

National Securities Clearing Corporation

Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

National Securities Clearing Corporation
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Report of Independent Auditors

To the Board of Directors and Shareholder 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 (the "Company") at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America. Those standards 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 our opinion.

PricewaterhouseCoopers LLP

February 25, 2009

Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE DATA)

December 31,	2008	2007
Assets		
Cash and cash equivalents	\$6,141,661	\$4,882,087
U.S. Treasury securities	196,700	180,340
Accounts receivable	18,069	13,071
Clearing fund	403,699	306,951
Fixed assets, less accumulated depreciation and amortization of \$86,516 and \$74,856 at December 31, 2008 and 2007, respectively	38,426	39,694
Deferred income taxes, net	36,454	18,567
Other assets	2,175	2,265
Total assets	\$6,837,184	\$5,442,975
Liabilities and Shareholder's Equity		
Liabilities:		
Accounts payable and other liabilities	\$107,269	\$60,059
Payable to participants	52,045	448,313
Long-term debt	13,568	18,027
Clearing fund:		
Cash deposits	6,216,662	4,559,625
Other deposits	403,699	306,951
Total liabilities	6,793,243	5,392,975
Commitments and contingent liabilities (Note 9)		
Shareholder's equity:		
Common stock, \$.50 par value: 30,000 shares authorized, 20,000 shares issued and outstanding	10	10
Paid in capital	590	590
Retained earnings	43,341	49,400
Total shareholder's equity	43,941	50,000
Total liabilities and shareholder's equity	\$6,837,184	\$5,442,975

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income and Retained Earnings

(IN THOUSANDS)

For the Year Ended December 31,

2008

2007

	2008	2007
Revenues:		
Clearing services	\$167,884	\$239,705
Distribution and other services	80,405	95,478
Interest income	132,533	244,016
Total revenues	380,822	579,199
Discounts and other refunds to participants	(179,858)	(441,202)
Net revenues	200,964	137,997
Expenses:		
Employee compensation and related benefits	142,521	82,704
Information technology	20,259	18,862
Professional and other services	27,391	20,489
Occupancy	10,130	11,418
Other general and administrative	5,065	5,160
Total expenses	205,366	138,633
Loss before income taxes	(4,402)	(636)
Provision (benefit) for income taxes	1,657	(636)
Net loss	(6,059)	-
Retained earnings, beginning of year	49,400	49,400
Retained earnings, end of year	\$43,341	\$49,400

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS)

For the Year Ended December 31,	2008	2007
Cash flows from operating activities:		
Net loss	(\$6,059)	\$ -
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	11,660	11,167
Net premium amortized (discount accreted) on U.S. Treasury securities owned	4,077	(711)
Deferred income taxes	(17,887)	3,396
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(4,998)	(7,713)
Decrease in other assets	90	217
Increase (decrease) in accounts payable and other liabilities	47,210	(24,772)
(Decrease) increase in payable to participants	(396,267)	173,055
Increase in clearing fund cash deposits	1,657,037	2,054,834
Net cash provided by operating activities	1,294,863	2,209,473
Cash flows from investing activities:		
Maturities of investments in U.S. Treasury securities	200,000	140,000
Purchases of investments in U.S. Treasury securities	(220,438)	(200,112)
Purchases of fixed assets	(10,392)	(14,387)
Net cash used in investing activities	(30,830)	(74,499)
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(4,459)	(3,660)
Net increase in cash and cash equivalents	1,259,574	2,131,314
Cash and cash equivalents, beginning of year	4,882,087	2,750,773
Cash and cash equivalents, end of year	\$6,141,661	\$4,882,087
Supplemental disclosure:		
Income taxes paid, net of refunds	\$273	\$3,456
Interest paid	\$806	\$927

The accompanying notes are an integral part of these financial statements.

NOTE 1 BUSINESS AND OWNERSHIP

National Securities Clearing Corporation (NSCC), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the financial community (participants), consisting principally of securities trade comparison, netting, risk management, clearance and settlement.

NSCC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). The other principal operating subsidiaries of DTCC are The Depository Trust Company (DTC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, and European Central Counterparty Limited (EuroCCP).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements include the accounts of NSCC and its wholly-owned subsidiary. Intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents: Cash and cash equivalents include deposits with financial institutions, overnight reverse repurchase agreements, commercial paper and money market accounts. Reverse repurchase agreements provide for NSCC's delivery of cash in exchange for securities having a market value which is at least 102% of the amount of the agreement. Custodians designated by NSCC that are participants take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts and totaled \$5,383,537,000 and \$4,677,299,000 at December 31, 2008 and 2007, respectively. At December 31, 2008, the counterparties to these agreements were six major financial institutions that are also participants.

Overnight investments in commercial paper totaling \$721,663,000 and \$20,325,000 are included in cash equivalents at December 31, 2008 and 2007, respectively. At December 31, 2008, the issuer of the commercial paper was one major U.S. bank holding company that is also a participant.

Money market accounts with participants are used to sweep any remaining funds available. Overnight investments made in money market accounts totaling \$34,196,000 and \$181,715,000, representing deposits received from participants to facilitate their compliance with customer protection rules of the SEC, are also included in cash equivalents at December 31, 2008 and 2007, respectively. At December 31, 2008, the money market balance was with one participant.

U.S. Treasury Securities: U.S. Treasury securities are recorded at amortized cost and are considered to be held-to-maturity securities. The market values of these securities, which are due in less than one year, at December 31, 2008 and 2007, are \$198,048,000 and \$181,085,000, respectively. At December 31, 2008 and 2007, these securities were held with a participant in an account for the exclusive benefit of participants to facilitate their compliance with customer protection rules of the SEC.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Fixed Assets: Fixed assets consist of the following at December 31, 2008 and 2007:

(Dollars in thousands)	2008	2007
Land	\$1,540	\$1,540
Buildings and improvements	17,551	18,577
Leasehold improvements	10,336	10,336
Furniture and equipment	33,379	28,529
Software	56,580	50,012
Lease property under capital leases	5,556	5,556
Total cost	124,942	114,550
Less accumulated depreciation and amortization	86,516	74,856
Net book value	\$38,426	\$39,694

Buildings and improvements are primarily amortized over 39 years using the straight-line method. Leasehold improvements are amortized using the straight-line method over their useful lives or the remaining term of the related lease, whichever is shorter. Furniture and equipment are depreciated over estimated useful lives ranging from five to seven years, principally using accelerated methods. Software is amortized using the straight-line method over an estimated useful life of three years.

NSCC capitalized costs related to software that was developed for internal use or purchased totaling \$6,568,000 and \$6,774,000 in 2008 and 2007, respectively. The amortization of capitalized and purchased software costs was \$6,615,000 in 2008 and \$5,304,000 in 2007. The depreciation of other fixed assets was \$5,045,000 in 2008 and \$5,863,000 in 2007.

During 2008, there were no fixed asset disposals.

Income Taxes: Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amount and tax basis of assets and liabilities. The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established.

Discounts and other refunds to participants: 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 Board of Directors. Such discounts amounted to \$60,158,000 in 2008 and \$222,280,000 in 2007.

NSCC invests available clearing fund cash deposits principally in overnight reverse repurchase agreements. The earnings on these investments are passed through to participants and are included in interest income and discounts and other refunds to participants. Such earnings totaled \$119,700,000 and \$218,922,000 in 2008 and 2007, respectively.

Payable to Participants: Payable to participants includes settlement accounts payable of \$34,196,000 at December 31, 2008 and \$316,468,000 at December 31, 2007 which primarily represents deposits received from participants to facilitate their compliance with customer protection rules of the SEC.

Revenue Recognition: Revenue is recognized as services are rendered. Activities are captured daily and billed on a monthly basis.

Expense Allocations: Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries based upon their use of such goods or services as determined by applicable allocation factors.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Financial Instruments: Management believes that the carrying value of all financial instruments which are short-term in nature approximates current market value. Due to the fixed term nature of long-term debt, if the company was to seek the same financing at December 31, 2008, the fixed rates assigned to these loans would be current borrowing rates available to companies with similar credit ratings.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 CLEARING FUND

NSCC's rules require certain participants to maintain clearing fund deposits based on calculated requirements, which were \$3,782,558,000 and \$3,468,280,000, at December 31, 2008 and 2007, respectively. The clearing fund is available to secure participants' obligations and certain liabilities of NSCC should they occur. All clearing fund cash and securities are recorded on the balance sheet. A summary of the total deposits held at December 31, 2008 and 2007, including \$2,837,803,000 and \$1,398,296,000, respectively, in excess of calculated requirements follows:

(Dollars in thousands)	2008	2007
Cash	\$6,216,662	\$4,559,625
Securities issued or guaranteed by the U.S. Government, at market value	403,699	306,951
Letters of credit issued by authorized banks	-	-
Total	\$6,620,361	\$4,866,576

NOTE 4 TRANSACTIONS WITH RELATED PARTIES

DTCC: NSCC has an agreement with DTCC whereby DTCC disburses substantially all funds required to sustain the operations of NSCC. The related expenses are allocated to NSCC based upon NSCC's use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for NSCC including administrative, internal audit, finance and legal services. In 2008 and 2007, the billing for these services was determined as 102% of total allocated expenses excluding pass through charges and the impact of capitalized software. The fee representing the amount over actual cost included in professional and other services expense was \$2,993,000 in 2008 and \$2,945,000 in 2007. At December 31, 2008 and 2007, the net payable to DTCC included in accounts payable and other liabilities totaled approximately \$94,906,000 and \$53,887,000, respectively.

NOTE 5 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

All eligible employees of NSCC participate in DTCC's trustee, noncontributory defined benefit pension plan. In addition, NSCC participates in DTCC's noncontributory supplemental executive retirement and benefit restoration plans which provide for certain benefits to eligible executives of NSCC upon retirement. Further, NSCC participates in DTCC's life insurance program, which provides payment of death benefits to beneficiaries of eligible retired employees, and DTCC's healthcare program which provides benefits to eligible retired employees. DTCC's costs for these plans aggregated \$50,325,000 in 2008 and \$52,397,000 in 2007.

In accordance with Financial Accounting Standards Board Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," DTCC recorded a charge of \$233,484,000 on a pre-tax basis offset by a deferred tax benefit of \$92,664,000 resulting in a net charge of \$140,820,000 to the accumulated other comprehensive loss account to report the funded status of the defined benefit pension and other postretirement benefit plans, thereby decreasing shareholders' equity in 2008. The increase in the obligation was primarily the result of a decrease in the value of the plans' assets and a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount. The net charge in shareholders' equity represents an amount not yet recognized as pension expense.

The effect of this standard in 2007 was a credit of \$45,613,000 on a pre-tax basis offset by a deferred tax reversal of \$18,547,000 resulting in a net credit of \$27,066,000 to the accumulated other comprehensive loss account, thereby increasing shareholders' equity. The reduction in the obligation was primarily the result of an increase in the interest rate used to discount the projected benefit obligation to its present settlement amount. The net charge in shareholders' equity represents an amount not yet recognized as pension expense.

NSCC's share of the periodic charges and accumulated other comprehensive loss was a charge of \$55,842,000 in 2008. Such amount is included in employee compensation and related benefits. The equivalent amount for 2007 was a credit of \$1,494,000. Charges are based primarily upon the proportion of NSCC's salary costs to aggregate salary costs for DTCC and its subsidiaries and credits are determined on a first-in-first-out basis.

Disclosures of pension and other post-retirement benefit obligations, expense components and actuarial assumptions for the DTCC plans are included in DTCC's consolidated financial statements.

NOTE 6 INCOME TAXES

NSCC is included in DTCC's consolidated federal, a combined New York State and New York City with other entities in the group, and unitary California and Illinois income tax returns. A separate company Florida return is filed. The provision (benefit) for income taxes calculated on a separate company basis for the years ended December 31, 2008 and 2007 consists of the following:

(Dollars in thousands)	2008	2007
Current income taxes:		
Federal	\$15,002	(\$3,147)
State and local	4,542	(885)
Deferred income tax (benefit):		
Federal	(17,678)	3,354
State and local	(209)	42
Provision (benefit) for income taxes	\$1,657	(\$636)

The 2008 provision for income taxes is mostly due to pension and other employee related benefits. The effective tax rate is greater than the 35% federal statutory rate primarily due to the rate differential applied to the increase in deferred taxes primarily related to pension and other employee benefits.

The major temporary differences that gave rise to the deferred tax assets (liabilities) at December 31, 2008 and 2007 are as follows:

(Dollars in thousands)	2008	2007
Employee benefit related	\$38,246	\$19,792
Depreciation and amortization	898	1,048
Lease abandonment costs	-	66
Capitalization of software developed for internal use	(3,810)	(3,794)
Other	1,120	1,455
Net deferred income tax asset	\$36,454	\$18,567

On December 30, 2008, the Financial Accounting Standards Board issued a Staff position permitting all non-public companies to defer implementing Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," until the fiscal years beginning after December 15, 2008. FIN 48 establishes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The impact of applying this interpretation beginning in 2009 is not expected to have a material effect on the financial condition, results of operations and cash flows of the company.

NOTE 7 LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt at December 31, 2008 and 2007 consists of the following:

(Dollars in thousands)	2008	2007
Notes payable	\$12,721	\$14,816
Sale-leaseback obligation	-	1,262
Capital lease obligations	847	1,949
Total	\$13,568	\$18,027

Notes payable at December 31, 2008 include secured borrowings totaling \$6,800,000 from two insurance companies at a fixed rate of 4.62%. The notes are secured by property, plant and equipment. Principal and interest payments are due semi-annually on March 15 and September 15 of each year through 2012. Interest expense related to these notes totaled \$350,000 in 2008 and \$429,000 in 2007. Notes payable also include unsecured borrowings totaling \$5,921,000 from an insurance company to finance the acquisition of real estate, at a fixed rate of 5.03%. Principal payments are due annually on December 15 of each year through 2023. Interest payments are due semi-annually on June 15 and December 15 of each year, through the same period. Interest expense related to these notes totaled \$318,000 in 2008 and \$338,000 in 2007.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2008, future minimum payments including interest, which are due through 2010, totaled \$954,000. Payments over the next two years are \$780,000, and \$174,000, respectively.

At December 31, 2008, NSCC maintained a committed line of credit of \$4,150,000,000 with 22 major banks that are primarily participants to provide for potential liquidity needs. In addition, a \$50,000,000 shared credit line with DTC and DTCC is maintained with a participant to support potential short-term operating cash requirements. During 2008, there were no borrowings under these credit facilities.

NOTE 8 SHAREHOLDER'S EQUITY

(Dollars in thousands)	Common stock	Paid in Capital	Retained Earnings
Balance at December 31, 2006	\$10	\$590	\$49,400
Net income 2007	-	-	-
Balance at December 31, 2007	10	590	49,400
Net loss 2008	-	-	(6,059)
Balance at December 31, 2008	\$10	\$590	\$43,341

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

The CNS system interposes NSCC between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of the later of midnight of T+1, or midnight of the day they are reported to the membership as compared/recorded. Since all trades submitted to NSCC are matched, 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, 2008, open positions due to NSCC aggregated \$1,057,099,000 (\$7,454,648,000 at December 31, 2007). When a participant does not deliver securities due to NSCC on the settlement date, NSCC, in accordance with its SEC-approved rules, utilizes the Stock Borrow Program (SBP) to complete its delivery obligations to the extent that participants have made available for loan to the system shares of that issue. As of December 31, 2008, NSCC completed delivery of \$171,050,000 in securities through the SBP (\$1,693,456,000 at December 31, 2007), leaving \$886,049,000 in open delivery obligations due to participants (\$5,761,192,000 at December 31, 2007). NSCC's borrowing from the SBP does not relieve a participant's obligation to deliver the securities to NSCC. In addition, the settlement of trades is generally scheduled to occur 3 days after the trade date. As of December 31, 2008, trades totaling \$39.4 billion were scheduled to settle over the next three settlement days.

Net rental expense amounted to \$7,921,000 and \$8,773,000, in 2008 and 2007, respectively. At December 31, 2008, future minimum rental payments under all noncancelable leases are as follows:

(Dollars in thousands)	
2009	\$3,401
2010	3,028
2011	2,854
2012	2,854
Total minimum rental payments	\$12,137

NSCC is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on NSCC's consolidated financial position.

NOTE 10 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 9). If a participant fails to fulfill its obligations, NSCC could be exposed to risk in amounts in excess of those recorded in NSCC's settlement accounts receivable and payable.

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

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

NSCC has entered into a netting contract and limited cross-guaranty agreement with DTC which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized. NSCC has also entered into a multilateral netting contract and limited cross-guaranty agreement with DTC, FICC and The Options Clearing Corporation (OCC) under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that they have excess resources of the defaulting participant. NSCC and OCC have also entered into an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant's failure.

In the event that a deficiency still exists after the application of the guaranty payments from the other clearing agencies, before NSCC may assess its membership, NSCC would satisfy such deficiency by utilizing 25% of its retained earnings, or such greater amount of retained earnings to be determined by the Board of Directors. NSCC may then assess the balance of the deficiency in accordance with NSCC's Rules.

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.

NOTE 11 OTHER MATTERS

In 2007, NSCC incurred related relocation and severance expenses totaling \$284,000 that are included in employee compensation and related benefits. In 2008, there was no similar provision.

On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act ("SIPA"), to administer and liquidate the business of Lehman Brothers Inc. ("LBI"). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. ("Barclays"), which assets did not, however, include the accounts that LBI maintained at National Securities Clearing Corporation ("NSCC"), Fixed Income Clearing Corporation ("FICC") and The Depository Trust Company ("DTC").

As a result, the Trustee, Barclays and DTCC, on behalf and for the benefit of NSCC, FICC and DTC (collectively, the "Clearing Agency Subsidiaries") entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify and hold harmless DTCC, each of NSCC, FICC and DTC, and their officers, directors, employees, owners, agents and representatives against any and all losses, claims, damages, expenses (including legal fees) or liabilities that any of them may incur as a result of winding down and closing out the respective accounts, which guaranty is limited to a \$250,000,000 cash deposit (the "Cash Deposit") it provided for that purpose.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of LBI's Clearing or Participant Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remain after the closeout of the LBI Accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the Trustee.

The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

At year-end, DTCC and its subsidiaries held aggregate funds of \$1,707,230,000 and securities of \$149,093,000 including the Cash Deposit, Clearing and Participant Fund balances, and proceeds from winding down and closing out the respective accounts. Payments of \$1,749,825,000 have already been remitted to the Trustee.

At present, management is not expecting to need to assess losses against retained earnings or to the participants of the Clearing Agency Subsidiaries as a result of the liquidation of the LBI accounts.