Fixed Income Clearing Corporation

Financial Statements as of and for the Years Ended December 31, 2016 and 2015, and Report of Independent Registered Public Accounting Firm

FIXED INCOME CLEARING CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statements of financial condition of the Fixed Income Clearing Corporation (the "Company") as of December 31, 2016 and 2015, and the related statements of income, changes in shareholder's equity, and cash flows for each of the two years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fixed Income Clearing Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 28, 2017

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	As of December 31, 2016	As of December 31, 2015
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 210,109	$ 215,440
Accounts receivable	14,342	32,581
Clearing Fund:		
Cash deposits	9,660,414	7,878,557
Investments in marketable securities	25,000	100,000
Securities on deposit - at fair value	13,648,443	7,537,070
Other Participants' assets	867	2,783
Other current assets	2,265	5,795
Total current assets	23,561,440	15,772,226
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $17,617 and $17,600 as of December 31, 2016 and 2015, respectively	723	740
Intangible assets - net of accumulated amortization of $111,504 and $99,439 as of December 31, 2016 December 31, 2015, respectively	15,443	21,662
Total non-current assets	16,166	22,402
TOTAL ASSETS	$ 23,577,606	$ 15,794,628
LIABILITIES AND SHAREHOLDER'S EQUITY:		
CURRENT LIABILITIES:		
Loan payable to DTCC	$ —	$ 52,000
Accounts payable	4,218	1,864
Clearing Fund:		
Cash deposits	9,685,414	7,978,557
Securities on deposit - at fair value	13,648,443	7,537,070
Payable to Participants	867	2,783
Other current liabilities	2,140	—
Total current liabilities	23,341,082	15,572,274
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	6,525	8,203
Total liabilities	23,347,607	15,580,477
COMMITMENTS AND CONTINGENCIES (Note 14)		
SHAREHOLDER'S EQUITY:		
Common stock, $0.50 par value - 105,000 shares authorized; 20,400 shares issued and outstanding	10	10
Paid-in capital	86,617	86,617
Retained earnings	143,372	127,524
Total shareholder's equity	229,999	214,151
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 23,577,606	$ 15,794,628

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF INCOME

(In thousands)	For the years ended December 31, 2016	2015
REVENUES:		
Clearing services	$ 212,200	$ 171,119
EXPENSES:		
Employee compensation and related benefits	78,769	68,604
Information technology	16,740	14,578
Professional and other services	67,574	60,360
Occupancy	6,083	6,022
Depreciation and amortization	12,082	15,416
Other general and administrative	3,581	4,616
Total expenses	184,829	169,596
Total operating income	27,371	1,523
NON-OPERATING INCOME (EXPENSE):		
Interest income	39,919	10,281
Refunds to Participants	(39,329)	(9,591)
Interest expense	(672)	(558)
Total non-operating (expense) income	(82)	132
Income before taxes	27,289	1,655
Provision for income taxes	11,441	985
Net income	$ 15,848	$ 670

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(In thousands)	Common Stock	Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2015	$ 10	$ 26,617	$ 126,854	$ 153,481
Capital contribution from DTCC	—	60,000	—	60,000
Net income	—	—	670	670
BALANCE - December 31, 2015	10	86,617	127,524	214,151
Net income	—	—	15,848	15,848
BALANCE - December 31, 2016	$ 10	$ 86,617	$ 143,372	$ 229,999

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS

(In thousands)	For the years ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,848	$ 670
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12,082	15,416
Impairment on Intangible assets	—	139
Net discount on Investments in marketable securities	(30)	33
Deferred income taxes	(1,019)	1,494
Changes in operating assets and liabilities:		
Decrease (increase) in Accounts receivable	18,269	(5,335)
Decrease (increase) in Other assets	3,530	(5,795)
Increase (decrease) in Accounts payable	2,354	(1,213)
Increase in Other liabilities	1,481	1,199
Increase in Clearing Fund deposits	(75,000)	(100,000)
Net cash used in operating activities	(22,485)	(93,392)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of Investments in marketable securities	100,000	200,000
Purchases of Investments in marketable securities	(25,000)	(100,000)
Purchases of Intangible assets	(5,846)	(10,194)
Net cash provided by investing activities	69,154	89,806
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds received on Loan payable to DTCC	—	55,000
Repayments on Loan payable to DTCC	(52,000)	(3,000)
Capital contribution from DTCC	—	60,000
Net cash (used in) provided by financing activities	(52,000)	112,000
Net (decrease) increase in Cash and cash equivalents	(5,331)	108,414
Cash and cash equivalents - Beginning of year	215,440	107,026
Cash and cash equivalents - End of year	$ 210,109	$ 215,440
SUPPLEMENTAL DISCLOSURES:		
Cash interest paid	$ 737	$ 421
Cash income taxes paid to DTCC - net of refunds	$ 4,140	$ 6,019

The Notes to the Financial Statements are an integral part of these 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) and provides central counterparty (CCP) services to firms that participate in the U.S. government and mortgage-backed securities markets (collectively referred to as 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 Division (MBSD).

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. and Avox Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

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 Financial Statements. Management makes estimates regarding, among other things, the collectability of receivables, the outcome of litigation, the realization of deferred taxes, unrecognized tax benefits, 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 differ materially 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 in banks.

Investments in marketable securities. 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. Any unrealized loss deemed other-than-temporary is included in current period earnings. 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 that the Company will be required to sell the security before recovery of the amortized cost in which case the carrying value is adjusted, or (c) the Company does not expect to recover the entire amortized cost basis. 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 Company may be required or permitted to measure and disclose certain assets and liabilities using fair value measurements. Fair value is defined 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. The Company uses a three-level classification hierarchy of fair value measurements that establishes the quality of inputs used to measure fair value. The fair value of financial instruments is determined using various techniques that involve some level of estimation and judgment, the degree of which is dependent on the price transparency and the complexity of the instruments.

Accounts receivable. Accounts receivable are stated at cost, net of an allowance for doubtful accounts. The Company establishes an allowance for estimated losses resulting from 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. The rules of FICC require Participants to maintain deposits related to their respective activities based on calculated requirements. The deposits are available to secure Participants' obligations and certain liabilities of the Company. Margin deposits and Participant contributions are maintained within the Clearing Fund on the accompanying Statements of Financial Condition due to the benefits and risks of ownership incurred by 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 FICC's rules.

Cash deposits and Investments in marketable securities. Deposits and contributions received in the form of cash may be invested in bank deposits, reverse repurchase agreements, money market funds and direct obligations of the U.S. Government. Reverse repurchase agreements provide for FICC'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. All interest earned on these investments is accrued and included within Interest income in the accompanying Statements of Income, this interest is refunded to Participants and is included in Refunds to Participants in the accompanying Statements of Income.

Securities on deposit - at fair value. Securities may include U.S. Treasury securities, U.S. agency debt securities and U.S. agency residential mortgage-backed securities. All interest earned on these investments is accrued and included within Interest income in the accompanying Statements of Income, this interest is refunded to Participants and is included in Refunds to Participants in the accompanying Statements of Income.

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 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 the accompanying Statements of 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 the straight-line method. 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 Statements of Income.

Intangible assets. Intangible assets represent 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. All other costs incurred in connection with an internal-use software project are expensed as incurred.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Intangible assets are amortized over estimated useful lives ranging from three to five years using the straight-line method.

Revenue recognition. The Company's revenue primarily consists of fees generated from clearing services. Revenue is generally recognized as services are rendered and is billed on a monthly basis.

Income taxes. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amount 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. Deferred tax assets and liabilities are reported net in non-current assets or liabilities on the accompanying Statements of Financial Condition. 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 FICC, based upon their use of such goods or services as determined by various allocation factors including direct expenses, level of support provided and utilization of technology resources. Accordingly, the expense classifications in the accompanying Statements of Income represent allocated expenses including Employee compensation and related benefits, Information technology, Professional and other services, Occupancy, Depreciation and amortization and Other general and administrative.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Date of Issuance/ Adoption	Impact on the financial statements or other significant matters
Recently Issued Accounting Standards			
ASU No. 2016-18, *FASB ASC Topic 230, Statement of Cash Flows*	The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.	November 2016/ January 1, 2018 Early adoption is permitted	The Company is evaluating the effect on its Statement of Cash Flows and related disclosures.
ASU No. 2016-15, *FASB ASC Topic 230, Statement of Cash Flows*	The amendments in this update address eight specific cash flow issues with the objective of reducing the existing diversity in treatment. The cash flow issues addressed include: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; separately identifiable cash flows and application of the predominance principle. The amendments provide guidance for each of the eight issues, where current guidance is either unclear or does not specify treatment, thereby reducing the current and potential future diversity in practice.	August 2016/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the impact on its Statement of Cash Flows and related disclosures.

Standard	Description	Date of Issuance/ Adoption	Impact on the financial statements or other significant matters
Recently Issued Accounting Standards (Continued)			
ASU No. 2016-13, *FASB ASC Topic 326, Financial Instruments - Credit Losses*	The standard replaces the current incurred loss approach for credit losses with an "expected loss" model for instruments measured at amortized cost. All lifetime credit losses for financial assets held at the reporting date will be required to be estimated based on factors such as historical experience, current conditions and forecasts. Additionally, the standard requires entities to record allowances for available-for-sale debt securities.	June 2016/ January 1, 2020 Early adoption is permitted for fiscal years beginning after December 15, 2018.	The Company is evaluating the effect on its Financial Statements and related disclosures.
ASU No. 2016-01, *FASB ASC Topic 825, Recognition and Measurement of Financial Assets and Financial Liabilities*	The standard requires the fair value measurement of unconsolidated equity investments, except those accounted for under the equity method. Entities will be required to measure these investments at the end of each reporting period and recognize the changes in fair value in net income. Entities will no longer be able to recognize unrealized gains and losses on equity securities classified as available-for-sale in other comprehensive income.	January 2016/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the effect on its Financial Statements and related disclosures.
ASU No. 2014-09, *FASB ASC Topic 606 Revenue from Contracts with Customers* ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ASU No. 2016-10, *Identifying Performance Obligations and Licensing* ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*	The standards outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Additionally, the ASU expands the disclosure requirements for revenue recognition.	May 2014/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the updated revenue recognition guidance collectively, including the alternative methods of adoption. On a preliminary basis, the Company does not anticipate a material change to the timing and pattern of revenue recognition, although the analysis used to determine the timing and pattern of revenue recognition will differ. The Company anticipates the primary impact of the adoption on its Financial Statements will be the additional required disclosures around revenue recognition in the notes to its financial statements. The Company's preliminary assessment is subject to change.

Standard	Description	Date of Issuance/ Adoption	Impact on the financial statements or other significant matters
Recently Adopted Accounting Standards			
ASU No. 2015-17, *FASB ASC Topic 740, Income Taxes*	The update required deferred tax assets and liabilities to be presented as noncurrent deferred tax assets or noncurrent deferred tax liabilities in a classified statement of financial position. This update aligned the presentation of deferred tax assets and liabilities with International Financial Reporting Standards.	November 2015/ December 31, 2015	The Company early adopted this standard prospectively and reclassified all of its deferred tax liabilities to noncurrent deferred tax liabilities on its Statements of Financial Condition as of December 31, 2015. The adoption did not have a material impact to its Statements of Income or Cash Flows. This standard was not retrospectively applied and prior periods were not adjusted.

4. ACCOUNTS RECEIVABLE

Details for Accounts receivable as of December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Clearing and transaction fees due from Participants	$ 14,342	$ 14,002
Due from related parties [(1)]	—	18,579
Total	$ 14,342	$ 32,581

There were no allowances for doubtful accounts as of December 31, 2016 and 2015.

(1) See Note 13 for additional information.

5. CLEARING FUND

Details for the Clearing Fund deposits as of December 31, 2016 and 2015 follow (in thousands):

	2016			2015		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	$ 11,734,745	$ 6,553,783	$ 18,288,528	$ 8,076,283	$ 3,893,878	$ 11,970,161
Excess deposits	4,176,982	868,347	5,045,329	2,795,034	750,432	3,545,466
Total	$ 15,911,727	$ 7,422,130	$ 23,333,857	$ 10,871,317	$ 4,644,310	$ 15,515,627

Details for the Clearing Fund deposits as of December 31, 2016 and 2015 follow (in thousands):

	2016			2015		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash deposits	$ 6,001,717	$ 3,658,697	$ 9,660,414	$ 4,850,476	$ 3,028,081	$ 7,878,557
Investments in marketable securities	—	25,000	25,000	—	100,000	100,000
Securities on deposit - at fair value	9,910,010	3,738,433	13,648,443	6,020,841	1,516,229	7,537,070
Total	$ 15,911,727	$ 7,422,130	$ 23,333,857	$ 10,871,317	$ 4,644,310	$ 15,515,627

Details for the Clearing Fund Cash deposits and Investments in marketable securities as of December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Bank deposits	$ 6,441,414	$ 1,620,557
Money market fund investments	2,669,000	4,793,000
Reverse repurchase agreements	550,000	1,465,000
U.S. Treasury bills	25,000	100,000
Total	$ 9,685,414	$ 7,978,557

Cash deposits and Investments in marketable securities. Cash deposits and investments in marketable securities of the Clearing Fund, may be applied to satisfy obligations of the depositing Participants as provided in FICC's rules.

Refunds to Participants. Interest income earned from the investment of Clearing Fund deposits is refunded to Participants and totaled $39,329,000 and $9,591,000 for the years ended December 31, 2016 and 2015, respectively. The amounts refunded are included in Refunds to Participants in the accompanying Statements of Income.

6. PREMISES AND EQUIPMENT

The cost, accumulated depreciation and net book value of Premises and equipment for the years ended December 31, 2016 and 2015 follow (in thousands):

	Furniture and equipment	Leasehold improvements	Buildings and improvements	Land	Total
Cost:					
As of January 1, 2015	$ 26,622	$ 1,418	$ 913	$ 175	$ 29,128
Disposals	(9,442)	(1,346)	—	—	(10,788)
As of December 31, 2015	17,180	72	913	175	18,340
As of December 31, 2016	$ 17,180	$ 72	$ 913	$ 175	$ 18,340
Accumulated depreciation:					
As of January 1, 2015	$ 26,622	$ 1,418	$ 327	$ —	$ 28,367
Depreciation expense	—	—	21	—	21
Disposals	(9,442)	(1,346)	—	—	(10,788)
As of December 31, 2015	17,180	72	348	—	17,600
Depreciation expense	—	—	17		17
As of December 31, 2016	$ 17,180	$ 72	$ 365	$ —	$ 17,617
Net book value:					
As of January 1, 2015	$ —	$ —	$ 586	$ 175	$ 761
As of December 31, 2015	$ —	$ —	$ 565	$ 175	$ 740
As of December 31, 2016	$ —	$ —	$ 548	$ 175	$ 723

7. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization and net carrying value of capitalized software for the years ended December 31, 2016 and 2015 follow (in thousands):

	Capitalized Software
Gross carrying value:	
As of January 1, 2015	$ 112,270
Additions	10,194
Impairment	(1,363)
As of December 31, 2015	121,101
Additions	5,846
As of December 31, 2016	$ 126,947
Accumulated amortization:	
As of January 1, 2015	$ 85,268
Amortization expense	15,395
Write-offs	(1,224)
As of December 31, 2015	99,439
Amortization expense	12,065
As of December 31, 2016	$ 111,504
Net carrying value:	
As of January 1, 2015	$ 27,002
As of December 31, 2015	$ 21,662
As of December 31, 2016	$ 15,443

The Company recognized impairment charges of $0 and $139,000 for the years ended December 31, 2016 and 2015, respectively, that were determined to have no realizable value. The impairment charges are included within Other general and administrative in the accompanying Statements of Income.

Details for estimated amortization expense for each of the next four years follow (in thousands):

2017	$ 8,230
2018	4,993
2019	1,684
2020	536
Total future estimated amortization	$ 15,443

8. DEBT

Details for the Loan payable to DTCC including the interest rate, term and maturity as of December 31, 2016 and 2015 follow (in thousands):

				Outstanding Balance	
	Rate	Issue Date	Maturity	2016	2015
Loan payable to DTCC	LIBOR+1.30%	5/1/2015	On demand	$ —	$ 52,000

Loan payable to DTCC. The proceeds of the loan supplemented the Company's liquid financial resources pursuant to the SEC's standards for covered clearing agencies. The loan was fully repaid as of December 31, 2016. Interest on the loan, which is included in Interest expense in the accompanying Statements of Income was $672,000 and $551,000 for the years ended December 31, 2016 and 2015, respectively.

Credit Ratings. The Company is rated by Moody's Investors Service, Inc. (Moody's) and S&P Global Inc. (S&P). Details for senior debt ratings and ratings outlooks for the Company as of December 31, 2016 follow:

Moody's (1)			S&P		
Long-term	Short-term	Outlook	Long-term (2)	Short-term	Outlook (2)
Aaa	P-1	Stable	AA	A-1+	Stable

(1) Moody's categorizes the long-term issuer ratings of the Company as a clearing counterparty rating (CCR) under their new Clearing Houses Rating Methodology introduced in January 2016.

(2) On May 17, 2016, S&P placed the AA+ long–term issuer credit rating of FICC on CreditWatch with negative implications. Subsequently, on September 20, 2016, FICC's long–term rating was lowered to AA by S&P and its ratings outlook was changed to stable.

9. FAIR VALUE MEASUREMENTS

Valuation hierarchy

U.S. GAAP provides for a three-level valuation hierarchy based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. Details for the descriptions of the three levels follow:

- 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 quoted market prices for similar assets and liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 — Inputs to the valuation methodology are unobservable and reflect the Company's own assumptions about the estimates market participants would use pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding timing and amount of expected cash flows).

A financial asset or liability's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Financial assets and liabilities measured at fair value on a recurring basis. For financial assets and liabilities measured at fair value on a recurring basis the Company applies the following valuation techniques to measure fair value:

Product/ Instrument	Valuation Methodology	Classification in the valuation hierarchy
Assets - Clearing Fund - Securities on deposit		
U.S. Treasury Securities	Obtained from pricing services engaged by the Company, and the Company receives one price for each security. The fair values provided by the pricing services are estimated using pricing models, where the inputs to those models are based on observable market inputs or recent trades of similar securities.	Level 1
U. S. Agency Issued Debt Securities		Callable: Level 2 Non-Callable: Level 1
U.S. Agency Residential Mortgage-Backed Securities		Level 2
Liabilities - Clearing Fund - Securities on deposit		
U.S. Treasury Securities	Obtained from pricing services engaged by the Company, and the Company receives one price for each security. The fair values provided by the pricing services are estimated using pricing models, where the inputs to those models are based on observable market inputs or recent trades of similar securities.	Level 1
U. S. Agency Issued Debt Securities		Callable: Level 2 Non-Callable: Level 1
U.S. Agency Residential Mortgage-Backed Securities		Level 2

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2016 and 2015 (in thousands):

	2016			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
Securities on deposit	$ 11,998,929	$ 1,649,514	$ —	$ 13,648,443
Liabilities - Clearing Fund				
Securities on deposit	$ 11,998,929	$ 1,649,514	$ —	$ 13,648,443

	2015			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
Securities on deposit	$ 6,896,238	$ 640,832	$ —	$ 7,537,070
Liabilities - Clearing Fund				
Securities on deposit	$ 6,896,238	$ 640,832	$ —	$ 7,537,070

There were no transfers between levels within the fair value hierarchy, nor were any amounts classified as Level 3 during the years ended December 31, 2016 and 2015.

Financial assets and liabilities measured at other than fair value. For financial assets and liabilities that are not required to be carried at fair value on a recurring basis the Company applies the following valuation techniques to measure fair value:

Product/ Instrument	Valuation Methodology	Classification in the valuation hierarchy
Assets - Current Assets		
Investments in marketable securities		
U.S. Treasury bills	Obtained from pricing services engaged by the Company, and the Company receives one price for each security. The fair values provided by the pricing services are estimated using pricing models, where the inputs to those models are based on observable market inputs or recent trades of similar securities.	Level 1
Liabilities - Current Liabilities		
Loan payable to DTCC	Discounted cash flows using current market rates for similar instruments of the same remaining maturity or quoted prices for the same of similar issues	Level 2

Financial assets and liabilities whose carrying value approximates fair value. The carrying values of certain assets and liabilities approximate their fair values because they are short-term in duration, have no defined maturity, or have market-based interest rates. These instruments include Cash and cash equivalents, Accounts receivable, Clearing Fund - Cash deposits, Other Participants' assets, Accounts payable and Payable to Participants.

The tables below present the carrying values, fair values and fair value hierarchy levels of certain financial instruments measured at other than fair value on the accompanying Statements of Financial Condition as of December 31, 2016 and 2015 (in thousands):

	2016				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 210,109	$ 210,109	$ 210,109	$ —	$ —
Accounts receivable	14,342	14,342	—	14,342	—
Clearing Fund Cash deposits	9,660,414	9,660,414	9,110,414	550,000	—
Investments in marketable securities	25,000	24,829	24,829	—	—
Other Participants' assets	867	867	253	614	—
Total	$ 9,910,732	$ 9,910,561	$ 9,345,605	$ 564,956	$ —
Liabilities:					
Accounts payable	$ 4,218	$ 4,218	$ —	$ 4,218	$ —
Clearing Fund Cash deposits	9,685,414	9,685,243	9,685,243	—	—
Payable to Participants	867	867	867	—	—
Total	$ 9,690,499	$ 9,690,328	$ 9,686,110	$ 4,218	$ —

	2015				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 215,440	$ 215,440	$ 215,440	$ —	$ —
Accounts receivable	32,581	32,581	—	32,581	—
Clearing Fund Cash deposits	7,878,557	7,878,557	6,413,557	1,465,000	—
Investments in marketable securities	100,000	99,757	99,757	—	—
Other Participants' assets	2,783	2,783	2,117	666	—
Total	$ 8,229,361	$ 8,229,118	$ 6,730,871	$ 1,498,247	$ —
Liabilities:					
Loan Payable to DTCC	$ 52,000	$ 52,000	$ —	$ 52,000	$ —
Accounts payable	1,864	1,864	—	1,864	—
Clearing Fund Cash deposits	7,978,557	7,978,557	7,978,557	—	—
Payable to Participants	2,783	2,783	2,783	—	—
Total	$ 8,035,204	$ 8,035,204	$ 7,981,340	$ 53,864	$ —

Financial assets measured at fair value on a non-recurring basis. Certain assets are subject to measurement at fair value on a non-recurring basis. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if determined to be impaired. Fair value is based on discounted cash flow analyses or comparing values of similar instruments. Discounted cash flow analyses are dependent upon various factors including estimated future cash flows, interest rate yield curves and volatility of inputs.

Fair value on the aforementioned capitalized software impairment, disclosed in Note 7, was based on discounted cash flows using Level 3 inputs under the fair value guidance. 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 the accompanying Statements of Income.

10. PENSION AND POSTRETIREMENT BENEFITS

DTCC 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. DTCC eligible employees also participate in DTCC's life insurance program, which provides for the payment of death benefits to beneficiaries of eligible retired employees, and DTCC's healthcare program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to participating subsidiaries based primarily upon the proportion of each subsidiary's allocated salary cost to the aggregate salary cost of DTCC and its subsidiaries. The benefit plan costs allocated to FICC were $1,694,000 and $2,070,000 for the years ended December 31, 2016 and 2015, respectively. These costs are included in Employee compensation and related benefits in the accompanying Statements of Income.

11. INCOME TAXES

FICC is included in DTCC's consolidated Federal and combined and unitary state tax returns. FICC files other state tax returns on a separate company basis.

Details for the components of the Company's income tax provision (benefit) calculated on a separate company basis for the years ended December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Current income tax (benefit):		
Federal	$ 9,352	$ (857)
State and local	2,788	(63)
Total current income tax (benefit)	12,140	(920)
Deferred income tax (benefit):		
Federal	(819)	1,088
State and local	120	817
Total deferred income tax (benefit)	(699)	1,905
Provision for income taxes	$ 11,441	$ 985

Pursuant to a tax sharing agreement between DTCC and FICC, the Company is liable for its allocable share of Federal, state, and local tax liabilities that are paid by DTCC. For the years ended December 31, 2016 and 2015, the Company paid income taxes to DTCC, net of refunds, of $4,140,000 and $6,019,000, respectively.

The 2016 and 2015 effective tax rates differ from the 35% Federal statutory rate primarily due to state and local taxes and changes in unrecognized tax benefits.

Details for the reconciliation of the U.S. Federal statutory tax rate to the Company's effective tax rate on Income before taxes for the years ended December 31, 2016 and 2015 follow:

	2016	2015
U.S. statutory tax rate	35.0%	35.0%
State and local income taxes, net of Federal tax benefit	6.1	5.7
Change in unrecognized tax benefits	0.8	16.1
Other	—	2.7
Effective tax rate	41.9%	59.5%

Details for the components of deferred tax assets and (liabilities) as of December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Deferred tax assets:		
Accrued compensation	$ 988	$ 1,205
Accrued employee benefits	3,031	4,591
Depreciation	104	432
Deferred rent	1,474	672
Other	1,497	1,385
Total deferred tax assets	7,094	8,285
Deferred tax liabilities:		
Software	(8,388)	(10,598)
Total deferred tax liabilities	(8,388)	(10,598)
Net deferred tax liabilities	$ (1,294)	$ (2,313)

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

Details for unrecognized tax benefits as of December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Beginning balance at January 1,	$ 2,639	$ 2,535
Increases to prior period tax positions	—	104
Ending balance as of December 31,	$ 2,639	$ 2,639

The Company classifies interest and penalties related to unrecognized tax benefits, if incurred, in Provision for income taxes in its accompanying Statements of Income. As of December 31, 2016 and 2015, accrued interest related to unrecognized tax benefits recorded on the accompanying Statements of Financial Condition totaled $1,638,000 and $1,318,000, respectively.

The Company is subject to U.S. Federal income tax as well as income tax in various state and local jurisdictions.

Details for the periods currently under examination and remaining subject to examination by jurisdiction as of December 31, 2016 follow:

	Tax Years	
Jurisdiction	**Under Examination**	**Subject to Examination**
U.S. Federal - Internal Revenue Service ("IRS")	2009 - 2012 (1)	2013 - 2015
New York State	2007 - 2011	2012 - 2015
New York City	2010 - 2011	2013 - 2015
State of Florida	2008 - 2013	2014 - 2015
State of Illinois	2012 - 2013	2014 - 2015

(1) The IRS concluded its review of the Federal income tax returns for 2009 through 2012; however, it is pending the closing agreements from the IRS.

For the current ongoing audits related to open tax years, the Company estimates it is possible the balance of unrecognized tax benefits 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 unrecognized tax benefits. 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 unrecognized tax benefits at this time. However, the Company believes it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

12. SHAREHOLDER'S EQUITY

On May 1, 2015, the Company received a capital contribution from DTCC in the amount of $60 million. The proceeds of the capital contribution supplement the Company's capital and liquid financial resources pursuant to the SEC's standards for covered clearing agencies.

13. TRANSACTIONS WITH RELATED PARTIES

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

Transactions with DTCC. FICC has an agreement with DTCC whereby DTCC pays for substantially all of the operational expenses of FICC. The related expenses are allocated to FICC based upon its use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for FICC including administrative, internal audit, finance and legal services. In 2016 and 2015, the billing for these services was 105% and 106% of total allocated expenses, respectively, excluding charges passed through to Participants and capitalized software costs. The fee, representing the amount over actual cost, is included in Professional and other services in the accompanying Statements of Income.

Details for related party transactions with DTCC for 2016 and 2015 follow (in thousands):

	Expenses For the years ended December 31, 2016	Expenses For the years ended December 31, 2015	Payables / (Receivables) (2) As of December 31, 2016	Payables / (Receivables) (2) As of December 31, 2015
DTCC (1)	$ 8,171	$ 8,703	$ 1,314	$ (18,579)

(1) DTCC expenses relate to the 5% and 6% billing for services described above.
(2) Included in Accounts payable and Accounts receivable, respectively, on the accompanying Statements of Financial Condition.

14. COMMITMENTS AND CONTINGENCIES

Litigation. The Company is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on the accompanying Statements of Financial Condition, Income or Cash Flows.

15. GUARANTEES

FICC, through GSD and MBSD, provides CCP services, including clearing, settlement and risk management services. In its capacity acting as a CCP, FICC guarantees the settlement of trades in the event one or more of its Participants defaults. A Participant default is defined in each division’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 through its Clearing Fund. FICC maintains a Clearing Fund for each 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 trade date plus one day (T+1). Trades are guaranteed and novated upon comparison.

FICC’s guarantee of GSD net settlement positions may result in a potential liability to FICC. Guaranteed positions that have not yet settled are margined and collateralized twice-daily via the Participants’ Clearing Fund and marked-to-market twice-daily with cash debited from or credited to the responsible Participants through the funds-only settlement process. There is an equal amount due to certain other GSD Participants from FICC after consideration of deliveries pending to FICC.

MBSD’s 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 to-be-announced (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 Participants’ Clearing Fund.

Details for each division's open positions for which a trade guarantee applied as of December 31, 2016 and 2015 follow (in billions):

	2016	2015
GSD	$ 890	$ 829
MBSD	304	245

There were no defaults by Participants to these obligations.

If a Participant defaults, such Participant's deposits to the applicable division's Clearing Fund, including Eligible Clearing Fund Securities pledged from the defaulting Participant (along with any other resources of, or attributable to, the defaulting Participant (or certain permitted margin affiliates) that FICC may access under each division's rules, such as funds-only settlement amounts and other collateral held by the division's securing the defaulting Participant's obligations to the division) are the first source of funds and collateral that FICC would use to cover any losses that may result from the close-out and liquidation of the defaulting Participant's positions. This includes any amounts that may be available from FICC's multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and Options Clearing Corporation (OCC). In accordance with these agreements, 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. Each division would apply its own respective resources and determine its own liquidation results. In determining FICC's available net resources for purposes of the Cross-Guaranty Agreement, FICC would first offset the available net resources of GSD with those of MBSD.

In addition, with respect to GSD, FICC has entered into a cross-margining agreement with the Chicago Mercantile Exchange Inc. (CME). Under this agreement, FICC and CME would apply available amounts to each other under specified circumstances.

If there is still a deficit, FICC will satisfy this deficit 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 or liability remains, the division will divide such obligation between "Tier 1" Participants and "Tier 2" Participants. Tier 2 Participants (currently registered investment companies due to regulatory requirements applicable to such entities) will only be subject to such loss or liability to the extent they traded with the defaulting Participant. Tier 1 Participants will be allocated the loss or liability by assessing the required Clearing Fund deposit of each such Participant in the amount of up to $50,000, equally. If a loss or liability 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. GSD Participants 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.

16. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS

As a CCP, FICC is exposed to significant credit risk to third-parties including its customer base, which extends to companies within the global financial services industry. Credit risk represents the potential for loss due to the default or deterioration in credit quality of a Participant. The Company's exposure to credit risk comes mostly from clearing and settlement service operations. Customers are based in the United States and include participating brokers, dealers, banks, mutual fund companies, insurance carriers and other financial intermediaries. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, investments, accounts receivable and the Clearing Fund.

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

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 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 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 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 repos 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 repos are collateralized; collateral must have a market value greater than or equal to 102% of the cash invested. Additionally, reverse repos 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.

Clearing Fund 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 invests in highly rated money market mutual funds and cash is returned daily, FICC has minimal credit risk related to these investments.

The Company 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 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 collateral 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, an applicant must meet minimum eligibility criteria which are specified in the Company's rules. All applicants to be an FICC 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 the Clearing Fund and to meet its obligations to the Company. 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 Participants. The resulting rating determines the level of financial review to be performed on each Participant and may impact their Clearing Fund requirements.

The Company 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.

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. 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.

17. 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). These assets did not include the accounts that LBI maintained at NSCC, FICC and DTC (collectively, the "Clearing Agency Subsidiaries").

As a result, the Trustee, Barclays and DTCC, on behalf and for the benefit of NSCC, FICC and DTC 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 million cash deposit (the "Cash Deposit") 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 Participants' 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.

Details for the deposits/balances held by DTCC and its subsidiaries as of December 31, 2016 and 2015 follow (in thousands):

	2016	2015
Segregated cash	$ 1,173	$ 3,302
Participants/Clearing and Settlement Funds	25	1,160
Matured money market investment accounts	1,000	31,133
Total	$ 2,198	$ 35,595

As of December 31, 2016, DTCC had delivered to the Trustee of the LBI estate $5,186,330,000 in cash as well as Clearing Fund securities valued at $159,479,000.

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

Severance. For the years ended December 31, 2016 and 2015, severance allocated by DTCC to FICC were $1,803,000 and $702,000, respectively, that is included within Employee compensation and related benefits in the accompanying Statements of Income.

18. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2016 through February 28, 2017, for potential recognition or disclosure in these accompanying Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying Financial Statements.