

NSCC has long viewed standardization, greater efficiency and risk management as complementary objectives in supporting the industry. And as NSCC continues to expand beyond its core services, these objectives remain as the cornerstone of our efforts.

Whether supporting the use of common data communication messaging standards, or creating the New York Window, NSCC works closely with its customers to identify solutions that will help reduce expenses and further streamline operations.

The success of New York Window in 1994 is a good example of efforts by NSCC to support the industry's goals of eliminating redundant operations and further immobilizing physical securities through book-entry movement of non-depository-eligible certificates.

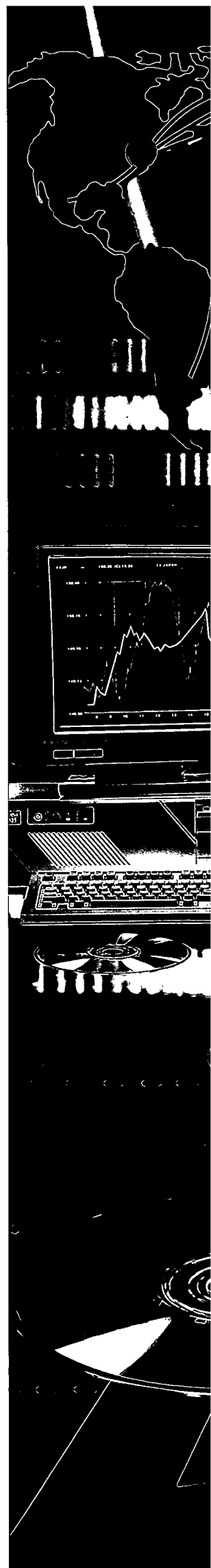
This past year, the Window processed more than 240,000 transactions worth more than \$212 billion. When comparing the first nine months of operations in 1993 with the same period in 1994, New York Window transaction volume has nearly tripled. By year-end 1994, with the addition of new client firms, the average daily settlement value of transactions processed through the Window had grown to \$3.8 billion.

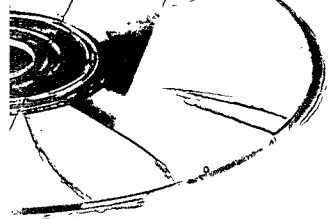
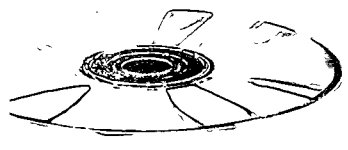
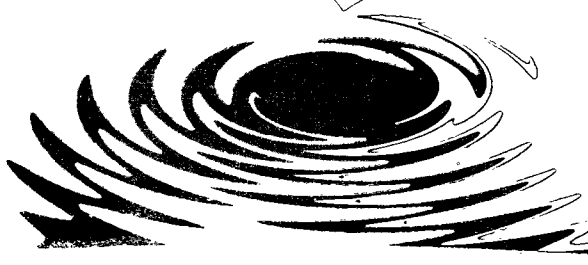
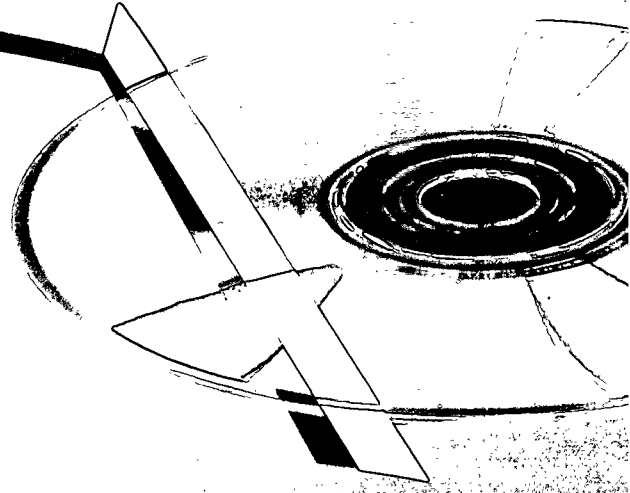
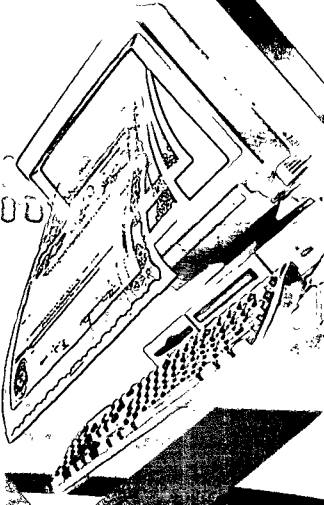
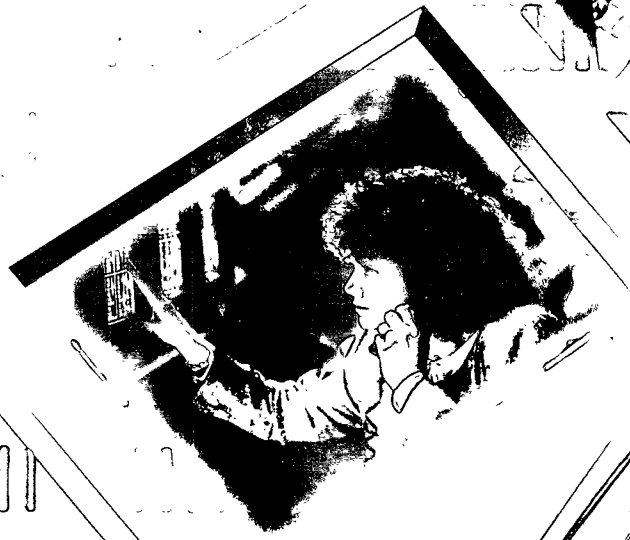
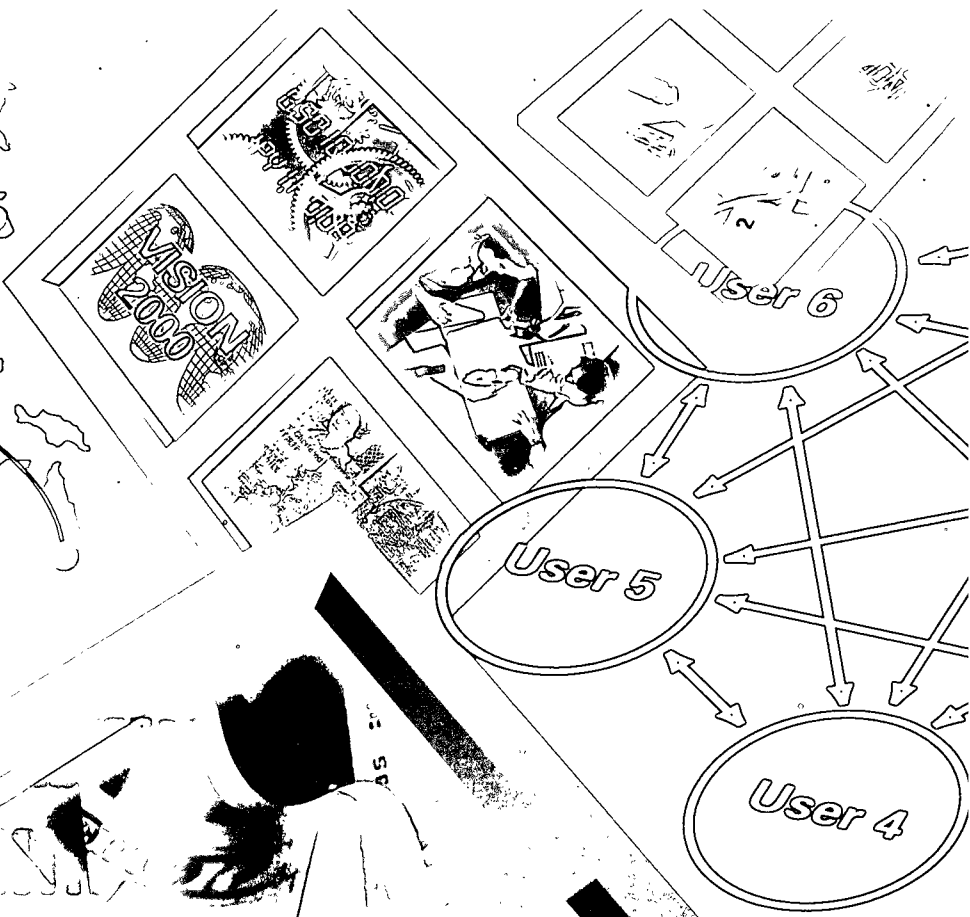
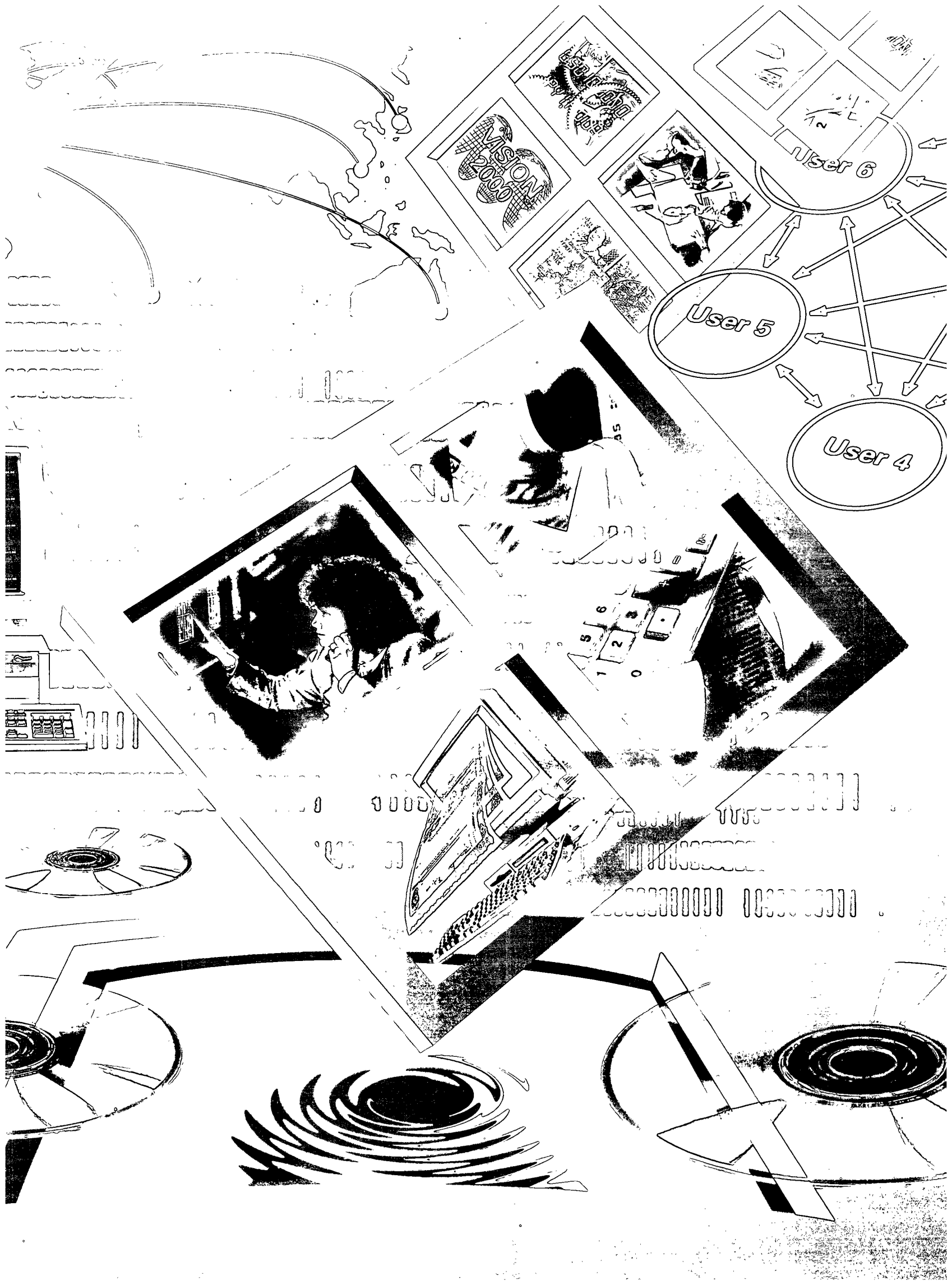
By centralizing clearance of physical securities in a single location, New York Window offers brokerage and banking institutions a clearing process that is both safer and more efficient.

And instead of each firm incurring high fixed costs, the Window provides a fee structure that charges customers only for actual services used.

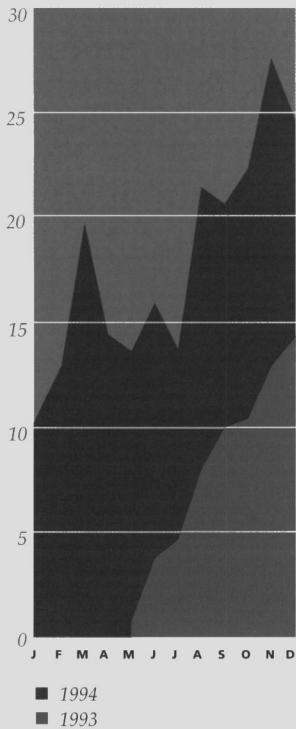
These services include receipt and delivery of securities over-the-window or through NSCC's envelope services, custodial services, physical transfers and reorganizations, underwritings, the processing of Depository Trust Company (DTC) withdrawals and deposits, end-of-day settlement and messenger services.

A new proprietary system was completed this past year to provide New York Window customers with up-to-the-minute information on the status of their physical





Monthly Volume of Transactions Processed by New York Window from 1993 - 1994 (in thousands)



transactions. The data base is highly flexible and can be tailored to the needs of each firm, including communicating information in single-batch, multi-batch or real-time processing.

With steps taken by the industry in 1994 to solve the issue known as "flipping," a second important obstacle to T+3 and the immobilization of physical certificates is being eliminated. Led by NSCC, the Securities Industry Association's (SIA) Flipping Focus Group's Design Committee provided a blueprint for creating an automated tracking system for Initial Public Offering (IPO) shares, which is now being implemented by the Depository Trust Company.

Flipping occurs when certain investors in an IPO immediately trade their shares to take advantage of market conditions. This practice of flipping can disrupt the orderly distribution of a new equity issue and could undermine the price stability of an IPO offering. Historically, IPOs have been tracked by the Lead Manager of the offering through physical

certificates to detect instances of flipping. This practice has been seen as an obstacle to book-entry movement and achieving T+3.

The automated solution to flipping was strongly endorsed by the industry and came as a result of a two-year effort involving both research and extensive dialogue with broker/dealers and agent banks.

Streamlining operations involves not only the design of new and more efficient management processes, but the use of technology to track how capital is being used to satisfy compliance with legal/regulatory requirements.

The Collateralization Management System (CMS) was developed by NSCC in 1994, to act as a central facility for displaying a participant's collateral requirements and deposits across all U.S. clearing entities in which the participant is a member.

Up to this point, firms did not have a central place that could give them an aggregate picture of their total industry-wide collateral position and the deposits made in compliance with those requirements.

Through CMS, firms will be able to determine where they are over-collateralized as well as see the underlying securities that constitute their deposits, thereby facilitating substitutions and withdrawals.

NSCC developed this LAN-based system in a record five months. Participants are also receiving software which can be loaded into a personal computer to begin using the CMS system early in 1995.



The introduction of NSCC's Collateralization Management System represents one of the key initiatives covered in the recommendations of the industry's Vision 2000 Committee Report.

The Vision 2000 Committee is made up of members of both NSCC's and The Depository Trust Company's Boards of Directors, who share with both the Clearing Corporation and the Depository an interest in promoting greater cooperation among industry service providers.

In addition to leveraging contingent liquidity, Vision 2000 recommendations include strategies for curtailing and eliminating physical certificates, consolidating data sites, and establishing standards for more efficient cross-border trade settlement.

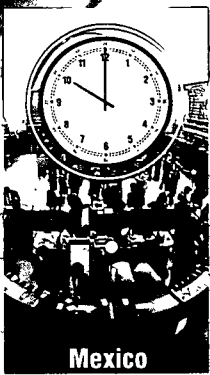
The Vision 2000 Report identifies a number of issues where coordination among industry service organizations can speed the delivery of industry reforms, and set the stage for improved long-range planning.

As our activities in 1994 demonstrate, NSCC has been — and will continue to be — a strong advocate for a growing number of issues, like cross-collateralization and a link with DTC's PTS Network, where solutions for the industry cut across lines of organizational responsibility.

NSCC's emphasis on shared solutions is not a departure from its mission, but indeed a natural progression of our efforts to support standardization, reduce risk, provide greater efficiency and lower costs for all industry participants.



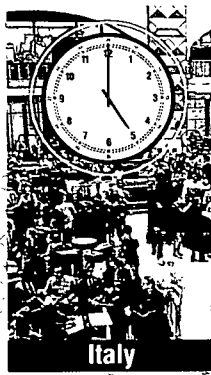
◀ Customers are playing an active role in the development of New York Window services. Shown here meeting on the Window's new proprietary system are Bear Stearns Managing Director Joseph T. Kruszka (left), Philip L. Williams, Corporate VP at PaineWebber, and Al Howell, VP at Merrill Lynch.



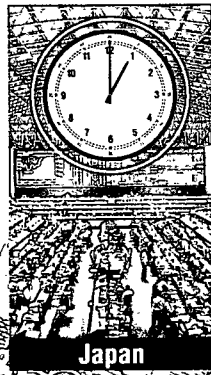
Mexico



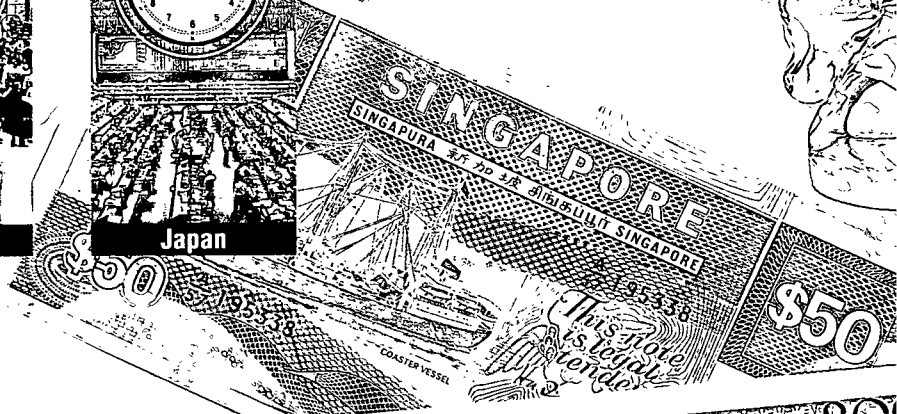
Argentina



Italy



Japan



International Securities Clearing Corporation Establishes New Clearing Relationships in South Africa and Australia; Paves Way for Foreign Membership

NEW YORK, NEW YORK, December 1, 1994 — The International Securities Clearing Corporation (ISCC) announced today that it has established three major new initiatives for clearance, settlement and custody on a global basis. They include relationships with the Standard Bank of South Africa and Westpac Bank of Australia, the two largest financial institutions in Africa and Westpac.

Brokers to access to I.F.T.

The International Securities Clearing Corp. will offer brokers access to a range of custody services this year by linking with the Belgium-based I.F.T. and automated systems, according to ISCC's Global Services Group. The decision to link with I.F.T. is a prompt response to the growing importance of I.F.T. as a global bank. Mary Ann Callahan, President and Director of International Development at ISCC, said the service was launched August 1, with ISCC facilitating a multi-million dollar overseas listing of a new U.S. issue.

ISCC Provides IPO Service to JSCC via New York Window

ISCC has added physical processing of initial public offerings (IPOs) to its custody and booking delivery services to Japan Securities Clearing Corporation (JSCC), according to Mary Ann Callahan, Vice President/Director of International Development at ISCC. The service was launched August 1, with ISCC facilitating a multi-million dollar overseas listing of a new U.S. issue.

ISCC, CVSA Agree to Establish a Custody Link

ISCC has formalized an agreement with Caja de Valores, SA (CVSA), Argentina's central securities depository, to establish a U.S. custody link. Under the agreement, ISCC will provide custody services for U.S. issues of securities to CVSA. The agreement is a key step in ISCC's mission of providing clearing and custody services to global investors. With the CVSA agreement, ISCC now has links to Japan Securities Clearing Corporation (JSCC), Monte Titto Depository and Cede, Inc. ISCC has targeted four countries for GCN expansion: Argentina, Brazil, India and Mexico.

ISCC Targets Countries for GCN Expansion

"These initiatives to expand into new markets such as South Africa, Argentina and Australia, worldwide participation," said Richard J. O'Connell, Chairman and Chief Executive Officer of ISCC. "ISCC is a National Securities Clearing Corporation. Through its multi-currency clearing services, ISCC provides a secure and efficient clearing and settlement link for U.S. issuers and investors. The New York Window operation has made it possible to efficiently expand the JSCC/ISCC link for U.S. IPOs, which typically are not immediately eligible for DTC." "We hope to continue to expand our global clearing and settlement services through the JSCC/ISCC link."

Expanding Global Reach

While events in foreign markets resulted in a slowdown in overseas activity during 1994, continued expansion in global trading is nevertheless inevitable as broker/dealers seek new growth opportunities and diversification for investors in capital markets around the world.

The International Securities Clearing Corporation (ISCC) facilitates this growth in partnership with 35 member firms by minimizing the complex risks and costs associated with international settlement and custody.

Despite market trends, ISCC's flagship service, the Global Clearing Network (GCN), has grown dramatically in 1994, and now operates in 24 countries. Transaction volume has nearly doubled to 389,000 transactions compared with 217,000 in 1993.

GCN offers broker/dealers a standardized platform for communicating instructions through a central point and reporting on clearance, settlement and custody. GCN improves timely position reporting and lowers costs based on the collective transaction volume in a particular country.

The establishment of important new clearing relationships with the Standard Bank of South Africa, which has affiliate relationships in 10 African countries, and Westpac

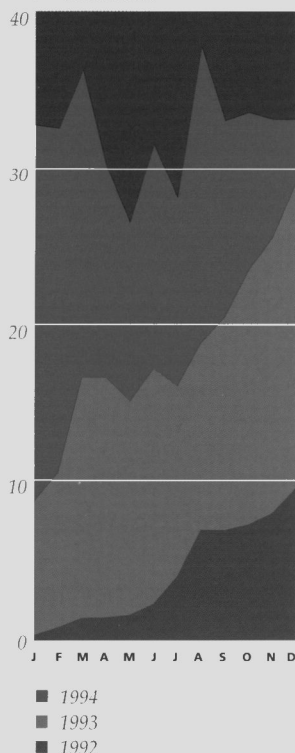
Banking Corp., a leading Australian bank, were significant accomplishments for GCN in 1994. These two agreements open up attractive investment centers and expand GCN's banking network, complementing the relationship with its primary business partner, Citibank.

The ISCC Board of Directors also acted to open GCN membership to non-U.S. broker/dealers in 1994, paving the way for the signing of its first foreign member, Nomura Grand Cayman, Ltd.

ISCC anticipates that the number of overseas participants will grow as these firms look to benefit from the lower costs and added efficiency offered by GCN. To support expanded use of GCN by both U.S. and non-U.S. broker/dealers, ISCC during 1994 established a link to the SWIFT Network and adopted ISO messaging standards which are used globally for data communication.

New synergies also became evident this past year, when Japan Securities Clearing Corporation (JSCC) sought ISCC's help in distributing an IPO in the U.S. for the Japanese tranche of Morgan Stanley Asia Pacific

**Global Clearing Network
Growth of Monthly
Transactions from 1992 - 1994
(in thousands)**



Fund. ISCC was able to call upon the New York Window, an NSCC business that provides physical processing and custody services, to facilitate this multi-million dollar IPO until the issue became depository-eligible.

Based on the success of this effort, ISCC expects that other foreign depositories may look to use the New York Window for similar IPO distributions.

ISCC has also begun exploring, at the request of the International Operations Association (IOA), a direct link with the Mexican clearing and depository facility INDEVAL, for those broker/dealers that have also applied for membership in the Mexican stock exchange. For those firms that are not members of the exchange, ISCC will continue providing access to the market through its GCN service.

Other links supported by ISCC include direct access to the settlement services of the London Stock Exchange, Cedel and Euroclear, as well as links with Japan Securities Clearing Corporation, the Canadian Depository for Securities Ltd., the Central Depository in Singapore, Monte Titoli in Italy and the Caja de Valores, S.A., in Argentina.

This past year, ISCC began sponsoring seminars to help U.S. broker/dealers active in particular foreign markets to better understand how they can enhance their trade clearance processing and settlement efficiency. This effort offers the benefits of ISCC expertise, gained from working closely with peer organizations in other countries and hosting representatives from foreign exchanges, clearing agencies and depositories over the past 10 years.

During 1994, ISCC hosted visitors from 20 countries. ISCC continues to be well-positioned to share insights and keep its own participants updated on international trends.



◀
Gerald Mazzari, EVP at Smith New Court Inc. (center), talks about the challenges of international clearance and settlement, along with another member of ISCC's GCN Steering Committee, Matt Conroy, Director of Equity Operations at Nomura Securities International, Inc.

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 1994, 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, banks and mutual funds, 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, netting and settlement services for next-day and forward-settling transactions in Treasury Bills, Bonds, Notes, zero coupon securities and non-mortgage-backed Agency securities. Twelve members of the Board of Directors are participant Shareholder Directors elected to represent dealers, brokers and clearing agent banks. Additional members include two NSCC Designated Directors and the President of GSCC.

NSCC and ISCC Board of Directors

from left to right

Melvin B. Taub
Senior Executive Vice President
Smith Barney Inc.

Frank J. DeCongelio
Chairman of the Board, NSCC
Managing Director
C.S. First Boston Corporation

Robert F. Gartland
Managing Director
Morgan Stanley & Co. Incorporated

Alfred J. Golden
Executive Vice President
Director of Operations
Dean Witter Reynolds Inc.

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

David M. Kelly
President and CEO
National Securities Clearing
Corporation

Richard W. O'Donnell
Chief Financial and
Administrative Officer
Kidder, Peabody & Co. Inc.

Thomas J. Perna
Executive Vice President
The Bank of New York



from left to right

James C. Stone, III
Executive Vice President
& Treasurer
J.J.B. Hilliard, W.L. Lyons, Inc.

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

Arthur L. Thomas
Senior Vice President, Director
of Global Operations Services
Merrill Lynch, Pierce, Fenner &
Smith, Incorporated

Dennis W. Zank
Executive Vice President,
Operations & Administration
Raymond James & Associates, Inc.

J. Philip Smith
President
Levoco Securities Corporation

Douglas J. Engmann
President
Sage Clearing Limited
Partnership

John Cirrito
Executive Vice President
Gruntal & Co., Incorporated

George C. McNamee
Chairman
First Albany Corporation

Robert F. Lucey (not pictured)
Senior Managing Director
Putnam Mutual Funds Corp.

GSCC Board of Directors

from left to right

James P. Mahoney
Principal
Morgan Stanley & Co. Incorporated

Richard M. Kijewski
Senior Vice President
Fuji Securities Inc.

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

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

Edward F. Watts, Jr.
Director
Goldman, Sachs & Co.

Charles A. Moran
President
Government Securities Clearing
Corporation

Stephen R. Tilton
President
Garban Ltd.



from left to right

Daniel O. Minerva
Managing Director
Eastbridge Capital Inc.

David M. Kelly
President and CEO
National Securities Clearing
Corporation

Edward Almeida
Senior Managing Director
Bear Stearns & Co., Inc.

Kenneth J. Halpin
Managing Director and Treasurer
Discount Corporation,
a Division of Zions First National Bank

Kurt D. Woetzel
Senior Vice President
The Bank of New York

Thomas M. Wendel
President
Liberty Brokerage Inc.

Jeremiah F. O'Leary *(not pictured)*
Senior Vice President
Chemical Bank

Consolidated Balance Sheets

National Securities Clearing Corporation

December 31,	1994	1993
Assets		(in thousands)
Cash and cash equivalents	\$385,453	\$329,402
U.S. Treasury securities	100,339	110,705
Accounts receivable	5,794	1,003
Settlement accounts receivable	407	6,734
Clearing fund	314,480	320,566
Fixed assets, less accumulated depreciation of \$5,635,000 and \$4,338,000 at December 31, 1994 and 1993, respectively	4,552	3,911
Deposits and other assets	3,741	2,672
Total assets	\$814,766	\$774,993
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable	\$ 2,860	\$ 4,590
Settlement accounts payable	248,632	198,102
Clearing fund:		
Participants' cash deposits	217,177	223,680
Other participant deposits	314,480	320,566
Other liabilities	8,617	6,855
Total liabilities	791,766	753,793
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	22,100	20,300
Total shareholders' equity	23,000	21,200
Total liabilities and shareholders' equity	\$814,766	\$774,993

The accompanying notes are an integral part of this statement.

Consolidated Statements of Income and Retained Earnings

National Securities Clearing Corporation

<i>For the Year Ended December 31,</i>	1994	1993
<div style="display: flex; justify-content: space-between;"> Revenues: (in thousands) </div>		
Revenue from services	\$133,193	\$131,941
Discounts to participants	44,781	47,479
Net revenue from services	88,412	84,462
Interest income	5,916	2,988
Total revenues	94,328	87,450
<div style="display: flex; justify-content: space-between;"> Expenses: </div>		
Securities Industry Automation Corporation processing expenses	48,055	44,977
The Depository Trust Company fees	12,265	13,550
General and administrative	31,208	27,023
Total expenses	91,528	85,550
Income before income taxes	2,800	1,900
Provision for income taxes	1,000	700
Net income	1,800	1,200
Retained earnings, beginning of year	20,300	19,100
Retained earnings, end of year	\$ 22,100	\$ 20,300

The accompanying notes are an integral part of this statement.

Consolidated Statements of Cash Flows

National Securities Clearing Corporation

<i>For the Year Ended December 31,</i>	1994	1993
Cash flows from operating activities:		(in thousands)
Net income	\$ 1,800	\$ 1,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,297	946
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(4,791)	7,712
Decrease (increase) in settlement accounts receivable	6,327	(3,083)
Increase in other assets	(1,069)	(170)
Decrease in accounts payable	(1,730)	(4,478)
Increase in settlement accounts payable	50,530	116,370
(Decrease) increase in clearing fund participants' cash deposits	(6,503)	37,291
Increase in other liabilities	1,762	1,017
Net cash provided by operating activities	47,623	156,805
Cash flows from investing activities:		
Decrease (increase) in U.S. Treasury securities	10,366	(25,730)
Purchases of fixed assets	(1,938)	(1,906)
Net cash provided by (used in) investing activities	8,428	(27,636)
Net increase in cash and cash equivalents	56,051	129,169
Cash and cash equivalents, beginning of year	329,402	200,233
Cash and cash equivalents, end of year	\$385,453	\$329,402
Supplementary disclosure:		
Income taxes paid	\$ 2,183	\$ 1,718

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

National Securities Clearing Corporation

1

Organization and Operations:

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, recording, 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.

2

Summary of Significant Accounting Policies:

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% or \$1,945,000 at December 31, 1994 and is included in deposits and other assets on the consolidated balance sheet. During 1994, NSCC acquired an approximately 10% interest in MBS Clearing Corporation (MBSCC) for \$432,000. This investment, which is carried at cost, is also included in deposits and other assets.

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

which approximates 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 and totaled \$330,000,000 and \$294,000,000 at December 31, 1994 and 1993, respectively. At December 31, 1994, the counterparties to these agreements were five financial institutions.

Overnight investments in the commercial paper of a major U.S. bank holding company totaling \$19,411,000 and \$3,955,000 are also included in cash equivalents at December 31, 1994 and 1993, respectively.

U.S. Treasury securities: U.S. Treasury securities are considered to be held-to-maturity securities under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are recorded at amortized cost. The contractual maturities, carrying value and market value of these securities at December 31, 1994 and December 31, 1993 are as follows:

	1994		1993	
	Carrying Value	Market Value	Carrying Value	Market Value
Due in one year or less	\$ 98,818,000	\$ 98,462,000	\$109,163,000	\$109,171,000
Due in one through four years	1,521,000	1,457,000	1,542,000	1,554,000
	\$100,339,000	\$ 99,919,000	\$110,705,000	\$110,725,000

At December 31, 1994 and 1993, \$64,081,000 and \$74,892,000, respectively, of such securities were held in an account for the exclusive benefit of participants to facilitate participants' compliance with customer protection 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: The provision for income taxes was calculated in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are provided for the expected future tax consequences of tem-

porary differences between the carrying amount and tax basis of assets and liabilities.

Reclassifications: Certain reclassifications of 1993 amounts have been made in the accompanying financial statements to conform to the 1994 presentations.

3

Participants' Clearing Fund Deposits:

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, 1994 and 1993 follows:

	1994	1993
Cash	\$217,177,000	\$223,680,000
Securities issued or guaranteed by the U.S. Government, at market	223,034,000	188,503,000
Letters of credit issued by authorized banks	240,831,000	207,274,000

During 1994, NSCC had a \$300,000,000 line of credit agreement with a major U.S. bank to provide for potential additional liquidity needs. This line was not used.

4

Transactions with Related Parties:

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, 1994 and 1993 were \$2,079,000 and \$1,333,000, respectively.

DTC: NYSE, Amex and NASD own minority interests in The Depository Trust Company (DTC), whose facilities are used by NSCC. DTC fees in 1994 and 1993 included \$6,980,000 and \$8,051,000, 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 services. Amounts payable to DTC at December 31, 1994 and 1993 were \$642,000 and \$554,000, respectively.

NYSE, Amex and NASD: NSCC collects certain regulatory fees on behalf of NYSE, Amex and NASD. At December 31, 1994 and 1993, no amounts were due the NYSE, Amex or 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 continues in effect unless cancelled by either party upon prior written notice. Charges under this agreement amounted to \$4,832,000 in 1994 and \$4,497,000 in 1993. NSCC's expenses are presented net of these charges. At December 31, 1994 and 1993, receivables from GSCC amounted to \$239,000 and \$384,000, respectively.

MBSCC: During 1994, NSCC made certain payments on behalf of MBSCC. At December 31, 1994, receivables from MBSCC amounted to \$71,000.

5

Income Taxes:

NSCC and ISCC file consolidated Federal, combined New York State and combined New York City income tax returns. The differences between NSCC's 36% and 37% effective tax rate for the years ended December 31, 1994 and 1993 respectively, and the 34% Federal statutory tax rate are primarily attributable to state and local taxes.

The provisions for income taxes for the years ended December 31, 1994 and 1993 consist of the following:

	1994	1993
Current income taxes	\$ 1,425,000	\$ 1,095,000
Deferred income taxes	(425,000)	(395,000)
Total income taxes	\$ 1,000,000	\$ 700,000

Notes to Consolidated Financial Statements

(CONTINUED)

National Securities Clearing Corporation

6

Pension Plan:

NSCC has a trustee 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. In 1994, NSCC established a noncontributory benefit restoration plan (BRP) which restores to identified executives certain retirement income benefits which have been limited by recent changes in income tax regulations. The BRP is not funded. Aggregate pension costs for 1994 and 1993 for these plans follow:

	1994	1993
Service cost	\$ 929,748	\$ 944,806
Interest cost	608,150	557,874
Actual return on plan assets	89,310	(408,832)
Net amortization and deferral	(521,149)	(40,241)
Settlement charge	—	226,551
Total pension cost	\$1,106,059	\$1,280,158

In 1993, NSCC settled certain obligations under the SERP incurring a charge of \$226,551.

The funded status of the plans at December 31, 1994 and 1993 follows:

	1994	1993
Actuarial present value of benefit obligations:		
Vested benefit obligations	(\$4,629,985)	(\$4,159,668)
Nonvested benefit obligations	(783,948)	(661,239)
Accumulated benefit obligations	(5,413,933)	(4,820,907)
Effect of salary projections	(3,166,610)	(3,284,844)
Projected benefit obligations	(8,580,543)	(8,105,751)
Fair value of plan assets	6,485,301	6,045,266
Plan assets less than projected benefit obligations	(2,095,242)	(2,060,485)
Unrecognized net (gain) loss	(42,550)	190,380
Unrecognized prior service cost	(292,601)	(78,060)
Unrecognized transitional liability	220,923	252,483
Accrued pension cost	(\$2,209,470)	(\$1,695,682)

The expected rate of return on plan assets was 8% in 1994 and 1993. The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of accumulated benefit obligations were 8.25% and 6%, respectively, in 1994 and 7.75% and 6%, respectively, in 1993.

Commitments and Contingent Liabilities:

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 redeliver 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, 1994, open positions due NSCC approximated \$872,745,000 (\$856,807,000 at December 31, 1993), and open positions due by NSCC to participants approximated \$562,580,000 (\$575,438,000 at December 31, 1993) for unsettled positions and \$310,165,000 (\$281,369,000 at December 31, 1993) 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 guaran-

teed 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, 1994, the aggregate contingent commitment of NSCC totals approximately \$30,000,000.

Net rental expense amounted to \$3,024,000 and \$3,142,000, in 1994 and 1993, respectively. At December 31, 1994, future minimal rental payments under all non-cancelable operating leases follows:

Year	Amount
1995	\$ 2,863,000
1996	2,853,000
1997 (year of expiration)	976,000
Total minimum annual rental payments	\$ 6,692,000

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

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 acceptable 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 receive and deliver obligations and apply the defaulting participant's clearing fund deposit received to satisfy any net outstanding obligation and/or loss.

NSCC has entered into a netting contract and limited cross-guaranty agreement with DTC under which DTC has agreed to make payment to NSCC for any remaining

unsatisfied obligations of the defaulting participant to the extent that DTC has excess resources belonging to the defaulting participant.

In the event that a deficiency still exists after the application of the DTC payment, 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. As described above, such risk is mitigated in a number of ways.

Report of Independent Accountants

National Securities Clearing Corporation

Price Waterhouse LLP 

February 10, 1995

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, 1994 and 1993, 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 LLP

New York, New York

Management's Report on Responsibility for Financial Reporting

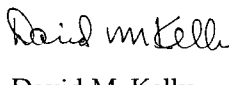
National Securities Clearing Corporation

February 10, 1995


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

National Securities Clearing Corporation (NSCC) maintains a system of internal control over financial reporting which is designed to provide reasonable assurance regarding the preparation of reliable published financial statements. The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective internal control system, no matter how well designed, has inherent limitations - including the possibility of the circumvention or overriding of controls - and therefore can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control system effectiveness may vary over time.

NSCC's management assessed its internal control over financial reporting as of December 31, 1994, in relation to criteria for effective internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, NSCC believes that, as of December 31, 1994, its system of internal control over financial reporting met those criteria.



David M. Kelly
President and Chief Executive Officer



Marvin B. Koehler
Senior Vice President and Treasurer

Report of Independent Accountants on Internal Control Over Financial Reporting

National Securities Clearing Corporation

Price Waterhouse LLP 

February 10, 1995

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

We have examined management's assertion that, as of December 31, 1994, National Securities Clearing Corporation's (NSCC's) internal control over financial reporting met the criteria for effective control described in "Internal Control-Integrated Framework." Management's assertion is included in the accompanying Management's Report on Responsibility For Financial Reporting.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that, as of December 31, 1994, NSCC's system of internal control over financial reporting met the criteria for effective internal control established by the Committee of Sponsoring Organizations of the Treadway Commission is fairly stated, in all material respects, based upon criteria established in "Internal Control-Integrated Framework."

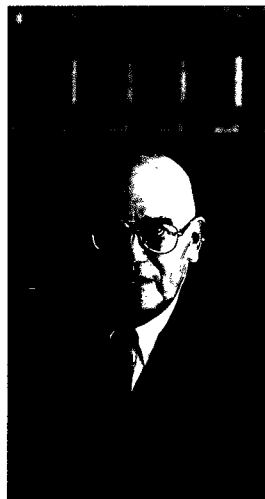
Price Waterhouse LLP

New York, New York

NSCC, ISCC and GSCC Senior Executives



Mary Ann Callahan
*Senior Vice President,
International Securities Clearing
Corporation*



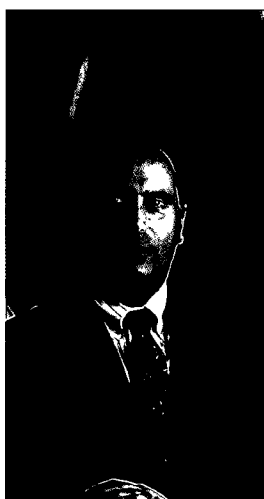
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Glossary of Products and Services

Core Services

▶ Automated Customer Account Transfer Service (ACATS)

ACATS automates and standardizes procedures for the transfer of assets in a customer account from one brokerage firm to another. The service facilitates the accurate and timely transfer of a customer's account, with a range of operational advantages.

▶ Archival Microfiche Service

Archival Microfiche provides, on a daily basis, records of processing activity on microfiche to NSCC participants that use ACATS, CNS, and non-CNS settlement and equity/fixed income trade comparison services. Information management advantages include economical storage and easy access.

▶ Commission Billing for Listed Equities

Commission Billing for Listed Equities provides an automated facility for the debiting and crediting of commissions for participants. Firms can submit automated commission bill debit lists to NSCC, increasing efficiency and streamlining processing. The service saves time and effort since exchanging individual checks is eliminated.

▶ Continuous Net Settlement (CNS) System

CNS is an automated book-entry accounting system that centralizes the settlement of compared security transactions and maintains an orderly flow of security and money balances. Regardless of volume, CNS nets on a daily basis participants' security obligations to one net buy or sell position in each issue, minimizing security movements and associated costs. Through CNS, NSCC becomes the contra-party to each compared trade and guarantees settlement for eligible transactions as of midnight of the day after the trade is reported to the member as compared.

▶ Correspondent Clearing Service

Correspondent Clearing processes equity and corporate bond transactions executed by NSCC members on behalf of other participants (Correspondents). The service transfers settlement obligations to Correspondents, eliminating the need for redeliveries and decreasing the number of possible errors in accounting and settlement.

▶ Fixed Income Transaction System (FITS)

FITS provides efficient and standardized processing of municipal and corporate bonds and UITs, by allowing the submission of trades on trade date. This enables timely trade comparisons and early resolution of discrepancies by participants, and also reduces risk.

▶ The Fully-Paid-For Account

The Fully-Paid-For Account is a sub-account within CNS that assists participants in maintaining compliance with possession and control requirements pursuant to Rule 15c3-3 of the Securities Exchange

Act. The sub-account allows participants to complete settlement obligations based on anticipated same-issue allocations from CNS.

▶ ID/CNS Interface For Prime Broker Business

The ID/CNS Interface for Prime Broker Business is a settlement option that streamlines the processing of Prime Broker trades. The interface connects NSCC's CNS System to DTC's ID System. Prime Broker transactions that are affirmed in ID and settle at DTC can net in CNS, simplifying trade processing and reducing risk.

▶ PC Platform

PC Platform is a PC data-entry and communications software package that allows users to directly access NSCC's CNS, FITS, Commission Billing, ACATS, Correspondent Clearing, DC Cage and RECAPS services. Through PC Platform's communications link, users can send transaction data and receive activity reports from NSCC for these services.

▶ Reconfirmation and Repricing Service (RECAPS)

RECAPS reconfirms and reprices participants' aged equity, municipal bond and zero coupon security transactions that have failed previously to settle in NSCC's clearance and settlement system or by other means. The service minimizes the number of eligible aged fails by netting all open fails and by assigning new settlement dates for delivery.

▶ Stock Borrow Program

The Stock Borrow Program allows participants to lend NSCC available stocks and corporate bonds from their DTC account to cover temporary shortfalls in NSCC's CNS System. The program enables participants to earn interest on the full current market value of their excess DTC positions borrowed by NSCC, while lending securities in the safety of a controlled environment.

Physical Processing Services

▶ Dividend Settlement Service (DSS)

DSS is a centralized claims-processing system that manages the collection of dividends and interest owed to participants by other financial institutions. DSS enables users to claim funds due them by charging other DSS participants through NSCC's clearance and settlement system, facilitating timely, safe and economical settlement.

▶ Envelope Settlement Service (ESS)/Intercity Envelope Settlement Service (IESS)

ESS standardizes and controls participant-to-participant physical delivery of securities in New York City and Jersey City; and IESS, between New York City and NSCC branch cities. Both services centralize the physical delivery process, offering industry-wide efficiencies.

► **Funds Only Settlement Service (FOSS)**

FOSS centralizes the routing of envelopes that contain money-only charges to full-service participants located in New York City and Jersey City, providing a standard vehicle for processing these charges, resulting in a more efficient industry process.

► **Money Settlement**

Money Settlement allows participants that use NSCC's trade clearance and settlement services to net all obligations into a single debit or credit position, which they pay to or receive from NSCC on T+5 (trade date plus five business days). In June 1995, this settlement cycle moves to T+3. The service reduces the costs and labor associated with settling transactions individually, and simplifies payment processing.

► **National Transfer Service (NTS)**

NTS facilitates the physical delivery of securities to transfer agents, for the transfer and subsequent re-registration of securities that are not eligible at DTC. NTS handles items that result from the trading cycle, book-closing items, legal transfers and accommodation transfers, in a manner that is efficient, economical and quick — in most cases overnight.

► **New York Window**

New York Window is a platform of NSCC services that supports the clearance and custody of physical securities for brokerage and banking institutions. Services include receipt and delivery of securities over-the-window or through NSCC's envelope services, movement of securities for reorganizations and transfers, distribution of underwritings, and custodial services for all physical securities. The Window also offers participants variable operating costs.

Mutual Funds Services

► **ACATS-Fund/SERV Interface**

The ACATS-Fund/SERV Interface links ACATS and Fund/SERV, allowing mutual funds to electronically update their account registrations when a customer account is transferred from one broker to another. For the broker, this facilitates faster and more accurate transfers of customer mutual fund positions, and automates the transfer and re-registration of Fund/SERV-eligible mutual funds in a controlled, book-entry environment.

► **Commission Settlement and Global Update Service**

The Commission Settlement and Global Update Service automates the exchange of mutual fund commission-related information between financial services organizations and funds, and centralizes commission payments into NSCC's settlement system. The service also allows firms to provide mutual funds with global update information that affects numerous accounts.

► **Fund/SERV**

Fund/SERV automates and standardizes the processing of mutual fund purchase and redemption orders, settlement, and account registration. The

system reduces the time and cost of processing transactions, increases efficiency, and simplifies the settlement process by calculating a net money settlement figure for participants each day.

► **Networking**

Networking is an automated recordkeeping system that allows non-trade-related client information to appear identically on the records of a brokerage firm and the fund or its transfer agent. Through Networking, firms and funds can exchange timely, accurate information about their customers, in a controlled environment.

► **Underwritings & Tender Offers Through Fund/SERV**

The Underwritings & Tender Offers feature of NSCC's Fund/SERV System automates the process by which investment companies offer new funds in the form of an initial public offering (IPO) or underwriting. The service also streamlines the tender offer process by which mutual funds redeem shares within a specified redemption period. Underwritings & Tender Offers can save users time and money by centralizing the processing of high-volume transactions.

International Services

► **Canadian Depository for Securities (CDS) Link**

The CDS Link provides book-entry clearance and settlement, including custodial and institutional settlement services, to Canadian participants that trade equities and corporate bonds with U.S. participants.

► **Foreign Securities Comparison and Netting (FSCN) System**

FSCN automates the comparison and netting of non-U.S. equity transactions executed by NSCC members. FSCN allows non-U.S. equity transactions to be processed in NSCC's OTC Comparison System, which uses a common price to net and settle compared trades on a participant-to-participant basis.

► **Global Clearing Network (GCN)**

ISCC's flagship service, GCN, clears and settles cross-border trades through a central point. The service enables global investors to settle trades in international markets, to issue instructions and receive reports in a consistent format, and to lower transaction costs based on the collective volume of the network participants.

► **Global Compass**

Global Compass is a PC data-entry and communications software package that features a standard, menu-driven format to facilitate user input and access to overseas markets and clearance and settlement services.

► **ISCC'S London Link for U.K. Securities**

ISCC's London Link is a high-speed outbound data communications link and sponsorship agreement between ISCC and the London Stock Exchange (LSE). The link allows U.S. broker/dealers to compare and settle transactions in U.K. equities with LSE members and other ISCC members. The link also allows U.S. firms that participate to access the LSE's comparison, settlement and redelivery services.

NSCC, ISCC and GSCC Officers

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Vice President, Planning

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Vice President, Planning

Joseph C. Trentacoste
*Vice President,
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President and CEO*

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*Executive Vice President
and Chief Operating Officer*

Marvin B. Koehler
*Chief Financial Officer
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First Vice President

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Vice President

Macrina De Gregorio
Vice President

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Marvin B. Koehler
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