

Fixed Income Clearing Corporation

Financial Statements

For the years ended December 31, 2010 and 2009

Fixed Income Clearing Corporation
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For the years ended December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Fixed Income Clearing Corporation

We have audited the accompanying balance sheets of Fixed Income Clearing Corporation (the "Company") as of December 31, 2010 and 2009, and the related statements of income, changes in shareholder's equity, and cash flows for the years then ended. 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Fixed Income Clearing Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP
February 28, 2011

Balance Sheets

(IN THOUSANDS, EXCEPT SHARE DATA)

December 31,	2010	2009
Assets		
Cash and cash equivalents	\$7,509,683	\$7,833,327
Investments in marketable securities	242,032	533,166
Settlement receivable	-	27,090
Accounts receivable	12,348	11,793
Clearing fund, at fair value	17,973,760	21,348,697
Fixed assets, less accumulated depreciation and amortization of \$70,371 and \$60,142 at December 31, 2010 and 2009, respectively	21,468	21,319
Deferred income taxes, net	10,584	14,569
Total assets	25,769,875	29,789,961
Liabilities and Shareholder's Equity		
Liabilities:		
Accounts payable and other liabilities	81,303	77,147
Settlement payable	-	27,090
Clearing fund:		
Cash deposits	7,627,628	8,266,278
Other deposits	17,973,760	21,348,697
Total liabilities	25,682,691	29,719,212
Commitments and contingent liabilities (Note 7)		
Shareholder's equity:		
Common stock		
Class A, \$.50 par value: 105,000 shares authorized, 20,400 shares issued and outstanding	10	10
Paid in capital	10,394	10,394
Retained earnings	76,780	60,345
Total shareholder's equity	87,184	70,749
Total liabilities and shareholder's equity	\$25,769,875	\$29,789,961

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

Statements of Income

	(IN THOUSANDS)	
For the Year Ended December 31,	2010	2009
Revenues:		
Revenue from clearing and other services	\$148,104	\$129,075
Interest income	13,301	17,115
Total revenues	161,405	146,190
Refunds to participants	(13,102)	(19,036)
Net revenues	148,303	127,154
Expenses:		
Employee compensation and related benefits	62,121	53,070
Information technology	10,759	9,121
Professional, clearance and other services	33,901	28,149
Occupancy	5,787	5,531
Other general and administrative	1,720	1,446
Total expenses	114,288	97,317
Income before provision for income taxes	34,015	29,837
Provision for income taxes	17,580	8,660
Net income	\$16,435	\$21,177

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

Statements of Changes in Shareholder's Equity

For the Years Ended December 31, 2010 and 2009

(Dollars in thousands)	Common Stock	Paid in Capital	Retained Earnings	Total Shareholder's Equity
Balance at December 31, 2008	\$10	\$9,373	\$39,595	\$48,978
Adjustment for uncertain tax positions	-	-	(427)	(427)
Capital contribution from DTCC	-	1,021	-	1,021
Net income 2009	-	-	21,177	21,177
Balance at December 31, 2009	10	10,394	60,345	70,749
Net income 2010	-	-	16,435	16,435
Balance at December 31, 2010	\$10	\$10,394	\$76,780	\$87,184

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

Statements of Cash Flows

	(IN THOUSANDS)	
For the Year Ended December 31,	2010	2009
Cash flows from operating activities:		
Net income	\$16,435	\$21,177
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets	10,229	9,183
Net premium amortized on securities owned	156	232
Deferred income taxes	3,985	1,764
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(555)	(1,151)
Increase (decrease) in accounts payable and other liabilities	4,156	(14,005)
(Decrease) in payable to participants	-	(12,879)
(Decrease) in clearing fund cash deposits	(638,650)	(1,529,812)
Net cash used in operating activities	(604,244)	(1,525,491)
Cash flows from investing activities:		
Maturities of investments in marketable securities	732,000	30,000
Purchases of investments in marketable securities	(441,022)	(532,000)
Purchases of fixed assets	(10,378)	(9,328)
Net cash provided by (used in) investing activities	280,600	(511,328)
Cash flows from financing activities:		
Capital contribution	-	1,021
Net cash provided by financing activities	-	1,021
Net decrease in cash and cash equivalents	(323,644)	(2,035,798)
Cash and cash equivalents, beginning of year	7,833,327	9,869,125
Cash and cash equivalents, end of year	\$7,509,683	\$7,833,327
Supplemental disclosure - income taxes paid, net of refunds	\$8,441	\$14,882

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

NOTE 1 BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides various services to members of the government and mortgage-backed securities markets (participants), consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification. FICC has Government Securities (GSD) and Mortgage Backed Securities (MBSD) divisions.

FICC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited and AVOX Limited.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the U.S.

Cash and Cash Equivalents: The Company reports overnight reverse repurchase agreements, commercial paper and money market accounts as 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 FICC's delivery of cash in exchange for securities having a fair value of at least 102% of the amount of the agreement. Custodians designated by FICC that are participants take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts which approximate fair value and totaled \$ 6,259,026,000 and \$4,325,000,000 at December 31, 2010 and 2009, respectively. At December 31, 2010, eight major financial institutions, that are also participants, were counterparties to these agreements. There were five counterparties as of December 31, 2009, that were all participants.

Overnight investments in commercial paper totaling \$500,000,000 and \$2,341,286,000 at December 31, 2010 and 2009, respectively, are stated at amounts that approximate fair value. The issuer of the commercial paper was one major U.S. bank holding company that is also a participant. There were two issuers as of December 31, 2009 and both were participants.

Money market accounts with participants are used to sweep any remaining funds available and are stated at amounts that approximate fair value. Overnight investments in money market accounts totaled \$750,000,000 and \$1,100,000,000 at December 31, 2010 and 2009, respectively. At December 31, 2010, the money market balance was with two participants. As of December 31, 2009 the balance was with three participants.

Investments in Marketable Securities: These investments, which include U.S. Treasury securities and investment grade corporate notes, are recorded at amortized cost and are considered to be held-to-maturity securities. The contractual maturities, carrying value and market value of these securities at December 31, 2010 and 2009, are as follows:

Notes to Financial Statements

December 31, 2010 and 2009

(Dollars in thousands)	Carrying value				Market Value			
	U.S. Treasury Securities	Corporate Notes	U.S. Treasury Bills	Total	U.S. Treasury Securities	Corporate Notes	U.S Treasury Bills	Total
2010								
Due in one year or less	\$41,149	-	\$199,876	\$241,025	\$41,088	-	\$199,710	\$240,798
Due in three years	-	\$1,007	-	\$1,007	-	\$1,083	-	\$1,083
2009								
Due in one year or less	\$32,351	-	\$499,804	\$532,155	\$32,362	-	\$499,862	\$532,224
Due in three years	-	\$1,011	-	\$1,011	-	\$1,067	-	\$1,067

Refunds to Participants: FICC invests available clearing fund cash deposits in overnight reverse repurchase agreements. The earnings on these investments are included in interest income. The amounts are passed through to participants and are included in refunds to participants. Such earnings totaled \$13,102,000 and \$16,634,000 in 2010 and 2009, respectively. Further, FICC's Board of Directors determines the amount, if any, of discount to be paid to participants each year. There were no discounts in 2010. In 2009, discounts amounted to \$2,402,000.

Income Taxes: Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

Fixed Assets: These assets consist primarily of software, and computer equipment which is generally depreciated over estimated useful lives ranging from five to seven years, principally using accelerated double declining methods.

Software Capitalization: Internal and external costs incurred in developing or obtaining computer software for internal use are capitalized in accordance with generally accepted accounting principles and are amortized on a straight-line basis over the estimated useful life of the software, generally three years. General and administrative costs related to developing or obtaining such software are expensed as incurred.

Capitalized costs related to software that was either developed for internal use, or purchased, totaled \$10,378,000 and \$16,426,000 in 2010 and 2009, respectively. The amortization of capitalized software was \$10,034,000 in 2010 and \$8,833,000 in 2009. The depreciation of other fixed assets was \$195,000 in 2010 and \$350,000 in 2009. There were no disposals in 2010 or 2009.

Revenue Recognition: Revenue is recognized as services are rendered. Activities are captured daily and billed on a monthly basis. Interest income is recorded on an accrual 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, including headcount, square footage and utilization of technology resources.

Fair Value Measurements: The framework for measuring fair value is established in Accounting Standards Codification (ASC) Topic 820. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three-tier hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In accordance with ASC 820, the Levels are described as follows:

- Level 1 – Financial assets and liabilities whose values are based on unadjusted, quoted prices for identical assets or liabilities in an active market.
- Level 2 – Financial assets and liabilities whose values are based on quoted prices in inactive markets, or whose values are based on models - but the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
 - a) Quoted prices for similar assets or liabilities in active markets.
 - b) Quoted prices for identical or similar assets or liabilities in non-active markets.
 - c) Pricing models whose inputs are observable for substantially the full term of the asset or liability.
 - d) Pricing models whose inputs are derived principally from or corroborated by observable market data by correlation or other means for substantially the full term of the asset or liability.
- Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of financial assets and liabilities are presented in accordance with established guidelines.

Management believes that the carrying value of all financial instruments, which are short-term in nature, approximates fair value.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Management makes estimates regarding the collectability of receivables, the outcome of litigation, the realization of deferred taxes, the recognition of uncertain tax positions, and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the financial statements.

Recent Accounting Pronouncements: In July 2010, the Financial Accounting Standards Board amended the accounting guidance for receivables as it relates to disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires disclosure of credit quality indicators, past due information, and modifications of financing receivables. For nonpublic entities, these disclosures are effective for annual reporting periods ending on or after December 15, 2011. The Company is evaluating the impact this amendment will have on its financial statements.

NOTE 3 CLEARING FUND

FICC's rules require its participants to maintain clearing fund deposits based on calculated requirements, which were \$17,432,888,000 and \$18,675,971,000 at December 31, 2010 and 2009, respectively. The clearing fund is available to secure participants' obligations and, in certain circumstances, to satisfy other losses and liabilities of FICC, should they occur. All clearing fund cash is reflected in cash and cash equivalents and securities are reflected in other deposits on the balance sheet. A summary of the total deposits held at December 31, 2010 and 2009, including \$8,168,500,000 and \$10,939,004,000, respectively, in excess of calculated requirements follows:

(Dollars in thousands)	2010	2009
Cash	\$7,627,628	\$8,266,278
Other Deposits - U.S. Treasury and Agency securities, at fair value	17,973,760	21,348,697
Total	\$25,601,388	\$29,614,975

Other deposits include U.S. Treasury Securities of \$12,760,176,000 and \$11,570,074,000 categorized as Level 1 assets as of December 31, 2010 and 2009, respectively. In addition, U.S. Agency and Agency Mortgage-Backed Securities of \$5,213,584,000 and \$9,778,623,000, respectively, are categorized as Level 2 assets.

NOTE 4 TRANSACTIONS WITH RELATED PARTIES

FICC has an agreement with DTCC whereby DTCC disburses substantially all funds required to sustain the operations of FICC. The related expenses are allocated to FICC based upon FICC's use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for FICC including administrative, internal audit, finance and legal services. In 2010 and 2009, the billing for these services was determined as 104% of total allocated expenses, excluding pass through charges and the impact of capitalized software. The fee, representing the amount over actual cost as included in professional, clearance and other services expense, was \$3,812,000 in 2010 and \$3,505,000 in 2009. At December 31, 2010 and 2009, amounts payable to DTCC included in accounts payable and other liabilities were \$74,300,000 and \$73,991,000, respectively.

FICC is contingently liable for a portion of NSCC's office lease, which expires on December 31, 2012. At December 31, 2010, the contingent commitment of FICC for the remaining lease term was approximately \$1,907,000.

NOTE 5 INCOME TAXES

FICC is included in DTCC's consolidated federal, combined New York State and New York City and unitary Massachusetts and Illinois tax returns. A separate company Florida return is also filed. The components of the Company's income tax provision (benefit) calculated on a separate company basis for the years ended December 31, 2010 and 2009 are as follows:

(Dollars in thousands)	2010	2009
Current income tax:		
Federal	\$9,057	\$6,492
State and local	4,538	404
Deferred income tax (benefit):		
Federal	2,825	2,734
State and local	1,160	(970)
Provision for income taxes	\$17,580	\$8,660

Pursuant to a tax sharing agreement between DTCC and FICC, the Company is liable for its allocable share of federal, state and local tax liabilities that are paid by DTCC. During 2010, the Company paid income taxes of \$8.4 million, net of refunds.

The 2010 effective tax rate differs from the 35% federal statutory rate primarily due to state and local taxes, permanent differences between financial statement income and taxable income, and adjustments to deferred tax balances. Deferred tax balances include adjustments made to reflect estimated recoverable amounts in future years

The components of deferred tax assets and (liabilities) at December 31, 2010 and 2009 are as follows:

(Dollars in thousands)	2010	2009
Employee benefit related	\$18,765	\$22,929
Depreciation and amortization	407	150
Capitalization of software developed for internal use	(8,600)	(8,488)
Other	12	(22)
Net deferred income tax asset	\$10,584	\$14,569

The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established.

On January 1, 2009, DTCC implemented the provisions of FASB-issued Financial Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes," (codified primarily in FASB ASC Topic 740, Income Taxes), resulting in a reduction to retained earnings of \$0.4 million. This reduction is comprised of \$0.4 million increase in the liability for unrecognized tax benefits ("UTBs"). As of the date of implementation and after the impact of recognizing the increase in liability noted above, the Company's UTBs totaled 1.0 million. During 2010, the Company increased UTBs in the amount of \$0.5 million. As of December 31, 2010, UTBs totaled \$1.5 million.

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its consolidated statement of operations. During 2010, the Company accrued interest related to UTBs of \$0.1 million. As of December 31, 2010 the amount of accrued interest recorded in the Company's balance sheet related to UTBs was \$0.1 million.

The Company is subject to U.S. federal income tax as well as income tax in various state and local jurisdictions. DTCC's federal income tax returns filed for the tax years 2007 through 2009 remain subject to examination by the IRS. New York State income tax returns for 2000 through 2006 are currently under examination and for 2007 through 2009 remain open to examination. New York City income tax returns for 2007 through 2009 remain subject to examination.

For the current ongoing audit related to open tax years, the Company estimates that it is possible that the balance of UTBs could decrease in the next twelve months as a result of the effective settlement of this audit, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which might necessitate increases to the balance of UTBs. As the Company is unable to predict the timing of conclusion of this audit, the Company is unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

NOTE 6 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

All eligible employees of FICC participate in DTCC's trustee, noncontributory defined benefit pension plan. In addition, FICC participates in DTCC's noncontributory supplemental executive retirement and benefit restoration plans which provide for certain benefits to eligible executives of FICC upon retirement. Further, FICC 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 \$50,158,000 in 2010 and \$53,710,000 in 2009.

In accordance with FASB guidance on employers' accounting for defined benefit pension and other postretirement plans, DTCC recorded a charge of \$28,679,000 on a pre-tax basis offset by a deferred tax benefit of \$10,792,000 resulting in a net charge of \$17,887,000 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 2010. The increase in the obligation was mainly due to a decrease in the discount rate used to discount the projected benefit obligation to its present settlement amount, partially offset by the impact of an increase in the plan assets. The net decrease in shareholders' equity represents an amount not yet recognized as pension expense.

The effect of this standard in 2009 was a credit of \$110,909,000 on a pre-tax basis offset by a deferred tax charge of \$47,922,000 resulting in a net credit of \$62,987,000 to the accumulated other comprehensive loss account, thereby increasing shareholders' equity. The decrease in the obligation was primarily the result of an increase in the value of the plan's assets and a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount.

FICC's share of the periodic charges and accumulated other comprehensive loss was a charge of \$8,558,000 in 2010. Such amount is included in employee compensation and related benefits. The equivalent amount for 2009 was a credit of \$3,476,000. Charges are based primarily upon the proportion of FICC'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 7 COMMITMENTS AND CONTINGENT LIABILITIES

The GSD's netting system interposes FICC between netting GSD participants for eligible trades that have been netted. The guarantee of net settlement positions by FICC results in potential liability to FICC. Guaranteed positions that have not yet settled are margined and marked-to-market daily. Margin deposits are held by FICC and marks are debited from and credited to the responsible participants through the funds-only settlement process, and are included in cash and cash equivalents and clearing fund cash deposits on the balance sheet. At December 31, 2010, the gross amount of guaranteed positions due from netting GSD participants to FICC, which are scheduled to settle on or before January 3, 2011, approximated \$344,799,815,000 and the amount scheduled to settle after January 3, 2011 approximated \$365,840,380,000. There is an equal amount due to certain other GSD participants from FICC after consideration of deliveries pending to FICC. The comparable amounts at December 31, 2009 were \$289,563,897,000 and \$289,555,947,000, respectively.

FICC 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 FICC's financial position, operations or cash flows.

NOTE 8 OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, because it guarantees certain settlement obligations of its netting participants (see Note 7), FICC is exposed to credit risk. FICC mitigates its exposure to credit risk by requiring such participants to meet minimum financial standards for membership, verifying their compliance with financial and other standards, monitoring their financial status and trading activity, requiring participants to meet daily mark-to-market obligations, and requiring participants to provide clearing fund deposits (see Note 3) in the form of cash, U.S. Treasuries, non-mortgage backed Agency securities and certain mortgage-backed securities. FICC has reserved the right to require eligible letters of credit to be posted as Clearing Fund collateral where it deems it necessary to protect itself and its members from the risk presented by a particular member's insolvency regime. No letters of credit were held at December 31, 2010 or 2009.

If a participant fails to fulfill its settlement obligations to FICC and FICC determines to cease to act for such participant, FICC would liquidate that participant's outstanding netted security positions and apply the failed participant's margin and mark-to-market deposits, including clearing fund deposits, to satisfy any outstanding obligation and/or loss. FICC has entered into a multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and the Options Clearing Corporation 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. In addition, FICC has entered into a cross-margining agreement with the Chicago Mercantile Exchange (CME) under which FICC and CME would apply available amounts to each other under specified circumstances.

In the event that a deficiency still exists, FICC would satisfy the deficiency by assessing the participants with whom the defaulting participant most recently conducted trading activity, subject to various priorities and limitations as defined in FICC's rules. If one or more of such participants does not pay its assessment, FICC 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. Thereafter, if necessary, each remaining participant would be assessed on an equal basis up to \$50,000. Finally, if a deficiency still remains, FICC would assess all remaining participants on a pro-rata basis based upon their average daily level of required clearing fund deposits over the prior year; however, any such remaining participant may limit its additional liability to the amount of its required clearing fund deposit by terminating its membership in FICC. Further, certain inter-dealer brokers have an absolute cap of \$5,000,000 on losses associated with each insolvency/cease to act event.

As discussed in Note 1, FICC provides automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification services to participants in the government securities, mortgage-backed securities and financing marketplaces for brokers, dealers, banks and other market participants. As such, FICC 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 9 OTHER MATTERS

In 2010, FICC incurred severance expenses totaling \$418,000 that are included in employee compensation and related benefits. In 2009, there was a similar expense of \$1,227,000.

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.

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 close out 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 \$630,972,000 and securities of \$158,615,000 including the Cash Deposit, Clearing and Participant Fund balances, and proceeds from winding down and closing out the respective accounts. Payments of \$4,551,761,000 have already been remitted to the Trustee.

Management is not currently 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.

NOTE 10 SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2010 through February 28, 2011 for potential recognition or disclosure in these financial statements. No further recognition or disclosures were required.