Fixed Income Clearing Corporation

Audited Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Unaudited Condensed for the three Months Ended December 31, 2018 and 2017

FIXED INCOME CLEARING CORPORATION

TABLE OF CONTENTS

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	As of December 31, 2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 265,724	$ 236,922
Accounts receivable	9,802	11,490
Clearing Fund	26,522,224	21,252,617
Other Participants' assets	1,618	1,131
Other current assets	7,661	7,632
Total current assets	26,807,029	21,509,792
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $304 and $1,215 as of December 31, 2018 and 2017, respectively	680	701
Intangible assets - net of accumulated amortization of $77,740 and $70,840 as of December 31, 2018 and 2017, respectively	27,117	18,391
Total non-current assets	27,797	19,092
TOTAL ASSETS	$ 26,834,826	$ 21,528,884
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 10,328	$ 6,621
Clearing Fund	26,522,224	21,252,617
Payable to Participants	1,618	1,131
Total current liabilities	26,534,170	21,260,369
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	12,358	14,906
Total liabilities	26,546,528	21,275,275
COMMITMENTS AND CONTINGENCIES (Note 9)		
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	201,671	166,982
Total shareholder's equity	288,298	253,609
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 26,834,826	$ 21,528,884

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF INCOME

(In thousands)	For the three months ended December 31, (Unaudited) 2018	2017	For the years ended December 31, 2018	2017
REVENUES				
Clearing services	$ 67,517	$ 63,216	$ 261,999	$ 237,111
Other services	294	—	563	—
	67,811	63,216	262,562	237,111
EXPENSES				
Employee compensation and related benefits	21,107	18,554	83,191	75,155
Information technology	4,232	3,942	16,372	13,914
Professional and other services	26,612	21,618	98,320	83,023
Occupancy	1,370	1,244	4,990	4,343
Depreciation and amortization	1,710	1,962	7,293	8,418
General and administrative	3,588	2,740	12,816	9,971
Impairment of Intangible assets	726	—	726	—
Total expenses	59,345	50,060	223,708	194,824
Total operating income	8,466	13,156	38,854	42,287
NON-OPERATING INCOME (EXPENSE)				
Interest income	38,206	26,585	155,573	89,326
Refunds to Participants	(36,764)	(25,900)	(151,117)	(87,313)
Interest expense	(1,147)	(1,534)	(4,586)	(5,214)
Other non-operating income	954	1,347	3,854	4,580
Total non-operating income	1,249	498	3,724	1,379
Income before taxes	9,715	13,654	42,578	43,666
Provision for income taxes	2,237	7,566	7,889	20,056
Net income	$ 7,478	$ 6,088	$ 34,689	$ 23,610

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(In thousands)	**Common Stock**	**Paid-In Capital**	**Retained Earnings**	**Total Shareholder's Equity**
BALANCE - January 1, 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	—	—	34,689	34,689
BALANCE - December 31, 2018	$ 10	$ 86,617	$ 201,671	$ 288,298

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS

(In thousands)	**For the years ended December 31, 2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 34,689	$ 23,610
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	7,293	8,418
Loss on Impairment of Intangible assets	726	—
Discount on Investments in marketable securities	(46)	(21)
Deferred income taxes	4,947	1,807
Net change in:		
Accounts receivable	1,734	2,873
Other assets	(29)	(5,367)
Other Participants' assets	448	(216)
Accounts payable and accrued expenses	3,707	2,403
Other liabilities	(7,495)	4,434
Clearing Fund liabilities, net	(1,993,596)	(844,546)
Payable to Participants	487	264
Net cash provided by/(used in) operating activities	(1,947,135)	(806,341)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of Investments in marketable securities	75,000	75,000
Purchases of Investments in marketable securities	(50,000)	(75,000)
Purchases of Intangible assets	(16,724)	(11,344)
Net cash provided by/(used in) investing activities	8,276	(11,344)
Net increase/(decrease) in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets	(1,938,859)	(817,685)
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of year	9,053,091	9,870,776
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of year	$ 7,114,232	$ 9,053,091
SUPPLEMENTAL DISCLOSURE:		
Cash income taxes paid to DTCC - net of refunds	$ 7,036	$ 18,135

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

1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), 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 ITP 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The Company reclassified prior period amounts related to restricted cash, certain components of net periodic pension cost allocated, and allocated depreciation and amortization to conform to the current year presentation. See Note 2 in FICC's Audited Financial Statements for the years ended December 31, 2018 and 2017, for additional information on the Company's summary of Significant Accounting Polices.

Use of estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Financial Statements. Management makes estimates regarding, among other things, the collectability of receivables, the outcome of litigation, the realization of deferred taxes, unrecognized tax benefits, fair value measurements and other matters that affect the reported amounts. Estimates 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 services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 represent 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 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. The Company offers referential and activity-based, announcement, security reference, and liquidity data through the DTCC Data Services product. These offerings are delivered in fixed or configurable formats, sourced from the Company's transaction, reference, position and asset servicing data.

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 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.

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, Cash in Other Participants' assets within the beginning and ending balances of Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets on the accompanying Statements of Cash Flows.

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

	2018	2017
Cash and cash equivalents	$ 265,724	$ 236,922
Clearing Fund cash deposits (see Note 4)	6,847,272	8,815,868
Cash in Other Participants' assets (see Note 5)	1,236	301
Total Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets shown on the Statements of Cash Flows	$ 7,114,232	$ 9,053,091

As a result of this accounting change, net cash used in operating activities of approximately $2 billion is primarily driven by the change in Clearing Fund liabilities and Payable to Participants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impacts to previously reported results. The impact of the new cash flows standard on the Company's previously reported results for the year ended December 31, 2017 follows (in thousands):

	For the year ended December 31, 2017		
	As Previously Reported	New Restricted Cash Standard Adjustment	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Other Participants' assets	$ —	$ (216)	$ (216)
Clearing Fund liabilities, net	—	(844,546)	(844,546)
Payable to Participants	—	264	264
Net cash provided by/(used in) operating activities	38,157	(844,498)	(806,341)

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 months and year ended December 31, 2017 follow (in thousands):

	For the three months ended December 31, 2017			For the year ended December 31, 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	$ 18,741	$ (187)	$ 18,554	$ 75,789	$ (634)	$ 75,155
Interest expense	—	(1,534)	(1,534)	—	(5,214)	(5,214)
Other non-operating income	—	1,347	1,347	—	4,580	4,580

Reclassification. In the fourth quarter of 2018, the Company changed its financial statement presentation for allocated depreciation and amortization expenses. Accordingly, the Company reclassified prior period amounts related to allocated depreciation and amortization expenses to conform to the current year presentation. This reclassification had no impact on previously reported total assets, total liabilities, revenues, net income, and cash flows.

Impacts to previously reported results. The impact of the change in presentation for allocated depreciation and amortization on the Company's previously reported results for the three months and year ended December 31, 2017 follow (in thousands):

	For the three months ended December 31, 2017			For the year ended December 31, 2017		
	As Previously Reported	Reclassification Presentation Adjustment	As Restated	As Previously Reported	Reclassification Presentation Adjustment	As Restated
Information technology	$ 5,197	$ (1,255)	$ 3,942	$ 19,200	$ (5,286)	$ 13,914
Occupancy	1,562	(318)	1,244	5,563	(1,220)	4,343
General and administrative	1,167	1,573	2,740	3,465	6,506	9,971

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted		
ASU 2018-14 Changes to the Disclosure Requirements for Defined Benefit Plans *Issued August 2018*	• Eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the Financial Accounting Standards Board (FASB) considers pertinent.	• Effective January 1, 2021. • The Company is evaluating the impact on related disclosures in its Financial Statements.
ASU 2018-18 Clarifying how the revenue standard affects the accounting for collaborative arrangements *Issued November 2018*	• Amends Collaborative Arrangement to clarify that certain transactions between participants in a collaborative arrangement should be accounted for under new revenue recognition standard when the collaborative partner is considered the customer. Requires revenues from such collaborative contracts to be recognized upon transfer of control of a good or service in the amount of consideration expected to be received from the collaborative partner. • Precludes an entity from presenting collaborative arrangement consideration as revenue from contracts with customers if the collaborative partner is not considered the customer.	• Effective January 1, 2020. • The Company is evaluating the impact on its Financial Statements and related disclosures.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract *Issued August 2018*	• 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.	• Effective January 1, 2020. • The Company is evaluating the impact on its Financial Statements and related disclosures.
ASU 2018-13 Changes to the Disclosure Requirements for Fair Value Measurement *Issued August 2018*	• 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.	• Effective January 1, 2020. • The Company is evaluating the impact on related disclosures in its Financial Statements.

3. ACCOUNTING AND REPORTING DEVELOPMENTS (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted (Continued)		
ASU 2016-13 Customer's Financial Instruments - Credit Losses *Issued June 2016*	• Replaces the current incurred loss approach for credit losses with an"expected loss" model for instruments measured at amortized cost. • Requires all lifetime credit losses for financial assets held at the reporting date to be estimated based on factors such as historical experience, current conditions and forecasts. • Requires entities to record allowances for available-for-sale debt securities.	• Effective January 1, 2020. • The Company is evaluating the impact on its Financial Statements and related disclosures.

Standard	Description	Impact on the financial statements or other significant matters
Recently Adopted Accounting Standards		
ASU 2014-09 Revenue from Contracts with Customers *Issued May 2014*	• 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 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.	• 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.

3. ACCOUNTING AND REPORTING DEVELOPMENTS (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
Recently Adopted Accounting Standards (Continued)		
ASU 2017-07 Compensation - Retirement Benefits *Issued March 2017*	• Requires the components of the net periodic pension and postretirement benefit costs (service cost, interest cost, and actuarial gains/losses) to be reported separately from one another in the Company's Statements of Income. • Requires retrospective application and presentation in the Statements of Income.	• 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 Statements of Income. See Note 2 for additional information.
ASU 2016-18 Statement of Cash Flows - Restricted Cash *Issued November 2016*	• Requires inclusion of restricted cash in the cash and cash equivalents balances in the Statements of Cash Flows. • Requires additional disclosures to supplement the Statements of Cash Flows. • Requires retrospective application to all periods presented.	• Adopted January 1, 2018. • The Company adopted the new restricted cash standard under the retrospective method of adoption. • The adoption did not change the Company's Statements of Financial Condition or Statements of Income; however, it resulted in a presentation change related to the 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 December 31, 2018 and 2017 follow (in thousands):

	2018			2017		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	$ 13,576,152	$ 4,477,522	$ 18,053,674	$ 10,664,173	$ 4,306,400	$ 14,970,573
Excess deposits	7,029,000	1,439,550	8,468,550	5,409,570	872,474	6,282,044
Total	$ 20,605,152	$ 5,917,072	$ 26,522,224	$ 16,073,743	$ 5,178,874	$ 21,252,617

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

	2018			2017		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Securities on deposit - at fair value	$15,253,927	$4,421,025	$19,674,952	$10,257,951	$2,153,798	$12,411,749
Cash deposits	5,351,225	1,496,047	6,847,272	5,815,792	3,000,076	8,815,868
Investments in marketable securities	—	—	—	—	25,000	25,000
Total	$ 20,605,152	$ 5,917,072	$ 26,522,224	$ 16,073,743	$ 5,178,874	$ 21,252,617

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

	2018	2017
Bank deposits	$ 5,466,272	$ 6,116,868
Money market fund investments	931,000	2,139,000
Reverse repurchase agreements	450,000	560,000
U.S. Treasury bills	—	25,000
Total	$ 6,847,272	$ 8,840,868

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 Participant, other Participants, or the Company as provided in FICC's rules.

5. OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

Details for Other Participants' assets and Payable to Participants as of December 31, 2018 and 2017 follow (in thousands):

	2018	2017
Assets:		
Other Participants' assets:		
Cash in Other Participants' assets	$ 1,236	$ 301
Other	382	830
Total Other Participants' assets	$ 1,618	$ 1,131
Liabilities:		
Payable to Participants	$ 1,618	$ 1,131

6. PENSION AND POSTRETIREMENT BENEFITS

Eligible DTCC employees participate in DTCC's trusteed non-contributory defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan, which provide for certain benefits upon retirement. Eligible 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 $1,682,000 and $1,825,000 for the years ended December 31, 2018 and 2017, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income in the accompanying Statements of Income.

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 the 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 December 31, 2018 and 2017 follow (in thousands):

	2018	2017
General business risk capital requirement	$ 107,845	$ 93,203 [(a)]
Corporate contribution	53,922	46,602
Total requirement	161,767	139,805 [(a)]
Liquid net assets funded by equity	265,724	236,922
Excess/(shortfall)	$ 103,957	$ 97,117

(a) Restated due to the retrospective adoption of ASU 2017-07 *Compensation: Retirement Benefits*, which resulted in a reclassification of certain components of net periodic pension cost allocated from Total operating income to Total non-operating income (expense). See Notes 2 and 3 for additional information.

8. 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 December 31, 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.

9. COMMITMENTS AND CONTINGENCIES

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

10. 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 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 December 31, 2018 and 2017 follow (in billions):

Division	2018	2017
GSD	$ 1,160	$ 1,039
MBSD	333	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, (see 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 one or more 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 15 in FICC's Audited Financial Statements for the years ended December 31, 2018 and 2017 for additional information.

11. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2018 through February 28, 2019, for potential recognition or disclosure in these accompanying Financial Statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying Financial Statements.