

# Fixed Income Clearing Corporation

Condensed Financial Statements  
as of June 30, 2019 and December 31, 2018 and for the  
three and six months ended June 30, 2019 and 2018

# **FIXED INCOME CLEARING CORPORATION**

## **TABLE OF CONTENTS**

---

	<b>Page</b>
CONDENSED FINANCIAL STATEMENTS AS OF JUNE 30, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018:	
Statements of Financial Condition	1
Statements of Income	2
Statements of Changes in Shareholder's Equity	3
Statements of Cash Flows	4
Notes to Condensed Financial Statements	5 - 10

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

<b>(In thousands, except share data)</b>	<b>As of June 30, 2019</b>	<b>As of December 31, 2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 287,716	\$ 265,724
Accounts receivable	12,293	9,802
Clearing Fund	25,358,591	26,522,224
Other Participants' assets	11,626	1,618
Other current assets	6,133	7,661
Total current assets	<u>25,676,359</u>	<u>26,807,029</u>
<b>NON-CURRENT ASSETS:</b>		
Premises and equipment - net of accumulated depreciation of \$315 and \$304 as of June 30, 2019 and December 31, 2018, respectively	669	680
Intangible assets - net of accumulated amortization of \$81,110 and \$77,740 as of June 30, 2019 and December 31, 2018, respectively	35,776	27,117
Total non-current assets	<u>36,445</u>	<u>27,797</u>
<b>TOTAL ASSETS</b>	<u>\$ 25,712,804</u>	<u>\$ 26,834,826</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 13,835	\$ 10,328
Clearing Fund	25,358,591	26,522,224
Payable to Participants	11,626	1,618
Other current liabilities	310	—
Total current liabilities	<u>25,384,362</u>	<u>26,534,170</u>
<b>OTHER NON-CURRENT LIABILITIES:</b>		
Other non-current liabilities	13,576	12,358
Total liabilities	<u>25,397,938</u>	<u>26,546,528</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 2)</b>		
<b>SHAREHOLDER'S EQUITY</b>		
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	228,239	201,671
Total shareholder's equity	<u>314,866</u>	<u>288,298</u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<u>\$ 25,712,804</u>	<u>\$ 26,834,826</u>

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

# FIXED INCOME CLEARING CORPORATION

## CONDENSED STATEMENTS OF INCOME (UNAUDITED)

<b>(In thousands)</b>	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>REVENUES</b>				
Clearing services	\$ 75,622	\$ 67,109	\$ 147,497	\$ 132,123
Other services	213	91	332	172
	<u>75,835</u>	<u>67,200</u>	<u>147,829</u>	<u>132,295</u>
<b>EXPENSES</b>				
Employee compensation and related benefits	22,739	20,899	45,629	41,986
Information technology	4,576	4,015	8,436	8,024
Professional and other services	24,323	24,126	48,149	48,461
Occupancy	1,187	1,179	2,444	2,373
Depreciation and amortization	1,635	1,864	3,381	3,807
General and administrative	3,503	3,150	6,394	6,324
Total expenses	<u>57,963</u>	<u>55,233</u>	<u>114,433</u>	<u>110,975</u>
Total operating income	<u>17,872</u>	<u>11,967</u>	<u>33,396</u>	<u>21,320</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>				
Interest income	43,069	44,429	84,704	78,408
Refunds to Participants	(41,493)	(45,329)	(81,586)	(76,616)
Interest expense	(1,082)	(962)	(2,473)	(2,309)
Other non-operating income	984	796	2,866	1,910
Total non-operating income (expense)	<u>1,478</u>	<u>(1,066)</u>	<u>3,511</u>	<u>1,393</u>
Income before taxes	19,350	10,901	36,907	22,713
Provision for income taxes	5,368	3,201	10,339	6,723
Net income	<u>\$ 13,982</u>	<u>\$ 7,700</u>	<u>\$ 26,568</u>	<u>\$ 15,990</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)

<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, 2019	\$ 10	\$ 86,617	\$ 201,671	\$ 288,298
Net income	—	—	12,586	12,586
BALANCE - March 31, 2019	10	86,617	214,257	300,884
Net income	—	—	13,982	13,982
BALANCE - June 30, 2019	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 228,239</u>	<u>\$ 314,866</u>

<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, 2018	\$ 10	\$ 86,617	\$ 166,982	\$ 253,609
Net income	—	—	8,290	8,290
BALANCE - March 31, 2018	10	86,617	175,272	261,899
Net income	—	—	7,700	7,700
BALANCE - June 30, 2018	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 182,972</u>	<u>\$ 269,599</u>

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

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

<b>(In thousands)</b>	<b>For the six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 26,568	\$ 15,990
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	3,381	3,807
Discount on Investments in marketable securities	—	4
Deferred income taxes	993	1,758
Net change in:		
Accounts receivable	(2,491)	2,723
Other assets	1,528	(1,032)
Other Participants' assets	380	—
Accounts payable and accrued expenses	3,507	3,911
Other liabilities	535	(1,345)
Clearing Fund liabilities, net	639,026	(104,628)
Payable to Participants	10,008	(17)
Net cash provided by/(used in) operating activities	<u>683,435</u>	<u>(78,829)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Maturities of Investments in marketable securities	—	50,000
Purchases of Investments in marketable securities	—	(50,000)
Purchases of Intangible assets	(12,029)	(7,728)
Net cash provided by/(used in) investing activities	<u>(12,029)</u>	<u>(7,728)</u>
Net increase/(decrease) in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets	671,406	(86,557)
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>7,114,232</u>	<u>9,053,091</u>
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 7,785,638</u>	<u>\$ 8,966,534</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Cash income taxes paid to DTCC - net of refunds	<u>\$ 6,981</u>	<u>\$ 4,150</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 JUNE 30, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

---

### 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 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, 2018 and 2017, 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, 2018 and 2017, 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, expense allocations 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.

**Commitments and Contingencies.** 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 JUNE 30, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

### 2. BASIS OF PRESENTATION AND USE OF ESTIMATES (CONTINUED)

**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 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 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.* 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.

**Expense allocations.** Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries, including FICC, based upon their estimated use of such goods or services as determined by various allocation factors including direct expenses, level of support provided and utilization of technology resources. Accordingly, the expenses in the accompanying Condensed Statements of Income represent allocated costs including Employee compensation and related benefits, Information technology, Professional and other services, Occupancy, Depreciation and amortization and General and administrative.

**Impacts to previously reported results.** The Company reclassified prior period amounts related to allocated depreciation and amortization 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.

The impact of the change in presentation for allocated depreciation and amortization on the Company's previously reported results for the three and six months ended June 30, 2018 follows (in thousands):

	For the three months ended June 30, 2018			For the six months ended June 30, 2018		
	As Previously Reported	Reclassification Presentation Adjustment	As Restated	As Previously Reported	Reclassification Presentation Adjustment	As Restated
Information technology	\$ 5,680	\$ (1,665)	\$ 4,015	\$ 11,496	\$ (3,472)	\$ 8,024
Occupancy	1,535	(356)	1,179	3,070	(697)	2,373
General and administrative	1,129	2,021	3,150	2,155	4,169	6,324



# FIXED INCOME CLEARING CORPORATION

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF JUNE 30, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

### 2. BASIS OF PRESENTATION AND USE OF ESTIMATES (CONTINUED)

**Restricted cash.** 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 on the accompanying Condensed Statements of Cash Flows.

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

	June 30, 2019	December 31, 2018	June 30, 2018
Cash and cash equivalents	\$ 287,716	\$ 265,724	\$ 255,010
Clearing Fund cash deposits	7,486,298	6,847,272	8,711,240
Cash in Other Participants' assets	11,624	1,236	284
Total Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets shown on the Condensed Statement of Cash Flows	<u>\$ 7,785,638</u>	<u>\$ 7,114,232</u>	<u>\$ 8,966,534</u>

As a result of this accounting change, net cash provided by operating activities of approximately \$683 million is primarily driven by the change in Clearing Fund liabilities and Payable to Participants.

### 3. ACCOUNTING AND REPORTING DEVELOPMENT

See Note 3 in FICC's Audited Financial Statements for the years ended December 31, 2018 and 2017, 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 2019-05 Financial Instruments - Credit Losses: Targeted Transition Relief  <i>Issued May 2019</i>	<ul style="list-style-type: none"><li>Provides entities with an option upon adoption of ASU 2016-13 Customer's Financial Instruments - Credit Losses to irrevocably elect the fair value option on an instrument-by-instrument basis for certain financial instruments that are both within the scope of the current expected credit loss and eligible for the fair value option.</li></ul>	<ul style="list-style-type: none"><li>Effective January 1, 2020.</li><li>The Company does not intend to elect the fair value option on any instrument within th scope and therefore no impact is expected.</li></ul>

**FIXED INCOME CLEARING CORPORATION****NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)****AS OF JUNE 30, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018****4. CLEARING FUND**

Details for the Clearing Fund deposits as of June 30, 2019 and December 31, 2018 follow (in thousands):

	2019			2018		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	\$ 14,028,952	\$ 3,297,275	\$ 17,326,227	\$ 13,576,152	\$ 4,477,522	\$ 18,053,674
Excess deposits	6,935,767	1,096,597	8,032,364	7,029,000	1,439,550	8,468,550
Total	<u>\$ 20,964,719</u>	<u>\$ 4,393,872</u>	<u>\$ 25,358,591</u>	<u>\$ 20,605,152</u>	<u>\$ 5,917,072</u>	<u>\$ 26,522,224</u>

Details for the Clearing Fund deposits as of June 30, 2019 and December 31, 2018 follow (in thousands):

	2019			2018		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Securities on deposit - at fair value	\$ 14,941,546	\$ 2,930,747	\$ 17,872,293	\$ 15,253,927	\$ 4,421,025	\$ 19,674,952
Cash deposits	6,023,173	1,463,125	7,486,298	5,351,225	1,496,047	6,847,272
Total	<u>\$ 20,964,719</u>	<u>\$ 4,393,872</u>	<u>\$ 25,358,591</u>	<u>\$ 20,605,152</u>	<u>\$ 5,917,072</u>	<u>\$ 26,522,224</u>

Details for the Clearing Fund cash deposits as of June 30, 2019 and December 31, 2018 follow (in thousands):

	2019	2018
Bank deposits	\$ 5,816,298	\$ 5,466,272
Money market fund investments	1,220,000	931,000
Reverse repurchase agreements	450,000	450,000
Total	<u>\$ 7,486,298</u>	<u>\$ 6,847,272</u>

**Clearing Fund cash deposits.** Cash deposits 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 June 30, 2019 and December 31, 2018 follow (in thousands):

	2019	2018
Assets:		
Other Participants' assets:		
Cash	\$ 11,624	\$ 1,236
Other	2	382
Total Other Participants' assets	<u>\$ 11,626</u>	<u>\$ 1,618</u>
Liabilities:		
Payable to Participants	<u>\$ 11,626</u>	<u>\$ 1,618</u>

# FIXED INCOME CLEARING CORPORATION

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF JUNE 30, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

### 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 \$1,211,000 and \$420,000 for the three months ended June 30, 2019 and 2018, respectively, and \$2,392,000 and \$924,000 for the six months ended June 30, 2019 and 2018, 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 based on the nature of the pension expense component.

### 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 June 30, 2019 and December 31, 2018 follow (in thousands):

	2019	2018
General business risk capital requirement	\$ 109,787	\$ 107,845
Corporate contribution	54,893	53,922
Total requirement	164,680	161,767
Liquid net assets funded by equity	287,716	265,724
Excess	\$ 123,036	\$ 103,957

# FIXED INCOME CLEARING CORPORATION

## NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF JUNE 30, 2019 AND DECEMBER 31, 2018 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

### 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 June 30, 2019 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 Clearing Houses Rating Methodology.

### 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 guaranty applied as of June 30, 2019 and December 31, 2018 follow (in billions):

Division	2019	2018
GSD	\$ 1,143	\$ 1,160
MBSD	396	333

There were no defaults by Participants to these obligations.

See Note 15 in FICC's Audited Financial Statements for the years ended December 31, 2018 and 2017 for additional information.

### 10. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after June 30, 2019 through July 31, 2019, 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.