

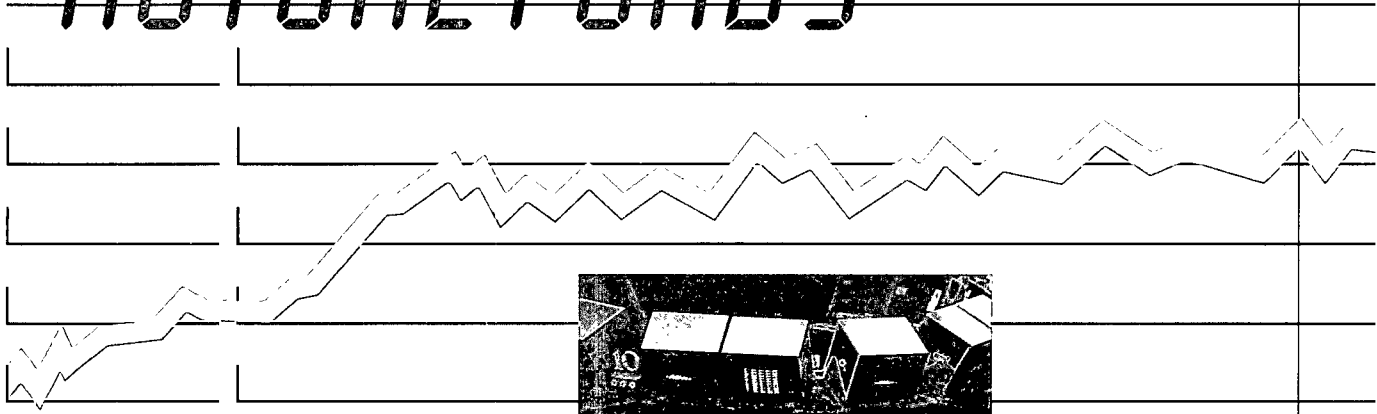
CORPORATE DEBT

MUNICIPALS

EQUITIES

GOVERNMENT
SECURITIES

MUTUAL FUNDS



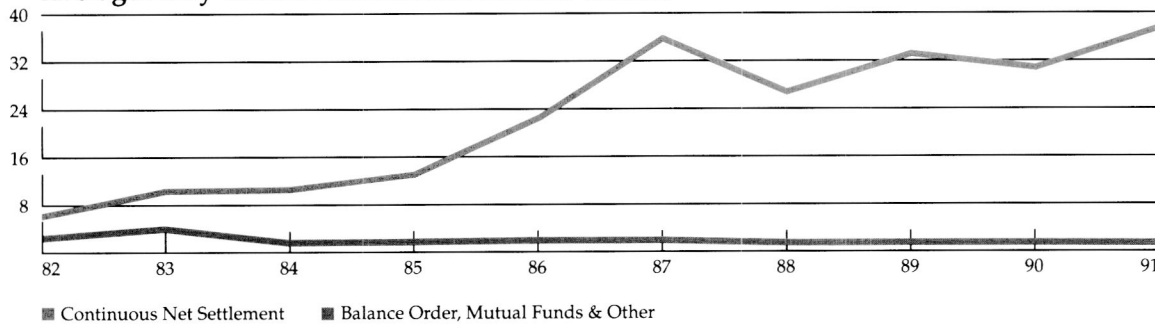
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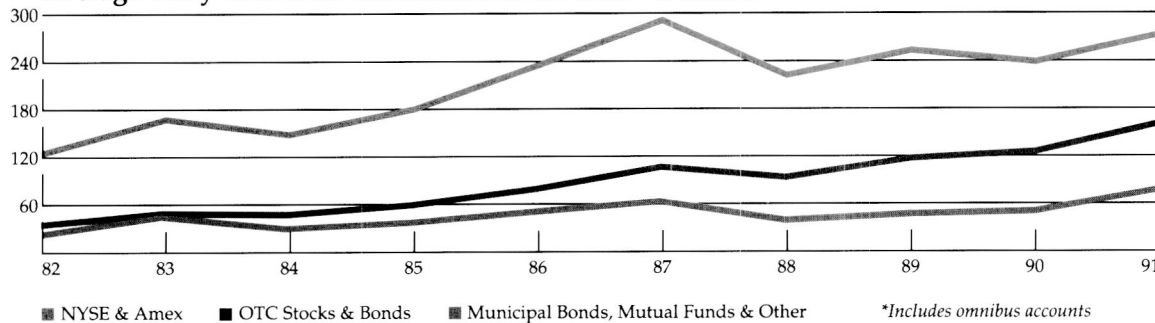
Since its inception, NSCC, as a participant driven organization which exists to service its members, has been committed to providing cost-effective trade processing and has operated essentially "at cost." Inherent in NSCC's providing services to participants is its commitment to carefully manage operating costs.

1991 was an outstanding year for nearly all broker/dealers and for NSCC as well. Transaction related revenues were up 11%; and total operating expenses were \$79.9 million, a 1% increase over last year. Expenses would have been down over 1990 actual, except for the variable related expenses due to a 21% increase in transaction volume. Discounts returned to participants were \$16.7 million or 25% of discountable revenue.

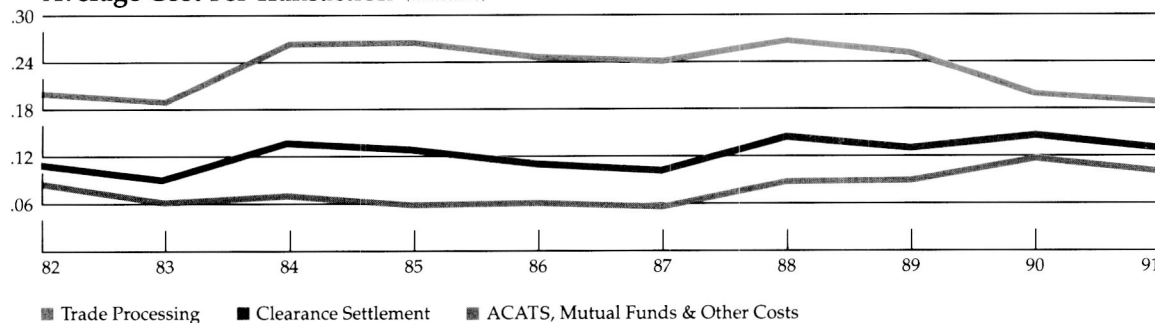
Average Daily Value of Transactions Settled (in billions)



Average Daily Volume of Transactions Processed* (in thousands)



Average Cost Per Transaction (in dollars)



To Our Participants

The decade of the '90s started off with renewed optimism and excitement, as U.S. financial markets rebounded with record growth in volume and profits.

This positive trend signals renewed enthusiasm by the industry in getting back to the basics of selling equities, and refocusing efforts on cost containment and increasing processing efficiency.

While this growth in market activity is expected to continue, the importance of streamlining and managing expenses will not change. To be more competitive in a global environment, whether you're in financial services or manufacturing, businesses must effectively plan how they will operate in both a "bull" and "bear" market.

A major commitment to better understand automation and how to use technology across all segments of the industry, is dramatically changing the business. Technology is not only bringing about efficiencies and standardization, it is enabling firms to decentralize their operating centers, flatten organizational structures and empower front line employees to make more decisions.

Since its inception, NSCC has achieved much in providing safe, sound and efficient processing to create more certainty in the settlement of securities transactions in the U.S.

We have developed huge capacities to process significantly more business than we have today. The challenge in the '90s will be to maintain these capacity levels and possibly beyond — and yet work to make changes that are responsible, add value, improve quality and reduce our costs and those of member firms.

The dynamic changes occurring in the industry over this next decade, will challenge us to fundamentally reexamine how we do business and build systems to support broader and changing requirements. It has been evident to many of us, that the time is right for this type of reexamination.

NSCC has taken proactive steps with its development of a Corporate Data model in planning for this future technology, reengineering the writing of software that is smarter, less costly and can be recycled to serve multiple purposes. In addition, NSCC is moving more rapidly up the technology curve in its acquisition of new hardware and software.

The decade of change we have entered will also be characterized by an unparalleled commitment to provide value added service.

At NSCC, responsiveness, quality and reliability have long been part of our culture and track record. But we must be willing to continue investing in the development of our people in order to maintain — and surpass — expectations of participants for excellence.

Globalization in this decade will bring increased U.S. investment in non-U.S. securities. The launch of Global

Clearing Network by ISCC, based on an alliance with Citibank, provides the U.S. broker/dealer community with a good foundation for centralized world-wide clearance and settlement of foreign securities.

While opportunities in technology serve as a catalyst for change, they also bring potential risks. The increasing interdependencies among and across markets between broker/dealers and institutions, argues for markets around the world to coordinate information sharing and regulatory efforts to manage these risks — and grow and maintain investor confidence.

NSCC provides leadership on many regulatory and trade group task forces concerned with clearance, settlement and cross market issues. We have learned a good deal from these efforts, but realize there is much work ahead of us.

Since November 1991, we have worked closely with the Bachmann Task Force which was chartered by the SEC to review proposed clearance and settlement recommendations, including those of the Group of Thirty that affect the U.S. The Task Force is currently looking at a range of issues toward achieving a safer and more efficient system.

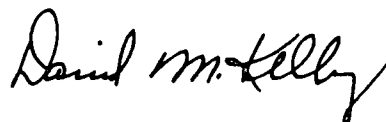
As we move into the '90s, it is apparent that the rapid pace of change is driving the industry far beyond what anyone envisioned just five years ago. NSCC looks forward, with SIAC, to the challenge of harmonizing technology and people in responding to this change.

In the year 2000, we hope to look back on this period with confidence that we made the right choices — and served the industry well.

In closing, we would like to thank our Board for their experienced guidance and support. The talent, expertise and time they have given on your behalf has been invaluable. We would also like to express our appreciation to our members. And finally, to gratefully acknowledge the many positive contributions of our staff. At the end of the day, they truly do make the difference.



Gates H. Hawn, Chairman of the Board



David M. Kelly, President and Chief Executive Officer



*Gates H. Hawn (right)
Chairman of the Board*

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

Marketplaces

NSCC was created to reduce costs, manage risk and create efficiencies in clearing and settling NYSE, Amex and OTC marketplace trades. While the industry has experienced dramatic change since NSCC's inception, these guiding principles remain intact.

In 1991, there was historic growth and record trading volumes in the marketplaces served by NSCC.

The average daily volume of transactions cleared and settled for the NYSE, Amex and OTC marketplaces increased 21 percent last year, with over 516 thousand transactions. The average daily settled value of these trades has also climbed to \$39 billion, up 20 percent since 1990.

Our participants have likewise experienced significant growth in both the speed and value of trading activity. NSCC has kept abreast of rapidly changing participant requirements by refining and enhancing its services.

Many of these initiatives focus on ensuring the standardization, flow-through capabilities and cost-effectiveness of services to these markets.

Examples this past year include the launching of two major re-design efforts — the bond system and Fund/SERV — and expanded use of Networking to enhance communication between brokers and mutual funds on shareholder accounts.

Internationally, the ability of U.S. brokers to settle securities overseas has also been made easier by NSCC's subsidiary, International Securities Clearing Corporation's (ISCC) launch of Global Clearing Network (GCN) with Citibank.

Supporting the government securities market, Government Securities Clearing Corporation (GSCC), an affiliate of NSCC, has successfully made the transition from a startup to a mature operating company.

GSCC netted a record number of transactions in 1991, with over 68,000 trades processed on a single day and a value exceeding \$26 billion. The number of GSCC participants continues to grow and now includes sixty-six members.

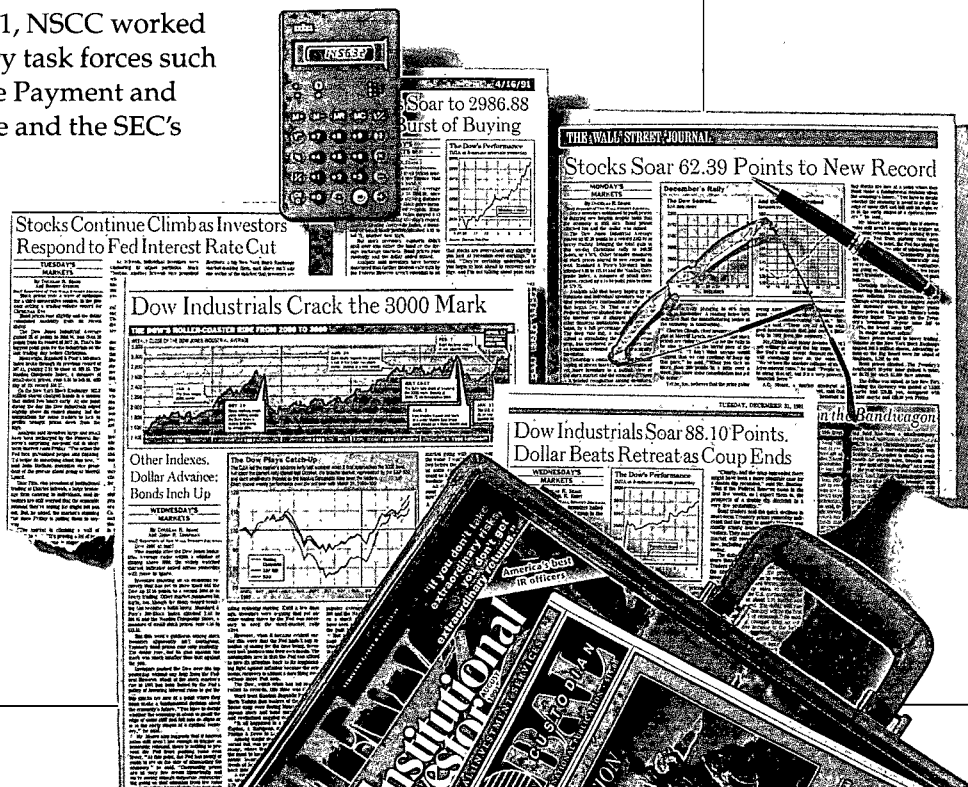
A joint U.S. regulatory report issued after the close of the year, praised GSCC for bringing efficiency and reducing counterparty risk in the netting of government securities.

The industry's growing focus on clearance and settlement issues has also resulted in NSCC taking a more active role both domestically and globally.

During 1991, NSCC worked closely with regulatory task forces such as the Federal Reserve Payment and Settlement Committee and the SEC's



News headlines continued to report positive trends throughout the year. Business was back, stronger than ever in 1991. In spite of major world events, trading volume and stock prices in the U.S. rose dramatically after a downturn in the second half of 1990.



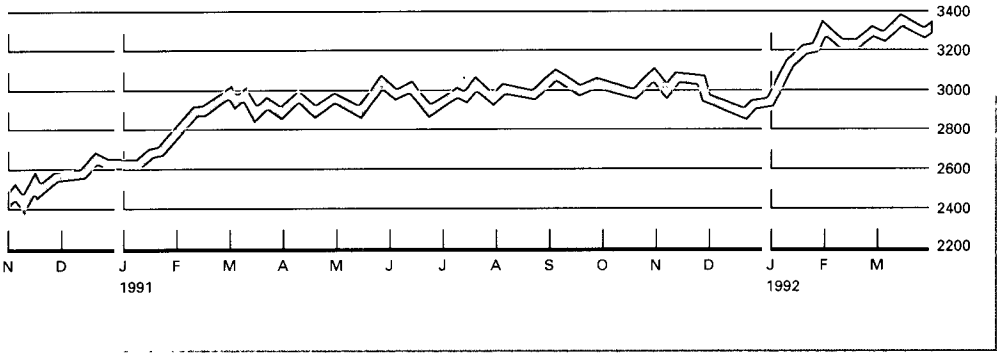


*N*SCC continues to serve the needs of a dynamic marketplace, with the average daily volume of transactions cleared and settled exceeding 516 thousand transactions. The average daily settled value of these trades was in excess of \$39 billion. NSCC provides leadership in support of marketplace reforms and industry efforts to enhance services and minimize costs.

TOKYO
NEW YORK

LONDON

Dow Jones Industrial Average



*T*he Dow symbolized the continuing climb in market activity, even after the end of the year. Brokerage firms brought new energy to selling equities and streamlining their operations, attracting a major influx of investors and spurring companies to issue new securities.

Market Transaction Advisory Committee mandated by the Market Reform Act of 1990. In addition, NSCC participated on an American Bar Association's Ad Hoc Committee to create uniform state law standards for transferring the ownership of securities.

Serving on the U.S. Working Committee of the Group of Thirty Clearance and Settlement Project, NSCC contributed to discussions on book-entry settlement, depository eligibility for all new corporate and municipal securities, same-day funds and the compression of the settlement cycle.

NSCC and The Depository Trust Company (DTC) also formed a working group this past year to look at issues related to achieving a same-day funds environment. A report outlining recommendations and their potential impact is expected to be circulated to the Street for comment early in 1992.

On the international front, NSCC is participating in the International Organization of Securities Commissions' (IOSCO) task force efforts to create a blueprint for emerging markets consistent with Group of Thirty principles.

People

As a leading service organization supporting the clearing and settlement needs of the brokerage community, a key element of our success is the people who drive NSCC. Their knowledge, skill and commitment to quality and excellence in everything they do, continues to distinguish the organization's fifteen-year track record.

Many of NSCC's staff come from various sectors of the securities and financial services industry. They are among the best in their respective fields.

Diverse experience is valued at NSCC, both in providing a broad range of insights on industry trends and in fostering the communication that is so essential to our mission.

NSCC Marketing Account Managers regularly reach out to over 475 direct participants by telephone and periodic visits throughout the year. These discussions provide useful feedback on the effective delivery of NSCC products and services.

In addition, the Account Managers solicit ideas that may help member firms in their management of day-to-day operations. For example, a growing trend in 1991 involved responding to requests by firms for training seminars to educate key operations people, and in some instances sales staff, on different aspects of clearance and settlement.

Our Operations staff is responsible, both directly and through our facilities manager, SIAC, for the timely and accurate delivery of services to participants. In addition to managing NSCC's day-to-day working relationships with other clearing corporations and depositories, Operations professionals direct the support provided by our 11 regional branch offices, our stock list activities and our quality assurance efforts.

Having a physical presence in major financial centers is important in linking NSCC support with participants located across the country. Staff members at our branch offices working closely with Operations in New York, provide an additional level of personalized service to regional firms.

Techniques used by NSCC for maintaining high levels of quality service are not new. But at NSCC, these techniques are applied consistently over time to ensure that we are both quality driven and participant driven.

Advisory groups are regularly used by our people in Planning to

A cornerstone of ISCC's success has been building strong relationships and promoting an exchange of information with representatives in overseas markets. Mary Ann Callahan, Vice President and Director of Development (center) meets with Sandra Bleich, Director, Standards & Education, Society for Worldwide Interbank Financial Telecommunication S.C. (S.W.I.F.T.), Brussels, Belgium (left), and R. Ian Danic, Relationship Manager at S.W.I.F.T. in New York.

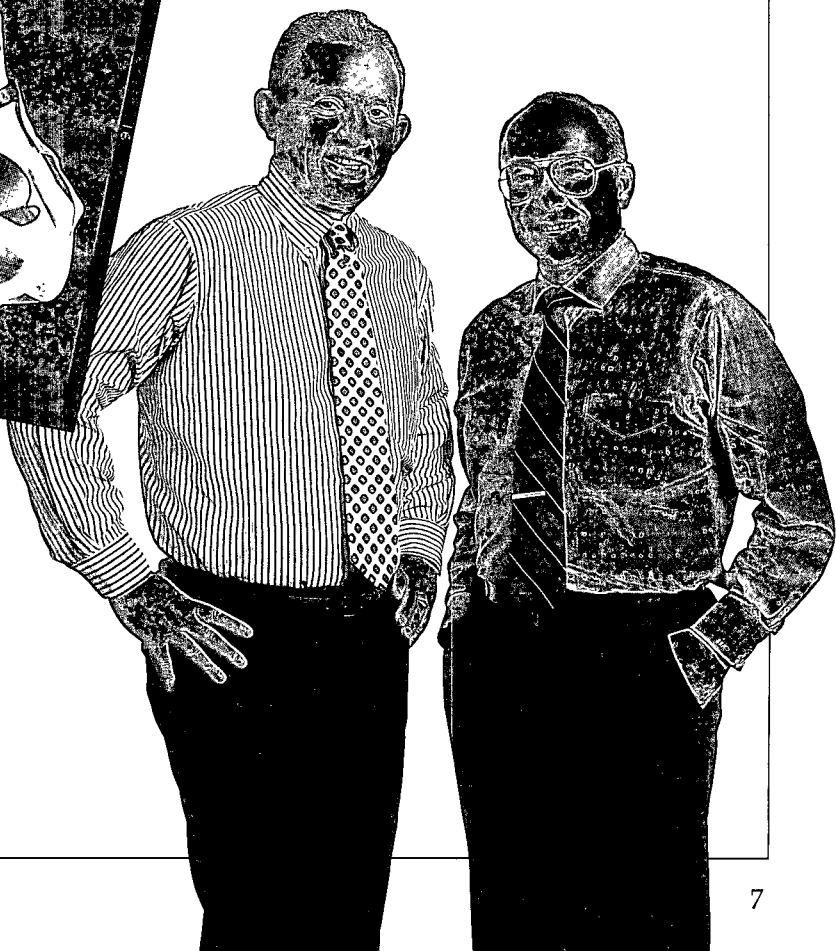




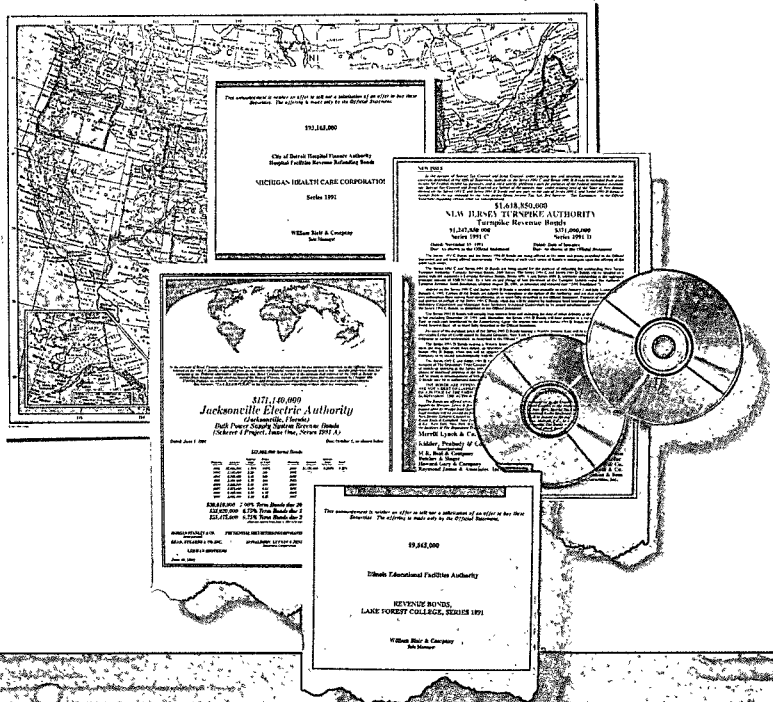
Our people share an uncompromising commitment to quality. We regularly reach out to our participants; gauging their satisfaction, listening to new ideas, analyzing current trends and enhancing our services. (Above, from left: Lisa Siebold, Operations Analyst and Gerhard Krobisch, Director of Operations; Giulia Fitzpatrick, Director of Risk Management; and Ed Fanning, Director of Marketing with William Conroy, VP Operations, Titus and Donnelly Inc.).



NSCC's Marketing Department plays a key role in meeting with senior executives at member firms on the development and introduction of new products and services. Account Managers provide guidance and support — from formal instruction to answering routine questions. (Second row, from left: Kevin Maloney and John Vrettos, NSCC Vice Presidents of Marketing; Michael Molloy, VP of Marketing, with Fred Enriquez, VP, Global Equity Group, Merrill Lynch, Pierce, Fenner & Smith, Inc.; David Warren, Director of Marketing; Neil Outcault, VP of Marketing and George Minnig, Managing Director, Pershing Division of Donaldson, Lufkin and Jenrette Securities Corp.).



NSCC's automated Municipal Bond Comparison System processed approximately 250,000 Syndicate Takedown transactions in 1991 to allow for the inter-dealer distribution of \$168 billion of municipal bonds. While this activity is only a small percentage of total municipal bond transactions processed, it exemplifies the importance of NSCC's high quality, high volume processing to the industry.





Today's international capital markets are providing investors with exciting opportunities. The complexities of settling global transactions, however, have frequently discouraged investors from taking full advantage of this international potential. The launch of ISCC's Global Clearing Network (GCN) for the first time, provides U.S. brokers with an efficient, cost-effective cross border clearing system. (From left: Sean Delap, ISCC Director of Marketing reviews GCN with David Sanger, Associate Director, Bear Stearns & Co., Inc.).

help guide the development of new products and services, collaborate on innovative technology strategies and build consensus on industry wide issues.

As ISCC works closely with peer organizations in other countries, participants benefit directly by gaining reliable, often unique, insights into those markets and interpretation of trends affecting them. This knowledge also enhances ISCC's effectiveness in developing products and services, like Global Clearing Network, that support U.S. broker/dealers trading overseas.

In addition, representatives from foreign exchanges and brokerage firms in more than 30 markets visited ISCC in 1991. These meetings promote a positive exchange of information on changes occurring in financial markets and build strong relationships.

The people of ISCC have pioneered these cross-cultural relationships over the past six years, and serve as a versatile resource to help spur growth in global markets.

Products and Services

Providing standardization, reliability and cost-efficient products and services is a continuing goal of NSCC. Achieving this goal requires an aggressive ongoing effort to understand evolving and dynamic forces affecting the marketplace, both domestically and globally.

In 1991, product enhancements and development efforts reflected current trends to compress the clearance and settlement process. Additional initiatives were also implemented to help participants streamline their processing of securities transactions.

Changes to the Continuous Net Settlement (CNS) system in 1991, address an industry need to keep securities undergoing tender and exchange offers in CNS, thereby reducing participants' liability and decreasing physical deliveries and depository movements.

An extensive training program including seminars, video presentations and a new user manual, was offered by NSCC to educate participants on the procedures and benefits of the revised system.

PC Platform became fully operational this past year, providing access to NSCC's services through personal computers. Applications are now available on PC Platform for ACATS, RECAPS, Bonds, CNS, DC Cage and Correspondent Clearing, with additional ones planned for this year.

Fund/SERV continues to promote centralization, better control and efficiency in mutual funds processing. During 1991, nearly four million orders were processed for 188 participants, a 25 percent increase over the prior year.

NSCC continued its effort to redesign Fund/SERV, working with a user committee consisting of funds, brokers and service bureaus. The redesigned system will process additional mutual funds products and allow for both next-day and same-day funds.

And last year, nearly two million subaccounts were supported by Networking, NSCC's cost-effective communications pipeline for standardizing and speeding the flow of data between brokers and mutual funds.

Moving the bond industry closer to T comparison and further reducing uncertainty in the market are key objectives of an effort underway to enhance the bond system. The new system called the Fixed Income Transaction System (FITS), will process municipal bonds, corporate bonds and Unit Investment Trusts.

Prime Broker activity soared in 1991, after NSCC and DTC reestablished the processing link between the Institutional Delivery (ID) and

PLATFORM

NSCC's team approach in introducing new products, offers participants the hands-on expertise and personalized service required. In addition, NSCC regularly stays in close contact with participants to answer questions and resolve problems. (From left: Ellen Mullooly, NSCC Marketing Analyst, and Mark Medvin, Senior Data Communications Analyst, review PC Platform's ACATS application with Thomas Clancy, Assistant Vice President, Department Manager, Dean Witter Reynolds Inc.).

CNS systems. More than one half million transactions were processed with a value of \$100 billion, and participants using the link more than doubled.

ISCC's roll-out of the Global Clearing Network (GCN), represents a significant step for the industry. This single communications access product, achieved through a cooperative venture with Citibank, opens a new gateway for U.S. brokers trading in global markets. GCN improves global investors' ability to move quickly into markets, issue instructions and receive reports in consistent formats, regardless of country, and to lower transaction costs based on cumulative economies of scale.

Planning for Technology

Over the past 15 years, NSCC has built a solid reputation for responsiveness to industry needs. As a neutral third party processor of high volume transactions, NSCC is increasingly being viewed as a natural choice for helping develop industry-wide technology solutions.

This trend became more apparent in 1991, as NSCC guided the roll-out of the Securities Clearing Group (SCG) database and initiated discussions on the concept of a Shared Data Communications Network.

NSCC chaired the SCG's effort to develop a database that allows all registered clearing agencies to access multi-clearing corporation activity of dual members. The net result of this initiative is better risk monitoring and protection through coordinated information sharing.

Since April, the database has been operational and clearing corporations are active users. Individual clearing organizations can only access information that is germane to their members. It is anticipated that additional clearing corporations will be linked in 1992, including the futures clearing houses.

Working with a subcommittee of the SIA's Telecommunications and Information Management Committee, NSCC has been an early proponent of developing a telecommunications platform for the industry. This shared data communications network would eliminate the need for each member firm to maintain multiple separate lines with exchanges and clearing organizations.

During 1991, the SIA's Telecommunications subcommittee focused on the technical feasibility and concerns related to the merits of building this shared data network.

NSCC conducts the analysis and planning that effectively defines industry needs and, through technology, delivers the functionality required in the most efficient manner.

Significant time and resources were committed in 1991 on technology tools that will strengthen NSCC's planning and product development process. For participants, this means NSCC will have a faster, more cost-effective method of delivering products and services.

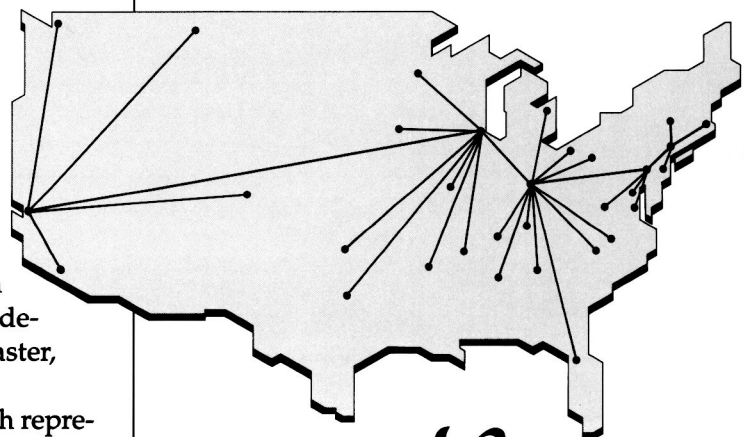
NSCC completed building a Corporate Data Model, which represents one of the most important innovations in the company's history.

This Corporate Data Model is an integral step in building an architecture for the development of systems, and as a result will eliminate redundancies and lessen programming efforts and costs.

Major progress was also made in 1991 on upgrading our disaster recovery plan with the completion and testing of a second operating site at SIAC's new MetroTech complex in Brooklyn. The second site will be fully functional in mid-1992, and will minimize the effect of a disaster on our communications and data processing capabilities.



Compliance and Risk Management is directly involved in the planning and development of NSCC systems and the assessment of risk associated with the clearing and settling of trades. (Above left: Ronald Noldon, Director of Planning, Evelyn Marks, Compliance Analyst and William Thomas, Vice President/Director of Compliance and Membership).



NSCC supports a vast data communications network where participants send and receive information across the U.S. and overseas via thousands of proprietary links. NSCC evaluates and recommends changes in telecommunications capacity to ensure the efficient, reliable flow of information.

*N*SCC continued developing an innovative model of our business functions and data requirements, which in the future will help reduce costs and speed the design of new systems. (Right: Dwight Arthur, Vice President/Director of Planning

reviews sections of the data model with Claire Frankel, Director; Macrina DiGregorio and Gary Apruzzese, Senior Planning Project Managers and Randy Solomon, Project Manager).



*N*SCC'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 1991, continued to provide NSCC with guidance and direction.

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

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

NSCC and ISCC Board of Directors



Mr. George F. (Rick) Adam, Jr.
Partner,
Goldman, Sachs & Company

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

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

Mr. George C. McNamee
Chairman,
First Albany Corporation

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



Mr. Gates H. Hawn
Chairman of the Board,
National Securities
Clearing Corporation,
Chief Operating Officer,
Pershing Division of
Donaldson, Lufkin & Jenrette
Securities Corporation

Mr. David M. Kelly
President and CEO,
National Securities
Clearing Corporation,
Chairman of the Board,
International Securities
Clearing Corporation

Mr. Howard A. Shallcross
Senior Vice President,
Merrill Lynch Equity Markets,
Professional Securities
Services Group

Mr. Walter F. Siebecker
Executive Vice President and
Chief Operations Officer,
Smith Barney, Harris
Upham & Co. Incorporated

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

Mr. Raymond E. Woolridge
President and COO,
Southwest Securities,
Incorporated



Mr. Bruce E. Geismar
Senior Managing Director,
Bear, Stearns & Co. Inc.

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

Mr. Joseph Anastasio
Managing Director,
Salomon Brothers Inc.

Mr. David W. Niemiec
Vice Chairman,
Dillon, Read & Co. Inc.

Mr. Douglas J. Engmann
President,
Sage Clearing Corporation

Mr. Marshall N. Carter
President and CEO,
State Street Bank &
Trust Company

GSCC Board of Directors



Mr. M. Andrew Threadgold
*Managing Director,
J.P. Morgan Securities, Inc.*

Mr. David M. Kelly
*President and CEO,
National Securities
Clearing Corporation*

Mr. John G. Macfarlane III
*Managing Director and Treasurer,
Salomon Brothers Inc.*

Mr. Kurt D. Woetzel
*Vice President and Division Head,
The Bank of New York*

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

Mr. Charles A. Moran
*President,
Government Securities
Clearing Corporation*

Mr. Kenneth J. Halpin
*Senior Vice President and
Treasurer,
Discount Corporation of
New York*

Mr. Thomas J. Basile
*Executive Managing Director,
Administration and Operations,
Carroll McEntee & McGinley
Incorporated*

Mr. John M. Gavin, Jr.
*Chief Financial Officer,
RMJ Securities Corporation*

Mr. Allen B. Clark
*Vice President,
Manufacturers Hanover
Trust Company*

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

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

Mr. Sal Ricca
*President,
Security Pacific
National Trust Company*

Mr. Arthur L. Thomas
*Senior Vice President,
Director,
Merrill Lynch*

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

**Not pictured*

Consolidated Balance Sheet

National Securities Clearing Corporation

December 31,

1991

1990

	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$201,913	\$ 57,052
Short-term U.S. Treasury securities	48,906	125,557
Accounts receivable	6,084	5,004
Settlement accounts receivable	2,153	1,433
Other current assets	479	413
Total current assets	259,535	189,459
Clearing fund	212,534	190,962
Fixed assets, less accumulated depreciation of \$3,229 and \$2,727 at December 31, 1991 and 1990, respectively	2,326	1,473
Deposits and other noncurrent assets	7,360	7,869
Total assets	\$481,755	\$389,763
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,231	\$ 8,189
Settlement accounts payable	94,148	63,159
Other current liabilities	7,003	4,820
Total current liabilities	111,382	76,168
Clearing fund:		
Participants' cash deposits	141,839	108,633
Other participant deposits	212,534	190,962
	354,373	299,595
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	15,100	13,100
	16,000	14,000
Total liabilities and shareholders' equity	\$481,755	\$389,763

The accompanying notes are an integral part of this statement.

Consolidated Statement of Income and Retained Earnings

National Securities Clearing Corporation

For the year ended December 31,

1991

1990

	(in thousands)	
Revenues:		
Revenue from clearing services	\$95,589	\$90,445
Discounts to participants	16,671	15,727
Net revenue from clearing services	78,918	74,718
Interest income	4,007	5,771
Total revenues	82,925	80,489
Expenses:		
Securities Industry Automation Corporation processing expenses	46,364	44,291
The Depository Trust Company fees	12,684	15,268
General and administrative	20,853	19,206
Total expenses	79,901	78,765
Income before income taxes	3,024	1,724
Provision for income taxes	1,024	724
Net income	2,000	1,000
Retained earnings, beginning of year	13,100	12,100
Retained earnings, end of year	\$15,100	\$13,100

The accompanying notes are an integral part of this statement.

Consolidated Statement of Cash Flows

National Securities Clearing Corporation

For the year ended December 31,

	1991	1990
(in thousands)		
Cash flows from operating activities:		
Net income	\$ 2,000	\$ 1,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	502	378
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,080)	168
(Increase) decrease in settlement accounts receivable	(720)	741
(Increase) decrease in other current assets	(66)	39
Decrease in deposits and other noncurrent assets	509	247
Increase in accounts payable	2,042	2,136
Increase in settlement accounts payable	30,989	12,403
Increase (decrease) in other current liabilities	2,183	(723)
Increase in clearing fund participants' cash deposits	33,206	34,584
Net cash provided by operating activities	69,565	50,973
Cash flows from financing and investing activities:		
Decrease (increase) in short-term U.S. Treasury securities	76,651	(36,807)
Purchases of fixed assets	(1,355)	(923)
Redemption of notes payable	—	(3,250)
Net cash provided (used) by financing and investing activities	75,296	(40,980)
Net increase in cash and cash equivalents	144,861	9,993
Cash and cash equivalents, beginning of year	57,052	47,059
Cash and cash equivalents, end of year	\$201,913	\$ 57,052
Supplementary disclosures:		
Income taxes paid	\$ 684	\$ 1,344
Interest paid	—	439

The accompanying notes are an integral part of this statement.

Organizations and Operations:

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

NSCC has an independent user Board of Directors which determines the amount of net earnings to be retained in a given year, having due regard to current and anticipated needs. NSCC has not historically declared dividends to shareholders, but has provided discounts on its billings to participants.

Summary of Significant Accounting Policies:

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

NSCC accounts for its investment in Government Securities Clearing Corporation (GSCC) using the equity method of accounting. NSCC's ownership interest in GSCC was approximately 18% at December 31, 1991 and 1990.

Cash equivalents: NSCC invests funds in overnight reverse repurchase agreements, which are considered cash equivalents. Such agreements provide for NSCC's delivery of cash in exchange for securities having a market value of at least 102% of the amount of the agreement. An independent custodian designated by NSCC takes possession of the securities. Investments under reverse repurchase agreements which are recorded at the contract amounts totaled \$170,000,000 and \$50,000,000 at December 31, 1991 and 1990, respectively. At December 31, 1991, the counterparties to these agreements were four financial institutions.

An overnight investment in the commercial paper of a major U.S. bank holding company totaling \$11,601,000 is also included in cash equivalents at December 31, 1991.

Short-term U.S. Treasury securities: U.S. Treasury securities held, which mature in less than one year, are carried at cost adjusted for accretion of discounts. Such carrying value approximates market. At December 31, 1991 and 1990, \$43,444,000 and \$54,190,000, respectively, of such securities were held in an account for the exclusive benefit of participants to facilitate participants' compliance with customer segregation rules of the SEC.

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

Income taxes: Provision is made for deferred income taxes applicable to revenues and expenses reported in the financial statements in periods which differ from those in which they are subject to taxation.

Participants' Clearing Fund Deposits:

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

ISCC, should they occur. A summary of the deposits held including deposits in excess of calculated requirements at December 31, 1991 and 1990 follows:

	1991	1990
Cash	\$141,839,000	\$108,633,000
Securities issued or guaranteed by the U.S. Government, its states and their political subdivisions, at market	101,913,000	105,443,000
Letters of credit issued by authorized banks	185,454,000	202,773,000

Throughout 1991, NSCC had a \$200,000,000 committed line of credit agreement with a major U.S. bank collateralized by clearing fund deposits. This line was not used.

Transactions with Related Parties:

4 SIAC: Under the terms of an agreement, the Securities Industry Automation Corporation (SIAC), an entity owned by NYSE and Amex, provides computer facilities, personnel and services in support of NSCC's operations. SIAC charges NSCC for these services based on its direct and overhead costs arising from providing such services. The agreement has no expiration date and continues in effect unless prior written notice of cancellation is given by either party. Amounts payable to SIAC at December 31, 1991 and 1990 were \$6,162,000 and \$4,269,000, respectively.

During part of 1991 and all of 1990, NSCC sublet a portion of its office space to SIAC. Rental payments received from SIAC amounted to \$425,606 in 1991 and \$1,442,000 in 1990.

DTC: NYSE, Amex and NASD own minority interests in The Depository Trust Company (DTC), whose facilities are used by NSCC. DTC fees in 1991 and 1990 included \$8,539,000 and \$11,234,000, respectively, relating to charges for NSCC participants which NSCC sponsors at DTC. Such amounts are rebilled to the related participants and are included in revenues from clearing services. Amounts payable to DTC at December 31, 1991 and 1990 were \$388,000 and \$338,000, respectively. In addition, NSCC rented certain office space from DTC. Rental payments amounted to \$66,000 in 1991 and \$795,000 in 1990.

NYSE, Amex, and NASD: NSCC collects certain regulatory fees on behalf of NYSE, Amex and NASD. At December 31, 1991, \$1,876,268 and \$377,214 were payable to the NYSE and Amex, respectively. No amounts were payable to the NASD at December 31, 1991 or the NYSE, Amex and NASD at December 31, 1990.

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 expires in 1993; however, it will continue in effect unless notice of cancellation is given by either party. Charges under this agreement amounted to \$4,214,000 in 1991 and \$4,756,000 in 1990. NSCC's expenses are presented net of these charges. At December 31, 1991 and 1990, receivables from GSCC amounted to \$507,000 and \$495,000, respectively.

GSCC's excess cash may be aggregated with funds held by NSCC for investment purposes. At December 31, 1991 and 1990, accounts payable includes \$2,683,000 and \$1,198,000, respectively, representing NSCC's obligation to GSCC for such funds.

Income Taxes:

5 NSCC and ISCC file consolidated Federal, combined New York State and combined New York City income tax returns. NSCC's effective tax rate for 1991 approximated the Federal statutory tax rate. The difference between NSCC's 42% effective tax rate for the year ended December 31, 1990 and the 34% Federal statutory tax rate is primarily attributable to a decline in the carrying value of the equity investment in GSCC which was excluded from the determination of income taxes.

(continued)

Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Incomes Taxes*, was issued in February 1992. This statement mandates the liability method for computing deferred income taxes. NSCC intends to adopt SFAS 109 when adoption becomes mandatory in 1993. Adoption of this Statement is not expected to have a significant effect on NSCC's financial position or results of operations.

Pension Plan:

6 NSCC has a trustee noncontributory defined benefit pension plan covering substantially all employees. Benefits under this plan are based on employees' years of service and compensation during the years immediately preceding retirement. NSCC's funding policy is to make contributions under the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. NSCC also has a noncontributory supplemental executive retirement plan (SERP) which provides for certain benefits to identified executives of NSCC upon retirement. NSCC's funding policy with regard to the SERP is to fund benefits accruing to employees meeting certain requirements of the SERP. Aggregate pension costs for 1991 and 1990 for both plans follow:

	1991	1990
Service cost	\$641,895	\$700,314
Interest cost	366,522	362,730
Actual return on plan assets	(859,036)	(108,276)
Net amortization and deferral	511,373	(109,841)
Total pension cost	\$660,754	\$844,927

The funded status of the plans at December 31, 1991 and 1990 follows:

	1991	1990
Actuarial present value of benefit obligations:		
Vested benefit obligations	(\$2,448,942)	(\$1,855,770)
Nonvested benefit obligations	(595,739)	(421,624)
Accumulated benefit obligations	(3,044,681)	(2,277,394)
Effect of salary projections	(2,206,746)	(2,768,546)
Projected benefit obligations	(5,251,427)	(5,045,940)
Fair value of plan assets	5,098,464	4,112,418
Plan assets less than projected benefit obligations	(152,963)	(933,522)
Unrecognized net gain	(1,215,104)	(299,203)
Unrecognized prior service cost	(35,100)	(57,810)
Unrecognized transitional liability	299,180	329,098
Accrued pension cost	(\$1,103,987)	(\$ 961,437)

The expected rate of return on plan assets was 8% in 1991 and 1990. 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 1991 and 8.75% and 8%, respectively, in 1990.

Commitments and Contingent Liabilities:

7 The Continuous Net Settlement (CNS) system interposes NSCC between participants in securities clearance and settlement. CNS transactions are guaranteed as of midnight on the day they are reported to the membership as compared. The failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to 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, 1991, open positions due NSCC approximated \$580,359,000 (\$843,803,000 at December 31, 1990), and open positions due by NSCC to participants approximated \$342,350,000 (\$514,837,000 at December 31, 1990) for unsettled positions and \$238,009,000 (\$328,966,000 at December 31, 1990) for securities borrowed through NSCC's Stock Borrow Program.

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

NSCC is contingently liable for the cancellation of certain SIAC office and equipment leases which expire through December 31, 2003. At December 31, 1991, the aggregate contingent commitment of NSCC totals approximately \$53,000,000. In accordance with the agreement between NSCC and GSCC (see Note 4), \$832,000 of these contingent liabilities are passed through to GSCC.

Net rental expense amounted to \$2,509,000 and \$2,100,000, in 1991 and 1990, respectively. At December 31, 1991, future minimum rental payments under all noncancellable operating leases follow:

Year	Amount
1992	\$2,897,000
1993	3,016,000
1994	3,217,000
1995	3,453,000
1996	3,693,000
1997 and thereafter	1,258,000
Total minimum annual rental payments	\$17,534,000

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 credit risk in amounts in excess of that recorded in NSCC's settlement accounts receivable and payable.

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

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

Price Waterhouse 

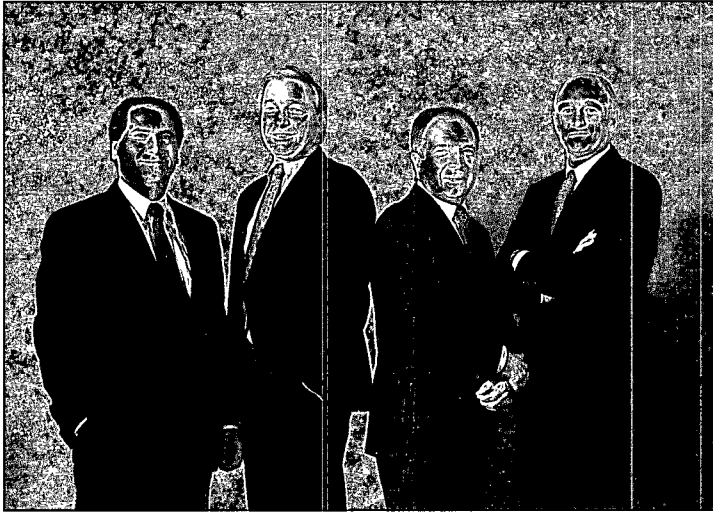
To the Board of Directors and Shareholders of National Securities Clearing Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of National Securities Clearing Corporation and its subsidiary at December 31, 1991 and 1990, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

New York, New York

February 21, 1992

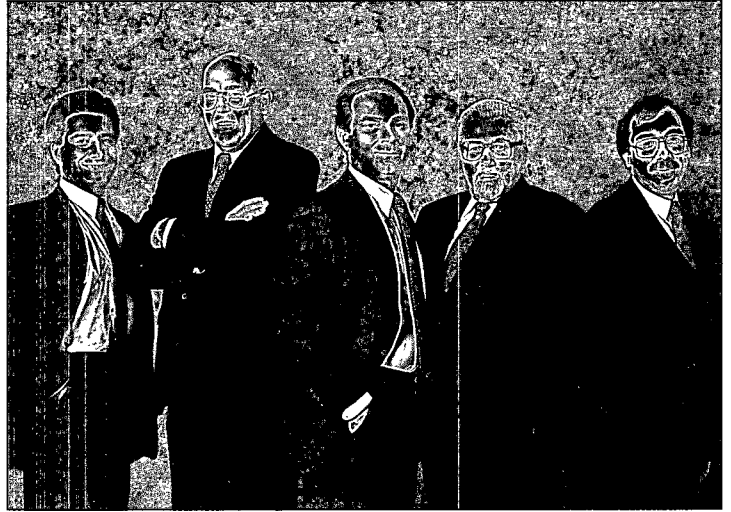


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