Fixed Income Clearing Corporation

Financial Statements as of and for the Six Months
Ended June 30, 2014 and for the Year
Ended December 31, 2013

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION

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

	June 30, 2014 (unaudited)	December 31, 2013 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 96,645	$ 115,907
Accounts receivable	32,314	12,362
Clearing fund:		
Cash deposits	10,968,240	8,894,443
Investments in marketable securities	200,000	200,000
Other deposits, at fair value	8,572,815	8,318,236
Other participant assets	6,597	7,148
Other current assets	664	1,794
Total current assets	19,877,275	17,549,890
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of $28,356 and $28,346 at June 30, 2014 and December 31, 2013, respectively	772	782
Intangible assets - net of accumulated amortization of $79,018 and $71,301 at June 30, 2014 and December 31, 2013, respectively	31,532	33,922
Total non-current assets	32,304	34,704
TOTAL ASSETS	$ 19,909,579	$ 17,584,594
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,755	$ 4,860
Clearing fund:		
Cash deposits and marketable securities	11,168,240	9,094,443
Other deposits, at fair value	8,572,815	8,318,236
Payable to participants	6,597	7,148
Other current liabilities	3,097	3,097
Total current liabilities	19,754,504	17,427,784
NON-CURRENT LIABILITIES		
Other non-current liabilities	4,541	4,241
Total non-current liabilities	4,541	4,241
Total liabilities	19,759,045	17,432,025
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)		
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	123,907	125,942
Total shareholder's equity	150,534	152,569
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 19,909,579	$ 17,584,594

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

UNAUDITED STATEMENTS OF INCOME
(In thousands)

	For the six months ended June 30, 2014	2013
REVENUES:		
Clearing services	$ 73,584	$ 87,890
Other revenue	950	1,682
Total revenues	74,534	89,572
EXPENSES:		
Employee compensation and related benefits	33,979	32,995
Information technology	7,041	8,053
Professional and other services	24,914	25,236
Occupancy	3,196	3,512
Depreciation and amortization	7,727	4,440
Other general and administrative, net	1,165	189
Total expenses	78,022	74,425
Total operating (loss) income	(3,488)	15,147
NON-OPERATING INCOME (EXPENSE):		
Interest income	2,937	4,272
Refunds to participants	(2,832)	(4,254)
Total non-operating income	105	18
(Loss)/Income before taxes	(3,383)	15,165
(Benefit)/Provision for income taxes	(1,348)	6,283
Net (loss)/income	$ (2,035)	$ 8,882

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

UNAUDITED STATEMENTS OF INCOME
(In thousands)

	For the three months ended June 30, 2014	2013
REVENUES:		
Clearing services	$ 37,658	$ 45,114
Other revenue	423	748
Total revenues	38,081	45,862
EXPENSES:		
Employee compensation and related benefits	16,073	16,400
Information technology	4,058	4,791
Professional and other services	12,962	13,429
Occupancy	1,614	1,697
Depreciation and amortization	3,806	2,220
Other general and administrative, net	615	218
Total expenses	39,128	38,755
Total operating (loss) income	(1,047)	7,107
NON-OPERATING INCOME (EXPENSE):		
Interest income	1,693	1,895
Refunds to participants	(1,639)	(1,939)
Total non-operating income (expense)	54	(44)
(Loss)/income before taxes	(993)	7,063
(Benefit)/provision for income taxes	(390)	2,858
Net (loss)/income	$ (603)	$ 4,205

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, 2012 (audited)	$ 10	$ 26,617	$ 120,537	$ 147,164
Net income	-	-	5,405	5,405
BALANCE - December 31, 2013 (audited)	$ 10	$ 26,617	$ 125,942	$ 152,569
Net loss	-	-	(2,035)	(2,035)
BALANCE - June 30, 2014 (unaudited)	$ 10	$ 26,617	$ 123,907	$ 150,534

See notes to financial statements.

FIXED INCOME CLEARING CORPORATION

UNAUDITED STATEMENTS OF CASH FLOWS
(In thousands)

	For the six months ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (2,035)	$ 8,882
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,727	4,440
Net premium amortized on investments in marketable securities	-	(13)
Deferred income taxes	300	1,393
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(19,952)	(2,267)
Decrease (increase) in other assets	830	(1,368)
(Decrease) in accounts payable	(1,105)	(46,183)
Increase in other liabilities	300	1,459
Net cash (used in) provided by operating activities	(13,935)	(33,657)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	200,000	216,000
Purchases of investments in marketable securities	(200,000)	(200,000)
Repayment of note receivable from DTCC	-	20,000
Purchases of software	(5,327)	(8,562)
Net cash (used in) provided by investing activities	(5,327)	27,438
Net (decrease) in cash and cash equivalents	(19,262)	(6,219)
Cash and cash equivalents - Beginning of period	$ 115,907	$ 142,119
Cash and cash equivalents - End of period	$ 96,645	$ 135,900
SUPPLEMENTAL DISCLOSURES:		
Income taxes (refund) paid - net	$ (2,778)	$ 6,776

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, Business Entity Data B.V. (BED) and AVOX Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The quarterly financial statements of FICC have been prepared in accordance with generally accepted accounting principles in the United States, and should be read in conjunction with the annual financial statements as of December 31, 2013.

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.

Investments in Marketable Securities. The Company’s investments consist principally of U.S. Treasury securities. 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. 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 incurred by 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 in reverse repurchase agreements, commercial paper, bank sweep deposits, money market funds, direct obligations of the U.S. Government and interest-bearing deposits. 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 reverse repurchase agreements are typically U.S. Treasury and agency securities. Reverse repurchase agreements are recorded at the contract amounts. Any interest earned on these investments is 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 interest earned on these investments is 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.

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.

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, inc luding, employee compensation and related benefits, information technology, professional and other services, occupancy, depreciation and amortization, and other general and administrative expenses.

3. CLEARING FUND

Clearing fund. FICC's rules require its participants to maintain deposits with the Clearing Fund based on calculated requirements as determined by the Company, which were $14,772,888,000 and $12,747,419,000 at June 30, 2014 and December 31, 2013, respectively. The deposits are available to secure participants' obligations and certain liabilities of the Company. All clearing fund cash is reflected as clearing fund on the accompanying Statements of Financial Condition.

A summary of the total deposits held at June 30, 2014, including $4,968,167,000 in excess of calculated requirements, follows (in thousands):

	As of June 30, 2014		
	GS Division	**MBS Division**	**Total**
Cash deposits	$ 6,158,684	$ 4,809,556	$ 10,968,240
Investments in marketable securities	-	200,000	200,000
U.S. treasury and agency securities, at fair value	6,077,244	2,495,571	8,572,815
Total	$ 12,235,928	$ 7,505,127	$ 19,741,055

A summary of the total deposits held at December 31, 2013, including $4,665,260,000 in excess of calculated requirements, 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

Cash Deposits and Investments in Marketable Securities. Cash deposits and Investments in marketable securities of the Clearing Fund, which may be applied to satisfy obligations of the depositing participant as provided in FICC rules, as of June 30, 2014 and December 31, 2013 were invested as follows (in thousands):

	2014	**2013**
Reverse repurchase agreements	$ 3,590,000	$ 4,260,054
Money market investments	6,678,000	3,434,000
Interest bearing deposits	200,240	700,387
Investments made in commercial paper and bank sweep deposits	500,000	500,002
Treasury bills	200,000	200,000
Total	$ 11,168,240	$ 9,094,443

Refunds to participants. The total amount of Interest income the Company earned from the investment of cash deposits in the clearing fund was $2,832,000 and $4,254,000 at June 30, 2014 and 2013, respectively.

4. 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.

5. 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 June 30, 2014 and December 31, 2013, the amount of guaranteed positions due from netting GSD participants to FICC aggregated approximately $829.6 billion and $844.8 billion, respectively. 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 June 30, 2014 and December 31, 2013, the net amount of guaranteed positions by MBSD which were scheduled to settle, approximated $ 282 billion and $248 billion, respectively. 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.

6. 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 arises primarily from clearing and settlement service operations. Credit risk also arises 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 due to 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 various 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 with whom it places funds. The Company generally makes deposits with banks and financial institutions having a credit rating of at least A-/A3 or better from recognized rating agencies and that are approved via its internal credit review process. The Company also monitors the financial condition of the financial institutions with whom it places funds 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 may be adjusted.

Marketable Securities. In addition to making investments in reverse repurchase agreements, money market funds and interest-bearing deposits, 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 reverse repurchase agreements (reverse repos). The Company bears credit risk related to reverse repurchase agreements only to the extent that cash advanced to the counterparty exceeds the value of collateral received. Securities purchased under reverse repos are generally U.S. Treasury and agency securities having 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, reverse repo investments are typically placed with financial institutions with a credit rating of A-/A3 or better from recognized rating agencies and that are approved via the company's credit review process. 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 recognized rating agencies. 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 these investments.

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.

7. 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 June 30, 2014 and December 31, 2013:

	2014	2013
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 June 30, 2014, 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 June 30, 2014 and December 31, 2013:

	2014	2013
Segregated cash	$ 22,887,767	$ 22,877,984
Participant and clearing funds	6,123,192	6,120,422
Total	$ 29,010,959	$ 28,998,406

As of June 30, 2014, 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.

8. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after June 30, 2014 through July 31, 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.