

Fixed Income Clearing Corporation

Condensed Financial Statements
as of September 30, 2018 and December 31, 2017 and for the
three and nine months ended September 30, 2018 and 2017

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION
CONDENSED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands, except share data)	As of September 30, 2018	As of December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 261,270	\$ 236,922
Accounts receivable	9,561	11,490
Clearing Fund	24,906,619	21,252,617
Other Participants' assets	1,446	1,131
Other current assets	4,500	7,632
Total current assets	<u>25,183,396</u>	<u>21,509,792</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$1,231 and \$1,215 as of September 30, 2018 and December 31, 2017, respectively	685	701
Intangible assets - net of accumulated amortization of \$76,407 and \$70,840 as of September 30, 2018 and December 31, 2017, respectively	24,986	18,391
Total non-current assets	<u>25,671</u>	<u>19,092</u>
TOTAL ASSETS	<u><u>\$ 25,209,067</u></u>	<u><u>\$ 21,528,884</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 9,732	\$ 6,621
Clearing Fund	24,906,619	21,252,617
Payable to Participants	1,446	1,131
Total current liabilities	<u>24,917,797</u>	<u>21,260,369</u>
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	10,450	14,906
Total liabilities	<u>24,928,247</u>	<u>21,275,275</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
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	194,193	166,982
Total shareholder's equity	<u>280,820</u>	<u>253,609</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u><u>\$ 25,209,067</u></u>	<u><u>\$ 21,528,884</u></u>

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

FIXED INCOME CLEARING CORPORATION**CONDENSED STATEMENTS OF INCOME (UNAUDITED)**

(In thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
REVENUES				
Clearing services	\$ 62,359	\$ 59,326	\$ 194,482	\$ 173,895
Other services	97	—	269	—
	<u>62,456</u>	<u>59,326</u>	<u>194,751</u>	<u>173,895</u>
EXPENSES				
Employee compensation and related benefits	20,098	18,280	62,084	56,601
Information technology	5,775	4,648	17,271	14,003
Professional and other services	23,247	20,755	71,708	61,405
Occupancy	1,591	1,339	4,661	4,001
Depreciation and amortization	1,776	2,046	5,583	6,456
General and administrative	901	739	3,056	2,298
Total expenses	<u>53,388</u>	<u>47,807</u>	<u>164,363</u>	<u>144,764</u>
Total operating income	<u>9,068</u>	<u>11,519</u>	<u>30,388</u>	<u>29,131</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	38,959	25,363	117,367	62,741
Refunds to Participants	(37,737)	(24,746)	(114,353)	(61,413)
Interest expense	(1,130)	(1,263)	(3,439)	(3,680)
Other non-operating income	990	1,110	2,900	3,233
Total non-operating income	<u>1,082</u>	<u>464</u>	<u>2,475</u>	<u>881</u>
Income before taxes	10,150	11,983	32,863	30,012
Provision (benefit) for income taxes	(1,071)	4,964	5,652	12,490
Net income	<u>\$ 11,221</u>	<u>\$ 7,019</u>	<u>\$ 27,211</u>	<u>\$ 17,522</u>

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

FIXED INCOME CLEARING CORPORATION

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

<u>(In thousands)</u>	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholder's Equity</u>
BALANCE - January 1, 2017	\$ 10	\$ 86,617	\$ 143,372	\$ 229,999
Net income	—	—	23,610	23,610
BALANCE - December 31, 2017	10	86,617	166,982	253,609
Net income	—	—	27,211	27,211
BALANCE - September 30, 2018	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 194,193</u>	<u>\$ 280,820</u>

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

FIXED INCOME CLEARING CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	For the nine months ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 27,211	\$ 17,522
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	5,583	6,456
Discount on Investments in marketable securities	(46)	(30)
Deferred income taxes	3,020	2,104
Net change in:		
Accounts receivable	1,975	1,679
Other assets	3,132	19
Accounts payable and accrued expenses	3,111	5,142
Other liabilities	(7,476)	1,740
Clearing Fund liabilities, net	(2,705,841)	(1,443,891)
Payable to Participants	137	3
Net cash provided by/(used in) operating activities	<u>(2,669,194)</u>	<u>(1,409,256)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of Investments in marketable securities	75,000	50,000
Purchases of Investments in marketable securities	(50,000)	(50,000)
Purchases of Intangible assets	(12,162)	(8,329)
Net cash provided by/(used in) investing activities	<u>12,838</u>	<u>(8,329)</u>
Net increase/(decrease) in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets	(2,656,356)	(1,417,585)
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	9,053,091	9,870,776
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 6,396,735</u>	<u>\$ 8,453,191</u>
SUPPLEMENTAL DISCLOSURE:		
Cash income taxes paid to DTCC - net of refunds	<u>\$ 6,016</u>	<u>\$ 10,120</u>

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

FIXED INCOME CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides central counterparty (CCP) services to firms that participate in the U.S. government and mortgage-backed securities markets (collectively referred to as Participants). Services provided by FICC consist 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), DTCC ITPLLC (formerly known as Omgeo LLC), DTCC Deriv/SERV LLC, Business Entity Data, B.V. and DTCC Solutions LLC.

FICC is designated as a Systemically Important Financial Market Utility (SIFMU) by the U.S. Financial Stability Oversight Council pursuant to Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which subjects the Company to enhanced standards for operation and governance, as established by the SEC's Standards for Covered Clearing Agencies (CCAS).

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 FICC's Audited Financial Statements for the years ended December 31, 2017 and 2016, which are located on the Company's website at <http://www.dtcc.com/legal/financial-statements>. See Note 2 in FICC's Audited Financial Statements for the years ended December 31, 2017 and 2016, 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.

The Company reclassified prior period amounts related to certain components of net periodic pension cost allocated to conform to the current year presentation. See Note 3 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 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; therefore, actual results could differ materially from those estimates.

Revenue recognition. On January 1, 2018, the Company adopted Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers* under the full retrospective method of adoption. See Note 3 for additional information.

The Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that principle, the Company applies the following steps: identify the contract(s) with the customer, identify the performance obligations in the contract(s), determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation.

The Company enters into contracts that can include various services, in which each service, an explicit promise, is generally distinct and accounted for as separate performance obligations. Certain promised services are substantially the same and have the same pattern of transfer to the customer and therefore are considered as a series of services.

FIXED INCOME CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

The Company recognizes revenue from contracts with customers as performance obligations are satisfied when promised services are transferred to the customer. The majority of the promised services and related performance obligations are recognized at the point in time when the control of the promised service is transferred to the customer. The amount of revenue recognized reflects the consideration the Company expects to be entitled to for transferring the promised services to the customer. For certain contracts with customers, the consideration in which the Company expects to be entitled to in exchange for transferring promised service to a customer consists of variable consideration. The variable consideration primarily relates to volume based discounts for certain services, however, the volume targets or thresholds typically reset on a monthly basis therefore, the variable consideration does not have an impact on the revenue recognition.

The Company derives its revenue from transaction fees and other services. Revenue from transaction fees is recognized at a point in time on the transaction date, as the customer obtains the control and benefit of the service at that point. Other services, which represents fees generated from offering referential based data and business processing solutions to financial institutions globally, is recognized when services are provided based on contractual terms. The Company typically bills its customers 30 days in arrears.

Revenue streams

Details for each revenue stream presented in the Company's Condensed Statements of Income follow:

Clearing services. The Company delivers clearing services across the fixed income markets. Clearing services include mortgage backed securities clearing and government securities clearing.

Other services. DTCC Data Services offers referential and activity-based data, delivered in fixed or configurable formats, sourced from the Company's transaction, reference and position. Other services include data on market and benchmark analytics.

Accounts receivable and deferred revenue

The period in which the Company recognizes revenue may differ from the timing of payments received from customers. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. See Accounts receivable of the Condensed Statements of Financial Condition for the Company's receivables related to revenues from contracts with customers. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied. Deferred revenue represents the Company's contract liabilities related to billings or payments received in advance for other services, where the performance obligation has not yet been satisfied.

FIXED INCOME CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Retirement benefits. On January 1, 2018, the Company adopted ASU 2017-07, *Compensation: Retirement Benefits* under the retrospective method of adoption. See Note 3 for additional information.

Impacts to previously reported results

The impact of the new retirement benefits standard on the Company's previously reported results for the three and nine months ended September 30, 2017 follows (in thousands):

	For the three months ended September 30, 2017			For the nine months ended September 30, 2017		
	As Previously Reported	New Retirement Benefits Standard Adjustment	As Restated	As Previously Reported	New Retirement Benefits Standard Adjustment	As Restated
Employee compensation and related benefits	\$ 18,433	\$ (153)	\$ 18,280	\$ 57,048	\$ (447)	\$ 56,601
Interest expense	—	(1,263)	(1,263)	—	(3,680)	(3,680)
Other non-operating income	—	1,110	1,110	—	3,233	3,233

Restricted cash. As a result of the adoption of ASU 2016-18, *Statement of Cash Flows: Restricted Cash* under the full retrospective method of adoption, (see Note 3), the Company has reported the cash and cash equivalents related to Clearing Fund cash deposits, Other Participants' assets within the beginning and ending balances of Cash and cash equivalents, Clearing Fund cash deposits, Other Participants' assets.

A reconciliation of Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets, reported within the Condensed Statements of Financial Condition that sum to the total of the same such amounts shown on the Condensed Statements of Cash Flows as of September 30, 2018 and December 31, 2017 follows (in thousands):

	2018	2017
Cash and cash equivalents	\$ 261,270	\$ 236,922
Clearing Fund cash deposits	6,135,027	8,815,868
Cash in Other Participants' assets	438	301
Total Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets shown on the Condensed Statement of Cash Flows	\$ 6,396,735	\$ 9,053,091

As a result of this accounting change, net cash used in operating activities of approximately \$3 billion is primarily driven by the change in Clearing Fund liabilities and Payable to Participants.

Impacts to previously reported results

The impact of the new cash flows standard on the Company's previously reported results as of September 30, 2017 follows (in thousands):

	As Previously Reported	New Restricted Cash Standard	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Clearing Fund liabilities, net	\$ —	\$ (1,443,891)	\$ (1,443,891)
Payable to Participants	—	3	3
Net cash provided by/(used in) operating activities	34,632	(1,443,888)	(1,409,256)

FIXED INCOME CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in FICC's Audited Financial Statements for the years ended December 31, 2017 and 2016, for additional information on the Company's Accounting and Reporting Developments.

Standard	Description	Impact on the financial statements or other significant matters
<i>Financial Accounting Standards Board Standard Issued, but not yet Adopted</i>		
ASU 2018-14 Changes to the Disclosure Requirements for Defined Benefit Plans <i>Issued August 2018</i>	<ul style="list-style-type: none">Eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent.	<ul style="list-style-type: none">Effective January 1, 2021.The Company is evaluating the impact on related disclosures in its Condensed Financial Statements.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract <i>Issued August 2018</i>	<ul style="list-style-type: none">Implementation costs incurred by customers in CCA that is a service contract are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance.	<ul style="list-style-type: none">Effective January 1, 2020.The Company is evaluating the impact on its Condensed Financial Statements and related disclosures.
ASU 2018-13 Changes to the Disclosure Requirements for Fair Value Measurement <i>Issued August 2018</i>	<ul style="list-style-type: none">Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy.Public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements.Modifies certain disclosure requirements for nonpublic entities to make them less burdensome.	<ul style="list-style-type: none">Effective January 1, 2020.The Company is evaluating the impact on related disclosures in its Condensed Financial Statements.

FIXED INCOME CLEARING CORPORATION**NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Standard	Description	Impact on the financial statements or other significant matters
<i>Recently Adopted Accounting Standards</i>		
ASU 2014-09 Revenue Recognition - Revenue from Contracts with Customers <i>Issued May 2014</i>	<ul style="list-style-type: none">• Requires revenue from contracts with customers to be recognized upon transfer of control of a good or service in the amount of consideration expected to be received.• 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.• 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.	<ul style="list-style-type: none">• Adopted January 1, 2018.• The Company adopted the revenue recognition standard under the full retrospective transition method of adoption.• The Company's implementation efforts included the identification of revenue within the scope of the standard and the evaluation of revenue contracts using the practical expedient portfolio approach.• The adoption of the standard did not have a material impact to the recognition and timing of its revenues.
ASU 2017-07 Compensation - Retirement Benefits <i>Issued March 2017</i>	<ul style="list-style-type: none">• Requires the service cost component of net periodic pension and postretirement benefit cost to be reported separately in the Company's Condensed Statements of Income• Requires retrospective application and presentation in the Condensed Statements of Income.• Requires the service cost component in the same line item as other employee compensation costs and presentation of the other components in a different line item from the service cost component.	<ul style="list-style-type: none">• Adopted January 1, 2018.• The adoption of the standard did not change the Company's net income, but required the Company to reclassify certain components of net periodic pension cost allocated to the Company (Note 6) from Total operating income to Total non-operating income (expense). The service cost component is presented in Employee compensation and related benefits, the interest cost component is presented in Interest expense, and all other components of net periodic pension cost allocated are presented in Other non-operating income (expense) in the accompanying Condensed Statements of Income. See Note 2 for additional information.

FIXED INCOME CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Standard	Description	Impact on the financial statements or other significant matters
<i>Recently Adopted Accounting Standards (continued)</i>		
ASU 2016-18 Statement of Cash Flows - Restricted Cash <i>Issued November 2016</i>	<ul style="list-style-type: none"> Requires inclusion of restricted cash in the cash and cash equivalents balances in the Condensed Statements of Cash Flows. Requires additional disclosures to supplement the Condensed Statements of Cash Flows. Requires retrospective application to all periods presented. 	<ul style="list-style-type: none"> Adopted April 1, 2018. The Company adopted the new restricted cash standard under the retrospective method of adoption. The adoption did not change the Company's Condensed Statements of Financial Condition or Statements of Income; however, it resulted in a presentation change related to the Condensed Statements of Cash Flows by broadening the definition of cash and cash equivalents to include items that are not on the balance sheet's cash line, e.g., Clearing Fund cash deposits and Cash in Other Participants' assets. See Note 2 for additional information.

4. CLEARING FUND

Details for the Clearing Fund deposits as of September 30, 2018 and December 31, 2017 follow (in thousands):

	2018			2017		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	\$ 12,460,307	\$ 5,329,925	\$ 17,790,232	\$ 10,664,173	\$ 4,306,400	\$ 14,970,573
Excess deposits	5,379,457	1,736,930	7,116,387	5,409,570	872,474	6,282,044
Total	<u>\$ 17,839,764</u>	<u>\$ 7,066,855</u>	<u>\$ 24,906,619</u>	<u>\$ 16,073,743</u>	<u>\$ 5,178,874</u>	<u>\$ 21,252,617</u>

Details for the Clearing Fund deposits as of September 30, 2018 and December 31, 2017 follow (in thousands):

	2018			2017		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Securities on deposit - at fair value	\$ 13,219,486	\$ 5,552,106	\$ 18,771,592	\$ 10,257,951	\$ 2,153,798	\$ 12,411,749
Cash deposits	4,620,278	1,514,749	6,135,027	5,815,792	3,000,076	8,815,868
Investments in marketable securities	—	—	—	—	25,000	25,000
Total	<u>\$ 17,839,764</u>	<u>\$ 7,066,855</u>	<u>\$ 24,906,619</u>	<u>\$ 16,073,743</u>	<u>\$ 5,178,874</u>	<u>\$ 21,252,617</u>

FIXED INCOME CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Details for the Clearing Fund cash deposits and investments in marketable securities as of September 30, 2018 and December 31, 2017 follow (in thousands):

	2018	2017
Bank deposits	\$ 4,546,027	\$ 6,116,868
Money market fund investments	1,129,000	2,139,000
Reverse repurchase agreements	460,000	560,000
U.S. Treasury bills	—	25,000
Total	<u>\$ 6,135,027</u>	<u>\$ 8,840,868</u>

Clearing Fund 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.

5. CREDIT RATINGS

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, 2018 follow:

Moody's ⁽¹⁾			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 Clearing Houses Rating Methodology.

6. 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 health care program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to its subsidiaries based primarily upon the estimated proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The benefit plan costs allocated to FICC were \$307,000 and \$500,000 for the three months ended September 30, 2018 and 2017, respectively, and \$1,231,000 and \$1,383,000 for the nine months ended September 30, 2018 and 2017, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income in the accompanying Condensed Statements of Income.

FIXED INCOME CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

7. CAPITAL REQUIREMENTS

The capital requirements for FICC is equal to the sum of the general business risk capital requirement and corporate contribution, as described below. The Company must meet the capital requirements by holding liquid net assets funded by equity, as described in rule 17Ad-22(e)(15) of the CCAS and the clearing agency policy on capital requirements.

General Business Risk Capital Requirement. The general business risk capital requirement is determined according to Rule 17Ad-22(e)(15) of the CCAS and FICC's clearing agency policy on capital requirements. The capital requirement is held to cover potential general business losses so that the Company can continue operations and provide services as a going concern if those losses materialize. It is determined based on the Company's general business risk profile and estimated time to execute a recovery or orderly wind-down of critical operations and, at a minimum, is equal to six months of operating expenses.

Corporate Contribution. The Company maintains an amount referred to as the corporate contribution, to be applied to losses of the Company as provided in the clearing agency rules. The amount of the corporate contribution is generally equal to 50% of the Company's general business risk capital requirement.

Details for general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of September 30, 2018 and December 31, 2017 follow (in thousands):

	<u>2018</u>	<u>2017</u>
General business risk capital requirement	\$ 103,756	\$ 93,520
Corporate contribution	51,878	46,760
Total requirement	<u>155,634</u>	<u>140,280</u>
Liquid net assets funded by equity	261,270	236,922
Excess/(shortfall)	<u>\$ 105,636</u>	<u>\$ 96,642</u>

8. 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.

FIXED INCOME CLEARING CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

9. GUARANTEES

FICC, through GSD and MBSD, provides CCP services, including clearing, settlement and risk management services. Acting as a CCP, FICC guarantees the settlement of trades, with respect to each division, 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 separate Clearing Funds for each of GSD and MBSD.

Details for each division's open positions for which a trade guarantee applied as of September 30, 2018 and December 31, 2017 follow (in billions):

Division	2018	2017
GSD	\$ 981	\$ 1,039
MBSD	354	312

There were no defaults by Participants to these obligations.

If FICC incurs a loss resulting from the liquidation of a defaulting Participant and there is still a deficit after applying such Participant's deposits to the applicable division's Clearing Fund (along with any other resources of, or attributable to, the defaulting Participant that FICC may access under each division's rules), FICC will, in accordance with each division's rules, satisfy this deficit by applying the corporate contribution, as described in Note 7, or such greater amount as the Board of Directors may determine, before allocating any remaining loss to Participants.

For purposes of loss allocation, Participant defaults are grouped together chronologically into discrete event periods of 10 business days. If there is remaining loss or liability from a group of Participant default events that occurred within the same event period, the division will divide such obligation between Tier 1 Participants and Tier 2 Participants. Tier 2 Participants will only be subject to such loss or liability to the extent they traded with the defaulting Participant. Tier 1 Participants will be assessed ratably in accordance with the respective amounts of their average daily required deposit to the Clearing Fund over the prior 70 business days. GSD Participants who act as inter-dealer brokers are limited to a loss allocation of \$5 million per event period in respect of their inter-dealer broker activity.

See Note 13 in FICC's Audited Financial Statements for the years ended December 31, 2017 and 2016 for additional information.

10. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2018 through October 30, 2018, 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.