



**Stepping up**

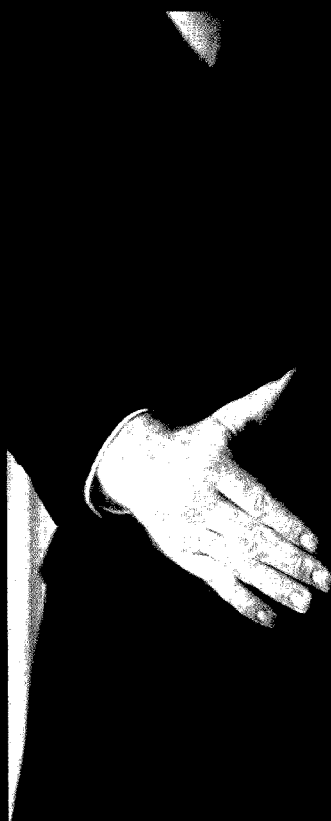
**10**

years of

**Making a difference**

**GOVERNMENT SECURITIES CLEARING CORPORATION**

**Reaching out**



**Government Securities Clearing Corporation (GSCC) clears and settles a broad range of U.S. Government securities transactions for brokers, dealers, banks and other financial institutions involved in this dynamic marketplace. These transactions include buy/sell and repurchase agreement transactions in, and original auction purchases of, Treasury bills, bonds, notes, zero-coupon securities, Government Agency Securities and inflation-indexed securities. By providing highly sophisticated, fail-safe automated trade comparison, netting and settlement processing services, GSCC ensures the timely, accurate and cost-efficient completion of transactions for more than 100 member firms and the more than 400 correspondent firms that clear through these members. GSCC's risk-management process provides stability to the marketplace and our participants by minimizing the risks arising from the process of clearing and settling Government securities. Established by National Securities Clearing Corporation (NSCC), GSCC is a clearing agency registered with, and regulated by, the Securities and Exchange Commission. Owned primarily by its members, GSCC is guided by a Board of Directors that reflects the organization's membership; it includes representatives from the large community of dealers, brokers and other financial entities that trade in or clear U.S. Government securities.**

**OUR PEOPLE**



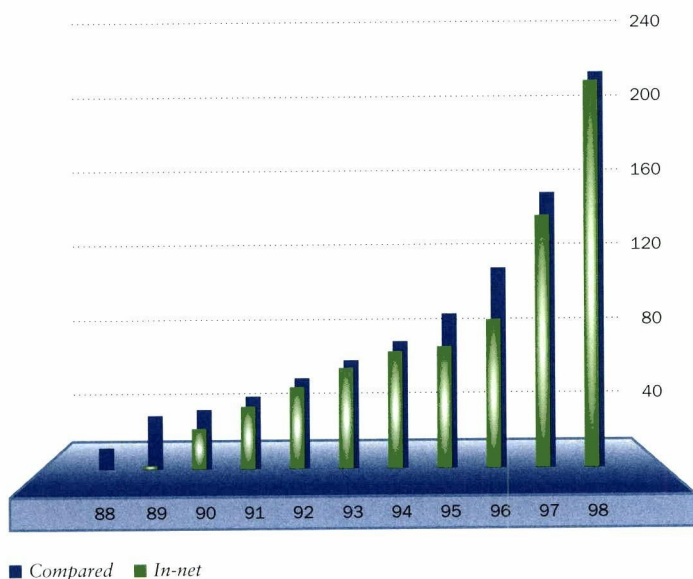
**Adds Stability** Even in times of high volatility and uncertainty, GSCC brings stability to the settlement process by guaranteeing settlement of all compared and netting-eligible trades. Our record of 10 years without a systems outage is testament to our reliability.

**Ensures Capacity** Our system capacity for daily transactions *far* exceeds the number of transactions processed each day to ensure we can respond not only to the growing number of daily transactions but also to spikes in volume that characterize volatile periods.

# AT A GLANCE

## TOTAL DOLLAR VALUE OF TRADES COMPARED AND NETTED

(dollars in trillions)

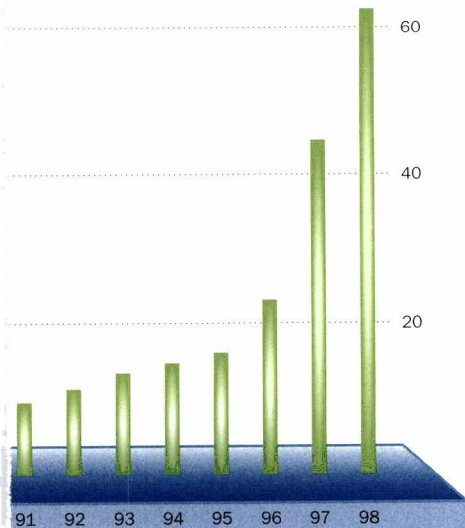
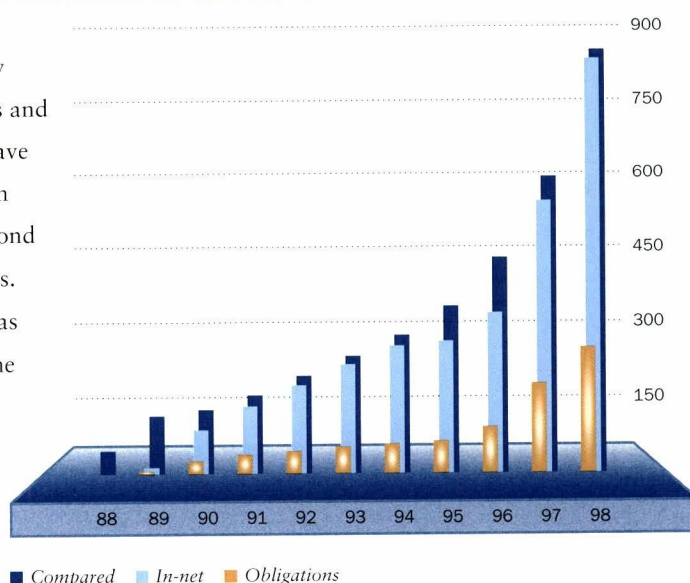


GSCC's total dollar value of trades (\$213.5 trillion compared and \$208.9 trillion netted in 1998) has grown even more significantly than the number of transactions in the last 10 years, underscoring GSCC's role in bringing certainty and risk management to the marketplace.

## AVERAGE DAILY DOLLAR VALUE OF TRADES AND OBLIGATIONS

(dollars in billions)

GSCC's average daily dollar value of trades and obligations, which have grown significantly in recent years, correspond to marketplace trends. Increasingly, what was once peak volume one year has become the average volume in a subsequent year.



## TO OUR PARTICIPANTS

For 10 years, you have entrusted the Government Securities Clearing Corporation (GSCC) with your post-trade processing of trillions of dollars annually in Government securities and financing transactions. And we have kept that trust.

We take very seriously our role to make a critical difference to participants by meeting your requirements for order, stability, capacity and guaranteed settlement in your business transactions — no matter how volatile the marketplace may get.

In 1998, one of the most turbulent years ever for markets worldwide, GSCC posted record increases in both the number and value of U.S. Government securities processed — without any disruption of service. Total volume for the year rose to 11.2 million transactions, and the dollar value of these transactions rocketed to over \$213 trillion from \$149 trillion in 1997. To provide perspective, GSCC's total dollar value of securities processed far surpasses that of the New York and American Stock Exchanges, and Nasdaq combined, which amounted to over \$13.3 trillion in 1998.

Just as important to members, GSCC systems and risk management policies held steady as we processed 27 peak volume days of over \$1 trillion in 1998, including our new volume record for a single day of almost \$2.8 trillion. In comparison, 1997 saw 11 days when volume exceeded \$1 trillion, including the peak volume day of \$1.9 trillion.

Since our beginning, we have been committed to responding to shifts in the marketplace by continually exploring new ways to offer cost-effective and quality services to our growing membership base. GSCC's internal analysis has estimated that our services provided \$399 million to the industry in opportunity benefits in 1998, including dollars and transactions eliminated, term repos carried, and repo balance sheet offset.

**A Decade Enhancing Trading Opportunities** It has been 10 years since GSCC went live with the first of our services, implementing the trade comparison system for cash market transactions, followed by the netting system in 1989. Today, on an average daily basis, netting eliminates four out of five securities settlement obligations.

Innovation and responsiveness are among our hallmarks at GSCC. During our

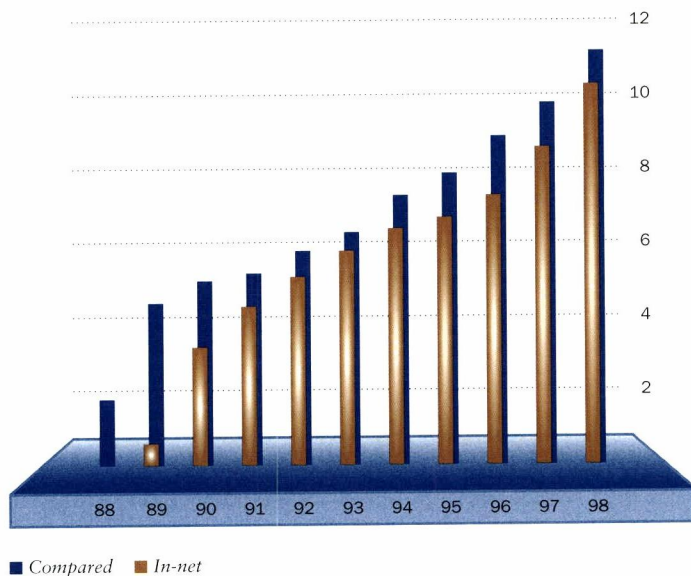
**10** years of  
**Making a**  
**difference**

**Nets Down Trades** GSCC's comparison and netting systems form the core of our services. On an average daily basis, netting eliminates four out of five obligations, thereby reducing overdraft exposure and the number of securities movements required to settle trades.

**Manages Risk** GSCC's goal is to reduce risk in the world's largest securities marketplace by guaranteeing the orderly settlement of U.S. Government securities transactions. We closely monitor participants' trading positions and market conditions to help manage risk.

# G S C C @ A

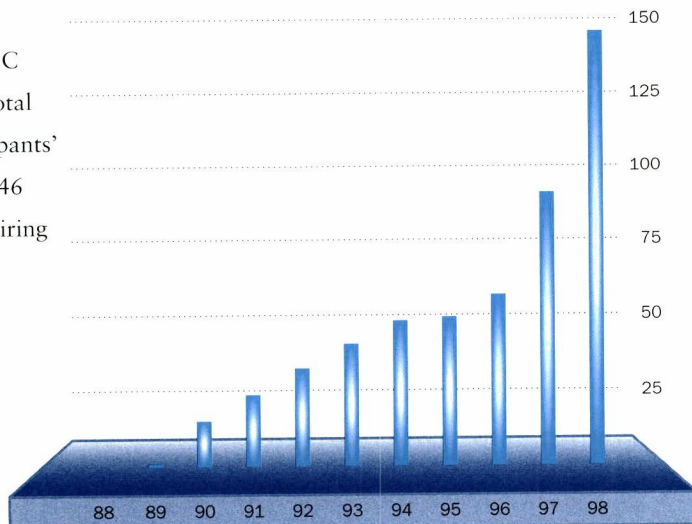
**TOTAL NUMBER OF TRANSACTIONS COMPARED AND NETTED**  
(millions)



During 10 years of operation, the total number of transactions compared and netted for participants have increased more than sixfold.

**TOTAL DOLLAR VALUE REDUCED FROM NETTING**  
(dollars in trillions)

Through netting, GSCC is able to reduce the total dollar value of participants' obligations—some \$146 trillion in 1998—requiring financial settlement, a significant factor in reducing risk.



**TOTAL DOLLARS SETTLED**  
(dollars in trillions)

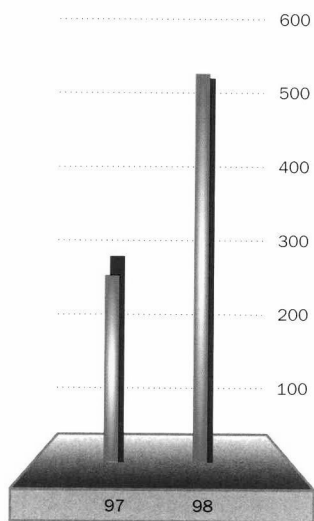
GSCC's settlement of total dollars after netting—which zoomed to \$62.7 trillion in 1998 from \$700 billion a decade ago—helps dealers and brokers complete efficient payment of settlement obligations via the Fed Wire.





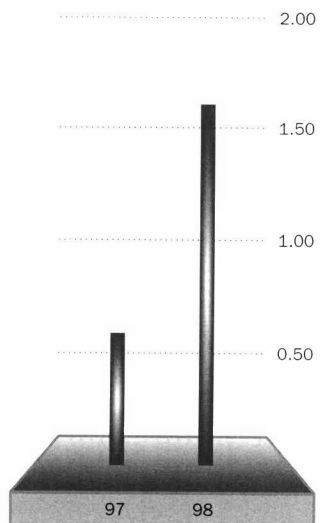
David M. Kelly      Sal Ricca      Daniel O. Minerva

Average Daily Dollar Value of Repo Trades  
(dollars in billions)



■ Compared ■ In-net

Average Daily Dollar Value of Term Repo Trades  
(dollars in trillions)



10 years of operation, we have worked closely with an expanding number of participants, our Board of Directors, and industry organizations to address the changing landscape of post-trade processing.

We have marked many milestones, such as extending the scope of the netting system to encompass all forward-settling trades of netting members, as well as encompassing quarterly Treasury refunding within the net for the first time.

**Providing Repo Services** Other significant milestones have involved GSCC's increasing variety of services for the fast-growing repurchase agreement (repo) segment of the marketplace, which we first introduced in 1995 with the automated netting and guaranteed settlement of the close legs of overnight and term repos. Since then, we have added new repo features each year, including blind-brokered repos (enabling dealers to execute repos on an anonymous basis through interdealer brokers); repo-to-maturity and automated collateral substitution services (which further expand the number and variety of repos eligible for comparison and netting); and forward starting, general collateral repos and specials (which are netted and guaranteed from their date of execution).

In 1998, we rolled out the new General Collateral Finance (GCF) Repo service, which allows dealers to trade general collateral repos without requiring intra-day, trade-for-trade settlement on a Delivery-versus-Payment (DVP) basis. Guided by our Repo Implementation Committee and developed in partnership with our clearing banks, GCF Repo signifies a major change in the way financing transactions are processed. It utilizes Broker-Assisted Comparison (which processes data, initially, based solely on broker input) and represents an early start on real-time, interactive trade processing at GSCC.

Clearly our repo services are addressing the great needs for liquidity and balance-sheet relief necessary to facilitate additional collateralized trading. In fact, repo market transactions replaced buy/sell transactions in 1998 as the biggest driver behind GSCC's jump in dollar volume of trades processed, accounting for 61 percent of the volume.

**Building Year 2000 Readiness** In 1998, GSCC continued its work on the Year 2000 (Y2K) project. Substantially all our participants have completed the required four-day applications testing with us.

**Responding to Key Growth Drivers** While supporting our day-to-day business remains our central objective, GSCC is moving ahead with a series of long-range initiatives that address major financial services trends. These include:

**Real-Time Processing** With markets increasingly fast-paced and global, we're pushing hard on an initiative to develop real-time, interactive processing capabilities to enable transactions to settle through GSCC on the same day they are executed.

We laid the foundation for this initiative in 1998, as we began work to provide same-day settlement services for repo start legs. This project includes establishing an automated clearing bank link; building a new Participant Network Access facility; and drafting an interactive trading specification that allows participants to submit trades and receive trade information in real time and supplements the terminal functionality with a Web-based user interface.

**Globalization of the Marketplace** A major area of concentration in 1999 is our European sovereign debt initiative. In direct response to growing industry demand for a centralized netting system for Euro-denominated sovereign debt securities, GSCC, Euroclear, and the Euroclear Operator, Morgan Guaranty Trust Company of New York, Brussels office, agreed in March 1999 to develop netting services for cash and repo trades in the sovereign debt markets.

Our goal in this collaborative effort is to design the most efficient and cost-effective netting services possible to reduce costs and counterparty risk for participants and to maximize balance-sheet offset.

The proposed service would initially include trade capture, comparison, netting by novation, risk management, and reporting for repo and cash trades in European government debt issues denominated in Euros. Services might eventually be expanded to include other instruments, as well as multiple currencies.

**Harnessing People Power** None of our processing and technological successes would be possible without an outstanding infrastructure of systems, facilities and, above all, the exceptional people we have at GSCC. We have a tightly-knit team of 54 people (*who are pictured throughout this report*), with proven expertise and talents in post-trade processing and a broad understanding of the U.S. Government securities marketplace. Their efforts, in turn, are supported by the Securities Industry Automation Corporation (SIAC), our facilities manager.

GSCC's staff maintains close ongoing communications not only with participants, but also with industry, advisory and regulatory organizations. We also benefit from the considerable experience of our Board of Directors who are hands-on operations, technology and business managers of dealers, brokers and clearing agent banks involved in the U.S. Government securities marketplace. They provide direct "workplace" input and evaluations for our strategies and risk-management activities.

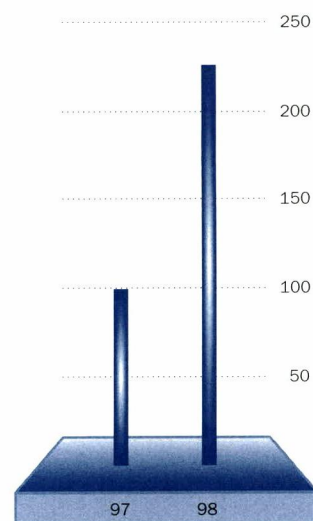
**Managing an Outstanding Future** GSCC enters our second decade and the eve of the next millennium with a strong portfolio of employee talent, business opportunities, marketing resources, and tremendous momentum. As we look ahead, whether the challenges come from "ordinary" or "extraordinary" trading days, we will strive to make the defining difference in how participants safely and efficiently conduct their post-trade business in U.S. Government securities processing.

Daniel O. Minerva  
Chairman of the Board

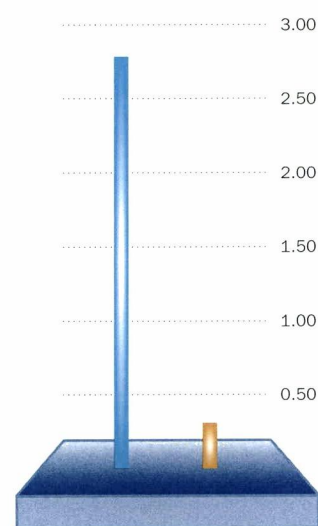
David M. Kelly  
Vice Chairman

Sal Ricca  
President and Chief  
Operating Officer

Total Balance Sheet Benefit  
(dollars in millions)

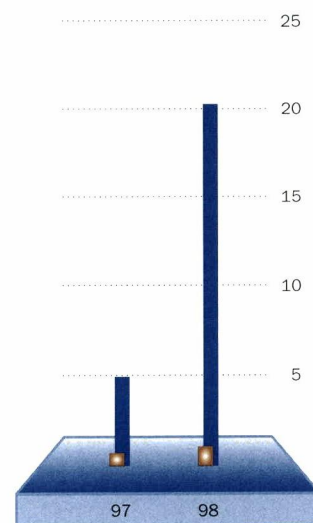


Peak Volume Day  
(dollars in trillions)



■ In-Net ■ Obligations  
Netting Factor 88.8%

Average Coupon Dollars  
Passed at Quarterly Refunding  
(dollars in billions)



■ Gross \$ ■ Net \$  
1997 Netting Factor 83.3%  
1998 Netting Factor 94.4%





**Kenneth Miller**  
*Managing Director, Goldman, Sachs & Co.*

**“Each year we’ve seen post-trade processing in the Government securities marketplace hit new highs in terms of dollar value and volume. Obviously, it’s very reassuring that this does not faze GSCC at all — thanks to its many collateral and financial standards, as well as its arsenal of risk-minimizing netting and settlement procedures including shared counterparty risk. GSCC continues to ensure that we can count on it for a stable and reliable trading environment and for sufficient liquidity at all times to meet participant settlement obligations.”**

**IN TOTAL**

