

# The Depository Trust & Clearing Corporation

Condensed Consolidated Financial Statements  
as of September 30, 2017 and December 31, 2016 and for the  
three and nine months ended September 30, 2017 and 2016

# THE DEPOSITORY TRUST & CLEARING CORPORATION

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**THE DEPOSITORY TRUST & CLEARING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)**

<u>(In thousands, except share data)</u>	<u>As of September 30,</u> <u>2017</u>	<u>As of December 31,</u> <u>2016</u>
<b>ASSETS:</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 4,860,182	\$ 4,075,548
Reverse repurchase agreements	—	100,000
Participants' segregated cash	14,205	15,886
Accounts receivable - net of allowance for doubtful accounts of \$505 and \$865 as of September 30, 2017 and December 31, 2016, respectively	173,179	208,042
Participants' and Clearing Funds:		
Cash deposits	14,599,133	15,570,562
Investments in marketable securities	25,000	25,000
Securities on deposit - at fair value	13,075,488	13,890,682
Other Participants' assets	2,474,037	960,753
Other current assets	78,813	67,476
Total current assets	<u>35,300,037</u>	<u>34,913,949</u>
<b>NON-CURRENT ASSETS:</b>		
Premises and equipment - net of accumulated depreciation of \$455,930 and \$410,788 as of September 30, 2017 and December 31, 2016, respectively	232,243	250,791
Goodwill	57,699	65,535
Intangible assets - net of accumulated amortization of \$735,193 and \$919,308 as of September 30, 2017 and December 31, 2016, respectively	350,515	398,695
Equity method investments	14,216	17,176
Other non-current assets	397,917	367,882
Total non-current assets	<u>1,052,590</u>	<u>1,100,079</u>
<b>TOTAL ASSETS (1)</b>	<u>\$ 36,352,627</u>	<u>\$ 36,014,028</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>CURRENT LIABILITIES:</b>		
Commercial paper - net of unamortized discount of \$4,136 and \$1,669 as of September 30, 2017 and December 31, 2016, respectively	\$ 3,098,844	\$ 2,554,020
Current portion of long-term debt	8,289	20,468
Accounts payable and accrued expenses	99,237	100,088
Participants' and Clearing Funds:		
Cash deposits	14,624,133	15,595,562
Securities on deposit - at fair value	13,075,488	13,890,682
Payable to Participants	2,488,242	976,639
Other current liabilities	215,701	270,682
Total current liabilities	<u>33,609,934</u>	<u>33,408,141</u>
<b>NON-CURRENT LIABILITIES:</b>		
Non-current portion of long-term debt	38,270	44,252
Non-current portion of pension and postretirement benefits	253,435	284,672
Other non-current liabilities	371,926	370,355
Total non-current liabilities	<u>663,631</u>	<u>699,279</u>
Total liabilities (2)	<u>34,273,565</u>	<u>34,107,420</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 18)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock:		
Series A, \$0.50 par value - 10,000 shares authorized, issued (above par), and outstanding	300	300
Series B, \$0.50 par value - 10,000 shares authorized, issued (above par), and outstanding	300	300
Series C, \$0.50 par value - 1,600 shares authorized, issued (above par), and outstanding	390,516	390,516
Common stock, \$100 par value - 80,000 shares authorized, 50,908 shares issued and outstanding	5,091	5,091
Paid-in capital	411,065	411,065
Retained earnings	1,284,382	1,115,917
Accumulated other comprehensive loss, net of tax	(162,112)	(161,329)
Non-controlling interests	149,520	144,748
Total shareholders' equity	<u>2,079,062</u>	<u>1,906,608</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 36,352,627</u>	<u>\$ 36,014,028</u>

- (1) The consolidated assets as of September 30, 2017 and December 31, 2016, include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs (in thousands): Cash and cash equivalents, \$0 and \$10,399; Accounts receivable - net, \$0 and \$2,208; Other current assets, \$0 and \$1,149; Intangible assets, \$0 and \$6,826; Other non-current assets, \$0 and \$544; and Total assets, \$0 and \$21,126, respectively.
- (2) The consolidated liabilities as of September 30, 2017 and December 31, 2016, include the following VIE liabilities for which the VIE creditors do not have recourse to DTCC (in thousands): Accounts payable, \$0 and \$2,477; Other current liabilities, \$0 and \$37,433; and Total liabilities, \$0 and \$39,910, respectively.

**THE DEPOSITORY TRUST & CLEARING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

<b>(In thousands)</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>REVENUES:</b>				
Settlement and asset services	\$ 111,211	\$ 110,132	\$ 331,868	\$ 323,097
Clearing services	130,218	123,834	392,631	364,561
Matching and data services	65,173	76,898	199,866	238,362
Repository services	68,975	72,895	205,852	223,978
Wealth management services	26,811	25,893	81,717	78,553
Other services	10,129	8,589	39,433	42,636
Investment income	2,951	(434)	10,836	719
Total revenues	<u>415,468</u>	<u>417,807</u>	<u>1,262,203</u>	<u>1,271,906</u>
<b>EXPENSES:</b>				
Employee compensation and related benefits	155,629	161,487	488,183	513,370
Information technology	38,439	37,801	116,190	128,838
Professional and other services	80,338	84,691	242,158	265,802
Occupancy	10,174	16,007	32,408	36,303
Depreciation and amortization	43,518	56,019	135,447	180,268
General and administrative	6,868	10,441	24,230	32,773
Impairment of Intangible assets	14,788	—	14,788	1,700
Total expenses	<u>349,754</u>	<u>366,446</u>	<u>1,053,404</u>	<u>1,159,054</u>
Total operating income	<u>65,714</u>	<u>51,361</u>	<u>208,799</u>	<u>112,852</u>
<b>NON-OPERATING INCOME (EXPENSE):</b>				
Interest income	40,535	15,393	96,549	38,524
Refunds to Participants	(25,476)	(12,228)	(62,558)	(27,917)
Interest expense	(10,052)	(4,964)	(25,532)	(12,169)
Impairment of Equity method investments	(9,881)	—	(9,881)	—
Net income (loss) from Equity method investments	(2,206)	1,464	(4,267)	(3,587)
Other non-operating income (expense)	(1,303)	(4,387)	43,931	(13,023)
Total non-operating income (expense)	<u>(8,383)</u>	<u>(4,722)</u>	<u>38,242</u>	<u>(18,172)</u>
Income before taxes	57,331	46,639	247,041	94,680
Provision for income taxes	16,755	17,356	55,484	34,592
Net income	<u>40,576</u>	<u>29,283</u>	<u>191,557</u>	<u>60,088</u>
Net income (loss) attributable to non-controlling interests	—	(4,668)	13,342	(12,238)
Net income attributable to DTCC	<u>\$ 40,576</u>	<u>\$ 33,951</u>	<u>\$ 178,215</u>	<u>\$ 72,326</u>

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

**THE DEPOSITORY TRUST & CLEARING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

<u>(In thousands)</u>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$ 40,576	\$ 29,283	\$ 191,557	\$ 60,088
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax:				
Foreign currency translation	1,610	(264)	(783)	(1,983)
Other comprehensive income (loss)	1,610	(264)	(783)	(1,983)
Comprehensive income	42,186	29,019	190,774	58,105
Comprehensive income (loss) attributable to non-controlling interests	—	(4,668)	13,342	(12,238)
Comprehensive income attributable to DTCC	\$ 42,186	\$ 33,687	\$ 177,432	\$ 70,343

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

**THE DEPOSITORY TRUST & CLEARING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**

<u>(In thousands)</u>	Preferred Stock			Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax			Non- controlling Interests	Total Shareholders' Equity	
	Series A	Series B	Series C				Defined Benefit Pension and Other Plans	Foreign Currency Translation				
BALANCE - January 1, 2016	\$ 300	\$ 300	\$ 390,516	\$ 5,091	\$ 411,065	\$ 1,008,522	\$ (160,931)	\$ (1,417)	\$ 145,734	\$ 1,799,180		
Net income (loss)	—	—	—	—	—	126,895	—	—	(14,206)	112,689		
Other comprehensive income (loss)	—	—	—	—	—	—	1,285	(266)	—	1,019		
Contributions from non-controlling interests	—	—	—	—	—	—	—	—	13,700	13,700		
Dividend to non-controlling interest	—	—	—	—	—	—	—	—	(480)	(480)		
Dividends on preferred stock	—	—	—	—	—	(19,500)	—	—	—	(19,500)		
BALANCE - December 31, 2016	300	300	390,516	5,091	411,065	1,115,917	(159,646)	(1,683)	144,748	1,906,608		
Net income	—	—	—	—	—	178,215	—	—	13,342	191,557		
Other comprehensive income (loss)	—	—	—	—	—	—	—	(783)	—	(783)		
Business disposition	—	—	—	—	—	—	—	—	(8,570)	(8,570)		
Dividend on preferred stock	—	—	—	—	—	(9,750)	—	—	—	(9,750)		
BALANCE - September 30, 2017	\$ 300	\$ 300	\$ 390,516	\$ 5,091	\$ 411,065	\$ 1,284,382	\$ (159,646)	\$ (2,466)	\$ 149,520	\$ 2,079,062		

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

**THE DEPOSITORY TRUST & CLEARING CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

<b>(In thousands)</b>	<b>For the nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 191,557	\$ 60,088
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Discount on Investments in marketable securities	(30)	(13)
Depreciation and amortization	135,447	180,268
Loss on Impairment of Intangible assets	14,788	1,700
Loss on disposal of Premises and equipment and Intangible assets	743	279
Allowance for doubtful accounts	17	—
Loss on impairment of Equity method investments	9,881	—
Net loss from Equity method investments	4,267	5,360
Deferred income taxes	(24,614)	(14,913)
Gain on business dispositions	(47,001)	—
Net change (excluding the effects of business dispositions) in:		
Accounts receivable	28,354	(25,532)
Participants' and Clearing Funds Cash deposits	—	(75,000)
Other Participants' assets	(1,513,284)	(1,631,220)
Other assets	(14,956)	32,763
Accounts payable and accrued expenses	(460)	(17,021)
Payable to Participants	1,511,603	1,635,278
Pension and postretirement benefits	(31,105)	5,962
Other liabilities	(21,166)	(5,748)
Net cash provided by/(used in) operating activities	<u>244,041</u>	<u>152,251</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale/(Purchase) of securities under Reverse repurchase agreements	100,000	(100,000)
Change in Participants' segregated cash	1,681	(4,058)
Maturities of Investments in marketable securities	50,000	107,400
Purchases of Investments in marketable securities	(50,000)	(25,000)
Purchases of Premises and equipment	(30,364)	(33,720)
Purchases of Intangible assets	(65,035)	(75,215)
Investment in Equity method investments	(10,000)	(10,000)
Proceeds from disposition of businesses, net of Cash and cash equivalents sold	23,096	—
Net cash provided by/(used in) investing activities	<u>19,378</u>	<u>(140,593)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in Commercial paper, net	544,824	1,517,973
Repayments on long-term debt and other borrowings	(18,161)	(96,856)
Preferred stock dividend payments	(9,750)	(9,750)
Proceeds from Non-controlling interests	—	8,700
Payments to Non-controlling interests	(480)	—
Net cash provided by/(used in) financing activities	<u>516,433</u>	<u>1,420,067</u>
Effect of foreign exchange rate changes on Cash and cash equivalents	4,782	1,555
Net increase/(decrease) in Cash and cash equivalents	784,634	1,433,280
Cash and cash equivalents - Beginning of period	4,075,548	2,521,558
Cash and cash equivalents - End of period	<u>\$ 4,860,182</u>	<u>\$ 3,954,838</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Non-cash financing activity - capital lease	\$ —	\$ 3,459
Cash interest paid	\$ 21,556	\$ 8,978
Cash income taxes paid (refunds) - net	\$ 45,053	\$ 9,440

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

# THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

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## 1. BUSINESS AND OWNERSHIP

**The Depository Trust & Clearing Corporation (DTCC)** is a holding company that is the parent company of various operating subsidiaries, including, but not limited to, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), Omgeo LLC (Omgeo), DTCC Deriv/SERV LLC (Deriv/SERV), DTCC Solutions LLC (Solutions), Business Entity Data, B. V. (GMEI); collectively, the “Company” or “Companies.”

### Subsidiaries

*DTC* is a limited purpose trust company formed under the Banking Law of New York State and supervised by the New York State Department of Financial Services (NYSDFS); a State member bank of the Federal Reserve System (FRS), subject to examination by the Federal Reserve Bank of New York (FRBNY) under delegated authority from the Board of Governors (the FRB) of the FRS; and a clearing agency registered with, and under the supervision of, the U.S. Securities and Exchange Commission (SEC). DTC provides central securities depository, settlement and related services to members of the securities, banking and financial services industries.

*NSCC* is a clearing agency registered with the SEC that provides central counterparty (CCP) services to members of the financial community, consisting principally of securities trade capture (validation and comparison), clearance, netting and risk management services.

*FICC* is a clearing agency registered with the SEC that provides CCP services to members that participate in the government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting, clearance, 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).

DTC, NSCC and FICC are designated as Systemically Important Financial Market Utilities (SIFMUs) by the U.S. Financial Stability Oversight Council under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

*Omgeo* provides post-trade matching, processing and other related services, primarily to members of the financial community.

*Deriv/SERV*, through its subsidiaries and affiliates, enhances transparency and provides operational efficiency for the derivatives market. Its trade repository supports a multitude of data submissions, including real-time price reporting, transaction details, confirmation records and valuation data. Its subsidiary, The Warehouse Trust Company (WTC), provided life cycle event processing, including credit event processing and payment reconciliation/netting, which was transferred to Deriv/SERV during the second quarter of 2017. See Note 17 for additional information.

*Solutions* provides information and technology solutions that help financial institutions manage risk and create more efficient internal processes.

*GMEI*, formerly known as the U.S. Commodity Futures Trading Commission (CFTC) Interim Compliant Identifier (CICI) utility is DTCC’s Legal Entity Identifier (LEI) solution offered in collaboration with Society for Worldwide Interbank Financial Telecommunication (SWIFT). GMEI is designed to create and apply a single universal standard identifier to any organization or firm involved in an international financial transaction.

The members of DTCC’s clearing agencies are collectively referred to as Participants.



# THE DEPOSITORY TRUST & CLEARING CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

### 2. BASIS OF PRESENTATION AND USE OF ESTIMATES

**Basis of presentation.** The accompanying Condensed Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The accompanying interim financial statements have not been audited. These accompanying interim financial statements do not include all of the information and notes required by U.S. GAAP for complete financial statements and should be read in conjunction with DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015, which are located on the Company's website at <http://www.dtcc.com/legal/financial-statements>. See Note 2 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015, for additional information on the Company's Summary of Significant Accounting Policies.

The Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year. The Condensed Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries and consolidated Variable Interest Entities (VIEs). Intercompany accounts and transactions have been eliminated in consolidation.

The Company consolidated entities in which it retained a controlling financial interest. See Note 5 for additional information.

**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 Condensed Consolidated 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 are based on judgment and available information as of September 30, 2017; therefore, actual results could differ materially from those estimates.

### 3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015, for additional information on the Company's Accounting and Reporting Developments.

Standard	Summary of guidance	Effects on financial statements
<i>Financial Accounting Standards Board Standards Issued, but not yet Adopted</i>		
Revenue Recognition - Revenue from contracts with customers <i>Issued May 2014</i>	<ul style="list-style-type: none"><li>Requires revenue from contracts with customers be recognized upon transfer of control of a good or service in the amount of consideration expected to be received.</li><li>Changes the accounting for certain contract costs, including whether they may be offset against revenue in the accompanying Condensed Consolidated Statements of Income, and requires additional disclosures about revenue and contract costs.</li><li>May be adopted using a full retrospective approach or a modified, cumulative effect approach wherein the guidance is applied only to existing contracts as of the day of initial application, and to new contracts transacted after that date.</li></ul>	<ul style="list-style-type: none"><li>The required effective date is January 1, 2018.</li><li>The Company plans to adopt the revenue recognition guidance in the first quarter of 2018 under the modified retrospective approach, which requires a cumulative-effect adjustment as of the date of adoption. The Company's implementation efforts include the identification of revenue within the scope of this guidance, as well as the evaluation of revenue contracts and related accounting policies. The Company anticipates the potential changes to the recognition and timing of less than one percent of its revenues, which will have an immaterial impact on its Condensed Consolidated Financial Statements. The Company's review is ongoing, therefore additional impacts may be determined prior to adoption.</li></ul>

**THE DEPOSITORY TRUST & CLEARING CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

**4. BUSINESS DISPOSITIONS**

On February 6, 2017, the Company, along with Clariant Global LLC's (Clariant) minority interest owners, signed a definitive agreement to sell their interests in Clariant to the Thomson Reuters Corporation (Thomson Reuters). On the same day, the Company also signed a definitive agreement to sell Avox Ltd (Avox) to Thomson Reuters. Both sales closed on March 14, 2017. As a result of these transactions, the Company disposed of Clariant and Avox, effective March 14, 2017. The Company's gain on the sales, net of the gain attributable to non-controlling interests related to Clariant, totaled \$31,136,000 and was included in Other non-operating income in the Company's Condensed Consolidated Statements of Income. The agreements are subject to indemnity clauses for which there is an indemnification escrow that will be released in September 2018.

Details of the gain on sales follow (in thousands):

	<u>Clariant</u>	<u>Avox</u>	<u>Total</u>
Gain on sale included in Other non-operating income	\$ 39,082	\$ 7,919	\$ 47,001
Less: Gain on sale attributable to non-controlling interest	(15,865)	—	(15,865)
Net gain on business dispositions	<u>\$ 23,217</u>	<u>\$ 7,919</u>	<u>\$ 31,136</u>

Details of the balances related to the business dispositions follow (in thousands):

	<u>Clariant</u>	<u>Avox</u>	<u>Total</u>
Consolidated assets:			
Cash and cash equivalents	\$ 708	\$ 3,122	\$ 3,830
Accounts receivable - net	531	3,488	4,019
Other current assets	848	51	899
Premises and equipment	—	1,215	1,215
Goodwill	—	7,836	7,836
Intangible assets	6,932	2,674	9,606
Other non-current assets	476	—	476
Total assets	<u>\$ 9,495</u>	<u>\$ 18,386</u>	<u>\$ 27,881</u>
Consolidated liabilities:			
Accounts payable	\$ 257	\$ 252	\$ 509
Other current liabilities	28,239	6,043	34,282
Total liabilities	<u>\$ 28,496</u>	<u>\$ 6,295</u>	<u>\$ 34,791</u>

# THE DEPOSITORY TRUST & CLEARING CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

### 5. VARIABLE INTEREST ENTITIES

#### Consolidated VIEs

A VIE is an entity in which the equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as the primary beneficiary and is the entity that: (i) has the control to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (ii) has an obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company consolidates VIEs when it is the primary beneficiary. The Company performs ongoing qualitative, and in certain cases, quantitative analyses to determine whether the Company is the primary beneficiary of a VIE based on the facts and circumstances and the Company's interest(s) in the VIE.

**Clariant** was a joint venture with Credit Suisse Finance (GUERNSEY) Ltd., The Goldman Sachs Group, Inc., LabMorgan Investment Corporation, SSB Investments, Inc., Barclays Bank PLC and BNY Capital Corporation that was incorporated on July 25, 2014. Clariant was a comprehensive reference data solution providing control, standardization and transparency of client reference data during the client onboarding process and through ongoing client lifecycle events. The Company held a variable interest in Clariant, which it consolidated based on the aforementioned VIE accounting guidance.

Details for the impact of the consolidation of Clariant on the Company's Condensed Consolidated Statements of Financial Condition as of December 31, 2016 follow (in thousands):

	<u>2016</u>
Consolidated assets:	
Cash and cash equivalents	\$ 10,399
Accounts receivable - net	2,208
Other current assets	1,149
Intangible assets	6,826
Other non-current assets	544
Total assets	<u>\$ 21,126</u>
Consolidated liabilities:	
Accounts payable	\$ 2,477
Other current liabilities	37,433
Total liabilities	<u>\$ 39,910</u>

The creditors or other beneficial interest holders of Clariant have no recourse to the general credit of DTCC, formerly the primary beneficiary. Furthermore, liabilities of Clariant have no recourse to DTCC.

Prior to the disposition of Clariant (see Note 4), operating losses incurred by the consolidated VIE were \$5,215,000 for the three months ended March 31, 2017. The losses of the consolidated VIE for the three months and nine months ended September 30, 2016 were \$7,504,000 and \$22,132,000, respectively. These losses are included within Income before taxes in the Company's Unaudited Condensed Consolidated Statements of Income.

**THE DEPOSITORY TRUST & CLEARING CORPORATION**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

**6. PARTICIPANTS' SEGREGATED CASH, OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS**

Details for Participants' segregated cash, Other Participants' assets and Payable to Participants as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Assets:		
Participants' segregated cash	\$ 14,205	\$ 15,886
Other Participants' assets	2,474,037	960,753
Total	<u>\$ 2,488,242</u>	<u>\$ 976,639</u>
Liabilities:		
Payable to Participants	<u>\$ 2,488,242</u>	<u>\$ 976,639</u>

Participants' segregated cash represents cash received from Participants to facilitate their compliance with SEC customer protection rules. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

Payable to Participants included \$4,930,000 and \$153,000 of cash collateral received from Participants, representing 130% of short positions as of September 30, 2017 and December 31, 2016, respectively. Unclaimed balances are remitted to the appropriate authority when required, pursuant to abandoned property laws.

**7. ACCOUNTS RECEIVABLE**

Details for Accounts receivable as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Due from Participants and customers for services	\$ 160,682	\$ 190,795
Allowance for doubtful accounts	(505)	(865)
Due from Participants and customers for services, net	160,177	189,930
Other receivables	13,002	18,112
Total	<u>\$ 173,179</u>	<u>\$ 208,042</u>

Total write-offs in the allowance for doubtful accounts for the three months ended September 30, 2017 and 2016 were \$115,000 and \$53,000, respectively, and \$377,000 and \$516,000 for the nine months ended September 30, 2017 and 2016, respectively.

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**8. PARTICIPANTS' AND CLEARING FUNDS**

All deposits of cash and securities by Participants are recorded on the accompanying Condensed Consolidated Statements of Financial Condition under Participants' and Clearing Funds.

Details for the Participants' and Clearing Funds as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<b>2017</b>			
	<b>DTC</b>	<b>NSCC</b>	<b>FICC</b>	<b>Total</b>
Required deposits	\$ 1,165,000	\$ 4,003,873	\$ 15,289,010	\$ 20,457,883
Excess deposits	628,460	752,853	5,860,425	7,241,738
Total	<u>\$ 1,793,460</u>	<u>\$ 4,756,726</u>	<u>\$ 21,149,435</u>	<u>\$ 27,699,621</u>

	<b>2016</b>			
	<b>DTC</b>	<b>NSCC</b>	<b>FICC</b>	<b>Total</b>
Required deposits	\$ 1,150,000	\$ 3,580,823	\$ 18,288,528	\$ 23,019,351
Excess deposits	602,431	819,133	5,045,329	6,466,893
Total	<u>\$ 1,752,431</u>	<u>\$ 4,399,956</u>	<u>\$ 23,333,857</u>	<u>\$ 29,486,244</u>

*Cash deposits, Investments in marketable securities and Securities on deposit.* Cash deposits, Investments in marketable securities and Securities on deposit of the Participants' and Clearing Funds, which may be applied to satisfy obligations of the depositing Participants as provided in the respective clearing agency rules, as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<b>2017</b>			
	<b>DTC</b>	<b>NSCC</b>	<b>FICC</b>	<b>Total</b>
Cash deposits	\$ 1,793,460	\$ 4,589,150	\$ 8,216,523	\$ 14,599,133
Investments in marketable securities	—	—	25,000	25,000
Securities on deposit - at fair value	—	167,576	12,907,912	13,075,488
Total	<u>\$ 1,793,460</u>	<u>\$ 4,756,726</u>	<u>\$ 21,149,435</u>	<u>\$ 27,699,621</u>

	<b>2016</b>			
	<b>DTC</b>	<b>NSCC</b>	<b>FICC</b>	<b>Total</b>
Cash deposits	\$ 1,752,431	\$ 4,157,717	\$ 9,660,414	\$ 15,570,562
Investments in marketable securities	—	—	25,000	25,000
Securities on deposit - at fair value	—	242,239	13,648,443	13,890,682
Total	<u>\$ 1,752,431</u>	<u>\$ 4,399,956</u>	<u>\$ 23,333,857</u>	<u>\$ 29,486,244</u>

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Details for the Participants' and Clearing Funds Cash deposits and Investments in marketable securities as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<b>2017</b>			
	<b>DTC</b>	<b>NSCC</b>	<b>FICC</b>	<b>Total</b>
Bank deposits	\$ 1,793,460	\$ 3,510,150	\$ 5,565,523	\$ 10,869,133
Money market fund investments	—	679,000	1,976,000	2,655,000
Reverse repurchase agreements	—	400,000	675,000	1,075,000
U.S. Treasury bills	—	—	25,000	25,000
<b>Total</b>	<b>\$ 1,793,460</b>	<b>\$ 4,589,150</b>	<b>\$ 8,241,523</b>	<b>\$ 14,624,133</b>

  

	<b>2016</b>			
	<b>DTC</b>	<b>NSCC</b>	<b>FICC</b>	<b>Total</b>
Bank deposits	\$ 1,752,431	\$ 3,170,717	\$ 6,441,414	\$ 11,364,562
Money market fund investments	—	737,000	2,669,000	3,406,000
Reverse repurchase agreements	—	250,000	550,000	800,000
U.S. Treasury bills	—	—	25,000	25,000
<b>Total</b>	<b>\$ 1,752,431</b>	<b>\$ 4,157,717</b>	<b>\$ 9,685,414</b>	<b>\$ 15,595,562</b>

**Refunds to Participants.** Refunds to Participants, net of Interest income, by the clearing agencies totaled \$25,476,000 and \$12,228,000 for the three months ended September 30, 2017 and 2016, respectively, and \$62,558,000 and \$27,917,000 for the nine months ended September 30, 2017 and 2016, respectively. The amounts refunded are included in Refunds to Participants in the accompanying Condensed Consolidated Statements of Income.

**9. EQUITY METHOD INVESTMENTS**

Details for DTCC's Equity method investments as of September 30, 2017 and December 31, 2016 follow (in thousands, except ownership percentage):

	<b>2017</b>	<b>2016</b>
<b>European Central Counterparty N.V.</b>		
Percentage ownership	20%	20%
Carrying value	\$ 9,885	\$ 8,291
<b>DTCC-Euroclear GlobalCollateral, LTD</b>		
Percentage ownership	50%	50%
Carrying value	\$ 4,331	\$ 8,885

**European Central Counterparty N.V. (ECCP N.V.),** a joint venture with ABN AMRO Clearing Investments B.V., NASDAQ AB, BATS Trading Limited and Euronext N.V., provides a pan-European clearing solution offering economies of scale and risk management expertise to European market participants. ECCP N.V. uses the risk management framework and customer service organization of European Multilateral Clearing Facility N.V. (EMCF), and conducts its operations using the technology platform and infrastructure of EMCF.

**DTCC-Euroclear GlobalCollateral LTD (DEGCL),** a joint venture with Euroclear plc, provides support to financial institutions in addressing significant regulatory, operational and industry challenges related to the management of margin calls and collateral impacting the over-the-counter (OTC) derivatives market.

On April 6, 2017, the Company contributed \$10,000,000 to DEGCL. The Company maintained the same ownership percentage as the joint venture partner, Euroclear plc, who also contributed \$10,000,000.

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Based on the delayed revenue generation and losses sustained by DEGCL services, a triggering event resulted during the third quarter that required DTCC to assess its investment in DEGCL and its internally developed software for DEGCL for other-than-temporary impairment. DTCC utilized a discounted cash flow methodology based on the forecasted cash flows for DEGCL to determine fair value for both its investment and internally developed software related to DEGCL. DTCC applied a discount rate of 25%, which reflected the weighted-average cost of capital adjusted for the risks inherent in the future cash flows.

As a result, DTCC determined the fair values of its investment in DEGCL and its internally developed software were less than their carrying values and concluded that these impairments were other-than-temporary. DTCC recognized an impairment charge of \$9,881,000, which is included in Impairment of Equity method investments in the accompanying Condensed Consolidated Statements of Income. Additionally, DTCC recognized an impairment charge of \$14,788,000, which is included in Impairment of Intangible assets in the accompanying Condensed Consolidated Statements of Income. DTCC continues to maintain its relationship with the DEGCL joint venture.

### 10. OTHER ASSETS

Details for Other assets as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<b>2017</b>	<b>2016</b>
Prepays	\$ 68,094	\$ 54,413
Prepaid taxes	—	7,574
Other current assets	10,719	5,489
Total current assets	<u>78,813</u>	<u>67,476</u>
Long-term incentive plan assets	169,881	170,501
Deferred tax assets, net	133,454	108,840
Cash surrender value on insurance policies	58,167	58,845
Prepays	24,461	17,794
Other non-current assets	11,954	11,902
Total non-current assets	<u>397,917</u>	<u>367,882</u>
Total	<u>\$ 476,730</u>	<u>\$ 435,358</u>

See Note 11 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

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**11. OTHER LIABILITIES**

Details for Other liabilities as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Compensation payable	\$ 106,737	\$ 141,451
Pension and postretirement benefits	20,337	20,205
Taxes payable	17,439	—
Deferred rent	6,200	9,080
Other current liabilities	64,988	99,946
Total current liabilities	<u>215,701</u>	<u>270,682</u>
Long-term incentive plan liabilities	256,943	266,023
Unrecognized tax benefits	74,391	64,099
Deferred rent	35,515	33,209
Other payables	5,077	7,024
Total non-current liabilities	<u>371,926</u>	<u>370,355</u>
Total	<u>\$ 587,627</u>	<u>\$ 641,037</u>

**12. COMMERCIAL PAPER**

Details for Commercial paper as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Commercial paper - net of unamortized discount of \$4,136 and \$1,669 as of September 30, 2017 and December 31, 2016, respectively	\$ 3,098,844	\$ 2,554,020
Weighted-average interest rate	1.24%	0.75%

Interest expense on Commercial paper included in the accompanying Condensed Consolidated Statements of Income was \$9,461,000 and \$3,434,000 for the three months ended September 30, 2017 and 2016, respectively, and \$22,153,000 and \$7,356,000 for the nine months ended September 30, 2017 and 2016, respectively.

Details for the cash flows associated with the issuance and maturities of Commercial paper for the nine months ended September 30, 2017 and 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Maturities less than 90 days:		
Proceeds from Commercial paper less than 90 days, net	\$ 283,436	\$ 916,073
Maturities greater than 90 days:		
Proceeds from Commercial paper	1,925,934	1,217,559
Repayments of Commercial paper	(1,664,546)	(615,659)
Proceeds from Commercial paper greater than 90 days, net	<u>261,388</u>	<u>601,900</u>
Change in Commercial paper, net	<u>\$ 544,824</u>	<u>\$ 1,517,973</u>



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**13. LONG-TERM DEBT**

Details for Long-term debt as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Notes payable	\$ 39,750	\$ 52,675
Capital lease obligations	6,809	12,045
Total long-term debt	<u>46,559</u>	<u>64,720</u>
Less: Current portion of long-term debt	(8,289)	(20,468)
Non-current portion of long-term debt	<u>\$ 38,270</u>	<u>\$ 44,252</u>

Details for principal payments due on Long-term debt for each of the next five years and thereafter follow (in thousands):

	<u>Notes Payable</u>	<u>Capital Lease Obligations</u>	<u>Total</u>
2017	\$ 725	\$ 1,582	\$ 2,307
2018	2,650	5,227	7,877
2019	2,650	—	2,650
2020	2,650	—	2,650
2021	2,650	—	2,650
Thereafter	28,425	—	28,425
Total	<u>\$ 39,750</u>	<u>\$ 6,809</u>	<u>\$ 46,559</u>

**Notes payable.** Details for notes payable as of September 30, 2017 and December 31, 2016 follow (in thousands):

<b>Issuer</b>	<b>Rate</b>	<b>Issue Date</b>	<b>Maturity</b>	<b>Outstanding Balance</b>	
				<u>2017</u>	<u>2016</u>
DTCC	2.64%	4/26/2012	4/26/2017	\$ —	\$ 11,000
DTCC	3.83%	4/26/2012	4/26/2032	21,750	22,475
DTCC	3.93%	9/28/2012	9/28/2032	18,000	19,200
<b>Total</b>				<u>\$ 39,750</u>	<u>\$ 52,675</u>

The weighted-average interest rate was 3.88% and 3.62% as of September 30, 2017 and December 31, 2016, respectively. Total Interest expense on notes payable included in the accompanying Condensed Consolidated Statements of Income was \$393,000 and \$483,000, for the three months ended September 30, 2017 and 2016, respectively, and \$1,283,000 and \$2,313,000 for the nine months ended September 30, 2017 and 2016, respectively.

**Capital lease obligations.** Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Interest expense on Capital lease obligations included in the accompanying Condensed Consolidated Statements of Income was \$78,000 and \$45,000 for the three months ended September 30, 2017 and 2016, respectively, and \$266,000 and \$207,000 for the nine months ended September 30, 2017 and 2016, respectively.

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**Lines of credit.** DTCC maintains a committed line of credit for general funding purposes while certain of its subsidiaries, DTC and NSCC, also maintain committed lines of credit to support settlement.

Details for the terms of the outstanding lines of credit as of September 30, 2017 and December 31, 2016 follow:

	2017	2016
<b>DTCC</b>		
<b>Committed Amount</b>	\$500 million	\$500 million
<b>Denomination</b>	USD	USD
<b>No. of Participants/Lenders</b>	10/10	10/10
<b>DTC</b>		
<b>Committed Amount</b>	\$1.9 billion	\$1.9 billion
<b>Denomination</b>	USD	USD
<b>No. of Participants/Lenders</b>	32/41	31/37
<b>Uncommitted Amount</b>	C\$150 million <sup>(1)</sup>	C\$150 million <sup>(1)</sup>
<b>Denomination</b>	CAD	CAD
<b>No. of Participants/Lenders</b>	1/1	1/1
<b>NSCC</b>		
<b>Committed Amount</b>	\$12.2 billion	\$10.9 billion
<b>Denomination</b>	USD	USD
<b>No. of Participants/Lenders</b>	32/41	31/37

(1) Used to support Canadian settlement.

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Details for debt covenants related to the notes payable and lines of credit as of September 30, 2017 and December 31, 2016 follow:

	2017	2016
<b>Notes Payable</b>		
<u><i>DTCC</i></u>		
Minimum Net Worth	\$400 million	\$400 million
Maximum Priority Debt	20% of Net Worth	20% of Net Worth
<b>Lines of Credit</b>		
<u><i>DTCC</i></u>		
Minimum Net Worth	\$1.1 billion	\$1.1 billion
Maximum Priority Debt	\$200 million	\$200 million
<u><i>DTC</i></u>		
Minimum Net Worth	\$150 million	\$150 million
Minimum Participants' Fund deposits	\$750 million	\$750 million
<u><i>NSCC</i></u>		
Minimum Net Worth	\$125 million	\$125 million
Minimum Clearing Fund deposits	\$1 billion	\$1 billion

As of September 30, 2017 and December 31, 2016, the Company was in compliance with its debt covenants.

**Credit Ratings.** DTCC, DTC, FICC and NSCC are 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 DTCC and its three clearing agency subsidiaries as of September 30, 2017 follow:

	Moody's <sup>(1)</sup>			S&P		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
<b>DTCC</b>	Aa3	N/A	Stable	AA-	A-1+	Stable
<b>DTC</b>	Aaa	P-1	Stable	AA+	A-1+	Stable
<b>FICC</b>	Aaa	P-1	Stable	AA	A-1+	Stable
<b>NSCC</b>	Aaa	P-1	Stable	AA+	A-1+	Stable

(1) Moody's categorizes the long-term issuer ratings of DTC, FICC and NSCC as clearing counterparty ratings (CCR) under the agency's Clearing Houses Rating Methodology introduced in January 2016.

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**14. FAIR VALUE MEASUREMENTS**

See Note 15 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015, for the Company's valuation basis, including valuation techniques and inputs, as well as the fair value hierarchy used in measuring the Company's financial assets and liabilities that are both accounted for at fair value and at other than fair value.

**Financial Assets and Liabilities measured at fair value on a recurring basis.** Fair value measurements of those items measured on a recurring basis are summarized below as of September 30, 2017 and December 31, 2016 (in thousands):

	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets - Participants' and Clearing Funds				
Securities on deposit	\$ 10,999,863	\$ 2,075,625	\$ —	\$ 13,075,488
Non-current assets	132,733	37,148	—	169,881
Total	<u>\$ 11,132,596</u>	<u>\$ 2,112,773</u>	<u>\$ —</u>	<u>\$ 13,245,369</u>
Liabilities - Participants' and Clearing Funds				
Securities on deposit	\$ 10,999,863	\$ 2,075,625	\$ —	\$ 13,075,488
Total	<u>\$ 10,999,863</u>	<u>\$ 2,075,625</u>	<u>\$ —</u>	<u>\$ 13,075,488</u>
<b>2016</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets - Participants' and Clearing Funds				
Securities on deposit	\$ 12,241,168	\$ 1,649,514	\$ —	\$ 13,890,682
Non-current assets	132,471	38,030	—	170,501
Total	<u>\$ 12,373,639</u>	<u>\$ 1,687,544</u>	<u>\$ —</u>	<u>\$ 14,061,183</u>
Liabilities - Participants' and Clearing Funds				
Securities on deposit	\$ 12,241,168	\$ 1,649,514	\$ —	\$ 13,890,682
Total	<u>\$ 12,241,168</u>	<u>\$ 1,649,514</u>	<u>\$ —</u>	<u>\$ 13,890,682</u>

There were no transfers between levels in the fair value hierarchy, nor were any financial assets and liabilities measured at fair value on a recurring basis classified as Level 3 as of September 30, 2017 and December 31, 2016.

During the third quarter of 2017, DTCC determined that the fair value of its Equity method investment in DEGCL was \$4,331,000. The fair value was estimated using a discounted cash flow methodology based on the forecasted cash flows for DEGCL. The Equity method investment is measured at fair value on a non-recurring basis as a Level 3 asset. See Note 9 for further information.

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**Financial Assets and Liabilities measured at other than fair value.** The carrying values, fair values and fair value hierarchy levels of certain financial instruments measured at other than fair value on the accompanying Condensed Consolidated Statements of Financial Condition as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<b>2017</b>				
	<b>Carrying Amount</b>	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 4,860,182	\$ 4,860,182	\$ 4,860,182	\$ —	\$ —
Participants' segregated cash	14,205	14,205	14,205	—	—
Accounts receivable	173,179	173,179	—	173,179	—
<b>Participants' and Clearing Funds:</b>					
Cash deposits	14,599,133	14,599,133	13,524,133	1,075,000	—
Investments in marketable securities	25,000	24,937	24,937	—	—
Other Participants' assets	2,474,037	2,474,037	2,469,640	4,397	—
<b>Total</b>	<b>\$ 22,145,736</b>	<b>\$ 22,145,673</b>	<b>\$ 20,893,097</b>	<b>\$ 1,252,576</b>	<b>\$ —</b>
<b>Liabilities:</b>					
Commercial paper	\$ 3,098,844	\$ 3,098,844	\$ —	\$ 3,098,844	\$ —
Accounts payable and accrued expenses	99,237	99,237	—	99,237	—
<b>Participants' and Clearing Funds:</b>					
Cash deposits	14,624,133	14,624,133	14,624,133	—	—
Payable to Participants	2,488,242	2,488,242	2,488,242	—	—
Long-term debt	46,559	45,593	—	45,593	—
<b>Total</b>	<b>\$ 20,357,015</b>	<b>\$ 20,356,049</b>	<b>\$ 17,112,375</b>	<b>\$ 3,243,674</b>	<b>\$ —</b>
	<b>2016</b>				
	<b>Carrying Amount</b>	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 4,075,548	\$ 4,075,548	\$ 4,075,548	\$ —	\$ —
Reverse repurchase agreements <sup>(1)</sup>	100,000	100,000	—	100,000	—
Participants' segregated cash	15,886	15,886	15,886	—	—
Accounts receivable	208,042	208,042	—	208,042	—
<b>Participants' and Clearing Funds:</b>					
Cash deposits	15,570,562	15,570,562	14,770,562	800,000	—
Investments in marketable securities	25,000	24,829	24,829	—	—
Other Participants' assets	960,753	960,753	955,566	5,187	—
<b>Total</b>	<b>\$ 20,955,791</b>	<b>\$ 20,955,620</b>	<b>\$ 19,842,391</b>	<b>\$ 1,113,229</b>	<b>\$ —</b>
<b>Liabilities:</b>					
Commercial paper	\$ 2,554,020	\$ 2,554,020	\$ —	\$ 2,554,020	\$ —
Accounts payable and accrued expenses	100,088	100,088	—	100,088	—
<b>Participants' and Clearing Funds:</b>					
Cash deposits	15,595,562	15,595,562	15,595,562	—	—
Payable to Participants	976,639	976,639	976,639	—	—
Long-term debt	64,720	62,381	—	62,381	—
<b>Total</b>	<b>\$ 19,291,029</b>	<b>\$ 19,288,690</b>	<b>\$ 16,572,201</b>	<b>\$ 2,716,489</b>	<b>\$ —</b>

(1) The fair value of securities received as collateral under reverse repurchase agreements was \$102 million as of December 31, 2016.

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### 15. PENSION AND POSTRETIREMENT BENEFITS

**Defined contribution retirement plans.** Total expense for the defined contribution retirement plans included in Employee compensation and related benefits in the accompanying Condensed Consolidated Statements of Income was \$9,783,000 and \$10,054,000 for the three months ended September 30, 2017 and 2016, respectively, and \$29,224,000 and \$30,469,000 for the nine months ended September 30, 2017 and 2016, respectively.

**Defined benefit pension and other postretirement benefit plans.** Total expense for the defined benefit pension and other postretirement benefit plans are included in Employee compensation and related benefits in the accompanying Condensed Consolidated Statements of Income. Details of the components of net periodic benefit cost and amortization for the Company's pension and postretirement benefit plans, for the nine months ended September 30, 2017 and 2016 follow (in thousands):

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Components of net periodic benefit cost:				
Expected return on plan assets	\$ (28,087)	\$ (27,741)	\$ —	\$ (93)
Interest cost	26,010	26,838	2,697	5,178
Service cost	2,876	2,187	2,441	4,629
Amortizations:				
Prior service cost (credit)	65	84	634	(4,074)
Actuarial loss	4,243	3,423	776	936
Settlement loss	—	—	161	54
Net periodic benefit cost	<u>\$ 5,107</u>	<u>\$ 4,791</u>	<u>\$ 6,709</u>	<u>\$ 6,630</u>

See Note 16 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

### 16. INCOME TAXES

The Company's effective tax rate was 22.46% and 36.54% for the nine months ended September 30, 2017 and 2016, respectively. The decrease in the effective tax rate was primarily due to a higher proportion of taxable income generated in lower tax jurisdictions and the tax impact of the sale of Avox and Clariant.

The Company is subject to examination by the Internal Revenue Service and other tax authorities in various states, local jurisdictions and non-U.S. jurisdictions. The tax years currently under examination vary by jurisdiction.

Details for the periods currently under examination and remain subject to examination by jurisdiction as of September 30, 2017 follow:

Jurisdiction	Tax Years	
	Under Examination	Subject to Examination
U.S. Federal	—	2014 - 2016
New York State	2007 - 2014	2015 - 2016
New York City	2010 - 2013	2014 - 2016
State of Florida	2008 - 2013	2014 - 2016
State of Illinois	2012 - 2013	2014 - 2016

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The Company provides for unrecognized 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. The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it files income tax returns. The Company established unrecognized tax benefits that it believes are adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs that necessitates a change. At this time, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and impact on the Company’s effective tax rate over the next 12 months.

Details for unrecognized tax benefits, included in Non-current liabilities, for the nine months ended September 30, 2017 and 2016 follow (in thousands):

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 45,410	\$ 44,007
Prior period tax positions:		
Increases	14,633	—
Lapse of statute of limitations	(6,255)	—
Unrecognized tax benefit	<u>53,788</u>	<u>44,007</u>
Accrued interest	20,603	17,355
Ending balance	<u>\$ 74,391</u>	<u>\$ 61,362</u>

See Note 17 in DTCC’s Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

**17. SHAREHOLDERS’ EQUITY**

**DTCC Series A Preferred stock.** All 10,000 shares of DTCC Series A Preferred stock are issued and outstanding and held of record by Stock Clearing Corporation, a wholly owned subsidiary of the New York Stock Exchange LLC, the successor-in-interest to the New York Stock Exchange Inc. In the event of DTCC's voluntary or involuntary liquidation, dissolution or winding-up, the holders of Series A Non-Cumulative Perpetual Preferred stock are entitled to a liquidation preference of \$30.00 per share.

**DTCC Series B Preferred stock.** All 10,000 shares of DTCC Series B Preferred stock are issued and outstanding and held of record by National Clearing Corporation, a wholly owned subsidiary of the Financial Industry Regulatory Authority Inc. ("FINRA"). In the event of DTCC's voluntary or involuntary liquidation, dissolution or winding-up, the holders of Series B Preferred stock are entitled to a liquidation preference of \$30.00 per share.

**DTCC Series C Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred stock.** DTCC issued 1,600 shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred stock, Series C, \$0.50 par value per share, with a liquidation preference of \$250,000 per share. When declared by DTCC’s Board of Directors, dividends on the Series C Preferred stock are payable in arrears on June 15 and December 15 of each year through June 15, 2020 at a fixed rate of 4.875% per annum. From June 15, 2020 onward, dividends will accrue at a floating rate equal to three-month LIBOR plus 3.167% per annum.

On April 18, 2017 and October 18, 2017, in accordance with the Amended Certificate of Incorporation of DTCC, the Board of Directors approved and declared dividends in the amount of \$6,093.75 per share on 1,600 shares outstanding of its Series C Preferred Stock. The first semi-annual aggregate dividend of \$9,750,000 was paid on June 15, 2017, to the holders of the Series C Preferred Stock as of record date May 31, 2017. The second semi-annual aggregate dividend of \$9,750,000 will be payable on December 15, 2017, to the holders of the Series C Preferred Stock as of record date November 30, 2017.

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**DTC Series A Non-Cumulative Perpetual Preferred stock.** Under a plan adopted by the Board of Directors, each Participant of DTC is required to own shares of its Series A Preferred stock. Details for the Preferred stock as of September 30, 2017 follow (in thousands, except dividends paid per share):

	Description	Total shares issued and outstanding	Carrying value	Annual dividend	Dividends paid per share
Series A	Noncumulative Perpetual	1,500	\$ 150,000	\$ 480	\$ 0.32

**Regulatory capital.** DTCC's regulated subsidiaries maintain and report regulatory capital in accordance with all relevant laws, rules and guidelines. As a multinational enterprise, various DTCC subsidiaries are subject to regulatory capital regimes, as applicable. Certain DTCC subsidiaries submit regulatory capital reports to various regulators, including, but not limited to, FRBNY, the New York State Department of Financial Services and the CFTC in the United States; Ontario Securities Commission (OSC) in Canada; and the Monetary Authority of Singapore (MAS) in Singapore.

Certain DTCC subsidiaries are subject to capital guidelines issued by United States federal and state banking regulators. During the year DTCC engaged in banking activities under two subsidiaries: DTC and WTC. Capital ratios for these subsidiaries as of September 30, 2017 follow:

	DTC	WTC <sup>(1)</sup>	Minimum Capital Ratio <sup>(2)</sup>	Well Capitalized Ratio <sup>(2)</sup>
Tier 1 capital ratio	54.27%	—%	6.00%	8.00%
Total capital ratio	54.27%	—%	8.00%	10.00%

- (1) Deriv/SERV approved a plan of liquidation on January 4, 2017, and WTC commenced liquidation shortly thereafter. As a result, WTC changed its basis of accounting for periods subsequent to January 4, 2017 from the going concern basis to the liquidation basis.

On January 6, 2017, WTC sent notifications to the FRBNY and the NYSDFS of its plan to withdraw from the FRS and dissolve as a regulated New York State banking entity. On February 16, 2017, WTC filed a petition for closing order with the New York State Supreme Court. On February 21, 2017, the 1,800 shares of Federal Reserve Bank Stock held by WTC were canceled and the WTC withdrew from the FRS, which precludes WTC from filing future Consolidated Reports of Condition and Income to the FRBNY. On April 24, 2017, the court granted WTC the closing order application without a hearing, WTC submitted the form of closing order to the court on May 31, 2017 and the closing order was entered by the court on June 14, 2017. WTC filed a petition to certify compliance with the closing order and apply for dissolution order with the court on August 3, 2017. Upon entry of a dissolution order by the court, WTC will be liquidated.

WTC will be regulated by the NYSDFS until the court enters the dissolution order and will continue to submit Consolidated Reports of Condition and Income to the NYSDFS until it is no longer required to do so.

As of June 30, 2017, WTC was no longer required to maintain Tier 1 and Total capital ratios as it was dissolved as a regulated banking entity.

- (2) As defined by the regulations issued by the Federal Reserve, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

## 18. 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 Condensed Consolidated Statements of Financial Condition, Income or Cash Flows.



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**Lease commitments.** The Company leases office space, data processing and other equipment. Rent expense under these leases for office space was \$6,256,000 and \$7,643,000 for the three months ended September 30, 2017 and 2016, respectively, and \$19,293,000 and \$22,363,000 for the nine months ended September 30, 2017 and 2016, respectively. These amounts are included in Occupancy in the accompanying Condensed Consolidated Statements of Income.

Details for estimated future minimum rental payments under all noncancelable leases follow (in thousands):

2017	\$	8,642
2018		33,949
2019		28,971
2020		28,922
2021		29,346
Thereafter		290,576
Total minimum rental payments <sup>(1)</sup>	<u>\$</u>	<u>420,406</u>

(1) Future minimum rental payments were not reduced by minimum sublease rentals of \$53,326,000 due in the future under noncancelable subleases.

## 19. GUARANTEES

Certain DTCC subsidiaries (NSCC and FICC) provide CCP services, including clearing, settlement and risk management services. Acting as a CCP, NSCC and FICC (through GSD and MBSD) guarantee the settlement of trades in the event one or more of their Participants' defaults. A Participant default is defined in the respective rules of NSCC, GSD and MBSD. In their guarantor role, each clearing subsidiary has equal claims to and from Participants, as applicable, on opposite sides of netted transactions. To cover their guarantee risk, NSCC and FICC (through GSD and MBSD) use risk-based margining to collect cash and securities collateral through their Clearing Funds.

The new Accelerated Trade Guaranty, an important industry risk-mitigation initiative, was implemented on April 24, 2017. It accelerated NSCC's trade guaranty from midnight of one day after trade date (T+1) to point of validation for locked-in submissions, or to the point of comparison and validation for bilateral submissions.

Details for open CCP positions for which a trade guarantee applies as of September 30, 2017 and December 31, 2016 follow (in billions):

	<u>2017</u>	<u>2016</u>
NSCC	\$ 254	\$ 168
FICC		
GSD	1,006	890
MBSD	335	304

There were no defaults by Participants to these obligations.

See Note 21 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

## 20. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2017 through November 1, 2017, for potential recognition or disclosure in these accompanying Condensed Consolidated Financial Statements. Other than disclosed in Note 17, no events or transactions occurred during such period that would require recognition or disclosure in these accompanying Condensed Consolidated Financial Statements.