National Securities Clearing Corporation

Consolidated Financial Statements as of and for the Years Ended December 31, 2015 and 2014, and Report of Independent Registered Public Accounting Firm

NATIONAL SECURITIES CLEARING CORPORATION

TABLE OF CONTENTS

	Page
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014:	
Consolidated Statements of Financial Condition	2
Consolidated Statements of Income	3
Consolidated Statements of Shareholder’s Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-24

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112-0015
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
National Securities Clearing Corporation
New York, NY

We have audited the accompanying consolidated statements of financial condition of National Securities Clearing Corporation and subsidiary (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, changes in shareholder's equity, and cash flows for each of the two years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 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 consolidated financial statements present fairly, in all material respects, the financial position of National Securities Clearing Corporation and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 26, 2016

NATIONAL SECURITIES CLEARING CORPORATION

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

	As of December 31, 2015	As of December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,320,379	$ 197,490
Investments in marketable securities	7,400	-
Participants' segregated cash	26,581	42,009
Accounts receivable	79,679	32,368
Clearing fund:		
Cash deposits	3,847,082	3,798,764
Other deposits, at fair value	290,388	340,285
Other current assets	1,587	2,108
Total current assets	5,573,096	4,413,024
NON-CURRENT ASSETS		
Premises and equipment - net of accumulated depreciation of $54,632 and $64,973 at December 31, 2015 and 2014, respectively	24,221	28,950
Intangible assets - net of accumulated amortization of $119,129 and $102,589 at December 31, 2015 and 2014, respectively	33,418	36,981
Total non-current assets	57,639	65,931
TOTAL ASSETS	$ 5,630,735	$ 4,478,955
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Commercial paper	$ 1,007,124	$ -
Loan payable to DTCC	99,000	-
Accounts payable	170	1,378
Payable to participants	26,846	42,203
Clearing fund:		
Cash deposits and marketable securities	3,847,082	3,798,764
Other deposits, at fair value	290,388	340,285
Other current liabilities	-	3,874
Total current liabilities	5,270,610	4,186,504
NON-CURRENT LIABILITIES		
Non-current liabilities	6,875	6,904
Total non-current liabilities	6,875	6,904
Total liabilities	5,277,485	4,193,408
COMMITMENTS AND CONTINGENCIES (Note 17)		
SHAREHOLDER'S EQUITY		
Common stock, $0.50 par value - 30,000 shares authorized, 20,000 shares issued and outstanding	10	10
Paid-in capital	69,442	34,442
Retained earnings	283,798	251,095
Total shareholder's equity	353,250	285,547
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 5,630,735	$ 4,478,955

The Notes to the Consolidated Financial Statements are an integral part of these statements.

NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

	For the years ended December 31, 2015	2014
REVENUES:		
Clearing services	$ 263,536	$ 244,957
Investment product services	103,001	99,036
Settlement and asset services	1,270	385
Total revenues	367,807	344,378
EXPENSES:		
Employee compensation and related benefits	129,479	113,313
Information technology	29,984	30,848
Professional and other services	110,472	94,102
Occupancy	10,082	10,566
Depreciation and amortization	23,156	20,863
Other general and administrative, net	7,942	5,615
Total expenses	311,115	275,307
Total operating income	56,692	69,071
NON-OPERATING INCOME (EXPENSE):		
Interest income	1,176	752
Interest expense	(1,257)	(1,067)
Total non-operating expense	(81)	(315)
Income before taxes	56,611	68,756
Provision for income taxes	23,908	28,404
Net income	$ 32,703	$ 40,352

The Notes to the Consolidated Financial Statements are an integral part of these statements.

NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER’S EQUITY
(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax — Derivative Instruments	Total Shareholder's Equity
BALANCE - December 31, 2013	$ 10	$ 34,442	$ 210,743	$ (395)	$ 244,800
Net income	-	-	40,352	-	40,352
Amounts reclassified from comprehensive income on derivative, net of tax	-	-	-	395	395
BALANCE - December 31, 2014	$ 10	$ 34,442	$ 251,095	$ -	$ 285,547
Capital contribution from DTCC	-	35,000	-	-	35,000
Net income	-	-	32,703	-	32,703
BALANCE - December 31, 2015	$ 10	$ 69,442	$ 283,798	$ -	$ 353,250

The Notes to the Consolidated Financial Statements are an integral part of these statements.

NATIONAL SECURITIES CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 32,703	$ 40,352
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	23,156	20,863
Impairment on intangible assets	476	722
Deferred income taxes	1,101	1,407
Changes in operating assets and liabilities:		
Increase in accounts receivable	(47,311)	(7,812)
(Increase) decrease in other assets	(1,322)	1,411
(Increase) decrease in other participants' assets	(71)	41
Decrease in accounts payable	(1,208)	(14,879)
(Decrease) increase in other liabilities	(3,090)	2,625
Decrease in payable to participants	(15,357)	(76,264)
Net cash used in operating activities	(10,923)	(31,534)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments in marketable securities	(7,400)	-
Repayment of notes receivable from DTCC	-	18,415
Decrease in segregated cash	15,428	76,223
Purchases of software	(15,340)	(16,102)
Purchases of equipment	-	(8,195)
Net cash (used in) provided by investing activities	(7,312)	70,341
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of commercial paper	1,007,124	-
Principal payments on debt	-	(22,362)
Proceeds received on loan from DTCC	100,000	-
Principal payments on loan by DTCC	(1,000)	-
Capital contribution from DTCC	35,000	-
Net cash provided by (used in) financing activities	1,141,124	(22,362)
Net increase in cash and cash equivalents	1,122,889	16,445
Cash and cash equivalents - Beginning of year	$ 197,490	$ 181,045
Cash and cash equivalents - End of year	$ 1,320,379	$ 197,490
SUPPLEMENTAL DISCLOSURES:		
Cash income taxes paid to DTCC - net of refunds	$ 27,323	$ 24,834
Cash interest paid	$ 761	$ 315

The Notes to the Consolidated Financial Statements are an integral part of these statements.

1. BUSINESS AND OWNERSHIP

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

NSCC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include The Depository Trust Company (DTC), Fixed Income Clearing Corporation (FICC), OMGEO LLC (Omgeo), DTCC Deriv/SERV LLC, DTCC Solutions LLC, Business Entity Data, B.V. and Avox Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The consolidated financial statements include the accounts of NSCC and its wholly-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Management makes estimates regarding the collectability of receivables, the outcome of litigation, the realization of deferred taxes, the recognition of uncertain tax positions, the fair value measurements, 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 deposits held at banks.

Investments in Marketable Securities. All 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 an 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 in which case the carrying value is adjusted. Additionally, regardless of whether there is intention to sell or a 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. Any unrealized loss deemed other-than-temporary is included in current period earnings. The Company does not intend to sell those securities and it is not more likely than not the Company will have to sell.

Participants' Segregated Cash. NSCC receives cash from Participants for the exclusive benefit of the Participants' customers in compliance with SEC rule 15c3-3 (customer protection).

Fair Value Measurements. The guidance related to "Fair Value Measurements" included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 ("ASC 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. ASC 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, the Company determines fair values based on discounted cash flow analyses, and comparable pricing of similar instruments. Discounted cash flow analyses are dependent upon estimated future cash flows and the 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 8., 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 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 Consolidated 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 and securities. These deposits may be applied to satisfy obligations of the depositing participant, other participants, or the Company as provided in the Company's rules.

Cash Deposits. Deposits and contributions received in the form of cash may be invested in reverse repurchase agreements, money market funds, bank deposits and direct obligations of the U.S. Government. Reverse repurchase agreements provide for NSCC's delivery of cash in exchange for securities having a fair value that 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 passed through to participants within Interest income in the Consolidated Statements of Income.

Other Deposits, at Fair Value. Other deposits 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 passed through to participants within Interest income in the Consolidated Statements of Income. For additional information, refer to Note 8. for 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 that 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 straight line 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 accompanying Consolidated 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. For additional information, refer to Note 7.

Capitalized Software. The Company capitalizes eligible costs associated with the acquisition or development of internal-use software projects that provide new or significantly improved functionality. The Company capitalizes projects 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 three to five years. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is included in Intangible assets on the Consolidated Statements of Financial Condition.

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 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 indicators of impairment are present. The Company periodically evaluates the recoverability of long lived assets when events or changes in circumstances indicate that 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 undiscounted 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 the accompanying Consolidated Statements of Income.

The Company considers the following to be important factors that 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 that 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.

Commercial Paper. During the third quarter of 2015, the Company commenced issuance under a newly established $5 billion commercial paper program approved by the Company's Board of Directors. The proceeds from the issuance of the commercial paper, which are included in Cash and cash equivalents on the Consolidated Statements of Financial Condition, constitutes liquid resources of NSCC that, together with other liquid resources of the Company, will enable NSCC to effect the settlement of its payment obligations in the event of the default of any of its participants in accordance with its rules and procedures. Pending use by NSCC of the proceeds of the commercial paper issuance for this purpose, the funds raised will be invested in highly liquid short-term instruments in accordance with NSCC's investment policy.

Derivatives and Hedging. The Company enters into various derivative financial instruments for non-trading purposes primarily as part of its asset/liability management process. These derivatives are designated as either fair value or cash flow hedges of certain assets and liabilities when NSCC enters into the derivative contracts. Gains and losses associated with fair value hedges are recorded in income as well as any change in the value of the related hedged item associated with the designated risks being hedged. Gains and losses on cash flow hedges are recorded in Other Comprehensive Income (OCI), until reclassified into earnings to meet the risks being hedged. The Company formally documents all relationships between hedging instruments and hedged items, as well as the Company's risk-management objectives and strategy for undertaking various hedging transactions. Hedge accounting is applied when a derivative is highly effective at reducing the risk associated with the hedged exposure and the risk management objective and strategy are documented. Hedge documentation identifies the derivative hedging instrument, the asset or liability and type of risk hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. There were no derivative financial instruments outstanding as of and for the year ended December 31, 2015.

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 fees generated from clearing services and investment product services.

Income Taxes. Deferred tax assets and liabilities are reported in Other non-current assets and liabilities, net, on the Consolidated 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 uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

Expense Allocations. Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries including NSCC, 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 in the Consolidated Statements of Income represent 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 825, Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued Accounting Standard Update (ASU) No. 2016-01 – Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU requires equity investments (aside from those measured under the equity method investment or consolidation) to be measured at fair value, with changes to fair value recognized in net income. Additionally, the impairment assessment of equity method investments that do not possess readily determinable fair values will be simplified by requiring a qualitative assessment to identify impairments. If the qualitative assessment results suggest an impairment, the entity will measure the investment at fair value and the disclosure of fair value of financial instruments at amortized cost is no longer required. An entity will be required to present separately the financial assets and financial liabilities by measurement category and form of financial asset and financial liability on the balance sheet or notes to the financial statements. The ASU seeks to make targeted improvements to U.S. GAAP in order to enhance and simplify the reporting model of financial instruments. The new standard will be effective for the Company (non public businesses) on January 1, 2018. Early adoption is not permitted. The standard permits the use of the cumulative effect transition method. The Company is evaluating the impact this ASU will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

FASB ASC Topic 810, Consolidation. In February 2015, the FASB issued an update that changes the analysis that the Company must perform to determine whether it should consolidate certain types of legal entities. The Company is required to reevaluate its interests in legal entities in scope of the new guidance under the revised consolidation model. The guidance is effective for the Company beginning January 1, 2016. Early adoption is permitted. The Company has determined that the adoption of this guidance will not have an impact on the Company's Consolidated Statements of Financial Condition, results of operations or cash flows.

FASB ASC Topic 606, Revenue from Contracts with Customers. In August 2015, the FASB issued ASU No. 2015-14 - Revenue from Contracts with Customers – Deferral of Effective Date. This ASU defers the effective date of ASU No. 2014-09 which requires an entity to recognize the amount of revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2019. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the impact this ASU will have on its consolidated financial statements and its related disclosures. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

Recently Adopted Accounting Standards.

FASB ASC Topic 740, Income Taxes. In November 2015, the FASB issued ASU No. 2015-17, as part of the initiative to reduce complexity in accounting standards, in which cost and complexity can be reduced while maintaining the information presented in the financial statements. In order to simplify the presentation of deferred income taxes, the update requires that deferred tax assets and liabilities be presented as noncurrent in a classified statement of financial position. This update will align the presentation of deferred tax assets and liabilities with International Financial Reporting Standards (IFRS). The Company early adopted this standard prospectively and reclassified all of its deferred tax liabilities to noncurrent deferred tax liabilities on its Statement of Financial Condition as of December 31, 2015. The adoption did not have any impact to the Company's consolidated results of operation or cash flows. This standard was not retrospectively applied and prior periods were not adjusted.

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 a 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 amendment was adopted effective January 1, 2015. The adoption of this guidance did not have an impact on the Company's Consolidated Statements of Financial Condition, results of operations or cash flows.

FASB ASC Topic 405, Liabilities. In February 2013, the FASB issued 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 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. The adoption of this guidance did not have an impact on the Company's Consolidated Statements of Financial Condition, results of operations or cash flows.

FASB ASC Topic 205, Presentation of Financial Statements and FASB ASC Topic 360 Property, Plant, and Equipment. In April 10, 2014, the FASB issued ASU No. 2014-08 – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU changes the criteria for determining which future disposals can be presented as discontinued operations and modifies related disclosure requirements. This ASU is effective for periods beginning on or after December 15, 2014. Early adoption is permitted. The adoption of this guidance did not have an impact on the Company's Consolidated Statements of Financial Condition, results of operations or cash flows.

3. OTHER PARTICIPANTS' ASSETS & PAYABLE TO PARTICIPANTS

Details for other participants' assets, included in Other current assets within the Consolidated Statements of Financial Condition, and Payable to participants as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Assets:		
Participants' segregated cash	$ 26,581	$ 42,009
Other participants' assets	265	194
Total	$ 26,846	$ 42,203
Liabilities:		
Payable to participants	26,846	42,203
Total	$ 26,846	$ 42,203

At December 31, 2015 and 2014, payable to participants reflects segregated cash received from participants to facilitate their compliance with customer protection rules of the SEC, and cash received from the Company's participants to collateralize their short positions totaled $26,581,000 and $42,009,000, respectively. Participant unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

4. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 31, 2015 and 2014 (in thousands):

	2015	2014
Clearing and transaction fees due from participants	$ 32,653	$ 31,441
Other receivables	47,026 (1)	927
Total	$ 79,679	$ 32,368

There was no allowance for doubtful accounts recorded by NSCC as of December 31, 2015 and 2014.

(1) For additional information, refer to Note 16.

5. CLEARING FUND

Clearing fund deposits. NSCC's rules require its participants to maintain deposits in the Clearing Fund based on calculated requirements as determined by the Company. The deposits are available to secure participants' obligations and certain liabilities of the Company, should they occur. All participant cash deposits to the clearing fund are reflected as Clearing fund cash deposits on the accompanying Consolidated Statements of Financial Condition.

A summary of the required and excess deposits held at December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Required deposits	$ 3,164,627	$ 3,144,669
Excess deposits	972,843	994,380
Total deposits	$ 4,137,470	$ 4,139,049

A summary of the total deposits held at December 31, 2015 and 2014, including the excess of the calculated requirements follows (in thousands):

	2015	2014
Cash deposits	$ 3,847,082	$ 3,798,764
Securities on deposit - at fair value	290,388	340,285
Total	$ 4,137,470	$ 4,139,049

Participant cash deposits. Participant cash deposits to the clearing fund, which may be applied to satisfy obligations of the depositing participant, as provided in NSCC rules, as of December 31, 2015 and 2014, were invested as follows (in thousands):

	2015	2014
Reverse repurchase agreements	$ 615,000	$ 1,390,000
Money market fund investments	2,382,000	1,883,000
Bank deposits	850,082	525,764
Total	$ 3,847,082	$ 3,798,764

Refunds to Participants. The total amounts of interest income the Company earned from the investment of cash deposits in the clearing fund was $6,559,000 and $3,323,000 in December 31, 2015 and 2014, respectively, and are reflected as net Interest income in the accompanying Consolidated Statements of Income.

6. PREMISES AND EQUIPMENT

Premises and equipment for the years ended December 31, 2015 and 2014, were as follow (in thousands):

	Furniture and equipment	Leasehold improvements	Capital leases	Buildings and improvements	Land	Total
Cost:						
As of January 1, 2014:	$ 50,147	$ 10,514	$ 5,556	$ 17,971	$ 1,540	$ 85,728
Additions	8,195	-	-	-	-	8,195
As of December 31, 2014:	58,342	10,514	5,556	17,971	1,540	93,923
Disposals	(4,737)	(8,685)	-	(1,648)	-	(15,070)
As of December 31, 2015:	$ 53,605	$ 1,829	$ 5,556	$ 16,323	$ 1,540	$ 78,853
Accumulated Depreciations:						
As of January 1, 2014:	$ 40,937	$ 10,465	$ 5,556	$ 3,402	$ -	$ 60,360
Depreciation charge for the year	3,519	49	-	1,045	-	4,613
As of December 31, 2014:	44,456	10,514	5,556	4,447	-	64,973
Depreciation charge for the year	3,677	-	-	1,052	-	4,729
Disposals	(4,737)	(8,685)	-	(1,648)	-	(15,070)
As of December 31, 2015:	$ 43,396	$ 1,829	$ 5,556	$ 3,851	$ -	$ 54,632
Net book value						
As of January 1, 2014	9,210	49	-	14,569	1,540	25,368
As of December 31, 2014	13,886	-	-	13,524	1,540	28,950
As of December 31, 2015	$ 10,209	$ -	$ -	$ 12,472	$ 1,540	$ 24,221

7. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization, and net carrying value of intangible assets were as follows for the years ended December 31, 2015 and 2014 (in thousands):

	Total Capitalized Software
Gross carrying value:	
As of January 1, 2014:	$ 125,324
Additions	16,102
Impairment	(1,856)
As of December 31, 2014:	139,570
Additions	15,340
Impairment	(2,363)
As of December 31, 2015:	$ 152,547
Accumulated amortization:	
As of January 1, 2014:	$ 87,473
Amortization charge for the year	16,250
Write-off	(1,134)
As of December 31, 2014:	102,589
Amortization charge for the year	18,427
Write-off	(1,887)
As of December 31, 2015:	$ 119,129
Net carrying value	
As of January 1, 2014	37,851
As of December 31, 2014	36,981
As of December 31, 2015	$ 33,418

The Company recognized a $476,000 and $722,000 impairment charge related to capitalized software for the years ended December 31, 2015 and 2014, respectively, that were determined to have no realizable value. The impairment charges are included in the Consolidated Statements of Income.

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

2016	$ 16,806
2017	10,887
2018	4,599
2019	1,126
Total future estimated amortization	$ 33,418

8. FAIR VALUE MEASUREMENTS

Assets and Liabilities measured at fair value on a recurring basis. The following is a description of the valuation basis, including valuation techniques and inputs, used in measuring the Company’s financial assets and liabilities 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 within 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. Non-callable U.S. agency securities are classified within Level 1.

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2015 (in thousands):

	2015			
	Level 1	Level 2	Level 3	Total
Assets - Clearing fund - U.S. government and Federal Agency securities	$ 290,388	$ -	$ -	$ 290,388
Liabilities - Clearing fund - U.S. government and Federal Agency securities	$ 290,388	$ -	$ -	$ 290,388

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2014 (in thousands):

	2014			
	Level 1	Level 2	Level 3	Total
Assets - Clearing fund - U.S. government and Federal Agency securities	$ 340,285	$ -	$ -	$ 340,285
Liabilities: Federal Agency securities	$ 340,285	$ -	$ -	$ 340,285

There were no transfers between Level 1 and Level 2 nor were any amounts classified as Level 3 during the years ended December 31, 2015 and 2014.

Assets and Liabilities not Measured at Fair Value. A summary of the practices used for determining fair value and the respective level in the valuation hierarchy for financial assets and liabilities not recorded at fair value is as follows:

Cash and cash equivalents — Consists primarily of highly liquid investments in bank deposits and money market funds, which are classified as Level 1 within the valuation hierarchy.

Investments in marketable securities — Consists of Treasury Bills, which are classified as Level 1 within the valuation hierarchy. All marketable securities are classified as held-to-maturity and are recorded at amortized cost.

Clearing fund cash deposits — Consists of highly liquid investments in bank deposits and money market funds, which are classified as Level 1, and reverse repurchase agreements, which are classified as Level 2, within the valuation hierarchy. The fair value is determined using discounted cash flow analysis. Inputs primarily consist of current LIBOR market rates and time to maturity.

Participants' segregated cash — Cash classified within Level 1 of the fair value hierarchy.

Commercial paper — Constitutes short-term unsecured obligations, which are classified as Level 2 within the valuation hierarchy. The carrying amounts reported on the Consolidated Statements of Financial Condition for Commercial paper approximate fair value because of its relatively short-term nature.

Loan payable to DTCC — Borrowing represents additional liquid financial resources provided to NSCC following DTCC's $400 million common equity capital raise. The estimated fair value is based on current rates for instruments of the same remaining maturity or quoted market prices for the same or similar issues.

The carrying amounts reported on the Consolidated 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 on the Consolidated Statements of Financial Condition at December 31, 2015 (in thousands):

	2015				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 1,320,379	$ 1,320,379	$ 1,320,379	$ -	$ -
Investments in marketable securities	7,400	7,400	7,400	-	-
Clearing fund cash deposits	3,847,082	3,847,082	3,232,082	615,000	-
Total	$ 5,174,861	$ 5,174,861	$ 4,559,861	$ 615,000	$ -
Liabilities:					
Clearing fund cash deposits	$ 3,847,082	$ 3,847,082	$ 3,847,082	$ -	$ -
Commercial paper	1,007,124	1,007,124	-	1,007,124	-
Loan payable to DTCC	99,000	99,000	-	99,000	-
Total	$ 4,953,206	$ 4,953,206	$ 3,847,082	$ 1,106,124	$ -

The table below presents the carrying value, fair value and fair value hierarchy level of certain financial instruments not measured at fair value on the Consolidated Statements of Financial Condition at December 31, 2014 (in thousands):

	2014				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 197,490	$ 197,490	$ 197,490	$ -	$ -
Clearing fund cash deposits	3,798,764	3,798,764	2,408,764	1,390,000	-
Total	$ 3,996,254	$ 3,996,254	$ 2,606,254	$ 1,390,000	$ -
Liabilities:					
Clearing fund cash deposits	$ 3,798,764	$ 3,798,764	$ 3,798,764	$ -	$ -

Financial Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. The Company recognized a $476,000 and $722,000 impairment charge related to capitalized software for the years ended December 31, 2015 and 2014, respectively, that were determined to have no realizable value. Fair values on the aforementioned capitalized software were based on expected future cash flows using Level 3 inputs under ASC 820. The cash flows are those expected to be generated by the market participants, discounted at the risk-free rate of interest. The impairment charges are included in Consolidated Statement of Income.

9. OTHER ASSETS

Details for other assets as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Participants' assets	$ 265	$ 194
Deferred tax asset, net	-	1,914
Tax receivable	1,322	-
Total current assets	$ 1,587	$ 2,108

10. OTHER LIABILITIES

Details for other liabilities as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Taxes payable	$ -	$ 3,872
Other payable	-	2
Total Other current liabilities	$ -	$ 3,874
Deferred tax liabilities, net	$ 851	$ 1,664
Unrecognized tax benefits	5,899	5,222
Other liabilities	125	18
Total Non-current liabilities	$ 6,875	$ 6,904
Total	$ 6,875	$ 10,778

Unrecognized tax benefits ("UTBs"). NSCC applies the provision of FASB ASC 740-10, Income Taxes, with respect to UTBs. For additional information, refer to Note 14.

11. COMMERCIAL PAPER

Details for commercial paper as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Commercial paper	$ 1,007,124	$ -

In September 2015, NSCC commenced issuance under a newly established $5 billion commercial paper funding program approved by the Company's Board of Directors. At December 31, 2015, $1,007 million was outstanding under the commercial paper program and the average interest rate on these borrowings was 0.40%. Total Interest expense included in the accompanying Consolidated Statements of Income for the years ended December 31, 2015 and 2014 was $232,000 and $0, respectively.

12. DEBT

The Company's borrowings at December 31, 2015 and 2014, consisted of the following (in thousands):

	2015	2014
Loan payable to DTCC	$ 99,000	$ -

On May 1, 2015, the Company received a loan from DTCC, its parent, in the amount of $100 million, the outstanding balance of which was reduced to $99 million at December 31, 2015. The loan is interest bearing and structured as a demand loan, having no fixed term. The proceeds of the loan supplement the Company's liquid financial resources pursuant to the SEC's proposed standards for covered clearing agencies. The amount of the loan may vary over time, depending upon the Company's regulatory capital requirements and its general funding needs.

Total Interest expense included in the accompanying Consolidated Statements of Income for the years ended December 31, 2015 and 2014 was $1,010,000 and $0, respectively.

In 2014, Interest expense in the Consolidated Statements of Income also included $1,067,000 that was related to the extinguishment of unsecured borrowings during the third and fourth quarters of 2014.

The following table summarizes the interest rate, term and maturity of the loan payable as of December 31, 2015 and 2014 (in thousands):

	Rate	Issue Date	Maturity	Outstanding Balance 2015	Outstanding Balance 2014
Loan payable to DTCC	LIBOR+ 1.30%	5/1/2015	On demand	$ 99,000	$ -

Line of Credit. The Company maintains a line of credit to support settlement. Terms and outstanding line of credit for December 31, 2015 and 2014 were as follows:

2015	Amount	Denomination	No. of Participants / Lenders	Borrowing rate
Committed	$12.1 billion	USD	31/38	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.
2014				
Committed	$13.47 billion	USD	29/37	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.

There were no borrowings under the line of credit during the years ended December 31, 2015 and 2014.

Debt covenants. The negative covenants relating to the line of credit include a minimum net worth requirement of $100 million and a Clearing Fund balance greater than or equal to $1 billion. Affirmative covenants include timely access to consolidated financial statements, notices of material events, maintenance of business and insurance, and compliance with laws. The line of credit also defines events of default.

As of December 31, 2015 and 2014, the Company was in compliance with the applicable debt covenants.

13. 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 on the proportion of each subsidiary’s allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. At the close of business on December 31, 2015 and 2014, the benefit plan costs allocated to NSCC was $3,631,000 and $3,185,000, respectively. These costs are included in Employee compensation and related benefits in the Consolidated Statements of Income.

14. INCOME TAXES

NSCC is included in DTCC's consolidated federal and combined and unitary state tax returns. NSCC files other state tax returns on a separate company basis. The components of the Company's income tax provision calculated on a separate company basis for the years ended December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Current income tax:		
Federal	$ 16,201	$ 20,664
State and local	5,928	6,219
Deferred income tax:		
Federal	1,218	774
State and local	561	747
Provision for income taxes	$ 23,908	$ 28,404

Pursuant to a tax sharing agreement between DTCC and NSCC, the Company is liable for its allocable share of federal, state and local tax liabilities that are paid by DTCC. During 2015 and 2014, the Company paid income taxes, net of refunds paid to DTCC, of $27,323,000 and $24,834,000, respectively.

The 2015 and 2014 effective tax rates differ from the 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. The following table presents a reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate on income before provision for income taxes as follows:

	Year ended December 31, 2015	2014
U.S. statutory tax rate	35.0%	35.0%
State and local taxes, net of federal tax benefit	5.6%	5.4%
Change in unrecognized tax benefits	0.8%	0.4%
Other	0.8%	0.5%
Effective tax rate	42.2%	41.3%

Deferred tax assets and liabilities. The components of deferred tax assets and (liabilities) at December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Deferred tax assets:		
Accrued compensation	$ 4,881	$ 4,168
Accrued employee benefits	21,206	21,221
Software	29,970	18,415
Deferred rent	1,287	1,134
Other	2,065	1,828
Total deferred tax assets	59,409	46,766
Deferred tax liabilities:		
Accrued compensation	(3,558)	(2,091)
Accrued employee benefits	(11,678)	(9,135)
Depreciation	(1,992)	(1,882)
Software	(43,032)	(33,408)
Total deferred tax liabilities	(60,260)	(46,516)
Net deferred tax assets/(liabilities) before valuation allowance	(851)	250
Valuation allowance	-	-
Net deferred tax assets/(liabilities)	$ (851)	$ 250
Reported as		
Current deferred tax assets	$ -	$ 1,914
Current deferred tax liabilities	-	-
Net current deferred tax assets	-	1,914
Non-current deferred tax assets	59,409	44,852
Non-current deferred tax liabilities	(60,260)	(46,516)
Net non-current deferred tax liabilities	(851)	(1,664)
Net deferred tax assets/(liabilities)	$ (851)	$ 250

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

Details for UTBs as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Beginning balance at January 1,	$ 3,878	$ 3,878
Prior period tax positions:		
Increases	222	-
Ending balance at December 31,	$ 4,100	$ 3,878

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its Consolidated Statements of Income. As of December 31, 2015 and 2014, the amount of accrued interest recorded on the Company's Consolidated Statements of Financial Condition related to UTBs were $1,799,000 and $1,344,000, respectively.

The Company is subject to U.S. federal income tax as well as income tax in various state and local jurisdictions. During the year, the U.S. Internal Revenue Service ("IRS") concluded its review of the federal income tax returns for 2009 through 2012; however, it is pending the closing agreements from the IRS. The federal income tax returns for 2013 and 2014 remain subject to examination by the IRS. New York State income tax returns for 2007 through 2011 are currently under examination and 2012 through 2014 remain open to examination. New York City income tax returns for 2010 through 2011 are currently under examination and 2012 through 2014 remain subject to examination. Florida income tax returns for 2010 through 2013 are currently under examination and 2014 remains open to examination. Illinois income tax returns for 2012 through 2013 are currently under examination and 2014 remains open to examination.

For the current ongoing audits 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 these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible new issues might be raised by tax authorities which might necessitate increases to the balance of UTBs. As the Company is unable to predict the timing of conclusion of these audits, the Company is unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

15. SHAREHOLDER'S EQUITY

Common Stock. NSCC has 30,000 authorized shares of common stock with a par value of $0.50 per share. As of December 31, 2015 and 2014, 20,000 shares of common stock were issued and outstanding.

On May 1, 2015, the Company received a capital contribution from DTCC, its Parent, in the amount of $35 million. The proceeds of the capital contribution supplement the Company's capital and liquid financial resources pursuant the SEC's proposed standards for covered clearing agencies.

16. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of the business, the Company enters into related party transactions with its Parent and other subsidiaries of its Parent. From time-to-time, the Company funds the purchases of long-term assets acquired by its Parent on its behalf.

Transactions with DTCC. NSCC has an agreement with DTCC whereby DTCC pays for substantially all of the expenses for the operations of NSCC. The related expenses are allocated to NSCC based upon NSCC's use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for NSCC including administrative, internal audit, finance and legal services. In 2015 and 2014, the billing for these services was 108% and 104%, respectively, 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 in the Consolidated Statements of Income.

Transactions with DTCC Solutions LLC. NSCC has an agreement with DTCC Solutions LLC whereby validation services performed by DTCC Solutions LLC on behalf of NSCC in connection with NSCC's corporate action data information are billed at cost. Expenses under this agreement are included in Professional and other services in the Consolidated Statements of Income.

Details for related party transactions with DTCC and DTCC Solutions LLC for 2015 and 2014 were as follows (in thousands):

	Expenses For the years ended December 31,		Payables/(Receivables[(1)]) As of December 31,	
	2015	2014	2015	2014
DTCC	$ 22,750	$ 9,023	(47,827)	$ 1,524
DTCC Solutions LLC	1,581	1,673	801	157
Total	$ 24,331	$ 10,696	$ (47,026)	$ 1,681

(1) Included in Accounts receivable on the Consolidated Statements of Financial Condition. For additional information, refer to Note 4.

Loan to DTCC. On December 17, 2010, the Company entered into a Recovery Zone Facility Bond arrangement with the Hudson County Improvement Authority, with a principal balance of $24,905,000. The debt had a variable interest rate equal to the sum of the LIBOR index rate plus 1.65%, multiplied by a factor of 68%, and maturing on December 1, 2020. The weighted average interest rate of the debt was 1.23% for the years ended December 31, 2014. In connection with this Recovery Zone Facility Bond arrangement with the Hudson County Improvement Authority, NSCC made a loan to DTCC in the principal amount of $24,905,000 with the same terms and conditions. On December 2, 2014, the Company executed an optional prepayment of the bond. Additionally, in connection with the repayment, the loan from NSCC to DTCC was repaid.

17. COMMITMENTS AND CONTINGENCIES

Litigation. NSCC 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 NSCC's consolidated financial position, operations or cash flows.

18. GUARANTEES

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

NSCC is the leading provider of U.S. clearance, netting, risk management and settlement for virtually all U.S. broker-to-broker trades involving equities, corporate and municipal debt, exchange traded funds and unit investment trusts. Through its Continuous Net Settlement (CNS) System, NSCC is interposed between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of the later of midnight of T+1 or midnight of the day they are reported to the membership as compared/recorded. Since NSCC stands between the participants delivering and receiving CNS trades, the failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities, results in open positions. Open CNS positions are marked-to-market daily. Such marks are debited from or credited to the involved participants through the settlement process. At December 31, 2015 and 2014, open positions due to and from NSCC totaled $156.8 billion and $172.2 billion, respectively. There were no defaults by participants to these obligations.

If an NSCC participant defaults, such participant's deposits to the Clearing Fund would be 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, NSCC would then use any funds available from its multilateral netting contract and limited cross-guaranty agreements with DTC, FICC, and Options Clearing Corporation (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.

If there is still a deficit, NSCC will apply at least 25% of its retained earnings to cover the loss. Any remaining deficiency would be satisfied through a loss allocation to non-defaulting participants affected through the Clearing Fund based upon a loss allocation formula set out in NSCC's rules.

19. OFF BALANCE SHEET RISK AND CONCENTRATIONS 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 NSCC. NSCC's exposure to credit risk comes mostly from clearing and settlement service operations. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, investments, and accounts receivable (including the 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.

NSCC acts as central counterparty to transactions processed through its CNS System, and also guarantees transactions processed through its Balance Order Accounting Operation. As a result, NSCC 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 include participating brokers, dealers, banks, mutual fund companies, insurance carriers, and other financial intermediaries.

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 financial institution. As part of its credit risk and 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 financial institutions having a credit rating of at least BBB+/Baa1 or better from recognized rating agencies and that are approved via its internal credit review process. The Company also monitors the condition of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's 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 bank 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 non-payment 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 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, coupled with 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 BBB+/Baa1 or better from recognized rating agencies and are approved via the Company's credit review process. To avoid concentration of credit risk exposures, the Company sets credit limits for each counterparty.

Participant cash deposits may also be invested in money market mutual funds under Rule 2a-7 of the Investment Company Act of 1940 having a credit rating of AAA/Aaa from recognized rating agencies. Since the Company only invests in highly rated money market mutual funds and cash is returned daily, the Company has minimal credit risk related to these investments.

NSCC is exposed to credit risk on a daily basis. This risk arises at NSCC 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 NSCC clearing and 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 margin requirements; maintaining the Clearing Fund; trade and continuous trade 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 participant at NSCC, an applicant must meet minimum eligibility criteria (which are specified in NSCC's rules). All applicants to be a NSCC participant must provide the Company with certain financial and operational information. This information is reviewed to ensure the applicant has sufficient financial resources to make anticipated contributions to NSCC's Clearing Fund and to meet its obligations to NSCC. 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 able 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 to be performed on each participant and may impact their Clearing Fund requirements.

NSCC collects Clearing Fund deposits from its participants using a risk-based margin methodology. The risk-based methodology enables the Company 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 exist 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 that the tests may reveal.

NSCC maintains a committed, secured line of credit to support potential liquidity needs in the event of a participant default.

The Company also limits its exposure to potential losses from default by participants through its multilateral netting contract and limited cross-guaranty agreements with DTC, FICC and The Options Clearing Corporation (OCC). These arrangements are designed to provide a mechanism for the sharing of excess net resources of a common defaulting participant held at one clearing agency to cover losses incurred at another clearing agency. NSCC and OCC also have an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant's failure. Further, DTC and NSCC have a netting contract and limited cross-guaranty agreement with DTC which includes certain arrangements so that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized.

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. The guaranty is limited to a $250,000,000 and a cash deposit (the "Cash Deposit") was 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 deposits/balances as of December 31, 2015 and 2014:

	2015	2014
Segregated cash	$ 3,301,827	$ 4,101,862
Participant and clearing funds	1,160,135	1,160,135
Matured money market investment accounts	31,133,201	30,644,008
Total	$ 35,595,163	$ 35,906,005

At December 31, 2015 and 2014, DTCC had delivered to the Trustee of the LBI estate $5,154,013,000 and $5,153,238,000 in cash, respectively, as well as clearing fund securities valued at $159,479,000.

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. In January 2016, the Company signed an agreement to remit the remaining funds to the Trustee to complete the liquidation of the business of MFG.

With respect to MFG., DTCC and its subsidiaries held the following deposits/balances as of December 31, 2015 and 2014:

	2015	2014
Total participant and clearing funds	$ 1,987,406	$ 1,987,406

As of December 31, 2015 and 2014, DTCC had delivered cash to the Trustee of the MFG estate totaling $254,298,000.

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

Severance. For the years ended December 31, 2015 and 2014, NSCC incurred severance expenses totaling $1,003,000 and $2,942,000, respectively, and these amounts are included in Employee compensation and related benefits in the accompanying Consolidated Statements of Income.

21. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2015 through February 26, 2016, for potential recognition or disclosure in these consolidated financial statements. Other than as disclosed in Note 20., no events or transactions occurred during such period that would require recognition or disclosure in these Consolidated Financial Statements.