Fixed Income Clearing Corporation

Financial Statements as of and for the Years Ended December 31, 2013 and 2012, and Independent Auditors' Report

FIXED INCOME CLEARING CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
Fixed Income Clearing Corporation
New York, NY

We have audited the accompanying statements of financial condition of Fixed Income Clearing Corporation (the "Company") as of December 31, 2013 and 2012, and the related statements of income, changes in shareholder's equity, and cash flows for each of the two years in the period ended December 31, 2013. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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 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, 2013 and 2012, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 28, 2014

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION
(In thousands, except for share data)

	As of December 31, 2013	As of December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 115,907	$ 142,119
Investments in marketable securities	-	15,956
Accounts receivable	12,362	12,288
Note receivable from DTCC	-	20,000
Clearing fund:		
Cash deposits	8,894,443	7,669,887
Investments in marketable securities	200,000	200,000
Other deposits, at fair value	8,318,236	8,411,178
Other participant assets	7,148	6,516
Other current assets	1,794	25
Total current assets	17,549,890	16,477,969
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of $28,346 and $28,325 at December 31, 2013 and 2012, respectively	782	804
Intangible assets - net of accumulated amortization of $71,301 and $59,992 at December 31, 2013 and 2012, respectively	33,922	32,412
Total non-current assets	34,704	33,216
TOTAL ASSETS	$ 17,584,594	$ 16,511,185
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,860	$ 70,519
Payable to participants	7,148	6,516
Clearing fund:		
Cash deposits and marketable securities	9,094,443	7,869,887
Other deposits, at fair value	8,318,236	8,411,178
Other current liabilities	3,097	1,844
Total current liabilities	17,427,784	16,359,944
NON-CURRENT LIABILITIES		
Other non-current liabilities	4,241	4,077
Total non-current liabilities	4,241	4,077
Total liabilities	17,432,025	16,364,021
COMMITMENTS AND CONTINGENT LIABILITIES (Note 16)		
SHAREHOLDER'S EQUITY		
Common stock, $0.50 par value - 105,000 shares authorized, 20,400 shares issued and outstanding	10	10
Paid-in capital	26,617	26,617
Retained earnings	125,942	120,537
Total shareholder's equity	152,569	147,164
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 17,584,594	$ 16,511,185

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF INCOME
(In thousands)

	For the years ended December 31, 2013	2012
REVENUES:		
Clearing services	$ 165,281	$ 172,579
Total revenues	165,281	172,579
EXPENSES:		
Employee compensation and related benefits	61,706	61,147
Information technology	19,893	14,949
Professional and other services	55,010	51,422
Occupancy	7,854	6,919
Depreciation and amortization	11,330	8,635
Other general and administrative, net	(576)	2,291
Total expenses	155,217	145,363
Total operating income	10,064	27,216
NON-OPERATING INCOME (EXPENSE):		
Interest income	7,622	11,452
Refunds to participants	(7,456)	(11,085)
Interest expense	(427)	-
Total non-operating income	(261)	367
Income before taxes	9,803	27,583
Provision for income taxes	4,398	11,461
Net income	$ 5,405	$ 16,122

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(In thousands)

For the years ended:	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - December 31, 2011	$ 10	$ 26,617	$ 104,415	$ 131,042
Net income	-	-	16,122	16,122
BALANCE - December 31, 2012	$ 10	$ 26,617	$ 120,537	$ 147,164
Net income	-	-	5,405	5,405
BALANCE - December 31, 2013	$ 10	$ 26,617	$ 125,942	$ 152,569

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended December 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,405	$ 16,122
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,330	8,635
Net premium amortized on investments in marketable securities	(59)	(65)
Deferred income taxes	(35)	1,281
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(74)	(232)
(Increase) decrease in other assets	(1,769)	55
(Decrease) increase in accounts payable	(65,659)	7,027
Increase (decrease) in other liabilities	1,453	(234)
Net cash (used in) provided by operating activities	(49,408)	32,589
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	416,015	453,000
Purchases of investments in marketable securities	(400,000)	(414,819)
Purchases of software	(12,819)	(11,373)
Net cash provided by investing activities	3,196	26,808
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note receivable from DTCC	20,000	-
Net cash provided by financing activities	20,000	-
Net (decrease) increase in cash and cash equivalents	(26,212)	59,397
Cash and cash equivalents - Beginning of year	$ 142,119	$ 82,722
Cash and cash equivalents - End of year	$ 115,907	$ 142,119
SUPPLEMENTAL DISCLOSURES:		
Income taxes paid to DTCC - net of refunds	$ 10,063	$ 4,750

See notes to financial statements.

1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), 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 two Divisions, the Government Securities Division (GSD) and the Mortgage-Backed-Securities (MBSD) Division.

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), Omgeo LLC, DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited, Business Entity Data B.V. (BED), and AVOX Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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 unrecognized tax benefits, fair value, and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could materially differ from those estimates.

Cash and Cash Equivalents. All highly liquid investments purchased with an original maturity of three months or less at the date of acquisition are classified as cash and cash equivalents. Cash equivalents consist primarily of highly liquid investments in time deposits held in banks and reverse repurchase agreements.

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 agreements. Securities purchased under overnight reverse repurchase agreements are typically U.S. Treasury and agency securities. Overnight reverse repurchase agreements as of December 31, 2013 and 2012 were $0 and $141,265,000, respectively, and are recorded at the contract amounts.

Investments in Marketable Securities. The Company’s investments consist principally of U.S. Treasury securities and investment-grade corporate notes. The maturity of marketable securities is typically 12 months or less. All of the marketable securities are classified as held-to-maturity and are recorded at amortized cost. The Company intends and has the ability to hold all held-to-maturity securities to maturity. The Company does not intend to reclassify any amount of held-to-maturity investments to available-for-sale or trading investments.

The Company performs a periodic review of its investment portfolio for impairment. A debt security is considered impaired if its fair value is less than its carrying value. The decline in fair value is determined to be other-than-temporary impairment if (a) the Company has the intent to sell the impaired debt security or (b) it is more likely than not the Company will be required to sell the security before the recovery of the amortized cost. Additionally, regardless of whether there is intention to sell or requirement to sell, if the Company does not expect to recover the entire amortized cost basis, the impaired debt security is considered an other-than-temporary impairment. The Company does not intend to sell those securities and it is not more likely than not that the Company will have to sell.

Fair Value Measurements. The guidance related to “Fair Value Measurements” included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

Valuation Hierarchy. FASB ASC Topic 820 established a three-level valuation hierarchy for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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. The three levels of the fair value hierarchy are described as follows:

> Level 1 — Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets as of the valuation date.
>
> Level 2 — Inputs to the valuation methodology are other than unadjusted quoted market prices for similar assets and liabilities in active markets, which are either directly or indirectly observable as of the valuation date or can be derived principally from or corroborated by observable market data.
>
> Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial Instruments Measured at Fair Value. The Company has established processes for determining fair values. Fair value is based upon quoted market prices in active markets, where available. Where quotes from recent exchange transactions are not available, fair values are based on discounted cash flow analyses, comparison to similar instruments. Discounted cash flow analyses are dependent upon estimated future cash flows and level of interest rates.

Financial Instruments Not Measured at Fair Value. The carrying amounts of financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods. As discussed in Note 9 Fair Value Measurements, these instruments are discussed on a uniform fair value basis. However, active markets do not exist for a significant portion of these instruments. For financial instruments where quoted prices for identical assets and liabilities in active markets do not exist, the Company determines fair value based on discounted cash flow analyses and comparable pricing of similar instruments.

The Company uses recently executed transactions, other observable market data such as exchange data, broker dealer quotes, third-party pricing vendors and aggregation services for determining the fair values of financial instruments. The Company assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches to ensure that the highest-ranked market data source is used to validate fair value of financial instruments.

Accounts Receivable. Accounts receivable are stated at cost, net of an allowance. The Company establishes an allowance for doubtful accounts for accounts receivable to ensure the Company has not overstated receivable balances due to uncollectibility. The Company determines the need for an allowance based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, historical experience and the financial condition of customers, and other debtors.

Clearing Fund. Margin deposits and participant contributions are maintained within the clearing fund on the Statements of Financial Condition due to the benefits and risk ownership being accrued to the Company. Deposits and contributions may be in the form of cash and cash equivalents or securities. These deposits may be applied to satisfy obligations of the depositing participant, other participants, or the Company as provided in the Company rules.

Cash Deposits and Investments in Marketable Securities. Deposits may be invested overnight in reverse repurchase agreements, commercial paper, money market funds, and interest-bearing deposits. FICC invests available Clearing Fund cash deposits principally in overnight reverse repurchase agreements. Reverse repurchase agreements provide for FICC’s delivery of cash in exchange for securities having a fair value, which is at least 102% of the amount of the agreements. Securities purchased under overnight reverse repurchase agreements are typically U.S. Treasury and agency securities. Overnight reverse repurchase agreements are recorded at the contract amounts. Any interest earned on these investments are accrued and included within interest income in the Statements of Income. Any amounts that were passed through to participants are included as refunds to participants.

Other Deposits, at Fair Value. Securities may include U.S. Treasury Securities, U.S. agency-issued debt securities, and U.S. agency residential mortgage-backed securities. Any interests earned on these investments are accrued and is included within interest income in the Statements of Income. Any amounts that were passed through to participants are included as refunds to participants. Refer to Note 9 Fair Value Measurements, for additional details of the fair value classification and measurement of these instruments.

Premises and Equipment. Premises and equipment are stated at cost, net of accumulated depreciation. Routine maintenance, repairs and replacement costs are expensed as incurred and improvements that appreciably extend the useful life of the assets are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income. Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable.

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, using accelerated double declining methods. Building and improvements are primarily amortized over 39 years using the straight line method. Depreciation expense for leasehold improvements, furniture and equipment, and buildings and improvements is included in depreciation and amortization in the Statements of Income.

Identified Intangible Assets. Identified intangible assets with finite lives are amortized in a pattern consistent with the assets' identifiable cash flows or using a straight-line method over their remaining estimated benefit periods if the pattern of cash flows is not estimable. Intangible assets with finite lives are reviewed for possible impairments when events or changed circumstances may affect the underlying basis of the asset. Refer to Note 8 of the Notes to Financial Statements for additional disclosures related to intangible assets.

Capitalized Software. The Company capitalizes costs relating to acquired software and internal-use software development projects that provide new or significantly improved functionality. The Company capitalizes projects that are expected to result in longer-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. Once the software is ready for its intended use, the Company amortizes the capitalized cost on a straight line basis over an estimated useful life of two to five years. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is recorded in intangible assets.

The Company considers many factors, including estimated future utility to estimate cash flows. Impairments are reviewed annually or more frequently if certain events or circumstances exist. The Company calculates the estimated fair value of finite lived intangible assets using undiscounted cash flows that are expected to result from the use of intangible assets or group of assets.

Impairment of Long-Lived Assets. The Company evaluates long lived assets for impairment losses when indictors of impairment are present. The Company periodically evaluates the recoverability of long lived assets when events or changes in circumstances indicate the carrying amount of an asset may not be fully recoverable. When indicators of impairment are present, the carrying values of the assets are evaluated in relation to the operating performance and future discounted cash flows of the underlying business. The net book value of the underlying asset is adjusted to its fair value if the sum of the future undiscounted cash flows is less than its book value. Fair values are based on estimates of market prices and assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk. Impairment losses are included in general and administrative expenses on the accompanying Statements of Income.

The Company considers the following to be important factors which could trigger an event driven impairment review:

- Significant underperformance relative to historical or projected future operating results;
- Identification of other impaired assets within a reporting unit;
- A more likely than not expectation a reporting unit or a significant portion of a reporting unit will be sold;
- Significant adverse changes in business climate or regulations;
- Significant changes in the manner of use of the acquired assets or the strategy for the Company's overall business or significant negative industry or economic trends.

Revenue Recognition. Revenue is generally recognized as services are rendered. Activities are captured daily and billed on a monthly basis. interest income is recorded on an accrual basis. The Company's revenue primarily consists of clearing services.

Income Taxes. Deferred tax assets and liabilities are reported in current and non-current liabilities, net, in the Statements of Financial Condition 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 unrecognized tax benefits 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.

Expense Allocations. Substantially, all expenses are recorded at DTCC and are allocated to its subsidiaries including FICC, based upon their use of such goods or services as determined by applicable allocation factors, including headcount, square footage and utilization of technology resources. Accordingly, the expense classifications on the Statements of Income represents the allocated expenses, including, employee compensation and related benefits, information technology, professional and other services, occupancy, depreciation and amortization, and other general and administrative expenses.

Recently Issued Accounting Standards.

FASB ASC Topic 405, Liabilities. In February 2013, the FASB issued Accounting Standards Update (ASU) No. 2013-04, adding disclosure requirements for entities with joint and severally liable agreements with other co-obligors. This update requires entities to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. Required disclosures include a description of the nature of the arrangement, how the liability arose, the relationship with co-obligors and the terms and conditions of the arrangement (ASC Topic 460-10, Guarantees). For nonpublic entities, the ASU is effective for fiscal years beginning after December 15, 2014, and interim and annual periods thereafter. Early adoption is permitted. The amendments in the ASU should be applied prospectively. FICC will assess the impact of this guidance on the Company's financial condition, results of operations, and cash flows upon adoption of this guidance.

FASB ASC Topic 740, Income Taxes. In July 2013, the FASB issued ASU No. 2013-11, requiring public and private entities to present unrecognized tax benefits as a decrease in net operating loss, similar tax loss or tax credit carry forward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments should be applied prospectively to unrecognized tax benefits that exist at the effective date. Early adoption is permitted. FICC will assess the impact of this guidance on the Company's financial condition, results of operations, and cash flows upon adoption of this guidance.

Recently Adopted Accounting Standards.

FASB ASC Topic 820, Fair Value Measurements and Disclosures. In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in generally accepted accounting principles and International Financial Reporting Standards. The amendments to ASC Topic 820 include guidance on the application of the highest and best use and valuation premise concepts (including an exception to the valuation premise for certain risks managed on a portfolio basis), the valuation of equity instruments, and the use of premiums and discounts representing adjustments for the size of an entity's holding of an asset or liability (specifically, blockage factors are not permitted). The amendments also include expanded disclosures, including disclosures around fair value measurements categorized within Level 3 of the fair value hierarchy, and disclosures when the entity's use of a nonfinancial asset differs from the highest and best use of that asset. The amendments in ASU No. 2011-04 are to be applied prospectively. The adoption of this guidance did not have an impact on FICC's financial condition, results of operations or cash flows. See Note 9 Fair Value Measurements for the disclosures.

FASB ASC Topic 860, Transfers and Servicing. In April 2011, the FASB issued amended guidance under ASC Topic 860 in ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The amendments in ASU No. 2011-03 remove from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and the collateral maintenance implementation guidance related to that criterion. The new rules were effective prospectively for new transfers and exiting transactions for the period beginning on or after December 15, 2011. The adoption of this guidance did not have an impact on FICC's financial condition, results of operations or cash flows.

3. RECLASSIFICATIONS

During 2013, the Company changed its accounting policies and practices around the financial statement presentation to improve the transparency and organization of information on its financial statements to better meet the needs of the readers. Accordingly, the Company made certain reclassifications of prior year amounts to conform to the current year presentation. The changes to the Statement of Financial Condition as of December 31, 2012, were as follows (in thousands):

	2012		
	As Reported	Reclassification Adjustments	As Reclassified
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 7,818,522	$ (7,676,403)	$ 142,119
Other participant assets	-	6,516	6,516
Investment in marketable securities	215,956	(200,000)	15,956
Accounts receivable	12,313	(25)	12,288
Clearing fund - Cash deposits	-	7,669,887	7,669,887
Clearing fund - Investment in marketable securities	-	200,000	200,000
Other current assets	-	25	25
Total		-	
NON-CURRENT ASSETS:			
Premises and equipment(*)	33,216	(32,412)	804
Intangible assets(*)	-	32,412	32,412
Other non-current assets	-		-
Total		-	
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Accounts payable	78,875	(8,355)	70,520
Payable to participants	-	6,516	6,516
Deferred income taxes - net	4,081	(4,081)	-
Other current liabilities	-	1,844	1,844
Total		(4,077)	
NON-CURRENT LIABILITIES:			
Other non-current liabilities	-	4,077	4,077
Total		4,077	

The Company changed its Statement of Cash Flows to capture the effect of the presentation changes on the Statements of Financial Condition. In addition to the reclassification noted above, the Company recognized certain reclassifications within the Statement of Income for the year ended December 31, 2012 to conform to the current year presentation. The reclassifications impacted revenues by type and expenses. Revenues are reclassified to better represent current business offerings including new product lines. The expense reclassifications were for the breakout of depreciation and amortization expenses into a separate financial statement line item. Additionally, the non-operating income and expenses have been separately presented. The Company re-organized and expanded its disclosure based on the changes summarized above.

(*) Prior to 2013, capitalized software was reported within premises and equipment in the amount of $32,412,000. Beginning in 2013, capitalized software is reported separately from premises and equipment in the Statement of Financial Condition. We have restated 2012 to conform to the 2013 presentation. The reclassification and restatement had no effect on net income or shareholder's equity previously reported.

4. INVESTMENTS IN MARKETABLE SECURITIES

FICC held an investment in U.S. Treasury Notes. The maturity distribution by carrying amount and fair value of the Company's investment securities portfolio as of December 31, 2013 and 2012, were as follows (in thousands):

	2013		2012	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Maturity of one year or less	$ -	$ -	$ 15,956	$ 15,952
Total	$ -	$ -	$ 15,956	$ 15,952

The Company did not recognize any other-than-temporary impairments in 2013 and 2012.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31, 2013 and 2012 (in thousands):

	2013	2012
Clearing and transaction fees due from participants	$ 11,801	$ 12,224
Other receivables	561	64
Total	$ 12,362	$ 12,288

There was no allowance for doubtful accounts as of December 31, 2013 and 2012.

6. CLEARING FUND

Clearing fund deposits. FICC's rules require its participants to maintain clearing fund deposits in the Clearing Fund based on calculated requirements as determined by the Company, which were $12,747,419,000 and $13,280,010,000 at December 31, 2013 and 2012, respectively. The deposits are available to secure participants' obligations and certain liabilities of the Company, should they occur.

A summary of the total deposits held at December 31, 2013, including $4,665,260,000 in excess of calculated requirements were as follows (in thousands):

	As of December 31, 2013		
	GS Division	MBS Division	Total
Cash deposits	$ 5,097,715	$ 3,796,728	$ 8,894,443
Investments in marketable securities	-	200,000	200,000
U.S. treasury and agency securities, at fair value	5,685,974	2,632,262	8,318,236
Total	$ 10,783,689	$ 6,628,990	$ 17,412,679

A summary of the total deposits held at December 31, 2012, including $3,001,055,000 in excess of calculated requirements were as follows (in thousands):

	As of December 31, 2012		
	GS Division	MBS Division	Total
Cash deposits	$ 4,195,414	$ 3,474,473	$ 7,669,887
Investments in marketable securities	-	200,000	200,000
U.S. treasury and agency securities, at fair value	4,676,034	3,735,144	8,411,178
Total	$ 8,871,448	$ 7,409,617	$ 16,281,065

Cash Deposits and Investments in Marketable Securities. Cash deposits and investments in marketable securities to the Clearing Fund, which may be applied to satisfy obligations of the depositing participant, as provided in FICC rules, as of December 31, 2013 and 2012, are invested as follows (in thousands):

	2013	2012
Overnight reverse repurchase agreements	$ 4,260,054	$ 4,264,707
Money market investments	3,434,000	2,080,000
Interest bearing deposits	700,387	750,081
Overnight investments made in commercial paper	500,002	575,099
Treasury bills	200,000	200,000
Total	$ 9,094,443	$ 7,869,887

Refunds to participants. The total amount of Interest income the Company earned from the investment of cash deposits in the Clearing Fund was $7,456,000 and $11,085,000 in 2013 and 2012, respectively.

7. PREMISES AND EQUIPMENT

Premises and equipment consist of the following at December 31, 2013 and 2012 (in thousands):

	2013			2012		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	$ 26,622	$ 26,622	$ -	$ 26,622	$ 26,622	$ -
Leasehold improvements	1,418	1,418	-	1,417	1,417	-
Building and improvements	913	306	607	915	286	629
Land	175	-	175	175	-	175
Total	$ 29,128	$ 28,346	$ 782	$ 29,129	$ 28,325	$ 804

Depreciation expense for premises and equipment for the years ended December 31, 2013 and 2012 was approximately \$21,000 and \$106,000, respectively, and are included within depreciation and amortization in the accompanying Statements of Income.

There were no disposals in 2013 or 2012.

8. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization, net carrying value and remaining useful lives of other finite-lived intangible assets were as follows at December 31, 2013 and 2012 (in thousands):

	2013			2012		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Capitalized Software	$ 105,223	$ 71,301	$ 33,922	$ 92,404	$ 59,992	$ 32,412
Total	$ 105,223	$ 71,301	$ 33,922	$ 92,404	$ 59,992	$ 32,412

Capitalized Software. Capitalized costs for software for internal use or purchase during 2013 and 2012 are \$12,819,000 and \$11,373,000, respectively. Amortized expenses for capitalized software for the years ended December 31, 2013 and 2012 was approximately \$11,309,000 and \$8,529,000, respectively, and are included within depreciation and amortization in the accompanying Statements of Income.

There were no disposals of capitalized software in 2013 or 2012.

Estimated amortization expense related to intangible assets for each of the next three years is as follows (in thousands):

2014	$ 16,070
2015	12,367
2016	5,485
Total future estimated amortization	$ 33,922

9. FAIR VALUE MEASUREMENTS

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis. The following description of the valuation basis, including valuation techniques and inputs, used in measuring the Company's financial assets and liabilities that are accounted for at fair value on a recurring basis:

U.S. Government and Federal Agency Securities

U.S. Treasury Securities — U.S. Treasury securities are measured based on quoted market prices and classified in Level 1 of the fair value hierarchy.

U.S. Agency-Issued Debt Securities — U.S. agency issued debt securities are measured primarily based on quoted market prices obtained from external pricing services. Callable U.S. agency securities are classified within Level 2 of the fair value hierarchy while non-callable U.S. agency securities are classified within Level 1.

U.S. Agency Residential Mortgage-Backed Securities —U.S agency residential mortgage-backed securities include mortgage pass-through securities (fixed and adjustable rate), interest-only and principal-only securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2013 (in thousands):

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets - Clearing Fund - U.S. government and Federal Agency securities	$ 6,667,306	$ 1,650,930	$ -	$ 8,318,236
Liabilities:				
Clearing fund - U.S. government securities and Federal Agency Securities	$ 6,667,306	$ 1,650,930	$ -	$ 8,318,236

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2012 (in thousands):

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets - Clearing Fund - U.S. government and Federal Agency securities	$ 6,645,261	$ 1,765,917	$ -	$ 8,411,178
Liabilities:				
Clearing fund - U.S. government securities and Federal Agency Securities	$ 6,645,261	$ 1,765,917	$ -	$ 8,411,178

There were no transfers between Level 1 and Level 2 nor were any amounts classified as Level 3 during the years ended December 31, 2013 and 2012.

Financial Assets and Liabilities not Measured at Fair Value. A description of the valuation basis, including valuation techniques and inputs, used in measuring the Company's financial assets and liabilities that are not accounted for at fair value is as follows:

<u>Cash and Cash Equivalents</u>— Consist primarily of highly liquid investments in time deposits held in banks and are classified as Level 1 within the valuation hierarchy.

<u>Clearing Fund Cash Deposits</u> — Consist primarily of highly liquid investments in time deposits held in banks and are classified as Level 1 as well as reverse repurchase agreements which are classified as Level 2 within the valuation hierarchy.

<u>Reverse Repurchase Agreements</u> — The estimated fair value of reverse repurchase agreements is based on inputs such as interest rates and tenors. These agreements are classified as Level 2 within the valuation hierarchy due to their overnight nature.

<u>Other Financial Assets</u> — Other financial assets include note receivables. Note receivables are included as Level 2 within the valuation hierarchy.

<u>Marketable Securities Held-to-Maturity</u> — Marketable securities held-to-maturity are comprised of U.S. Treasury securities, U.S. Treasury Bills and Corporate Notes, which are classified as Level 1 within the valuation hierarchy.

The carrying amounts reported in the Statements of Financial Condition for cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate fair value because of their relatively short-term nature.

The table below presents the carrying value, fair value and fair value hierarchy level of certain financial instruments not measured at fair value in the Statement of Financial Condition at December 31, 2013 (in thousands):

	2013				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 115,907	$ 115,907	$ 115,907	$ -	$ -
Clearing fund cash deposits	8,894,443	8,894,443	4,634,389	4,260,054	-
Marketable securities, held-to-maturity	200,000	199,968	199,968	-	-
Total	$ 9,210,350	$ 9,210,318	$ 4,950,263	$ 4,260,054	$ -
Liabilities:					
Clearing fund cash deposits	$ 8,894,443	$ 8,894,443	$ 8,894,443	$ -	$ -

The table below presents the carrying value, fair value and fair value hierarchy level of certain financial instruments not measured at fair value in the Statement of Financial Condition at December 31, 2012 (in thousands):

	2012				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 494	$ 494	$ 494	$ -	$ -
Clearing fund cash deposits	7,669,887	7,669,887	3,405,180	4,264,707	-
Marketable securities, held-to-maturity	215,956	215,907	215,907	-	-
Reverse repurchase agreements	141,625	141,625	-	141,625	-
Other financial assets	20,097	20,097	-	20,097	-
Total	$ 8,048,059	$ 8,048,010	$ 3,621,581	$ 4,426,429	$ -
Liabilities:					
Clearing fund cash deposits	$ 7,669,887	$ 7,669,887	$ 7,669,887		
Other liabilities	78,051	78,051	-	78,051	-
Total	$ 7,747,938	$ 7,747,938	$ 7,669,887	$ 78,051	$ -

Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis. There were no assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2013 and 2012.

10. OTHER ASSETS

Details for other current assets as of December 31, 2013 and 2012, were as follows (in thousands):

	2013	2012
Taxes receivable	$ 1,794	$ -
Other assets	-	25
Total	$ 1,794	$ 25

11. OTHER LIABILITIES

Details for other liabilities as of December 31, 2013 and 2012, were as follows (in thousands):

	2013	2012
Deferred tax liability, net	$ 3,097	$ 1,844
Total current liabilities	$ 3,097	$ 1,844
Deferred tax liability, net	$ 950	$ 2,237
Unrecognized tax benefits	3,291	1,840
Total non-current liabilities	$ 4,241	$ 4,077
Total	$ 7,338	$ 5,921

Unrecognized tax benefits. FICC applies the provision of FASB issued Financial Interpretation No. 48 (FIN 48) “Accounting for Uncertainty in Income Taxes,” (codification primarily in FASB ASC Topic 740, Income Taxes) to record unrecognized tax benefits (UTBs). Refer to Note 13 Income taxes for additional details.

12. PENSION AND POST RETIREMENT BENEFITS

Eligible employees participate in DTCC’s trusteed non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible employees also participate in DTCC’s life insurance program, which provides for the payment of death benefits to beneficiaries of eligible retired employees, and DTCC’s healthcare program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to participating subsidiaries based primarily upon the proportion of each subsidiary’s allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. For the years ended December 31, 2013 and 2012, the benefit plan cost allocated to FICC was $4,073,000 and $3,997,000, respectively. These costs are included in Employee compensation and related benefits on the Company’s Statements of Income.

Changes to benefit plan. On February 15, 2012, the DTCC Board of Directors approved changes to amend the DTCC benefit plans, in which the Company participates, to freeze the benefit for certain participants effective December 31, 2013. After the plan freeze, certain plan participants will no longer accrue any benefits under the plans.

13. INCOME TAXES

FICC is included in DTCC's consolidated federal and combined and unitary state tax returns. FICC files other state tax returns on a separate company basis. The components of the Company's income tax provision (benefit) calculated on a separate company basis for the years ended December 31, 2013 and 2012 were as follows (in thousands):

	2013	2012
Current income tax:		
Federal	$ 2,107	$ 8,012
State and local	873	2,168
Deferred income tax (benefit):		
Federal	1,325	415
State and local	93	866
Provision for income taxes	$ 4,398	$ 11,461

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 2013 and 2012, the Company paid income taxes to DTCC, net of refunds, of $10,063,000 and $4,750,000, respectively.

The 2013 and 2012 effective tax rate differs from 35% federal statutory rate primarily due to state and local taxes, permanent differences between financial statements income and taxable income, and adjustments to deferred tax balances summarized below. A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate on income before provision for income is as follows:

	Year ended Dec. 31,	
	2013	2012
U.S. statutory tax rate	35.0%	35.0%
State and local income taxes, net of federal tax benefit	5.2%	6.1%
Change in unrecognized tax benefits	3.1%	-0.8%
Change in state tax rate on deferred tax assets	-	1.6%
Other	1.6%	-0.3%
Effective tax rate	44.9%	41.6%

Deferred tax assets and liabilities. The components of deferred tax assets and (liabilities) at December 31, 2013 and 2012 were as follows (in thousands):

	2013	2012
Deferred tax assets:		
Accrued compensation	$ 6,668	$ 4,510
Accrued employee benefits	11,932	12,339
Software	11,719	7,569
Depreciation	434	512
Deferred rent	519	-
Other	1,152	176
Total deferred tax assets	32,424	25,106
Deferred tax liabilities:		
Accrued compensation	(6,116)	(5,555)
Accrued employee benefits	(4,930)	(2,201)
Software	(25,425)	(21,431)
Total deferred tax liabilities	(36,471)	(29,187)
Net deferred tax asset/(liabilities) before valuation allowance	(4,047)	(4,081)
Valuation allowance	-	-
Net deferred tax asset/(liabilities)	$ (4,047)	$ (4,081)
Reported as		
Current deferred tax assets	$ 6,801	$ 5,225
Current deferred tax liabilities	(9,898)	(7,069)
Non-current deferred tax assets	25,623	19,880
Non-current deferred tax liabilities	(26,573)	(22,117)
Net deferred tax assets/(liabilities)	$ (4,047)	$ (4,081)

Details for UTBs as of December 31, 2013 and 2012 were as follows (in thousands):

	2013	2012
Beginning balance at Jan. 1,	$ 1,514	$ 1,875
Prior period tax positions:		
Increases	1,021	-
Decreases	-	(361)
Current period tax positions	-	-
Settlements with taxing authorities	-	-
Lapse of statute of limitations	-	-
Ending balance at Dec. 31,	$ 2,535	$ 1,514

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its Statements of Income. As of December 31, 2013 and 2012, the amount of accrued interest recorded in the Company's Statements of Financial Condition related to UTBs was $756,000 and $326,000, respectively.

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 for 2010 through 2011 are currently under examination and the federal income tax return for 2012 remains subject to examination by the IRS. New York State income tax returns for 2009 through 2012 remain open to examination. New York City income tax returns for 2009 through 2012 remain subject to examination. Florida income tax returns for 2008 through 2010 are currently under examination and 2011 and 2012 remain open to examination.

For the current ongoing audit related to open tax years, the Company estimates it is possible 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 it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

14. SHAREHOLDER'S EQUITY

Common Stock. FICC has 105,000 authorized shares of common stock with a par value of $0.50 per share. As of December 31, 2013 and 2012, 20,400 shares of common stock were outstanding.

15. TRANSACTIONS WITH RELATED PARTIES

Transactions with DTCC. FICC has an agreement with DTCC whereby DTCC pays for substantially all of the expenses for 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 2013 and 2012, 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, is included in professional and other services expense on the Statements of Income.

Total fees and outstanding payables to the related party were as follows for 2013 and 2012 (in thousands):

	Expenses		Payables	
	2013	**2012**	**2013**	**2012**
DTCC	$ 5,224	$ 5,092	$ 2,346	$ 53,646

Promissory note with DTCC. FICC entered into a promissory note on October 21, 2011 whereby FICC loaned DTCC $20,000,000 on an unsecured basis. The note had an original term of three months, and was extended. The note matured and was repaid by DTCC in full on April 29, 2013. DTCC was charged interest by FICC at the federal funds rate plus 30 basis points.

16. COMMITMENT AND CONTINGENCIES

Litigation. The Company was 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 financial position, operations, or cash flows.

17. GUARANTEES

FICC provides central counterparty (CCP) services, which includes clearing, settlement, and risk management services. Acting as a CCP, it guarantees the settlement of trades in the event that a participant defaults. A participant default is defined in FICC's rules. In its guarantor role, FICC has equal claims to and from participants on opposite sides of netted transactions. To cover its guarantee risk, FICC uses risk-based margining to collect cash and securities collateral ("Clearing Fund").

FICC, through its **Government Securities Division (GSD)**, is the leading provider of real-time trade matching, clearing, netting, risk management and settlement for trades in U.S. government debt, including repurchase agreements. Securities processed by GSD include Treasury bills, bonds, notes, zero-coupon securities, government agency securities, and inflation-indexed securities. The U.S. government securities market is predominantly an over-the-counter market and most transactions are settled on a T+1 basis. Trades are guaranteed upon comparison. GSD's netting system interposes FICC as settlement counterparty between GSD participants for eligible trades that have been netted. The guarantee of net settlement positions by FICC results in a potential liability to FICC. Guaranteed positions that have not yet settled are marked to market daily and are debited from or credited to the responsible participants through the funds-only settlement process. At December 31, 2013, the amount of guaranteed positions due from netting GSD participants to FICC aggregated approximately $844.8 billion. There is an equal amount due to certain other GSD participants from FICC after consideration of deliveries pending to FICC. There were no defaults by participants to these obligations.

MBSD's approval as central counterparty and pool netting system were implemented opening of business on April 2, 2012. This implementation positioned MBSD to begin to guarantee settlement. The pool netting system interposes FICC between MBSD participants for eligible trades that have been pool netted. The guarantee of settlement for pool netting eligible trades as well as TBA trades by FICC results in potential liability to FICC. Guaranteed positions that have not yet settled are margined, marked-to-market daily and collateralized via the member's Clearing Fund. At December 31, 2013, the net amount of guaranteed positions by MBSD which were scheduled to settle, approximated $248 billion. There were no defaults by participants to these obligations.

If an FICC participant defaults, such participant's deposits to the applicable Division's Clearing Fund would be used/liquidated to satisfy an outstanding obligation and/or loss. If those funds are insufficient to cover the liquidation of the defaulting participant's outstanding obligations to FICC, FICC would then use any funds available from its multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and The OCC under which these clearing agencies have agreed to make payments to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that these clearing agencies have excess resources belonging to the defaulting participant.

In addition, FICC has entered into separate and distinct cross-margining agreements; one is with New York Portfolio Clearing, LLC (NYPC), and the other is with the Chicago Mercantile Exchange Inc. (CME). Under each of these respective agreements, FICC and NYPC, and separately, 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 utilizing up to 25% of its retained earnings, or such greater amount of retained earnings to be determined by the Board of Directors. If a loss still remains, the Division will divide the loss between "Tier 1" participants and "Tier 2" participants. Tier 2 participants (currently registered investment companies) will only be subject to loss to the extent they traded with the defaulting participant, due to regulatory requirements applicable to them. Tier 1 participants will be allocated the loss applicable to them first by assessing the required Clearing Fund deposit of each such participant in the amount of up to $50,000, equally. If a loss remains, Tier 1 participants will be assessed ratably, in accordance with the respective amounts of their required Clearing Fund deposit over the prior twelve months. Participants in the GSD who act as inter-dealer brokers are limited to a loss allocation of $5 million per event in respect of their inter-dealer broker activity.

18. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISK

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments held by the Company. The Company's exposure to credit risk comes primarily from clearing and settlement service operations. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, investments in marketable securities, accounts receivable, and Clearing Fund.

Concentrations of credit risk may arise through having large connected individual exposures and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors, including economic conditions affecting the securities industry and debt issuing countries.

Given that FICC is a central counterparty, it is exposed to significant credit risk of third parties, including its customer base, which extends to companies within the global financial services industry. Customers are based in the United States and overseas and include participating brokers, dealers, institutional investors, banks, and other financial intermediaries — either directly or through correspondent relationships.

Cash and Cash Equivalents. The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located in different geographical regions, and the Company's policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions. The Company only makes deposits with banks and financial institutions with a credit rating of at least A- or better from Standard & Poors and Fitch, or A3 or better from Moody's. The Company also monitors the financial condition of the financial institutions on an ongoing basis to identify any significant change in a financial institution's financial condition. If such a change takes place, the amounts deposited in such financial institutions are adjusted.

Marketable Securities. In addition to making investments in overnight reverse repos and money market funds, the Company also makes direct investments in U.S. Treasury securities. Credit risk related to marketable securities involves the risk of nonperformance by the counterparty, which could result in a material loss. To mitigate the risk of credit loss, the Company only makes investments in debt obligations of the U.S. government or those U.S. government agencies guaranteed by the U.S. government.

Accounts Receivable. Credit risk related to accounts receivable involves the risk of nonpayment by the counterparty. Credit risk is diversified due to the large number of participants comprising the Company's customer base. The Company also performs ongoing credit evaluations of the financial conditions of its customers and evaluates the delinquency status of the receivables.

Clearing Fund. In addition to risk management policies described above for cash and cash equivalents, when Participants provide cash deposits to the Clearing Fund, the Company may invest the cash in overnight reverse repurchase agreements (reverse repos). The Company bears credit risk related to overnight reverse repurchase agreements only to the extent that cash advanced to the counterparty exceeds the value of collateral received. Securities purchased under overnight reverse repos are generally U.S. Treasury and Agency securities and, therefore, have minimal credit risk due to low probability of U.S. government default and the highly liquid nature of these securities. Reverse repo investments are secured; collateral must have a market value greater than or equal to 102% of the cash invested. Additionally, overnight reverse repo investments are only placed with financial institutions with a credit rating of A or better from Standard & Poor's and Fitch, or A3 or better from Moody's. To avoid concentration of credit risk exposures, the Company sets credit limits for each counterparty.

The participant cash deposits may also be invested in money market mutual funds under Rule 2a-7 of the Investment Company Act of 1940 with a credit rating of AAA from Standard & Poor's, Fitch, or Moody's, respectively. Since the Company only invests in highly rated money market mutual funds and cash is returned each morning, the Company has minimal credit risk related to overnight money market mutual funds.

FICC is exposed to credit risk on a daily basis. This risk arises at FICC as it guarantees certain obligations of its participants under specified circumstances. The Company provides risk management/mitigation by identifying, measuring and responding to these risks in order to protect the safety and soundness of the FICC settlement system. Various tools are utilized to mitigate these risks including, but not limited to, setting capital adequacy standards, assessing new applicants, performing continuous monitoring of Participants' financial condition, reviewing participants' daily trading activity and determining appropriate collateral requirements, maintaining the Clearing Fund, netting, marking unsettled trades to market, and utilizing a variety of advanced quantitative analytical methodologies, such as back and stress testing.

In order to become a participating member at FICC, an applicant must meet minimum eligibility criteria (which are specified in the FICC's rules). All applicants to be FICC participants must provide FICC with certain financial and operational information. This information is reviewed to ensure that the applicant has sufficient financial ability to make anticipated contributions to the Clearing Fund and to meet obligations to FICC. The credit quality of the participant is evaluated at the time of application and monitored on an ongoing basis to determine if the participant continues to be financially stable and continues to meet the financial requirements of membership. As part of its review, the Company utilizes an internal credit risk rating matrix to risk rate its bank and broker participants. The resulting rating determines the level of financial review that will be performed on each participant and may impact the Clearing Fund requirements.

FICC collects Clearing Fund deposits from its Participants using a risk-based margin methodology. The risk-based methodology enables them to identify the risks posed by a participant's unsettled portfolio and to quickly adjust and collect additional deposits as needed to cover those risks. At multiple times during the day, Clearing Fund requirements are calculated for each participant based on their then-current unsettled and pending transactions. Security pricing is updated on an intraday basis and additional charges may be collected to cover significant price movements from those participants with a significant exposure in the identified security. The Company monitors participants overall trading activities throughout the trading day to determine whether exposures are building up that would require special actions to increase their Clearing Fund deposits.

The Company regularly performs back and stress testing of the quality and accuracy of its risk management systems to ensure the adequacy of Clearing Fund requirements and to respond to other risk factors the tests may reveal.

The Company also limits its exposure to potential losses from default by participants through its multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and The OCC. This arrangement is designed to provide a mechanism for the sharing of excess net collateral resources of a common defaulting participant held at one clearing agency to cover losses incurred at another.

FICC, through its GSD, has a cross-margin agreement with the CME designed to provide margin reduction benefits to certain "cross-margining" participants and their affiliates. FICC, through its GSD, has also entered into a "one-pot" cross-margining arrangement with NYPC. The arrangement allows certain GSD participants to combine their positions at the GSD with their positions (or those of certain permitted affiliates) cleared at NYPC within a single margin portfolio.

19. IMPACT FROM SUPERSTORM SANDY

During the last quarter of 2012, DTCC's operations were significantly impacted by Superstorm Sandy (Sandy). The floodwaters that engulfed the lobby and underground floors of its corporate headquarters at 55 Water Street in Lower Manhattan forced lengthy closure of that building, displacing some 2,300 employees along with the DTCC's operations from the site.

The Company recognized approximately $835,000 and $1,100,000 for the years ended December 31, 2013 and 2012, respectively, in Sandy related expenses, offset by $0 and $300,000 rent credit received from the landlord due to loss of access to the building, respectively. DTCC maintains a property insurance policy that has separate sub-limits that apply to various types of damage, such as business interruption (lost profits), extra expenses (expenses incurred to keep normal business operations running), debris removal, etc., and also to specific types of damage incurred from catastrophic natural disasters such as hurricanes, earthquakes, and floods. FICC received a payment of $1,937,000 from insurers in 2013.

20. OTHER MATTERS

Lehman Brothers Inc. 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 NSCC, FICC, and 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 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.

With respect to LBI, DTCC and its subsidiaries held the following at December 31:

	2013	2012
Cash deposits	$ 32,556,821	$ 32,556,821
Participant and clearing funds	1,160,135	1,160,135
Matured MMI accounts	29,616,175	29,616,175
Total	$ 63,333,131	$ 63,333,131

As of December 31, 2013, DTCC had delivered to the Trustee of the LBI estate $5,125,811,000 in cash and Clearing Fund securities valued at $159,479,000, attributable to the LBI estate.

MF Global Inc. On October 31, 2011, a Trustee was appointed, under the SIPA, to administer and liquidate the business of MF Global Inc. (MFG). As part of the liquidation of MFG, any losses will first be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively (including through application of MFG'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 MFG Accounts and satisfaction of all obligations of NSCC, FICC and DTC they will be remitted to the Trustee.

With respect to MFG, DTCC and its subsidiaries held the following at December 31:

	2013	2012
Cash deposits	$ 22,877,984	$ 21,658,797
Participant and clearing funds	6,120,422	6,210,352
Total	$ 28,998,406	$ 27,869,149

As of December 31, 2013, DTCC had delivered cash to the Trustee of the MFG estate $227,287,000, attributable to the MFG estate.

Management does not expect there will be any losses attributable to the liquidation of the LBI or MFG accounts to be assessed against retained earnings or participants.

Severance. At December 31, 2013, FICC incurred severance expense totaling $670,000 that are included in employee compensation and related benefits on the accompanying Statements of Income. In 2012, there was a similar expense of $2,144,000.

21. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2013 through February 28, 2014 for potential recognition or disclosure in these financial statements. No events or transactions occurred during such period that would require recognition or disclosure in these financial statements.