

**The Depository Trust & Clearing Corporation**

**Consolidated Financial Statements**

**December 31, 2010 and 2009 (Restated)**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
The Depository Trust & Clearing Corporation

We have audited the accompanying consolidated balance sheets of The Depository Trust & Clearing Corporation and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income and comprehensive income, changes in shareholders' 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 the 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 consolidated financial statements present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and subsidiaries as of December 31, 2010 and 2009, 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.

As discussed in Note 2 to the consolidated financial statements, the accompanying 2009 consolidated financial statements have been restated.

As discussed in Note 3 to the consolidated financial statements, the Company adopted new accounting standards in 2009 related to the accounting and financial statement presentation for non-controlling interests and accounting for uncertainty in income taxes.

*Deloitte + Touche LLP*

April 21, 2011

# Consolidated Balance Sheets

December 31, (Dollars in thousands, except share data)	2010	2009 As Restated (See Note 2)
<b>Assets</b>		
Cash and cash equivalents	<b>\$14,199,434</b>	\$14,418,767
Investments in marketable securities	<b>298,231</b>	614,647
Accounts receivable	<b>170,220</b>	163,843
Participants' fund	<b>18,200,889</b>	21,545,520
Fixed assets, less accumulated depreciation of \$639,133 and \$552,329 at December 31, 2010 and 2009, respectively	<b>236,088</b>	240,543
Deferred income taxes, net	<b>78,821</b>	114,835
Equity method investments	<b>281,093</b>	292,138
Other assets	<b>483,020</b>	451,465
<b>Total assets</b>	<b>33,947,796</b>	37,841,758
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities	<b>1,165,118</b>	1,084,719
Payable to participants	<b>1,214,653</b>	1,313,498
Long-term debt and other borrowings	<b>387,028</b>	383,653
Clearing fund:		
Cash deposits	<b>12,290,305</b>	12,890,432
Other deposits	<b>18,200,889</b>	21,545,520
<b>Total liabilities</b>	<b>33,257,993</b>	37,217,822
<b>Commitments and contingent liabilities (Note 12)</b>		
Shareholders' equity:		
Preferred Stock		
Series A, \$.50 par value - 10,000 shares authorized, issued (above par) and outstanding	<b>300</b>	300
Series B, \$.50 par value- 10,000 shares authorized, issued (above par) and outstanding	<b>300</b>	300
Common stock, \$100 par value – 28,500 shares authorized, 23,655 shares issued and outstanding	<b>2,366</b>	2,366
Paid in capital	<b>12,671</b>	12,671
Retained earnings:		
Appropriated	<b>257,240</b>	203,880
Unappropriated	<b>425,844</b>	395,859
Treasury stock	<b>(42)</b>	(42)
	<b>698,679</b>	615,334
Accumulated other comprehensive loss, net of tax:		
Defined benefit pension and other plans	<b>(151,658)</b>	(133,019)
Foreign currency translation adjustment	<b>(6,966)</b>	(8,588)
Net unrealized (loss) gain on derivatives and other	<b>(252)</b>	209
<b>Accumulated other comprehensive loss</b>	<b>(158,876)</b>	(141,398)
Non-controlling interests	<b>150,000</b>	150,000
<b>Total shareholders' equity</b>	<b>689,803</b>	623,936
<b>Total liabilities and shareholders' equity</b>	<b>\$33,947,796</b>	\$37,841,758

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

# Consolidated Statements of Income and Comprehensive Income

For the year Ended December 31, (Dollars in thousands)	2010	2009 As Restated (See Note 2)
Revenues:		
Trading services	\$560,416	\$577,666
Custody services	204,219	202,882
Network services	15,609	14,838
Other services	55,212	51,855
Interest income	43,143	52,189
Equity in net income of equity method investments	69,983	51,198
Gain on investment in MarkitSERV, LLC	-	222,992
Total revenues	948,582	1,173,620
Refunds to participants	(25,854)	(35,324)
Net revenues	922,728	1,138,296
Expenses		
Employee compensation and related benefits	473,361	511,172
Information technology	103,662	95,802
Professional, clearance and other services	149,503	123,469
Occupancy	54,809	53,969
Interest expense	25,625	23,612
Other general and administrative	22,902	21,056
Expense reimbursements	(53,988)	(39,840)
Total expenses	775,874	789,240
Income before taxes	146,854	349,056
Provision for income taxes	63,269	116,371
Net income	83,585	232,685
Net income attributable to non-controlling interests	240	246
Net income attributable to DTCC	83,345	232,439
Other comprehensive (loss) income, net of tax:		
Defined benefit pension and other plans		
DTCC	(17,887)	62,987
DTCC's share of Omgeo LLC	(752)	-
Foreign currency translation adjustments		
DTCC	2,372	1,495
DTCC's share of Omgeo LLC	(402)	(3,950)
DTCC's share of MarkitSERV LLC	(348)	(714)
Net unrealized (loss) gain on derivative instruments and other		
DTCC	(252)	-
DTCC's share of Omgeo LLC	(209)	352
Other comprehensive (loss) income	(17,478)	60,170
Comprehensive income	66,107	292,855
Comprehensive income attributable to non-controlling interests	240	246
Comprehensive income attributable to DTCC	\$65,867	\$292,609

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

# Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands)	Preferred Stock		Common Stock	Paid in Capital	Retained Earnings		Treasury Stock	Accumulated Other Comprehensive Income (Loss) Net of Tax			Non- controlling Interests	Total Shareholders' Equity		
	Series A	Series B			Appropriated	Unappropriated		Defined Benefit Pension and other Plans	Foreign Currency Translation Adjustment	Unrealized (loss) / gain on derivative instruments and other				
Balance at December 31, 2008, as previously reported	\$300	\$300	\$2,366	\$12,671	\$94,067	\$315,031	(\$42)	(\$196,006)	(\$5,419)	(\$143)	\$125,000	\$348,125		
Tax restatement adjustment, See Note 2						(4,587)						(4,587)		
Balance at December 31, 2008, as restated, See Note 2	300	300	2,366	12,671	94,067	310,444	(42)	(196,006)	(5,419)	(143)	125,000	343,538		
Cumulative effect change due to adoption of uncertain tax positions					(1,747)	(35,464)						(37,211)		
Balance at January 1, 2009, as restated and revised	300	300	2,366	12,671	92,320	274,980	(42)	(196,006)	(5,419)	(143)	125,000	306,327		
Net Income 2009	-	-	-	-	111,806	120,879	-	-	-	-	-	232,685		
Non-controlling interests	-	-	-	-	(246)	-	-	-	-	-	-	(246)		
Issuance of DTC Preferred Stock	-	-	-	-	-	-	-	-	-	-	25,000	25,000		
Defined benefit pension and other plans														
DTCC (net of taxes of \$47,922)	-	-	-	-	-	-	-	62,987	-	-	-	62,987		
Foreign currency translation adjustment														
DTCC	-	-	-	-	-	-	-	-	1,495	-	-	1,495		
DTCC's share of Omgeo LLC	-	-	-	-	-	-	-	-	(3,950)	-	-	(3,950)		
DTCC's share of Markit LLC	-	-	-	-	-	-	-	-	(714)	-	-	(714)		
DTCC's share of Omgeo LLC net unrealized gain on derivative instruments and other	-	-	-	-	-	-	-	-	-	352	-	352		
Balance at December 31, 2009	300	300	2,366	12,671	203,880	395,859	(42)	(133,019)	(8,588)	209	150,000	623,936		
Net Income 2010	-	-	-	-	53,600	29,985	-	-	-	-	-	83,585		
Non-controlling interests	-	-	-	-	(240)	-	-	-	-	-	-	(240)		
Defined benefit pension and other plans														
DTCC (net of taxes of \$10,792)	-	-	-	-	-	-	-	(17,887)	-	-	-	(17,887)		
DTCC's share of Omgeo LLC	-	-	-	-	-	-	-	(752)	-	-	-	(752)		
Foreign currency translation adjustment														
DTCC	-	-	-	-	-	-	-	-	2,372	-	-	2,372		
DTCC's share of Omgeo LLC	-	-	-	-	-	-	-	-	(402)	-	-	(402)		
DTCC's share of MarkiSERV LLC	-	-	-	-	-	-	-	-	(348)	-	-	(348)		
Derivatives instruments														
DTCC (net of taxes of \$175)	-	-	-	-	-	-	-	-	-	(252)	-	(252)		
DTCC's share of Omgeo LLC	-	-	-	-	-	-	-	-	-	(209)	-	(209)		
Balance at December 31, 2010	\$300	\$300	\$2,366	\$12,671	\$257,240	\$425,844	(\$42)	(\$151,658)	(\$6,966)	(\$252)	\$150,000	\$689,803		

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

## Consolidated Statements of Cash Flows

For the Year Ended December 31, (Dollars in thousands)	2010	2009 As Restated (See Note 2)
Cash flows from operating activities:		
Net Income	<b>\$83,585</b>	\$232,685
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of fixed assets	<b>86,804</b>	89,007
Net premium amortized on investments in marketable securities	<b>1,109</b>	2,996
Deferred tax charge	<b>36,014</b>	55,020
Distributions from equity method investments, net of earnings	<b>20,762</b>	(7,719)
Impairment of internally developed software	-	976
Gain on investment in MarkitSERV, LLC	-	(222,992)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	<b>(6,377)</b>	(825)
(Increase) in equity method investments	<b>(9,717)</b>	(2,642)
(Increase) in other assets	<b>(14,553)</b>	(35,118)
Increase in accounts payable and other liabilities	<b>60,549</b>	23,677
(Decrease) in payable to participants	<b>(98,845)</b>	(619,238)
(Decrease) in participants' fund cash deposits	<b>(600,127)</b>	(4,429,193)
Net cash used in operating activities	<b>(440,796)</b>	(4,913,366)
Cash flows from investing activities:		
Business acquisition, net of cash received	<b>(17,002)</b>	-
Maturities of investments in marketable securities	<b>813,000</b>	231,000
Purchases of investments in marketable securities	<b>(497,693)</b>	(614,470)
Purchases of fixed assets	<b>(82,349)</b>	(88,762)
Net cash provided by (used in) investing activities	<b>215,956</b>	(472,232)
Cash flows from financing activities:		
Payments to non-controlling interests	<b>(240)</b>	(246)
Issuance of preferred stock to non-controlling interests	-	25,000
Proceeds from notes payable issuance	<b>24,905</b>	149,126
Capitalized leases	-	12,200
Principal payments on debt and capital lease obligations	<b>(21,530)</b>	(39,816)
Net cash provided by financing activities	<b>3,135</b>	146,264
Effect of foreign exchange rate changes on cash and cash equivalents	<b>2,372</b>	(3,169)
Net decrease in cash and cash equivalents	<b>(219,333)</b>	(5,242,503)
Cash and cash equivalents, beginning of year	<b>14,418,767</b>	19,661,270
Cash and cash equivalents, end of year	<b>\$14,199,434</b>	\$14,418,767
Supplemental disclosures:		
Income taxes paid, net of refunds	<b>\$46,639</b>	\$100,536
Interest paid	<b>\$24,875</b>	\$24,578

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

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 1 BUSINESS AND OWNERSHIP

**Subsidiaries:** The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports various operating subsidiaries including The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited and Avox Limited (Avox), collectively the "Company" or "Companies." The members of DTCC's subsidiaries are collectively referred to as participants.

DTC is a limited purpose trust company under New York State banking law and a member of the Federal Reserve System. It provides central securities depository, settlement and related services to members of the securities, banking and other financial industries.

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

FICC is a clearing agency registered with the SEC that provides various services to members of the government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management and electronic pool notification.

DTCC Deriv/SERV LLC provides matching, confirmation and payment processing services and a global contracts repository to perform netting and money settlement services for the over-the-counter derivatives market.

DTCC Solutions LLC provides technology services that help financial institutions manage the rapid growth, high risk and costs of corporate action transactions.

EuroCCP is a Recognized Clearing House in the United Kingdom regulated by the Financial Services Authority (FSA). The Company is a central counterparty to support pan-European securities trading.

DTCC Solutions Worldwide Limited is an authorized payment institution in the United Kingdom regulated by the FSA. The Company provides processing of non-US Dollar settlements for offshore mutual funds.

Avox validates and maintains business entity reference data, including corporate hierarchies, registered address information, industry sector codes and company identifiers. On July 1, 2010, the Company acquired the outstanding shares of Avox in an all cash transaction. Pursuant to ASC 805 *Business Combinations*, the consideration of \$17,775,000 paid by the Company for the outstanding shares of Avox has been measured by reference to the fair value of the Avox business at the acquisition date. The transaction was accounted for as a purchase business combination, resulting in \$4,396,000 of Goodwill. Technology and customer relationships acquired, totaling \$9,095,000, are being amortized over a ten-year life and a twelve-year life, respectively. In addition, a trade name valued at \$3,248,000 and a non-compete agreement valued at \$31,000 were acquired, and are not being amortized. Net assets of \$1,005,000 were acquired. The acquisition was not material to the Company's operations, financial position or cash flows.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 1 BUSINESS AND OWNERSHIP (continued)

**Equity Method Investments:** The Company has three equity method investments.

Omgeo LLC (Omgeo) is a joint venture with Thomson Reuters Corporation (Thomson). Omgeo uses the institutional trade-processing infrastructures of DTCC and Thomson to provide seamless global trade management and straight-through processing. The carrying value of DTCC's investment in Omgeo included in equity method investments totaled \$44,570,000 and \$46,516,000 at December 31, 2010 and 2009, respectively, and represents 50% of Omgeo's net book value.

MarkitSERV, LLC (MarkitSERV), formed on September 1, 2009, is a joint venture with Markit Group Holdings Limited (MGHL). It engages in derivative transaction processing, confirmation, novation, and other related services for firms that conduct business on the over-the-counter derivatives market. The carrying value of DTCC's investment in MarkitSERV included in equity method investments totaled \$233,436,000 and \$248,376,000 at December 31, 2010 and 2009, respectively, and reflects DTCC's 50% ownership of MarkitSERV. (See Note 2)

New York Portfolio Clearing LLC (NYPC) is a joint venture with NYSE Euronext. NYPC was established in September 2009 to serve as a derivatives clearing organization. The Company is registered with the Commodity Futures Trading Commission (CFTC). The carrying value of DTCC's investment in NYPC included in equity method investments totaled \$3,087,000 and (\$2,754,000) at December 31, 2010 and 2009, respectively, and reflects DTCC's 50% ownership of NYPC. The Company had no operations in 2010 or 2009.

**Non-Controlling Interests:** Under a plan adopted by the Board of Directors, each participant of DTC is required to own shares of its Series A Preferred Stock. The preferred stock does not reduce the funds available in the event of a DTC participant's failure to settle. The ownership of DTC preferred stock is reported as non-controlling interests in the consolidated financial statements. There was \$150,000,000 of DTC Series A Preferred Stock outstanding as of December 31, 2010 and 2009 (1,500,000 shares at a par value of \$100 per share). Dividends are accrued quarterly based on the earnings of the funds. In December 2010, DTC's authorized series A preferred stock was increased by 1,750,000 shares bringing the total to 3,250,000 authorized shares, or \$325,000,000. None of the newly authorized shares have been issued.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## **NOTE 2      RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS**

Subsequent to the issuance of its 2009 consolidated financial statements, the Company identified accounting errors relating to (i) how it accounted for MarkitSERV, a joint venture with MGHL, which was established on September 1, 2009, and (ii) the determination of certain deferred income tax liabilities pertaining to the Company's investment in Omgeo.

In 2009, the Company accounted for the MarkitSERV transaction using the equity method of accounting per ASC 323 - *Investments, Equity Method and Joint Ventures*, and, as such, recorded its investment at book value, as well as the related equity pick-up for the period September 1 to December 31, 2009.

Based on the Company's subsequent review of the transaction, it was determined that MarkitSERV was ultimately controlled by MGHL. As a result, the Company has restated its 2009 consolidated financial statements to record a one-time non-cash gain on the sale of the contributed businesses and a corresponding increase in the carrying value of its investment, reflecting the Company's proportion of the market value of MarkitSERV. Consistent with the results of a market valuation performed by a third party, the Company has determined that the fair value of MarkitSERV at the transaction date was \$486,400,000. The amortization of the fair value of the identified intangible assets contributed by both the Company and MGHL were adjusted, effective with the transaction date.

The impact of the restatement related to MarkitSERV on the Company's 2009 consolidated financial statements was:

- (1) Recording the removal of technology assets contributed to MarkitSERV at the transaction date, and reversing the amortization on these assets that had been incorrectly recorded in the period September 1 to December 31, 2009, as they had not been removed from the books as part of the original transaction. The net book value of such assets at the transaction date was \$15,229,000, and the related amortization recorded in that period was \$2,817,000 as reflected in Compensation and Benefits, where the amortization was recorded. The net impact was a \$12,412,000 adjustment to fixed assets.
- (2) Adjusting the amount previously recorded as the equity method pick-up to reflect the amortization of intangible assets valued at the transaction date of \$9,621,000.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 2 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(3) Recording a gain on the sale of its businesses of \$222,992,000, as follows:

Company share of the fair value of MarkitSERV	\$243,200,000
Less: net book value of contributed technology	(15,229,000)
Less: amount previously recorded as investment	(4,979,000)
Gain on the sale of businesses	\$222,992,000

(4) Increasing the carrying value of the Company's investment in the joint venture by \$227,886,000, as follows:

Company share of the fair value of MarkitSERV	\$243,200,000
Less: amount previously recorded as investment	(4,979,000)
Less: equity method pick-up adjustment	(9,621,000)
Less: accumulated other comprehensive income adjustment *	(714,000)
Increase in carrying value of the joint venture	\$227,886,000

\* The Company also recorded additional accumulated other comprehensive loss reflecting the impact of foreign currency translation in MarkitSERV.

(5) Recording a decrease in deferred income taxes, net, and a corresponding amount to provision for income taxes, of \$88,277,000 related to the gain.

The Company also concluded that an error existed in its previously issued financial statements relating to accounting for deferred tax assets and liabilities, as it did not record the appropriate deferred income tax liability pertaining to its investment in Omgeo. The error resulted in an overstatement of unappropriated retained earnings at December 31, 2008 of \$4,587,000. Therefore, the Company has reduced its unappropriated retained earnings at December 31, 2008, in its consolidated statement of changes in shareholders' equity, with a corresponding decrease in deferred income taxes, net.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 2 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table sets forth the effect of the restatements on the Company's consolidated balance sheet as of December 31, 2009.

### Consolidated Balance Sheet

As of December 31, 2009

(Dollars in thousands)	As Previously Reported	Reclass*	Adjustments	As Restated and Reclassified
<b>Assets</b>				
Fixed assets, less accumulated depreciation	\$252,955	\$-	(\$12,412)	\$240,543
Deferred income taxes, net	207,699	-	(92,864)	114,835
Equity method investments	-	64,252	227,886	292,138
Other assets	515,717	(64,252)		451,465
<b>Total assets</b>	<b>37,719,148</b>	<b>-</b>	<b>122,610</b>	<b>37,841,758</b>
<b>Shareholders' equity</b>				
Retained earnings – Unappropriated	272,535	-	123,324	395,859
Foreign currency translation adjustment	(7,874)	-	(714)	(8,588)
Accumulated other comprehensive loss	(140,684)	-	(714)	(141,398)
Total shareholders' equity	501,326	-	122,610	623,936
<b>Total liabilities and shareholders' equity</b>	<b>\$37,719,148</b>	<b>\$-</b>	<b>\$122,610</b>	<b>\$37,841,758</b>

\* See Note 3 Basis of Presentation.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 2 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table sets forth the effect of the restatements on the Company's consolidated statements of income and comprehensive income for the year ended December 31, 2009.

### Consolidated Statements of Income and Comprehensive Income

For the year ended December 31, 2009

(Dollars in thousands)	As Previously Reported	Adjustments	As Restated
<b>Revenues</b>			
Equity in net income of equity method investments	\$60,819	(\$9,621)	\$51,198
Gain on investment in MarkitSERV, LLC	-	222,992	222,992
Total revenues	960,249	213,371	1,173,620
<b>Net revenues</b>	924,925	213,371	1,138,296
<b>Expenses</b>			
Employee compensation and related benefits	513,989	(2,817)	511,172
<b>Total expenses</b>	792,057	(2,817)	789,240
Income before income taxes	132,868	216,188	349,056
Provision for income taxes	28,094	88,277	116,371
<b>Net Income</b>	104,774	127,911	232,685
Other comprehensive income, net of tax – Foreign currency translation adjustments – DTCC's share of MarkitSERV LLC	-	(714)	(714)
Other comprehensive (loss) income	60,884	(714)	60,170
Comprehensive income	165,658	127,197	292,855
<b>Comprehensive income attributable to DTCC</b>	\$165,412	\$127,197	\$292,609

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 2 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table sets forth the effect of the restatements on the Company's consolidated statement of cash flows for the year ended December 31, 2009.

### Consolidated Statement of Cash Flows

For the year ended December 31, 2009

(Dollars in thousands)	As Previously Reported	Reclass*	Adjustments	As Restated and Reclassified
<b>Cash flows from operating activities</b>				
Net income	\$104,774	\$-	\$127,911	\$232,685
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization of fixed assets	91,824	-	(2,817)	89,007
Deferred tax (benefit) charge	(33,257)	-	88,277	55,020
Distributions from equity method investments, net of earnings (previously titled DTCC's Share of Omgeo LLC's distributions, net of earnings)	(4,583)	-	(3,136)	(7,719)
Gain on investment in MarkitSERV, LLC, net of cash contributed	-	-	(222,992)	(222,992)
Changes in operating assets and liabilities:				
Decrease (increase) in equity method investments	-	(16,113)	13,471	(2,642)
(Increase) in other assets	(51,231)	16,113	-	(35,118)
<b>Net cash used in operating activities</b>	<b>(4,914,080)</b>	<b>-</b>	<b>714</b>	<b>(4,913,366)</b>
Effect of foreign exchange rate changes	(2,455)	-	(714)	(3,169)

\* See Note 3 Basis of Presentation.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation:** The consolidated financial statements include the accounts of DTCC and its subsidiaries. Inter-company balances and transactions are eliminated in consolidation.

The Company reclassified its equity method investments to report them separately. These amounts were previously included in other assets on the consolidated balance sheets. Prior year amounts were adjusted to conform to the current presentation.

**Cash and Cash Equivalents:** The Companies report overnight reverse repurchase agreements, commercial paper and money market accounts as cash equivalents. Cash and cash equivalents include deposits with financial institutions, reverse repurchase agreements, commercial paper and money market accounts.

Reverse repurchase agreements provide for the Companies' delivery of cash in exchange for securities having a fair value which is at least 102% of the amount of the agreements. Custodians designated by the Companies that are participants take possession of the securities. Overnight reverse repurchase agreements are recorded at the contract amounts which approximate fair value and totaled \$7,788,042,000 and \$6,528,933,000 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the counterparties to these agreements were ten and eight major financial institutions that are participants, respectively.

Overnight investments made in commercial paper are stated at amounts that approximate fair value totaling \$859,955,000 and \$2,680,113,000 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the issuers of the commercial paper were two major U.S. bank holding companies that are participants, respectively.

Money market accounts with participants are used to sweep any remaining funds available and are stated at amounts that approximate fair value. Overnight investments made in money market accounts totaling \$3,144,390,000 and \$2,678,173,000, including \$35,345,000 and \$40,232,000 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, 2010 and 2009, respectively. At December 31, 2010 and 2009, the money market balance was with four major financial institutions that are participants, respectively.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments in Marketable Securities:** 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 fair value of these securities at December 31, 2010 and 2009, are as follows:

(Dollars in thousands)	Carrying Value			Market Value		
	U.S. Treasury Securities	Corporate Notes	Total	U.S. Treasury Securities	Corporate Notes	Total
<b>2010</b>						
Due in one year or less	\$297,224	\$-	\$297,224	\$315,045	\$-	\$315,045
Due in more than one year	-	1,007	1,007	-	1,083	1,083
<b>Total</b>	<b>\$297,224</b>	<b>\$1,007</b>	<b>\$298,231</b>	<b>\$315,045</b>	<b>\$1,083</b>	<b>\$316,128</b>
<b>2009</b>						
Due in one year or less	\$613,636	\$-	\$613,636	\$613,667	\$-	\$613,667
Due in more than one year	-	1,011	1,011	-	1,067	1,067
<b>Total</b>	<b>\$613,636</b>	<b>\$1,011</b>	<b>\$614,647</b>	<b>\$613,667</b>	<b>\$1,067</b>	<b>\$614,734</b>

**Accounts Receivable:** Accounts receivable consist of the following at December 31, 2010 and 2009:

(Dollars in thousands)	2010	2009
Due from participants for services	\$75,818	\$63,212
Cash dividends, interest and related receivables	13,252	27,718
Taxes receivable and other	81,150	72,913
<b>Total</b>	<b>\$170,220</b>	<b>\$163,843</b>

Stock dividends receivable are not recorded in the consolidated financial statements.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fixed Assets:** Fixed assets consist of the following at December 31, 2010 and 2009:

(Dollars in thousands)	2010	2009
Fixed asset cost:		
Leasehold improvements	\$153,032	\$152,331
Furniture and equipment	213,097	196,686
Software	435,990	360,352
Leased property under capital leases	37,487	47,800
Buildings and improvements	31,394	31,482
Land	4,221	4,221
<b>Total cost</b>	<b>875,221</b>	<b>792,872</b>
Accumulated depreciation and amortization:		
Leasehold improvements	113,124	102,046
Furniture and equipment	183,625	168,807
Software	302,338	245,382
Leased property under capital leases	34,168	30,996
Buildings and improvements	5,878	5,098
<b>Total accumulated depreciation and amortization</b>	<b>639,133</b>	<b>552,329</b>
<b>Net book value</b>	<b>\$236,088</b>	<b>\$240,543</b>

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 double declining balance methods. Buildings and improvements are primarily amortized over 39 years using the straight-line method.

**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, totaling \$75,638,000 and \$25,272,000 in 2010 and 2009, respectively are included in software in the table above. The amortization of capitalized software costs was \$56,956,000 in 2010 and \$59,201,000 in 2009. The depreciation of other fixed assets was \$29,848,000 in 2010 and \$30,782,000 in 2009.

There were no impairment charges in 2010. In 2009, certain assets totaling \$15,229,000 were contributed to MarkitSERV and there was an impairment charge of \$976,000. There were no fixed asset disposals in 2010 or 2009.

**Depreciation and Amortization:** Depreciation and amortization is reported in the expense classifications to which the charges are allocated on the consolidated income statement, including employee compensation and related benefits, information technology, occupancy, and other general and administrative.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill and Intangible Assets:** Goodwill represents the excess of the purchase consideration over the fair value of net assets acquired and is recorded in other assets.

Acquired software intangible assets are amortized on a straight-line basis over their estimated useful lives. Customer relationship assets are amortized on an accelerated basis based upon management's estimate of future economic benefit to be realized. The estimated useful lives of acquired software and customer relationship intangible assets are 10 and 12 years, respectively.

Goodwill and intangible assets are reviewed annually for impairment. There was no impairment in 2010 or 2009.

**Income Taxes:** Deferred tax assets and liabilities are reported in deferred income taxes, net, in the consolidated balance sheets and 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.

**Refunds to Participants:** The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. The earnings on these investments are included in interest income. The amounts that were passed through to participants are included in refunds to participants. Such earnings totaled \$25,376,000 and \$31,946,000 in 2010 and 2009, respectively. Further, the Board of Directors determines the amount, if any, of discount to be paid to participants each year. There were no discounts in 2010 and there were discounts of \$2,402,000 in 2009.

DTC also has a policy to provide participants a monthly refund of interest earned from the overnight investment of unallocated cash dividends, interest and reorganization funds payable to participants. Such refunds totaled \$478,000 in 2010 and \$976,000 in 2009.

**Securities on Deposit:** Securities held in custody by DTC for participants are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in participants' securities balances. Such short positions are valued and collateralized daily by participants' cash, aggregating 130% of the short position. DTC's obligation to return such amounts to participants is reflected in payable to participants. At December 31, 2010 and 2009, short positions amounted to \$37,283,000 and \$32,951,000, respectively.

**Financial Instruments and Fair Value:** The carrying value of all financial instruments, which are short-term in nature, approximates fair value.

**Revenue Recognition:** Revenue is generally recognized as services are rendered. The majority of revenues are based on activities that are captured daily and billed on a monthly basis. Interest income is recorded on an accrual basis.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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, the valuation of equity method investments, the impairment of goodwill and intangibles, 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.

**Foreign Currency:** Assets and liabilities denominated in foreign currencies are translated at rates of exchange prevailing on the dates of the consolidated balance sheets. Revenues and expenses are translated at average rates of exchange during the year. Gains or losses on foreign currency transactions are included in the consolidated statements of income and comprehensive income. Gains or losses on translation of the financial statements of foreign subsidiaries, when the functional currency is other than the U.S. dollar, are reflected as a separate component of equity and included in comprehensive income.

**Fair Value Measurements:** The framework for measuring fair value is established in Accounting Standards Codification (ASC) Topic 820 *Fair Value Measurement and Disclosures*. 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). The three levels of the fair value 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.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

**Non-Controlling Interests:** Non-controlling interests represent participant ownership of DTC's Series A preferred stock and are presented as equity in the consolidated balance sheet. The consolidated statements of income and comprehensive income present net income before non-controlling interests and the net income attributable to non-controlling interests to report the net income attributable to DTCC.

**Guarantees:** The Companies disclose their obligations as guarantor, including indirect guarantees of indebtedness of others.

**Derivatives and Hedging:** The Company uses cash flow hedges for risk management purposes to hedge the exposure to variability in cash flows from floating-rate debt. All free-standing derivatives, including swaps, are recorded on the consolidated balance sheet at fair value.

Hedge accounting is applied when a derivative is highly effective at reducing the risk associated with the hedged exposure and the risk management objective and strategy are documented. Hedge documentation identifies the derivative hedging instrument, the asset or liability and type of risk hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. Derivatives that are not designated as hedges are marked to market through the consolidated income statement.

To assess effectiveness, the Company uses the hypothetical derivative method as noted within FASB ASC Topic 815 *Derivatives and Hedging*. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income or loss ("OCI") and recognized in the consolidated income statement when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item. The ineffective portions of cash flow hedges, if any, are immediately recognized in the consolidated income statement. If a hedge relationship is terminated, the value of the derivative recorded in accumulated other comprehensive income or loss ("AOCI") is recognized in the consolidated income statement when the cash flows that were hedged affect earnings.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### RECENT ACCOUNTING PRONOUNCEMENTS:

**Financing Receivables:** In July 2010, the Financial Accounting Standards Board amended the accounting guidance for receivables as it relates to the 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 consolidated financial statements.

**Uncertain Tax Positions:** In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-06 Income Taxes (Topic 740) – Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities which amended ASC Subtopic 740-10, Income Taxes – Overall (formerly FIN 48). The revised guidance was effective for periods ending after September 15, 2009. As discussed in Note 9 to the consolidated financial statements, the Company's adoption of ASU 2009-06 resulted in a reduction of \$37.2 million to its retained earnings effective January 1, 2009.

**FASB Accounting Standards Codification:** In July 2009, the FASB issued accounting guidance to establish the FASB Accounting Standards Codification (ASC or Codification) to become the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. All other accounting literature not included in the Codification is now considered non-authoritative. The Codification did not change current U.S. GAAP. References to authoritative U.S. GAAP literature in the Company's consolidated financial statements and the notes in this report have been updated to include the new Codification.

**Consolidation:** In June 2009, the FASB issued guidance on issues related to variable interest entities (VIE) (originally issued as SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"). The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIE's and in determining which party is deemed the primary beneficiary. The guidance requires continuous assessment of an entity's involvement with such VIE. The guidance was effective as of the beginning of the first fiscal year that began after November 15, 2009 and early adoption was prohibited. The guidance did not impact the Company's consolidated financial statements.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Non-Controlling Interests:** In December 2007, the Financial Accounting Standards Board (FASB) issued guidance on non-controlling interests in consolidated financial statements (originally issued as SFAS No. 160 and now referred to as ASC 810) on the accounting and financial statement presentation for non-controlling (minority) interests. The guidance requires reporting entities to present non-controlling interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interests. The guidance applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which are applied retrospectively for all periods presented. The Company adopted the guidance effective January 1, 2009, and, as a result, (a) with respect to the consolidated balance sheets, non-controlling interests was renamed as such and reclassified as a component of shareholders' equity, (b) with respect to the consolidated statements of income and comprehensive income, net income is now presented before non-controlling interests and the consolidated statements of income and comprehensive income now nets to net income attributable to DTCC.

## NOTE 4 INTANGIBLE ASSETS

A summary of intangible assets and accumulated amortization at December 31, 2010, included in other assets on the consolidated balance sheets, is as follows:

(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Customer relationships	\$8,043	\$560
Non-compete agreement	31	31
Total	\$8,074	\$591
Unamortized intangible assets:		
Trademarks	\$3,248	n/a

A summary of amortization expense for the year ended December 31, 2010 is as follows:

(Dollars in thousands)	Customer Relationships	Non-Compete Agreement	Total
Amortization expense	\$560	\$31	\$591

At December 31, 2010, the future estimated amortization expense is as follows:

(Dollars in thousands)	Amount
2011	\$1,243
2012	894
2013	795
2014	709
2015	634
Thereafter	3,208
Total future estimated amortization	\$7,483

There were no intangible assets at December 31, 2009.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 5 PARTICIPANT AND CLEARING FUNDS

The Companies' rules require participants to maintain deposits related to their respective activities based on calculated requirements, which were \$20,388,495,000 and \$21,871,964,000 at December 31, 2010 and 2009, respectively. The deposits are available to secure participants' obligations and certain liabilities of the Companies, should they occur. All deposits of cash and securities are recorded on the consolidated balance sheets.

A summary of the total clearing fund deposits held at December 31, 2010 and 2009, including \$10,102,699,000 and \$12,563,988,000, respectively, in excess of the calculated requirements follows:

(Dollars in thousands)	2010	2009
Cash	<b>\$12,290,305</b>	\$12,890,432
Other Deposits:		
U.S. Treasury and Agency securities, at fair value	<b>18,200,889</b>	21,545,520
<b>Total</b>	<b>\$30,491,194</b>	\$34,435,952

Other deposits include U.S. Treasury Securities of \$12,987,305,000 and \$11,766,897,000 categorized as Level 1 assets and \$5,213,584,000 and \$9,778,623,000 categorized as Level 2 assets, as of December 31, 2010 and 2009, respectively.

## NOTE 6 TRANSACTIONS WITH RELATED PARTIES

DTCC has agreements with Omgeo, MarkitSERV, and NYPC to provide various support services and office facilities. Charges under these agreements, which are included in expense reimbursements and accounts receivable, are as follows:

(Dollars in thousands)	Charges		Receivables	
	2010	2009	2010	2009
Omgeo	<b>\$29,980</b>	\$30,702	<b>\$2,887</b>	\$2,936
MarkitSERV	<b>20,592</b>	6,223	<b>1,510</b>	7,111
NYPC	<b>2,789</b>	2,318	<b>4,378</b>	2,979
<b>Total</b>	<b>\$53,361</b>	\$39,243	<b>\$8,775</b>	\$13,026

DTCC has a commitment to contribute up to \$15,000,000 to NYPC to meet operational needs. As of December 31, 2010, DTCC had contributed \$11,000,000. In addition, DTCC has an agreement with Omgeo whereby, if Omgeo reduces or terminates certain services it receives from DTCC or its affiliates, Omgeo will pay extraction costs as specified in the agreement.

## NOTE 7 PAYABLE TO PARTICIPANTS

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed unless claimed by the owners of the securities.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## **NOTE 7 PAYABLE TO PARTICIPANTS (continued)**

Cash dividends, interest, reorganization and redemption payables of \$1,138,521,000 at December 31, 2010, and \$1,212,634,000 at December 31, 2009, are included in payable to participants. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

Payable to participants also includes settlement accounts payable, deposits received from NSCC participants to facilitate their compliance with customer protection rules of the SEC, deposits received from DTC participants to collateralize their short positions and any unpaid discounts. These payables totaled \$76,132,000 at December 31, 2010, and \$100,864,000 at December 31, 2009.

## **NOTE 8 PENSION AND OTHER POSTRETIREMENT BENEFITS**

DTCC has a non-contributory defined benefit pension plan covering substantially all full-time employees of the Companies. The pension plan is qualified under section 401(a) of the Internal Revenue Code. Pension benefits under the plan are determined on the basis of an employee's length of service and earnings. The funding policy is to make contributions to 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. DTCC also maintains a 401(h) account to fund the retiree medical plans.

Retirement benefits are also provided under supplemental non-qualified pension plans for eligible officers of the Companies. The cost of non-qualified defined benefits is determined based on substantially the same actuarial methods and economic assumptions as those used for the qualified pension plan. The Companies maintain certain assets in trust for non-qualified retirement benefit obligations. DTCC also provides health care and life insurance benefits to eligible retired employees.

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 interest 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.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 8 PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

### Fair Value of Pension and Other Benefit Plan Assets:

Following are the descriptions and valuation methodologies used for assets measured at fair value.

**Mutual funds:** This category includes actively managed investments in U.S. large cap growth, value and small cap equity securities, and international equity securities. It also includes an equity index fund that tracks the performance of the S&P 500 Index. The fair value represents the net asset value (NAV) of the shares held by the plan at year-end.

**Group annuity contract:** This category represents a pooled interest in an actively managed bond portfolio. The fair value is based on the balance in the account at year-end.

**Pooled investment fund:** This category represents an actively managed bond portfolio benchmarked to a broad U.S. bond market index. The fair value of the fund is determined by the fund manager based on the purchase price and redemption price of the units as of the close of each day the fund manager is open for business.

**Short term investments:** This category is designed to provide safety of principal, daily liquidity and a competitive yield by investing in high quality money market instruments. It is valued at the NAV of the shares held by the plan at year end, which approximates fair value.

**Hedge fund:** This category represents a pooled hedge fund-of-funds. The fund valuation is based on the NAV of the underlying funds provided by the fund managers as of year-end.

The following table sets forth a summary of changes in the fair value of the plan's level 3 assets for the year ended December 31, 2010:

Level 3 Assets (Dollars in thousands)	Group Annuity Contract	Hedge Fund
Balance, December 31, 2008	\$16,060	\$7,989
Purchases, sales and settlements	4,768	(3,807)
Realized/unrealized gains (losses)	840	(1,182)
Balance, December 31, 2009	21,668	3,000
Purchases, sales and settlements	(20,107)	(1,159)
Realized/unrealized gains (losses)	780	(1,503)
Balance, December 31, 2010	\$2,341	\$338

The following table shows the components of the funded status as of December 31, 2010 and 2009, including the classification of plan assets in accordance with the three-tier fair valuation hierarchy.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(Dollars in thousands)	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
The estimated transition obligation, actuarial loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are as follows:				
Transition obligation	\$ -	\$ -	\$40	\$40
Actuarial loss	13,597	9,244	1,455	1,398
Prior service cost	1,637	1,637	(7,790)	(7,538)
Benefit obligation at end of year:				
Qualified plan	739,904	\$654,251	\$ -	\$-
Other plans	128,415	119,878	72,870	65,484
Total benefit obligation at end of year	868,319	774,129	72,870	65,484
Fair value of plan assets at end of year	556,932	457,754	7,279	8,076
Funded status	(\$311,387)	(\$316,375)	(\$65,591)	(\$57,408)
Pension asset fair value levels at December 31, 2010				
(Dollars in thousands)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$349,137	\$ -	\$-	\$349,137
Short term investments	-	117	-	117
Pooled investment funds	-	204,999	-	204,999
Group annuity contract	-	-	2,341	2,341
Hedge fund	-	-	338	338
Pension assets at fair value	<b>\$349,137</b>	<b>\$205,116</b>	<b>\$2,679</b>	<b>\$556,932</b>
Pension asset fair value levels at December 31, 2009				
(Dollars in thousands)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual funds	\$415,880	\$ -	\$ -	\$ 415,880
Short term investments	3,943	-	-	3,943
Pooled investment funds	-	13,263	-	13,263
Group annuity contract	-	-	21,668	21,668
Hedge fund	-	-	3,000	3,000
Pension assets at fair value	<b>\$419,823</b>	<b>\$13,263</b>	<b>\$24,668</b>	<b>\$457,754</b>
Other benefit plan assets of \$7,279 at December 31, 2010 and \$8,076 at December 31, 2009 are all mutual funds in the level 1 category.				
Amount not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss:				
Prior service cost	(\$5,524)	(\$7,160)	\$44,452	\$52,253
Accumulated loss	(253,014)	(232,677)	(22,674)	(20,456)
Transition obligation	-	-	(80)	(120)
Accumulated other comprehensive loss	(258,538)	(239,837)	21,698	31,677
Cumulative net periodic benefit cost				
In excess of employer contributions	(52,849)	(76,538)	(87,289)	(89,085)
Net amount recognized at year-end	(\$311,387)	(\$316,375)	(\$65,591)	(\$57,408)
The accumulated benefit obligation for all defined benefit plans was \$763,256 at December 31, 2010.				
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.55%	6.07%	5.41%	5.98%
Rate of compensation increase	3.56%	4.25%	n/a	n/a
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:				
Discount rate	6.07%	6.13%	5.98%	6.08%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	3.56%	4.25%	n/a	n/a
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year			8.13%	8.37%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			4.50%	4.50%
Year that the rate reaches the ultimate trend rate			2029	2029

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

DTCC's actual pension plan weighted-average asset allocations at December 31, 2010 and 2009, by asset category are as follows:				
	Pension Benefits		Other Benefits	
(Dollars in thousands)	2010	2009	2010	2009
Equity securities	63%	61%	60%	60%
Debt securities	37%	38%	40%	40%
Alternative investments	-	1%	-	-
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
To develop the expected long-term rate of return on assets assumptions, DTCC considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8.0% long term rate of return on assets assumption. The actual historical rate of return achieved by these assets exceeded the 8.0% assumption. Based on DTCC's target asset allocation guidelines, 57% to 63% of the plan assets are to be invested in equity securities, 32% to 38% in fixed income securities (including guaranteed investment contracts) and up to 10% in alternative investments.				
Details of the components of net periodic benefit cost and other changes recognized in other comprehensive income (loss) are as follows:				
	Pension Benefits		Other Benefits	
(Dollars in thousands)	2010	2009	2010	2009
<b>Components of net periodic benefit cost</b>				
Service cost	\$32,503	\$29,819	\$2,175	\$3,678
Interest cost	45,705	42,721	3,790	5,822
Expected return on plan assets	(40,467)	(38,477)	(603)	(629)
<b>Amortizations</b>				
Prior service cost	1,637	1,637	(7,802)	273
Transition obligation	n/a	n/a	40	524
Actuarial loss	9,591	6,818	1,244	13
Settlement loss	2,345	2,649	-	-
<b>Net periodic benefit cost</b>	<b>51,314</b>	<b>45,167</b>	<b>(1,156)</b>	<b>9,681</b>
<b>Other changes recognized in other comprehensive income</b>				
Prior service cost (credit) arising during the period	n/a	n/a	n/a	(53,726)
Net gain (loss) arising during the period	32,273	(49,207)	3,461	3,937
<b>Amortizations</b>				
Transition obligation	n/a	n/a	(40)	(524)
Prior service cost	(1,637)	(1,637)	7,802	(273)
Actuarial and settlement loss	(11,936)	(9,467)	(1,244)	(12)
<b>Net other changes in other comprehensive income (loss)</b>	<b>18,700</b>	<b>(60,311)</b>	<b>9,979</b>	<b>(50,598)</b>
<b>Total recognized in other comprehensive income (loss)</b>	<b>\$70,014</b>	<b>(\$15,144)</b>	<b>\$8,823</b>	<b>(\$40,917)</b>

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 8 PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

The Companies contributed \$65,000,000 to the benefit plan in 2010 and expect to contribute approximately \$55,000,000 during 2011. Funding in 2009 was \$28,400,000. There were no participant contributions to the plans in 2010 or 2009. During 2010, benefit payments totaled \$30,181,000 for the pension plan and \$2,391,000 for the other plans. In 2009, the amounts were \$29,733,000 and \$1,820,000, respectively. Settlement losses relate to the early retirement of executives who elected lump sum and periodic payments.

The amounts expected to be paid or (received) in the next five years are as follows:

(Dollars in thousands)	Pension	Employer Benefit Payments	Medicare Subsidy Receipts
2011	\$44,429	\$3,308	(\$34)
2012	51,308	3,384	(\$34)
2013	38,597	3,612	(\$34)
2014	34,020	3,747	(\$34)
2015	41,460	3,997	(\$33)
Totals	\$209,814	\$18,048	(\$169)

## NOTE 9 INCOME TAXES

DTCC and its subsidiaries file a consolidated federal income tax return and combined New York State and New York City income tax returns with the exception of DTC, which files separate New York State and New York City income tax returns. DTCC and its subsidiaries file unitary, combined, and separate income tax returns in various other states and non-U.S. jurisdictions. The components of the Company's income tax provision (benefit) for the years ended December 31, 2010 and 2009, are as follows:

(Dollars in thousands)	2010	2009
Current income taxes:		
Federal	\$9,829	\$47,426
State and local	7,024	13,922
Deferred income tax (benefit):		
Federal	33,771	57,816
State and local	12,645	(2,793)
Provision for income taxes	\$63,269	\$116,371

The 2010 effective tax rate differs from the 35% federal statutory rate mainly 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.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 9 INCOME TAXES (continued)

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	<b>\$203,085</b>	\$247,075
Rent	<b>5,399</b>	5,757
Depreciation and amortization	<b>15,190</b>	18,371
Capitalization of software developed for internal use	<b>(58,419)</b>	(46,559)
Investment tax basis difference - MarkitSERV	<b>(81,037)</b>	(88,277)
Sale and leaseback costs and other	<b>(5,397)</b>	(21,532)
Net deferred income tax asset	<b>\$78,821</b>	\$114,835

The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established. During 2010, the Company restated its 2009 consolidated financial statements to record a one-time non-cash gain on the sale of certain businesses as further discussed in Note 2. The related deferred tax liability is reported as investment tax basis difference in the table above.

On January 1, 2009, the Companies 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 \$37.2 million. This reduction is comprised of a \$33.8 million increase in the liability for unrecognized tax benefits ("UTBs") and accrued interest of \$4.5 million (\$3.4 million net of tax). As of the date of implementation and after the impact of recognizing the increase in liability noted above, the Company's UTBs totaled \$46.6 million. During 2010, the Company decreased UTBs by \$5.4 million. As of December 31, 2010, UTBs totaled \$41.2 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 \$0.6 million. As of December 31, 2010, the amount of accrued interest recorded in the Company's balance sheet related to UTBs was \$6.4 million.

The Company is subject to U.S. federal income tax as well as income tax in various state and local and non-U.S. jurisdictions. 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 2007 are currently under examination, and 2008 and 2009 remain open to examination. New York City income tax returns for 2007 through 2009 remain open to examination.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 9 INCOME TAXES (continued)

For the current ongoing audits 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 these audits, 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 these audits, 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 10 LONG-TERM DEBT

Long-term debt at December 31, 2010 and 2009, consists of the following:

(Dollars in thousands)	2010	2009
Industrial Development Agency Bonds	<b>\$205,302</b>	\$205,302
Bond payable	<b>24,905</b>	-
Notes payable	<b>152,642</b>	169,704
Capital lease obligations	<b>4,179</b>	8,647
Total	<b>\$387,028</b>	\$383,653

Long-term debt is carried at the remaining principal balance of the obligations. As of December 31, 2010, the carrying value of such long-term debt was \$387,028,000 and had a fair value of approximately \$368,726,000.

As of December 31, 2010 and 2009, DTC had a payable to the New York City Industrial Development Agency (IDA). There is a corresponding investment in IDA bonds included in other assets. Interest expense related to the IDA payable was \$15,398,000 in both 2010 and 2009. These bonds mature in 2012.

Notes payable include secured borrowings totaling \$3,400,000 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 \$243,000 in 2010 and \$274,000 in 2009. In addition, notes payable include unsecured borrowings totaling \$20,526,000 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 \$1,112,000 in 2010 and \$1,191,000 in 2009.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## **NOTE 10 LONG-TERM DEBT (continued)**

Notes payable also include a DTC private placement from two insurance companies totaling \$91,126,000 at fixed rates of 5.59% and 5.63%. Interest payments are due semi-annually on April 15 and October 15 of each year through 2016. Interest expenses related to the private placement totaled \$5,110,000 in 2010 and \$2,683,000 in 2009. In addition, notes payable includes a DTC borrowing from a bank totaling \$37,590,000 at a fixed rate of 4.94%, secured by certain equipment. Principal and interest payments are due semi-annually on June 30 and December 30 of each year through 2013. Interest expense on this loan totaled \$2,401,000 in 2010 and \$1,464,000 in 2009. Three of the lenders are participants of NSCC.

Principal payments due on long-term debt over the next five years from 2011 to 2015 are \$19,716,000, \$226,019,000, \$11,785,000, \$3,959,000 and \$4,039,000, respectively. DTC will receive proceeds of \$205,302,000 in 2012 on the maturity of the IDA bonds, which will fund a corresponding amount of the 2012 payment.

On December 17, 2010, NSCC entered into a Recovery Zone Facility Bond arrangement with the Hudson County Improvement Authority, with a principal balance of \$24,905,000. The debt has a variable interest rate that is equal to the sum of the LIBOR index rate plus 1.65%, multiplied by a factor of 68%, and matures on December 1, 2020. The debt's interest rate as of the date of the financial statements is 1.30%. Repayment of the debt will commence on February 1, 2011, therefore, as of the date of the consolidated financial statements, the entire balance was outstanding. The Hudson County Improvement Authority has the ability to call the debt immediately due and payable if the Company fails to pay in accordance with the terms of the debt agreement or fails to comply with the other provisions stipulated in the agreement.

NSCC entered into a swap arrangement to hedge against variability in the future cash flows on the floating rate payments under the bond arrangement. The rate on the swap is fixed at 3.12% until December 1, 2020 when the swap terminates. Management has concluded that the hedge is effective. At December 31, 2010, the fair value of the swap resulted in a loss of \$427,000. The loss is offset by a deferred tax benefit of \$175,000, and the net impact of \$252,000 is reported as other comprehensive loss in the consolidated statement of changes in shareholder's equity. There were no undesignated derivatives at December 31, 2010 or 2009.

As of December 31, 2010, the Company was in compliance with applicable debt covenants.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2010, the balance was \$4,179,000 and future minimum payments including interest, which are due through 2011, totaled \$4,247,000.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## **NOTE 11 SHAREHOLDERS' EQUITY**

Appropriated retained earnings represent an amount that is available for the satisfaction of losses arising out of the clearance and settlement of transactions, should they arise (see Note 12). Such amount of retained earnings is excluded from the calculation of book value per share for purposes of capital stock transactions of DTCC.

At December 31, 2010 and 2009, there were 11 shares in treasury stock.

## **NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES**

NSCC's 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, 2010, open positions due to NSCC aggregated \$1,487,377,000 (\$998,044,000 at December 31, 2009). When a participant does not deliver securities due on the settlement date, the SEC approved Stock Borrow Program (SBP) is used to complete its delivery obligations to the extent that participants have made shares of that issue available for loan. As of December 31, 2010, NSCC completed delivery of \$285,254,000 in securities through the SBP (\$241,906,000 at December 31, 2009), leaving \$1,202,123,000 in open delivery obligations due to participants (\$756,138,000 at December 31, 2009). 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 three days after the trade date. As of December 31, 2010, trades totaling \$41,900,000,000 were scheduled to settle over the next three settlement days (\$39,800,000,000 as of December 31, 2009). These amounts were subsequently settled.

FICC's netting system for its Government Securities Division (GSD) 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 consolidated 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. These amounts were subsequently settled.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Companies lease office space and data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2010. Rent expense under these leases was \$19,222,000 in 2010 and \$19,713,000 in 2009. In 2009, DTCC signed leases for office space commencing in 2012 and 2013.

At December 31, 2010, future minimum rental payments under all non-cancelable leases, including the new commitments, are as follows:

(Dollars in thousands)	Amount
2011	\$24,238
2012	21,289
2013	12,283
2014	17,422
2015	17,478
Thereafter	318,239
Total minimum rental payments	\$410,949

At December 31, 2010, DTC maintained a committed line of credit of \$1,900,000,000 with 24 major banks that are primarily participants to support settlement. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBO rate, or the lender's cost of funds, for that day, plus 1.375%. In addition, to support processing of principal and income payments, DTC maintains a committed \$50,000,000 credit line with a participant. DTC also maintains uncommitted credit lines totaling CAD 150,000,000 with a participant to support Canadian settlement. Further, a \$50,000,000 shared uncommitted credit line with NSCC and DTCC is maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under any of these credit facilities in 2010 or 2009.

At December 31, 2010, NSCC maintained a committed line of credit of \$4,757,000,000 with 24 major banks that are primarily participants to provide for potential liquidity needs. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBO rate, or the lender's cost of funds, for that day, plus 1.375%. In addition, a \$50,000,000 shared uncommitted credit line with DTC and DTCC is maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under these credit facilities in 2010 or 2009.

The Company also has put/call arrangements related to its equity method investments that would require it to make payments in connection with the acquisition of certain assets or ownership interests, such as a venture partner's interest. For put options where payment obligations are outside the control of the Company, the earliest period in which payment can be made is 2011. The agreements do not call for guaranteed minimum payments and the value is determined through negotiation between the parties as specified by the agreement terms. The Company does not expect to incur an obligation to make any payments in that period.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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## **NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

The Companies are 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 the Company's consolidated financial position, operations or cash flows.

## **NOTE 13 OFF BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK**

In the normal course of business the Companies are exposed to credit risk. NSCC and FICC guarantee certain obligations of their participants under specified circumstances (see Note 12). All trading activities handled by DTC are settled through its end-of-day net settlement process. If a participant fails to fulfill its settlement obligation, DTC is also exposed to credit risk. Exposure to credit risk at DTC, NSCC and FICC is mitigated by requiring participants to meet established financial standards for membership, verifying their compliance with other financial standards, monitoring their financial status and trading activity, requiring participants to meet daily mark-to-market obligations and requiring participants to provide participant fund deposits in the form of cash, marketable securities and eligible letters of credit (see Note 4).

Collateralization controls and net debit caps are employed by DTC to protect participants against the inability of one or more participants to pay for their settlement obligations.

DTC's collateralization controls prevent the completion of transactions that would cause a participant's net debit to exceed the total available collateral in its account. This assures that a participant that fails to pay for its settlement obligation will have sufficient collateral in its account to liquidate in the event it was insolvent. DTC's net debit cap controls limit the net settlement debit that each participant can incur to an amount, based upon activity level, which is less than DTC's total liquidity. This helps ensure that DTC will have sufficient liquidity to complete settlement should any single participant fail to settle.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## **NOTE 13 OFF BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK (continued)**

If a participant fails to fulfill its settlement obligations to NSCC and/or FICC and these subsidiaries cease to act on behalf of the participant, that participant's guaranteed security receive and deliver obligations would be liquidated and that defaulting participant's margin and mark-to-market deposits, including participant fund deposits, would be applied to satisfy any outstanding obligation and/or loss. NSCC, FICC and DTC have a multilateral netting contract and limited cross-guaranty agreement with 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 also have 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. Further, DTC and NSCC have a netting contract and limited cross-guaranty agreement which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized. Finally, if a deficiency still remains, the companies would then assess the balance of the deficiency in accordance with their Rules.

As discussed in Note 1, because DTC, NSCC and FICC provide various services to members of the financial community, these subsidiaries have a significant group concentration of credit risk. Their participants may be impacted by economic conditions affecting the securities industry and the debt-issuing countries. Such risk is mitigated in a number of ways, as described above.

## **NOTE 14 OTHER MATTERS**

The Companies incurred severance expenses totaling \$3,510,000 in 2010 that are included in employee compensation and related benefits. There was a similar expense of \$10,648,000 in 2009.

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.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009

## **NOTE 14 OTHER MATTERS (continued)**

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 remains 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, the 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 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 15 SUBSEQUENT EVENTS**

The Company evaluated events and transactions occurring after December 31, 2010 through April 21, 2011, the date these consolidated financial statements were issued, for potential recognition or disclosure in these financial statements.

On January 5, 2011, DTCC and Markit North America (Markit NA) entered into an Asset Purchase Agreement in which the Company sold certain assets comprising its Messaging Business to Markit NA. The transaction will be accounted for as a sale of a business in accordance with ASC 805 *Business Combinations*.

On February 1, 2011, the CFTC approved NYPC's registration as a Derivatives Clearing Organization. As of March 2, 2011, both the SEC and the CFTC have approved the cross-margining arrangement between the Government Securities Division of FICC and NYPC. On January 6, 2011 and March 17, 2011, DTCC made additional capital contributions of \$4,000,000 and \$5,000,000, respectively, to NYPC. The Company commenced operations on March 21, 2011.