INDEPENDENT ACCOUNTANTS’ REPORT

To the Board of Directors of
Fixed Income Clearing Corporation
New York, NY

We have examined management's assertion, included in the accompanying “Management’s Assertion Regarding Section IV-G of Release No. 16900, under the Securities Exchange Act of 1934 relating to the Effectiveness of FICC’s Internal Control over the Processing of Transactions Related to Trade Comparison, Netting and Settlement of products”, that Fixed Income Clearing Corporation (“FICC”) (which includes the Government Securities Division and the Mortgage-Backed Securities Division), a wholly owned subsidiary of The Depository Trust & Clearing Corporation, complied with the criteria established in Section IV-G of Release No. 16900, under the Securities Exchange Act of 1934, during the twelve month period ended June 30, 2014. Management is responsible for FICC’s compliance with those requirements. Our responsibility is to express an opinion on management's assertion about FICC’s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about FICC’s compliance with “Management’s Assertion Regarding Section IV-G of Release No. 16900, under the Securities Exchange Act of 1934 relating to the Effectiveness of FICC’s Internal Control over the Processing of Transactions Related to Trade Comparison, Netting and Settlement of products” and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on FICC’s compliance with specified requirements.

In our opinion, management's assertion that FICC complied with the aforementioned requirements during the twelve month period ended June 30, 2014, is fairly stated, in all material respects.

August 31, 2014
Management’s Assertion Regarding Section IV-G of Release No. 16900, under the Securities Exchange Act of 1934 relating to the Effectiveness of FICC’s Internal Control over the Processing of Transactions Related to Trade Comparison, Netting, and Settlement

August 31, 2014

To the Board of Directors of the Fixed Income Clearing Corporation:

The Fixed Income Clearing Corporation (the “Company” or “FICC”), a wholly owned subsidiary of the Depository Trust & Clearing Corporation, maintains effective internal control over the processing of transactions related to trade comparison, netting and settlement of products, as per Section IV-G of Release No. 16900, under the Securities Exchange Act of 1934.

We, as members of management of the Company, are responsible for establishing and maintaining internal control over the processing of transactions related to trade comparison, netting and settlement of products serviced by the Government Securities (“GS”) Division of the Company and trade comparison and netting of products serviced by the Mortgage-Backed Securities (“MBS”) Division of the Company. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. Some of the objectives of such internal control are to provide GS Division management with reasonable, but not absolute, assurance that: (i) detailed transaction information submitted by members, the Federal Reserve Bank of New York, and government-supported enterprises is properly recorded or compared as appropriate, (ii) the system properly nets transactions processed to reduce settlement obligations, (iii) all transaction details are properly recorded and reflected in daily statements to members and (iv) the Company has the capability to meet its obligation to guarantee trades pursuant to the timeframes for such established in the Company’s rules for the GS Division. Some of the objectives of internal control are to provide MBS Division management with reasonable, but not absolute, assurance that: (i) detailed transaction information submitted by members are properly recorded or compared as appropriate, (ii) the system properly nets transactions processed to reduce settlement obligations, (iii) all transaction details are properly recorded and reflected in daily statements to members, (iv) appropriate deposits are maintained to cover margin requirements to secure participants’ obligations as established in the Company’s rules for the MBS Division and (v) Members are responsible for promptly reviewing the daily reports prepared by the Company, and for promptly notifying the Company of errors and omissions.
Even effective internal control, no matter how well designed, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only reasonable assurance with respect to securities positions and related funds processed. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The Company assessed its internal control over the aforementioned requirements, and based on this assessment, we assert that FICC has complied with the requirements of Section IV-G of Release No. 16900, under the Securities Exchange Act of 1934 relating to the effectiveness of FICC’s internal control related to its compliance with safeguarding of securities and funds and prompt and accurate clearance and settlement of securities transactions during the twelve month period ended June 30, 2014.

Michael C. Bodson  
President and Chief Executive Officer of  
The Depository Trust & Clearing Corporation  

Donna Mirod  
Chief Administrative Officer  
The Depository Trust & Clearing Corporation  

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