

# National Securities Clearing Corporation

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

# NATIONAL SECURITIES CLEARING CORPORATION

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**NATIONAL SECURITIES CLEARING CORPORATION**  
**CONDENSED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)**

<b>(In thousands, except share data)</b>	<b>As of September 30, 2017</b>	<b>As of December 31, 2016</b>
<b>ASSETS:</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,472,589	\$ 2,767,668
Reverse repurchase agreements	—	100,000
Participants' segregated cash	14,205	15,886
Accounts receivable	34,617	32,284
Clearing Fund:		
Cash deposits	4,589,150	4,157,717
Securities on deposit - at fair value	167,576	242,239
Other Participants' assets	1,140	665
Other current assets	19,289	12,091
Total current assets	<u>8,298,566</u>	<u>7,328,550</u>
<b>NON-CURRENT ASSETS:</b>		
Premises and equipment - net of accumulated depreciation of \$5,046 and \$53,631 as of September 30, 2017 and December 31, 2016, respectively	3,384	19,722
Intangible assets - net of accumulated amortization of \$95,429 and \$138,274 as of September 30, 2017 and December 31, 2016, respectively	29,546	32,907
Total non-current assets	<u>32,930</u>	<u>52,629</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 8,331,496</u></u>	<u><u>\$ 7,381,179</u></u>
<b>LIABILITIES AND SHAREHOLDER'S 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
Accounts payable and accrued expenses	15	2,578
Payable to Participants	15,345	16,551
Clearing Fund:		
Cash deposits	4,589,150	4,157,717
Securities on deposit - at fair value	167,576	242,239
Other current liabilities	4,181	—
Total current liabilities	<u>7,875,111</u>	<u>6,973,105</u>
<b>OTHER NON-CURRENT LIABILITIES:</b>		
Other non-current liabilities	11,961	10,117
Total liabilities	<u>7,887,072</u>	<u>6,983,222</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>SHAREHOLDER'S EQUITY:</b>		
Common stock, \$0.50 par value - 30,000 shares authorized; 20,000 shares issued and outstanding	10	10
Paid-in capital	69,442	69,442
Retained earnings	374,972	328,505
Total shareholder's equity	<u>444,424</u>	<u>397,957</u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<u><u>\$ 8,331,496</u></u>	<u><u>\$ 7,381,179</u></u>

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

# NATIONAL SECURITIES CLEARING CORPORATION

## CONDENSED STATEMENTS OF INCOME (UNAUDITED)

<b>(In thousands)</b>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>REVENUES:</b>				
Clearing services	\$ 67,763	\$ 65,138	\$ 208,774	\$ 198,952
Wealth management services	26,741	25,829	81,492	78,375
Other revenue	891	873	2,574	2,550
Total revenues	<u>95,395</u>	<u>91,840</u>	<u>292,840</u>	<u>279,877</u>
<b>EXPENSES:</b>				
Employee compensation and related benefits	29,586	33,337	90,334	89,866
Information technology	8,772	10,752	26,561	25,232
Professional and other services	24,073	26,399	73,443	79,703
Occupancy	1,877	(1,504)	5,748	6,980
Depreciation and amortization	4,712	5,337	15,433	18,512
General and administrative	1,402	(1,251)	4,403	5,014
Total expenses	<u>70,422</u>	<u>73,070</u>	<u>215,922</u>	<u>225,307</u>
Total operating income	<u>24,973</u>	<u>18,770</u>	<u>76,918</u>	<u>54,570</u>
<b>NON-OPERATING INCOME (EXPENSE):</b>				
Interest income	10,813	3,364	24,335	7,464
Interest expense	(9,461)	(3,678)	(22,153)	(8,455)
Total non-operating income (expense)	<u>1,352</u>	<u>(314)</u>	<u>2,182</u>	<u>(991)</u>
Income before taxes	26,325	18,456	79,100	53,579
Provision for income taxes	10,860	7,826	32,633	22,379
Net income	<u>\$ 15,465</u>	<u>\$ 10,630</u>	<u>\$ 46,467</u>	<u>\$ 31,200</u>

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

**NATIONAL SECURITIES CLEARING CORPORATION**  
**CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)**

<b>(In thousands)</b>	<b>Common Stock</b>	<b>Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Total Shareholder's Equity</b>
BALANCE - January 1, 2016	\$ 10	\$ 69,442	\$ 283,798	\$ 353,250
Net income	—	—	44,707	44,707
BALANCE - December 31, 2016	10	69,442	328,505	397,957
Net income	—	—	46,467	46,467
BALANCE - September 30, 2017	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 374,972</u>	<u>\$ 444,424</u>

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

# NATIONAL SECURITIES CLEARING CORPORATION

## CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

<b>(In thousands)</b>	<b>For the nine months ended September,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 46,467	\$ 31,200
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	15,433	18,512
Deferred income taxes	1,581	996
Net change in:		
Accounts receivable	(2,333)	47,720
Other assets	(7,198)	(12,684)
Other Participants' assets	(475)	(319)
Transfer of assets to DTCC	13,077	—
Accounts payable and accrued expenses	(2,563)	1,578
Other liabilities	4,444	341
Payable to Participants	(1,206)	4,377
Net cash provided by/(used in) operating activities	<u>67,227</u>	<u>91,721</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale/(Purchase) of securities under Reverse repurchase agreements	100,000	(100,000)
Maturities of Investments in marketable securities	—	7,400
Change in Participants' segregated cash	1,681	(4,058)
Purchase of Intangible assets	(8,811)	(13,481)
Purchase of Premises and equipment	—	(366)
Net cash provided by/(used in) investing activities	<u>92,870</u>	<u>(110,505)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in Commercial paper, net	544,824	1,517,973
Repayment on loan payable to DTCC	—	(49,000)
Net cash provided by/(used in) financing activities	<u>544,824</u>	<u>1,468,973</u>
Net increase/(decrease) in Cash and cash equivalents	704,921	1,450,189
Cash and cash equivalents - Beginning of period	<u>2,767,668</u>	<u>1,320,379</u>
Cash and cash equivalents - End of period	<u>\$ 3,472,589</u>	<u>\$ 2,770,568</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash interest paid	<u>\$ 20,119</u>	<u>\$ 7,304</u>
Cash income taxes paid to DTCC - net of refunds	<u>\$ 24,488</u>	<u>\$ 20,420</u>

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

# NATIONAL SECURITIES CLEARING CORPORATION

## NOTES TO CONDENSED 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

National Securities Clearing Corporation (NSCC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides central counterparty (CCP) services to members of the financial community (collectively referred to as Participants). Services provided by NSCC consist principally of securities trade capture, clearance, netting, settlement and risk management services.

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

NSCC is designated as a Systemically Important Financial Market Utility (SIFMU) by the U.S. Financial Stability Oversight Council under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

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

**Basis of presentation.** The accompanying Condensed 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 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 NSCC's Audited 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 NSCC's Audited 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 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.

**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 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.

# NATIONAL SECURITIES CLEARING CORPORATION

## NOTES TO CONDENSED 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

### 3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in NSCC's Audited 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 that 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 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. 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 does not anticipate changes to the recognition and timing of its revenues. The Company's review is ongoing, therefore additional impacts may be determined prior to adoption.</li> </ul>

### 4. 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	1,140	665
Total	<u>\$ 15,345</u>	<u>\$ 16,551</u>
Liabilities:		
Payable to Participants	\$ 15,345	\$ 16,551
Total	<u>\$ 15,345</u>	<u>\$ 16,551</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.



**NATIONAL SECURITIES CLEARING CORPORATION****NOTES TO CONDENSED 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. ACCOUNTS RECEIVABLE**

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

	<b>2017</b>	<b>2016</b>
Clearing and transaction fees due from Participants	\$ 28,132	\$ 32,284
Due from related parties	6,485	—
Total	<u>\$ 34,617</u>	<u>\$ 32,284</u>

There were no allowances for doubtful accounts as of September 30, 2017 and December 31, 2016.

**6. CLEARING FUND**

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

	<b>2017</b>	<b>2016</b>
Required deposits	\$ 4,003,873	\$ 3,580,823
Excess deposits	752,853	819,133
Total	<u>\$ 4,756,726</u>	<u>\$ 4,399,956</u>

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

	<b>2017</b>	<b>2016</b>
Cash deposits	\$ 4,589,150	\$ 4,157,717
Securities on deposit - at fair value	167,576	242,239
Total	<u>\$ 4,756,726</u>	<u>\$ 4,399,956</u>

Details for the Clearing Fund Cash deposits as of September 30, 2017 and December 31, 2016 follow (in thousands):

	<b>2017</b>	<b>2016</b>
Bank deposits	\$ 3,510,150	\$ 3,170,717
Money market fund investments	679,000	737,000
Reverse repurchase agreements	400,000	250,000
Total	<u>\$ 4,589,150</u>	<u>\$ 4,157,717</u>

**Clearing Fund Cash deposits.** Participant Cash deposits of the Clearing Fund may be applied to satisfy obligations of the depositing Participants, as provided in NSCC's rules.

**Refunds to Participants.** Interest income earned from the investment of Clearing Fund deposits is refunded to Participants and totaled \$15,285,000 and \$6,383,000 for the three months ended September 30, 2017 and 2016, respectively, and \$38,180,000 and \$18,947,000 for the nine months ended September 30, 2017 and 2016, respectively. The amounts refunded are netted within Interest income in the accompanying Condensed Statements of Income.

# NATIONAL SECURITIES CLEARING CORPORATION

## NOTES TO CONDENSED 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

### 7. 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 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>

### 8. DEBT

During 2016, the Company repaid a loan from its parent, DTCC. Interest on the loan from parent was \$0 and \$244,000 for the three months ended September 30, 2017 and 2016, respectively, and \$0 and \$1,099,000 for the nine months ended September 30, 2017 and 2016, respectively. These amounts were included in Interest expense in the accompanying Condensed Statements of Income.

See Note 10 in NSCC's Audited Financial Statements for the years ended December 31, 2016 and 2015 for additional information.

**Line of credit.** The Company maintains a line of credit to support settlement. Details for the terms of the outstanding line of credit as of September 30, 2017 and December 31, 2016 follow:

	<u>2017</u>	<u>2016</u>
<b>Committed Amount</b>	\$12.2 billion	\$10.9 billion
<b>Number of Participants/Lenders</b>	32/41	31/37

There were no borrowings under the line of credit as of September 30, 2017 and December 31, 2016.

# NATIONAL SECURITIES CLEARING CORPORATION

## NOTES TO CONDENSED 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

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

	2017	2016
<b>Minimum Net Worth</b>	\$125 million	\$125 million
<b>Minimum Clearing Fund deposits</b>	\$1 billion	\$1 billion

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

**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 September 30, 2017 follow:

Moody's <sup>(1)</sup>			S&P		
Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
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 the agency's new Clearing Houses Rating Methodology introduced in January 2016.

## 9. PENSION AND POSTRETIREMENT BENEFITS

Eligible DTCC employees participate in DTCC's trustee non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible DTCC 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 its subsidiaries based primarily upon the proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The benefit plan costs allocated to NSCC were \$712,000 and \$763,000 for the three months ended September 30, 2017 and 2016, respectively, and \$2,044,000 and \$2,268,000 for the nine months ended September 30, 2017 and 2016, respectively. These costs are included in Employee compensation and related benefits in the accompanying Condensed Statements of Income.

## 10. 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 Statements of Financial Condition, Income or Cash Flows.

# NATIONAL SECURITIES CLEARING CORPORATION

## NOTES TO CONDENSED 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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### 11. GUARANTEES

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

The new Accelerated Trade Guaranty, an important industry risk-mitigation initiative, was implemented on April 24th, 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 certain NSCC's open positions for which a trade guarantee applied as of September 30, 2017 and December 31, 2016 follow (in billions):

	<u>2017</u>	<u>2016</u>
NSCC	\$ 254	\$ 168

There were no defaults by Participants to these obligations.

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

### 12. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2017 through October 27, 2017, for potential recognition or disclosure in these accompanying Condensed Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying Condensed Financial Statements.