# 2011 Annual Report

DTCC

## MISSION

We protect our clients and financial markets and systems as a whole. We leverage our scale and expertise to perfect a more robust, unified infrastructure and promote solutions that systematically reduce risks, amplify operating efficiency and minimize cost.

## VISION

We are unwavering in our commitment to drive out risks and costs. To achieve this, we partner with clients to bring stability to the global financial markets and create efficiencies for an ever-expanding industry.

## TABLE OF CONTENTS

# LETTER TO STAKEHOLDERS

As we reflect on the past year, we can see the impact of profound changes that will continue to reshape the financial markets and our industry in 2012 and beyond. It is clear to us that DTCC's risk management and operational skills will be more critical than ever in providing the leadership, value and certainty that remain essential to the industry.

Robert Druskin, Executive Chairman, and Donald F. Donahue, President and Chief Executive Officer

Our risk management expertise again played a key role in helping to underpin stability in the financial markets during 2011. For instance, as we faced the possible lowering of the U.S. government's credit rating in the summer and the pressures of the eurozone debt crisis in the fall, DTCC's management team worked through multiple scenarios to identify implications for DTCC and our members so that we could prepare DTCC to cope with these events. In another case, when MF Global collapsed at the end of October, we were able to close out all the trades guaranteed by DTCC over the course of just four days and at no cost to our members.

But the higher capital and collateral requirements now facing banks and trading houses will likely intensify the crucial importance of effective capital use and collateral management. The launch in March 2011 of New York Portfolio Clearing – DTCC's joint venture with NYSE Euronext – and its innovative "one-pot" margining approach to cash and futures markets exemplified DTCC's commitment to responding to these demands with creative new services. In March 2012 the SEC approved our application to launch central counterparty services for mortgage-backed securities – another long-sought innovation aimed at lowering cost and risk for customers. The new CCP began service April 2, 2012.

## DTCC OPERATING PERFORMANCE

DTCC delivered strong operating and financial performance over the course of 2011. The value of all securities transactions settled at DTCC rose 2%, to just under \$1.7 quadrillion, from about \$1.66 quadrillion in 2010, even as U.S. equity-trading volume dropped about 10%, to 893.4 billion shares.

Careful expense management and the first cost reductions delivered by our "Lean" business transformation program delivered better-than-budget performance, while transaction-related and other revenue exceeded projections. As a result, we moved ahead aggressively with our extensive planned investments in reinforcing and expanding our risk mitigation programs, while we continued to deliver key business improvements.

## NEW RISK STRUCTURE

Our ongoing emphasis on risk mitigation as a core objective for all our businesses continued as the guiding principle reshaping our organization and priorities in 2011. We undertook an extensive program during the year to embed risk consciousness ever more deeply into our corporate culture through a series of town halls, publications, and small-group and one-on-one discussions, all done under the banner of the "DTCC 3.0" transformation effort we launched in 2010.

> We undertook an extensive program to embed risk consciousness ever more deeply into our corporate culture.

This transformation was also reflected in a series of actions during the year. Our Board of Directors acted to improve DTCC's governance. Notably, in April the Board appointed Robert Druskin Executive Chairman, separating the roles of Chairman and Chief Executive Officer (in accordance with common global practice) to provide a stronger management structure. The Board also formalized a new structure of "risk tolerance" definitions and measurements to strengthen DTCC's ability to monitor its risks. These risks are overseen by Board committees, and the committees now leverage this risk tolerance structure to focus their efforts on how risk mitigation processes can be improved.

During the year we also strengthened our risk management capabilities. In August, Noel Donohoe joined DTCC as Group Chief Risk Officer, a newly created position. Mr. Donohoe has responsibility for formulating and implementing DTCC's overall risk management strategy in collaboration with our Board and senior management team. He oversees DTCC's Enterprise Risk, Operational Risk and Systemic Risk Management units.

Other improvements in DTCC's capabilities included:

- Fully renovating our operational risk management capabilities, with extensive operational risk reporting now guiding risk improvement efforts in the individual businesses;
- Continuing to build out our "first line" risk staff in our operating and business units and formalizing a regulatory liaison function to facilitate closer working relationships with our supervisors;
- Strengthening liquidity support for DTCC's subsidiaries by increasing by more than $1 billion the line of credit supporting daily settlements, bringing the total credit line to more than $8 billion;
- Completing work on a proposed new way to allow members to supply liquidity during a crisis via a Capped Contingency Liquidity Facility, which makes cash available to DTCC through repurchase or stock-borrow agreements with our members;
- Expanding liquidity options for our members by increasing the funds available to member firms through the automation of the system that lets them withdraw excess progress settlement payments and interest payments before end-of-day settlement; and
- Greatly augmenting the educational resources available to our members on DTCC's risk management and mitigation practices. Handbooks describing these processes in detail have been published for DTC, FICC's Government Securities Division and Mortgage-Backed Securities Division, and NSCC.

DTCC supported industry discussions on the need to accelerate the settlement cycle in the U.S. equity markets, in line with similar discussions in Europe.

## MEETING CAPITAL ADEQUACY REQUIREMENTS

While DTCC has always met the regulatory obligations for capital adequacy applying to certain of our subsidiaries, we face the prospect of higher global capital adequacy standards for market infrastructures. New CPSS-IOSCO principles, which have won broad endorsement and are being formally promulgated in 2012, will set guidelines for required capital resources for market infrastructures. It is not yet clear how these principles will be implemented across the globe. Still, in anticipation of new standards, we have formulated a plan to identify how DTCC would generate sufficient capital to sustain our various business lines throughout 2012 and the coming years as the new regulatory capital guidelines are formalized.

## BUSINESS AND PRODUCT EXPANSION

Even as we continued to focus on risk, in 2011 we also maintained our efforts to grow DTCC's businesses and strengthen our ability to meet our customers' needs. DTCC's staff supported industry discussions on the need to accelerate the settlement cycle in the U.S. equity markets, in line with similar discussions in Europe. In addition to the launch of New York Portfolio Clearing and the completion of preparations for the mortgage-backed securities central counterparty, 2011 saw the launch of the Obligation Warehouse to support ex-clearing obligations; the implementation of ISO-20022 format messages for corporate actions activities; development of a service, Trade Risk Pro℠, for risk monitoring of "direct access" transactions; continued progress in renovating core legacy technology applications; and other improvements in DTCC's portfolio of core businesses.

DTCC also played a critical role in supporting industry efforts to address regulatory calls for the creation of a global utility for assigning, registering and tracking Legal Entity Identifiers (LEIs). DTCC and our wholly-owned Avox subsidiary, in partnership with several other industry service providers, have formulated a proposal to develop such a utility. We hope to obtain endorsement from global authorities in 2012 to proceed with the completion of this international utility.

As another example of industry benefits fostered by DTCC's thought leadership, our push for interoperability and our efforts with European trading platforms started to yield dividends toward the end of 2011. Europe's equity trading platforms, following new rules on interoperability, have begun to let clients choose where their trades can be cleared. As a result, clearing volumes at EuroCCP have soared, more than doubling in the first two months of 2012.

## LEVERAGING OUR TRADE REPOSITORY EXPERTISE

During 2011 DTCC was pleased to be selected by the industry to undertake the creation of additional trade repositories to serve the global over-the-counter derivatives market. At year-end, the status of our mandate to construct and operate global trade repositories for five OTC asset classes was as follows:

- *Credit default swaps:* DTCC created the world's first repository in 2006 to provide trade data and reporting services to the global market for credit default swaps.

- *Equity derivatives:* In August 2010 DTCC launched a London-based repository to house data for equity derivatives.
- *Interest rate derivatives:* In December 2011 DTCC brought to market a repository, also London-based, for interest rate derivative transactions.
- *Foreign exchange derivatives:* Working with SWIFT, DTCC won a competitive bid in 2011 to establish a repository for foreign exchange derivative transactions that will go live in 2012.
- *Commodity derivatives:* In cooperation with Netherlands-based EFETnet, DTCC was selected in 2011 to create a repository for commodity derivative swaps, which we plan to open in 2012.

These repositories are responsible for meeting the expectations of regulators and the market for appropriate transparency on OTC derivative transactions. For more than four years, we've been releasing publicly a wealth of data about OTC credit default swaps. To make these transactions even more transparent, DTCC in February 2011 launched a "Regulators' Portal" that gives supervisors throughout the world online access to the counterparty swaps data in which they have an interest and enables them to monitor transactions falling under their jurisdictions. This initiative supports regulatory oversight while creating efficiencies and ease of use for the supervisory community.

## THANKS TO OUR BOARD AND EMPLOYEES

In 2011, as in every year, DTCC's Board of Directors was one of the organization's strongest resources. Even as the demands on their time continued to rise, Board members gave tireless support to DTCC. We remain profoundly grateful for all of their efforts and guidance. This year we must single out for special thanks Art Certosimo, Senior Executive Vice President, Bank of New York Mellon, and Gerard LaRocca, Managing Director, Chief Administrative Officer of the Americas, Barclays Capital, who are retiring from the Board at the end of this Board year, and Richard Taggart, formerly Senior Vice President and Head of Global Operations, AllianceBernstein L.P., who resigned from the Board in February. All three have been exemplary in their service to the industry and their contributions to DTCC's Board; Art and Gerard, both of whom served as "presiding director" of our Board, provided superb leadership as DTCC faced the challenges of the post-crisis years.

We must also single out for thanks and gratitude two members of senior management who gave decades of service to DTCC. Jacob Feuchtwanger stepped down from his position as Chief Information Officer in July 2011, capping a 30-year DTCC career, during which he played an instrumental role in numerous groundbreaking technology projects. John Colangelo retired in March 2012 as Managing Director, Operations, Business Reengineering and Client Services. With a tenure exceeding 40 years, John had the rare distinction of serving at DTCC and its predecessor depository since their foundation. He contributed immeasurably to DTCC's accomplishments in increasing efficiencies, safety and risk mitigation for the financial markets. Jake and John will be greatly missed. We wish them well in retirement.

Ultimately, our employees are the most critical component of our renewed focus on risk management. Throughout 2011, in multiple settings and mediums, all of us reexamined our roles and responsibilities in monitoring and managing risk. We are engaged in ongoing dialogue about DTCC's primary role as a systemic-risk manager and critical market infrastructure that mitigates risk for the global industry. Our mantra is that we are all risk managers, regardless of specific job titles.

> We are engaged in dialogue about DTCC's primary role as a systemic-risk manager and critical market infrastructure.

Robert Druskin
Executive Chairman

Donald F. Donahue
President and Chief Executive Officer

*The next section of this report provides an overview of the risk structures and operating responsibilities we have strengthened or put in place to ensure that our business continues to lead the industry in the management and mitigation of risk.*

# RISK MANAGEMENT OVERVIEW

We have been extensively strengthening our risk management capabilities.

## INTRODUCTION

Risk management is a primary function of DTCC and has been since the inception of our organization more than 40 years ago. Our risk management role entails effective and efficient identification, measurement, monitoring and control of credit, market, liquidity, systemic, operational and other risks for the DTCC enterprise, our members and the marketplace.

In the wake of the global financial crisis of 2008 and in consultation with our Board, we have been extensively strengthening our risk management capabilities. During 2011 many elements of this transformation yielded results. We began formulating a multi-year strategic plan to guide this transformation and articulate a business end state. We remodeled our governance structure; upgraded our risk management talent and expanded our risk staff; reconfigured our quantitative risk models; and began enhancing our risk-monitoring reporting. We also initiated a broad educational program for our members about our risk management and mitigation activities, and equipped employees with additional risk management training. Working with our product areas, we have effectively reshaped some of our existing product offerings to better address risks in current and future market conditions. Several important risk-related product additions are also well along in the approval process.

A few words about our employees, the source of any effective risk management program: everyone at DTCC is expected to be a risk manager, and one of our highest

priorities has been to cultivate this awareness throughout the organization. We have fostered employee education with a broad range of resources and activities. Senior management–led town hall meetings, coupled with in-depth discussions with business-unit heads, gave context and support to this transformation. Other educational guides ensured that staff members were fully versed in the issues and in their responsibilities. Risk management competencies and behaviors have been incorporated into job descriptions, performance management and reward systems. Ongoing training programs have increased employee understanding of operational risk, compliance controls, information security and privacy awareness, while other courses are helping employees develop the skills to think much more critically and deeply about risks in their areas of responsibility.

DTCC is retooling our risk management practices.

DTCC is also retooling our risk management practices to prepare for heightened regulatory standards and market expectations. In the coming years we expect to face a growing centralization of risk management and increased member concentrations at CCPs; the need for more comprehensive and precise margining calculations, enhanced liquidity resources, and more timely risk exposure data; and the continued expansion and interconnectedness of markets globally.

## OUR RISK MANAGEMENT OBJECTIVES

At a strategic level, our risk management objectives are to ensure that DTCC maintains:

- Sufficiently deep and broad knowledge and an adequate risk management framework to effectively identify, measure and manage varying types of risks, including credit, market, liquidity, operational, systemic and other risks;
- Sufficient liquidity resources to allow DTCC subsidiaries to cover their settlement obligations as needed in the event of a failure by the single largest member or family;
- Appropriate membership criteria and ongoing member surveillance;
- Risk measurement capabilities, including models, that ensure sufficiency of collateral to deal with any member's/family's potential default; and
- All capabilities needed to operate robust and reliable services for our members/participants. (Please see "Business Review" [page 15] for 2011 highlights of DTCC business units' accomplishments in mitigating risks.)

## KEY RISKS FACED AND ADDRESSED BY DTCC

DTCC faces a number of risks in the course of doing business. The principal risks are defined below.

- **Credit risk.** The risk that a member/family does not comply with DTCC's financial and operational requirements, which could result in a financial loss or a disruption to settlement.
- **Market risk.** The risk that a loss will be incurred in the event of a member/family default if the value realized from the liquidation of assets (collateral, clearing fund deposits or other assets) held by

DTCC against the firm's obligations is not sufficient to cover DTCC's exposures to the firm.

- **Liquidity risk.** The risk that a DTCC subsidiary will not have sufficient funding resources to cover the settlement of a defaulting member's/family's transactions.
- **Quantitative risk.** The risk that the models utilized in assessing risk may have shortcomings and/or flaws, and thus may expose DTCC to risk of loss.
- **Systemic risk.** Threats to the stable operation of the financial system as a whole that, if realized, would trigger a loss of economic value or confidence in the system that ultimately could adversely impact the economy and the effective functioning of DTCC.
- **Financial reporting & control risk.** The risk that DTCC's books and records are inaccurate; that management reporting is inadequate; that working and long-term capital are insufficient to support the operations of DTCC and its subsidiaries; that insurance coverage is insufficient to cover exposures; or that investment policies over corporate funds are inadequate, resulting in exposure to losses.
- **Human capital risk.** The risk that DTCC lacks sufficient qualified staff to meet the firm's obligations or is unable to retain, engage or identify successors or replacements for key positions.
- **Legal & regulatory compliance risk.** The risk that a loss will be incurred as a result of the inability to enforce contractual agreements or as the result of a violation of law, regulation, regulatory requirement, applicable standard or guidance.
- **Processing & operations continuity risk.** The risk of financial loss or the inability of DTCC to perform its transaction processing as a result of inadequate or failed processes caused by human error, system failure or external events (natural or man-made) that cause business disruptions.
- **Information technology risk.** The risk of nonperformance by DTCC's Information Technology division in the delivery and maintenance of its services, including incurring damages, disruptions or losses due to an incident or threat affecting IT assets, and the risk posed by obsolescent technology.
- **Security risk.** The risk that the security of any DTCC asset (including information – its confidentiality, availability or integrity) is lost.
- **General business risk.** The risk that DTCC's management and control systems will fail to identify, monitor and manage risks arising from business strategy, cash flow, operating expenses, and capital coverage for potential business losses.
- **New initiatives risk.** The risk that the introduction of new products or services will create unforeseen exposures for the company, its clients or the industry, resulting from a less-than-thorough analysis prior to implementation; will unduly stretch the capacity of existing resources during development and/or implementation as well as potentially disrupt daily operations; or will divert resources from other critical projects.
- **Reputational risk.** The risk that DTCC's reputation with its stakeholders, internal or external, is impacted as a result of negative publicity regarding the quality or integrity of its business practices, management decisions, external associations and/or level of client or regulatory satisfaction.

Management has established, and the Board of Directors has approved, Risk Tolerance statements that establish by category acceptable levels of risk to be assumed by the organization as well as a series of warning signals that risk levels may be increasing. These statements are reviewed with the Board and appropriate Board committees on a bi-monthly basis to ensure that a comprehensive overview of risk is in place.

| Risk Family Hierarchy/Allocation of Oversight Responsibilities | | |
|---|---|---|
| **Risk Family** | | **Board Oversight** |
| **Credit Risk** | | Board Risk Committee |
| **Market Risk** | | |
| **Liquidity Risk** | | |
| **Quantitative Risk** | | |
| **Systemic Risk** | | |
| **Operational Risk** | Financial Reporting & Control Risk | Audit Committee |
| | Legal & Regulatory Compliance Risk | |
| | Processing & Operations Continuity Risk | Operations & Technology Committee |
| | Information Technology Risk | |
| | Security Risk | |
| | Human Capital/ People Risk | Compensation Committee |
| **Strategic Risk** | New Initiatives Risk | Business & Products Committee |
| | General Business Risk | |
| | Reputational Risk | |

*Note: The Board of Directors receives a summary dashboard of all risk families.*

## OUR GOVERNING STRUCTURE

Responsibility for managing risk resides at all levels across DTCC, including senior management and through our "three lines of defense" – our individual business lines, our risk management and control groups, and Internal Audit.

Our **Board of Directors** and key Board committees bear the ultimate responsibility for establishing the strategic direction and acceptable levels of risk tolerance. Management at DTCC is responsible for managing risk at DTCC within those tolerances.

The **Board Risk Committee** assists the Board of Directors in fulfilling its oversight responsibilities for three critical areas: enterprise risk management systems and processes used to identify and manage credit, market, liquidity and quantitative risks of DTCC's domestic subsidiaries; operational risks arising from the operation of DTCC's subsidiaries; and DTCC's efforts to mitigate certain systemic risks that may undermine the stable operation of the financial system. The Board Risk Committee reports its findings, decisions reached and actions taken to the full Board.

The **Board Audit Committee** is responsible for overseeing financial reporting, internal controls, compliance, adherence to DTCC's Code of Ethics, and the performance of Internal Audit and DTCC's external auditor.

**The Board Governance Committee** assists the Board in its procedures and activities related to DTCC's overall corporate governance, DTCC's Corporate Governance Policy and the Board's Code of Ethics, and the membership of the Board and Board committees.

Three additional Board committees – Operations & Technology, Compensation/Human Resources, and Businesses & Products – oversee specialized risk categories under DTCC's Operational and Strategic Risk umbrellas.

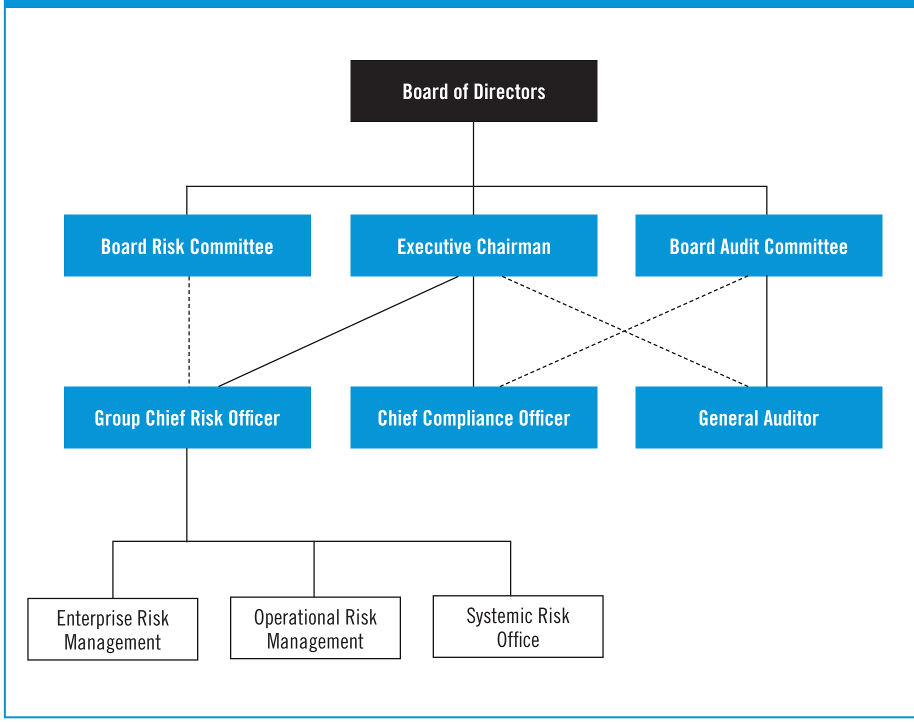
## OUR RISK MANAGEMENT ORGANIZATION

The **Executive Chairman**, a position established in 2011, oversees DTCC's risk control groups: Enterprise, Systemic, Compliance and Operational Risk.

The **Group Chief Risk Officer** directs the formulation and implementation of DTCC's risk management strategy and ensures that our risk initiatives and risk-related Board mandates are fully integrated into our overall organizational efforts on a day-to-day level. Reporting directly to the Group Chief Risk Officer are three risk management groups: Enterprise Risk Management, Operational Risk Management and the Systemic Risk Office. For details on the roles and responsibilities of each risk management group, along with those of Internal Audit and several other key risk areas, see the section below titled "DTCC's Three Lines of Defense."

DTCC's **Management Committee** provides overall direction for all aspects of the firm's business and operations. With respect to risk matters, the Management Committee oversees the Management Risk Committee and assesses the risk elements of initial proposals for new DTCC businesses.

## Governance Structure: Risk and Control Areas




DTCC's **Management Risk Committee**, headed by the Group Chief Risk Officer, oversees and governs risks throughout the enterprise. The Management Risk Committee monitors all risk reporting and risk metrics, assesses risk aspects of new product and service proposals, and addresses risk issues as they arise in various business and operating areas.

DTCC's **New Initiatives Committee** follows a multi-step process to subject pertinent aspects of material new business, product and service offerings to heightened scrutiny and questioning. The committee provides an effective framework for analyzing proposals along a path of defined stages, beginning with an opportunity analysis and ending with final approval to launch, and for ensuring that the proper risk mitigants are rooted in each proposal. The New Initiatives Committee is also responsible for understanding the potential systemic implications, whether beneficial or adverse, of new products and services.

DTCC's **Anti-Money-Laundering Oversight Committee** (AMLOC) is responsible for the oversight and governance of DTCC's Bank Secrecy Act (BSA), anti-money-laundering (AML) and Office of Foreign Assets Control (OFAC) program and related matters, collectively referred to as AML. The AMLOC's primary mission is to oversee the development and maintenance of an effective AML program for the organization.

DTCC employs three lines of defense to manage risk.

## DTCC'S THREE LINES OF DEFENSE

Like many large financial institutions, DTCC employs a "three lines of defense" structure for managing risks:

- As a first line of defense, the organization's business and operational management, reporting to the Chief Executive Officer, has responsibility and accountability for assessing, controlling and mitigating risks in DTCC's businesses.
- As a second line of defense, the risk and control functions facilitate and monitor the implementation of effective risk management practices by the first line of defense, provide daily risk management functionality and margining, and assist the risk owners in reporting adequate risk-related information up and down the organization. The underlying departments report to the Executive Chairman, providing for strong independence in their oversight capacity.
- As a third line of defense, the internal auditing function provides assurance to the Board and senior management on the effectiveness with which the organization assesses and manages our risks, including the manner in which the first and second lines of defense operate. The General Auditor reports directly to the Board Audit Committee, reinforcing the independence and objectivity of the internal audit function.

### First Line of Defense: Individual Business Lines

DTCC's first line of defense, our individual business lines, includes Product Management, Operations Management, Information Technology and other areas that are critical to the daily operation and functioning of DTCC and its various businesses across the globe. These areas are

Each business line has one or more risk management specialists.

responsible for identifying and measuring risks that affect their businesses and service offerings and for implementing processes and procedures to assure that these risks are appropriately controlled.

Each business line has one or more risk management specialists who liaise with Enterprise Risk Management, Operational Risk Management and the Systemic Risk Office to identify and manage risk-related issues at the business and product level.

Each business line and functional area has a compliance liaison, who works in coordination with the Office of Corporate and Regulatory Compliance (OCRC) to address compliance and regulatory matters.

**Second Line of Defense: Risk Control Groups**

DTCC's second line of defense rests with our Enterprise, Systemic and Operational Risk Management units, and the Office of Corporate and Regulatory Compliance.

**Enterprise Risk Management** (ERM) provides risk management/mitigation leadership by identifying, measuring and responding to credit, market and liquidity risks for DTCC and our members in order to protect the safety and soundness of the clearing and settlement system. ERM is responsible for ensuring that DTCC has sufficient liquidity to allow for the settlement of transactions in the event of the failure of its single largest member/family and for reducing the risk of loss due to that member's failure. In these roles, ERM must measure the exposure each member presents to DTCC and calculate an appropriate margin requirement or other mitigants to cover that exposure. The sufficiency of the margin requirement, both model-generated margin and total clearing fund requirement, is assessed through the performance of back tests (i.e., margin requirements collected on a portfolio are compared retrospectively to the calculated synthetic profit and loss on the same portfolio based on actual market moves), stress tests, and scenario analysis, as well as through practical experience with the actual previous default of member firms. Additionally, ERM is responsible for the analysis of intraday exposures and for the collection of additional margin, when warranted. ERM's responsibilities for evaluating members, both upon admission and ongoing, provide the foundation for its day-to-day management of credit and market risk through the margining process.

We are applying substantial new resources to further strengthen ERM's capabilities to meet expanding regulatory and market requirements, as well as continuing our commitment to mitigate risk for the industry.

Under ERM's multiyear development strategy, senior management will acquire an enhanced ability to exercise effective oversight on enterprise-wide risk.

Upgraded technology platforms will be more robust and flexible, and an updated analytical framework will support sound and timely decision making. The multi-year strategy includes new models and methodologies for calculating margin across clearing corporations, new techniques to improve risk management through advanced and timely analytics, improved data quality, and comprehensive, timely and standardized reporting features.

The **Systemic Risk Office (SRO)**, in collaboration with internal and external sources, establishes and maintains DTCC's overall strategy for identifying systemic risks pertinent to DTCC and its members, assessing and prioritizing these risks, and developing plans to mitigate them. To facilitate this risk mitigation, DTCC must understand the impact on and threats to systemic stability that may result from internal processes, from our ability to respond to extraordinary market events, or from interconnections with other entities. Therefore, we must also understand the systemic implications of our business initiatives.

Toward those ends we have extensively interviewed our members, supervisors and internal partners to develop a consensus around important systemic-risk topics. A white paper published by the SRO in 2011, *The Role of DTCC in Mitigating Systemic Risk*, analyzes potential sources of systemic risk. The paper also proposes measures to increase the resilience of the securities markets – for example, shortening the settlement cycle for equities and bonds and instituting structural changes to certain market practices. Some solutions will require industry-wide coordination and buy-in, while others may be undertaken by DTCC itself.

Anticipating market concerns related to the U.S. debt ceiling negotiations and the debt crisis in the European Union, the SRO led working groups that assessed DTCC's readiness to mitigate the effects of these crises on its services and members and identified actions to deal with risks that were discovered. This disciplined, pragmatic and analytical exercise established a process that will be used to address other anticipated crisis situations as they arise. A Systemic Risk Committee will be established to further enhance DTCC's awareness of systemic risks and to incorporate the aforementioned crisis process.

Finally, DTCC recognizes the importance and systemic value of providing educational resources to our members, which will enable them to increase their understanding of DTCC's risk management and mitigation activities. Limited or inaccurate understanding by members of how DTCC's critical infrastructures function could contribute to systemic instability during times of stress.

To facilitate members' understanding, the SRO has produced several handbooks for members/participants of DTCC's depository and clearing corporation subsidiaries that detail these entities' risk policies, procedures and protocols. The handbooks explain the risk regime of each entity and how each manages risk. In 2011 and early 2012 we produced the first edition of handbooks for DTC, FICC's Government Securities Division, and NSCC and made them available to those entities' members and our supervisors. We will continue to update these handbooks, as well as issue a handbook for FICC's Mortgage-Backed Securities Division.

The role of the **Operational Risk Management** group (ORM) is to identify, monitor and develop processes for mitigating the organization's operational risks that arise in the course of doing business. ORM is also responsible for providing all areas across the company with a framework for tracking and measuring the operational risks that affect their businesses.

ORM produces monthly Operational Risk Profiles for each of the business and staff areas. These profiles provide detailed status reports on the businesses' operational risks, how these risks have changed over the course of a month, and changes compared to the same month one year ago. They also highlight emerging issues that require attention.

The profiles differentiate inherent risks – those attributable to the essential, innate characteristics of a product, process, application or company infrastructure – from residual risks, those that remain after controls have been implemented. The business areas use the profiles as a business management tool to help manage and mitigate operational risks and identify where resources should be focused.

In 2011 Operational Risk also began producing a quarterly Global Operational Risk Report, which replaces an earlier reporting mechanism. This report catalogs and highlights the top operational risks DTCC faces, domestically and globally. Both the Management Risk Committee and Board Risk Committee use the report to structure periodic discussions around overall risk mitigation activities.

The **Office of Corporate & Regulatory Compliance** (OCRC) along with the General Counsel's Office address the legal and regulatory requirements that apply to DTCC. To facilitate and ensure compliance with applicable laws and regulations, the OCRC has established a comprehensive compliance–risk management framework that assesses the inherent and residual legal, regulatory and compliance risks of our operations, our products and services, and our members. Results of these risk assessments are reported to management and the Board and drive the establishment or enhancement of policies and procedures, training, monitoring, management reporting and compliance testing. In addition, the OCRC oversees our Code of Ethics program, ensuring that DTCC personnel maintain the highest level of integrity in their business dealings and relationships.

Internal Audit uses a multi-faceted risk assessment process.

### Third Line of Defense

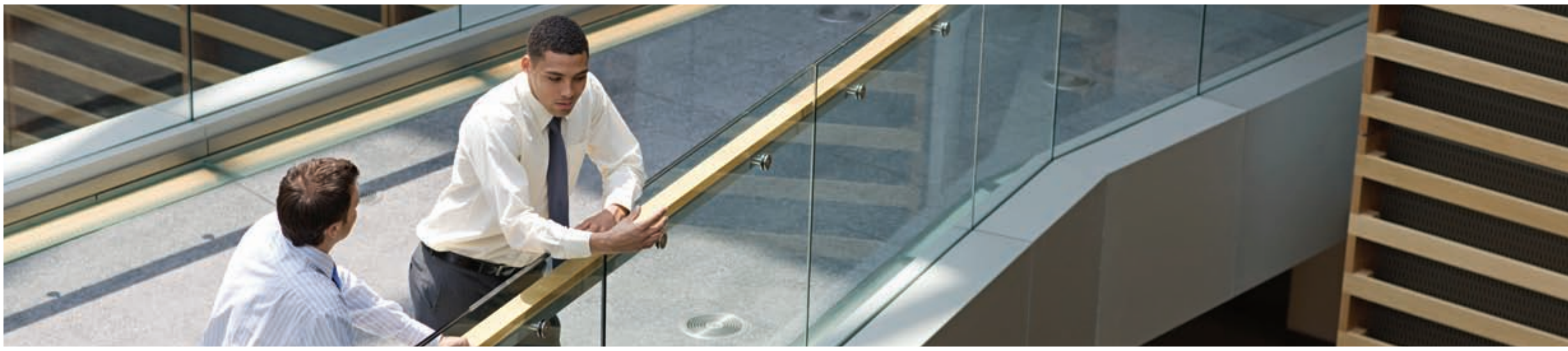
DTCC's third line of defense is Internal Audit, whose mission is to provide independent, objective assurance and advisory services to assist the enterprise in maintaining an effective system of internal controls. Internal Audit supports the Board of Directors in its oversight of DTCC's governance, risk and control framework.

Internal Audit uses a multifaceted risk assessment process to determine its annual audit plan and discusses that plan with management, the Audit Committee and the organization's supervisors. Reports of its findings are distributed widely and include a frank assessment of the quality of the controls and action plans proposed to rectify any weaknesses uncovered during the review. All action plans are closely tracked and validated after completion.

Over the past three years, Internal Audit has taken several steps to improve the effectiveness of the department, and to enhance the risk and control culture of the organization as a whole, including:

- Implementing changes to Internal Audit's risk assessment processes to better incorporate systemic risks in planning;
- Adding expertise to the audit team in areas such as risk management, derivatives, fraud prevention, information security and applications auditing;
- Installing new quality assurance processes and benchmarking our methodology against leading financial institutions;
- Introducing new tools and metrics to encourage self-identification of control weaknesses by the business and risk areas and to foster greater management awareness, responsibility and accountability; and
- Designing and launching new training for all employees in risk management fundamentals.

Internal Audit performed more than 100 audits in 2011, for model risk management, business continuity, corporate governance, change management, manual settlement processes and compensation practices, among others.



## OUR RISK MANAGEMENT REGIME

DTCC's "risk tolerances" – the levels of risk the organization is prepared to confront, under a range of possible scenarios, in carrying out its business functions – are determined by the Board, in consultation with the Group Chief Risk Officer. Our risk tolerances are defined in terms of these major risk families: credit, market, liquidity, operational, strategic and other risks. To protect the organization and our members, DTCC uses a combination of risk management tools, including strict criteria for membership, to mitigate these risks. Some of the most important tools not previously discussed are described below.

### Membership Criteria for the Clearing Corporations and Depository

While membership criteria for DTCC subsidiaries DTC, FICC and NSCC vary somewhat by subsidiary, based on the nature of its primary business, common principles guide a firm's eligibility.

To be eligible for membership, a firm must:

- Have sufficient operational capability;
- Have adequate capitalization;
- Agree to make – and have the ability to make – all anticipated fee payments; and
- Not be subject to disqualification due to a conviction for criminal action involving securities or repeated regulatory violations where the member has been found to be statutorily disqualified.

Applicants for membership must also be among the following types of financial entities:

- Broker/dealers registered under the Exchange Act of 1934;
- Banks and trust companies subject to U.S. federal or state supervision or regulation;
- Insurance companies subject to state supervision or regulation;
- Investment companies registered under Section 8 of the Investment Company Act of 1940, as amended;
- Futures commission merchants;
- Registered clearing agencies;
- Pension funds or other employee benefit funds;
- Other financial institutions, including unregistered investment pools meeting specific capitalization and other requirements;
- Certain non-U.S.-based companies that meet specific criteria; and
- Government–sponsored enterprises (GSEs).

### Credit Risk Management

All DTCC members/participants not only must meet minimum eligibility criteria prior to conducting business through DTCC companies, but they are also subject to ongoing qualitative and quantitative monitoring of their financial condition to mitigate credit risk exposure or other potential problems.

The Credit Risk Unit of DTCC's Enterprise Risk Management group conducts ongoing financial monitoring of the financial condition of all DTCC members/participants. The ongoing monitoring of members' credit risk includes the use of an internal credit-risk-rating matrix, which is quantitatively driven and produced periodically from the data obtained from the members' regulatory reports. The key financial elements focus on a member's credit, leverage, liquidity and profitability. In addition, audited financial statements filed with the regulatory agencies, information obtained from other self-regulatory organizations and information gathered from various financial publications are analyzed so that DTCC may evaluate whether the participant continues to be financially stable and has the capacity to meet the ongoing financial requirements of membership. Moreover, market-based signals are utilized in evaluating a member's credit standing. Included in the monitoring are periodic reviews of the member's capital adequacy across DTCC to ensure that the member can meet its obligations within other DTCC subsidiaries where it may also be a participant. Any impact on the member and DTCC arising from a change in business activities is also examined.

Members are required to submit audited annual financial statements. In addition, ERM solicits monthly and/or quarterly regulatory reports from either the member or its principal regulator and it may ask for further financial information, at higher frequency, if and when deemed necessary. Failure to supply reports can result in fines or expulsion. ERM also monitors markets and market news intraday so that it can take prompt action to require a member to shore up its available capital or posted margin with a clearing corporation or the depository, if necessary.

### Market Risk Management

The principal tool employed to manage exposure to a member's/family's potential default is the calculation and collection of margin from that member. As appropriate, each subsidiary maintains a risk-based clearing/participant fund. The fund's purposes are to:

1. Cover any losses (within a specified confidence level) to the clearing corporation or depository – and ultimately its members – resulting from the default of one or more members/families) and the closeout of such members' positions; and
2. Facilitate the settlement of a failed member's obligations by allowing the portion of the clearing/participant fund that consists of cash to be used to effect settlement.

The clearing fund cash is a primary, but not the sole, source of liquidity for DTCC. Other sources of liquidity include committed bank lines, repurchase agreement (repo) arrangements and other DTCC resources.

Collateral in the clearing fund must consist of U.S. dollars or a prescribed combination of U.S. dollars, U.S. Treasury securities or other eligible securities.

## PARTNERING WITH SUPERVISORS

As regulatory oversight of financial infrastructures has increased, so has the need for communication and collaboration between organizations like DTCC and our supervisors. DTCC provides regulators transparency into our governance, processes and risk controls in a multitude of ways.

Our Regulatory Relations team, formalized as a distinct group in 2011, facilitates ongoing communications with the supervisors of our regulated entities, including the Federal Reserve Bank of New York, through authority delegated from the Board of Governors of the Federal Reserve System; the United States Securities and Exchange Commission; the New York State Department of Financial Services; and, via collaboration with colleagues in London, the United Kingdom Financial Services Authority and other European regulatory authorities.

The Regulatory Relations group maintains close communication with regulators' onsite teams as part of their continuous monitoring programs, expedites regulators' access to information, and facilitates conversation with senior management and DTCC staff at all levels. The group coordinates the activities required to enable regulators to conduct scheduled examinations of key areas of the organization.

Supervisors participate in standing and ad hoc meetings with DTCC senior management and other levels of business and functional personnel on an array of issues such as new products and projects. They also maintain a dialogue with the Board, its committees and members.

DTCC is committed to continue its collaboration with its regulators as it navigates through current regulatory issues – such as those arising in connection with new business initiatives, data accessibility and transparency – and addresses evolving regulatory standards.

The amount of collateral in the clearing fund required for each member is determined principally by Value-at-Risk (VaR) calculations, which are based on the potential price-change volatility of unsettled positions according to DTCC's VaR model. The model estimates possible losses for a specific portfolio based on market volatility, an appropriate liquidation period and a confidence level typically calibrated at 99% or higher.

To ensure that the VaR model accurately reflects market conditions and portfolio stresses, and therefore provides adequate coverage against risk, the model is subject to:

- Back testing to determine the adequacy of clearing fund requirements,
- Related tests to measure the adequacy of haircuts (mark-downs) on collateral and other factors (where relevant), and
- Stress testing based on real historical and hypothetical scenarios, to assess the model's performance under extreme but plausible market conditions.

### Liquidity Risk Management

The goal of DTCC's liquidity risk management is to ensure our clearing and depository subsidiaries have sufficient funding resources to cover settlement of a defaulting member's/family's transactions.

To monitor liquidity resources, DTCC's Enterprise Risk Management conducts daily liquidity studies to calculate our subsidiaries' liquidity needs under extreme but plausible conditions, such as when a DTCC clearing corporation ceases to act for the family of accounts with the largest settlement obligations.

Liquidity risk management also involves a range of DTCC initiatives to ensure sufficient liquidity, such as the use of long allocations to cover short positions.

*Please visit* www.dtcc.com/AR2011resources *for additional risk management-related resources.*

# BUSINESS REVIEW

## EQUITIES CLEARING & SETTLEMENT

NSCC transactions processed: 20.8 billion (up 2% from 2010)

Value of NSCC transactions processed: $220.8 trillion (up 2%)

Settled value of NSCC transactions: $6 trillion (up 9%)

### Clearing

The Depository Trust Company (DTC) and National Securities Clearing Corporation (NSCC) together clear and settle virtually all broker-to-broker equity, listed corporate and municipal bond, and unit investment trust (UIT) transactions within the U.S.

In February NSCC completed implementation of the Universal Trade Capture system, replacing multiple applications for capturing transactions with a single system that provides standardized reporting formats and eliminates data transaction capacity constraints. The following month NSCC replaced its legacy RECAP system with Obligation Warehouse (OW), an automated system that provides for comparison of broker-to-broker transactions and tracks, stores and provides ongoing maintenance for open failed and unsettled non-CNS (Continuous Net Settlement) transactions.

NSCC also prepared for the 2012 launch of Trade Risk Pro℠, a post-trade risk monitoring service that will help clearing firms manage exposure on their correspondents' and their own equity trading activity.

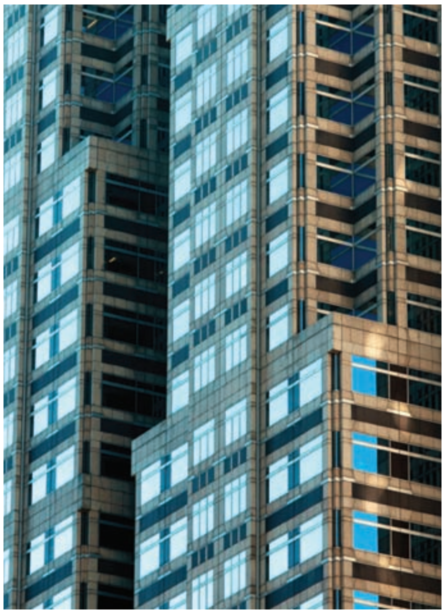
Enhancements implemented in June to the Cost Basis Reporting Service, a service offering of DTCC Solutions LLC, a wholly-owned subsidiary of DTCC, will expand usage of the service to support member compliance with Internal Revenue Service (IRS) cost basis reporting regulations for equity transactions. Enhancements completed in November will help customers comply with federal cost basis reporting mandates for mutual fund assets effective January 2012.

### Settlement

DTC eliminates the movement of securities by providing book-entry deliveries, which transfer the ownership of securities electronically. NSCC relies on its interface with DTC for the book-entry movement of securities to settle CNS transactions. In addition to NSCC transactions, DTC settles institutional trades, money market instruments and other financial obligations.

DTC implemented a new interface to its settlement systems that gives members more user-friendly access to information about their settlement activities. The Settlement Web interface gives DTC customers easy-to-use screens and navigation tools to support settlement management. Our next step will be consolidating screens and centralizing data, such that the Settlement Web, when fully implemented, will provide streamlined access to all settlement functions.

In 2011, DTC announced plans to enhance the settlement processing of money market instruments (MMIs) in ways that will help mitigate credit and systemic risks in this $363 billion-a-day market. The initial round of enhancements, scheduled to take effect in 2012, subject to Securities and Exchange Commission (SEC) approval, is part of an industry-wide effort to reduce risks associated with the settlement of these instruments. It involves accelerating the cutoff times for processing, to give MMI Issuing and Paying Agents (IPAs) more transparency in order to make informed credit decisions. ☐



## FIXED INCOME CLEARING & SETTLEMENT

Value of GCF Repos (compared trades): $199 trillion (0% change)

Value of MBS transactions processed: $98 trillion (down 6%)

MBS transactions processed: 3.9 million (up 22%)

Fixed Income Clearing Corporation (FICC) clears government and mortgage-backed security trades in the U.S. fixed income marketplace, the world's largest and most liquid financial market.

FICC in 2011 expanded its clearing operations to introduce its innovative "one-pot" margining in conjunction with the start-up of New York Portfolio Clearing. (See "Joint Ventures" below.)

Responding to market demand, Bloomberg in mid-2011 began carrying the daily DTCC GCF Repo Index™ on its news and financial information terminals.

In 2011 FICC enriched the information it publishes about U.S. Treasury trade "fails" by offering a more detailed view of the underlying data on a daily, weekly, monthly and yearly basis, and by displaying a full year's worth of back data on fail rates.

FICC replaced its legacy system for clearing mortgage-backed securities (MBS) trades with a new platform that delivers risk mitigation, capital efficiencies, and greater overall efficiency and security to customers in the MBS market.

FICC in 2011 also filed an updated application with the SEC to provide central counterparty (CCP) and pool netting services for trades in U.S. mortgage-backed securities; the SEC approved the application in March 2012. To help its member firms prepare for participation in the proposed CCP, FICC conducted several months of training seminars on new collateral requirements and other operational aspects. ☐

## ASSET SERVICES

**Securities held at DTC (year-end 2011): 3.69 million (up 2%)**

**Value of securities held at DTC (year-end 2011): $39.5 trillion (up 8%)**

**Value of securities settled: $287 trillion (up 5%)**

**New issues underwritten: 29,589 (down 19%)**

**Value of new issues underwritten: $2.5 trillion (up 5%)**

DTCC's depository subsidiary, DTC, provides custody and asset servicing for nearly 3.7 million issues from the U.S. and more than 120 foreign countries and territories, valued at about $39.5 trillion.

Asset Services' corporate actions reengineering initiative reached a significant milestone in November with the implementation of new announcement messages that will support corporate

actions announcements in ISO 20022 formats, continuing DTC's transition to supporting the global standard formats for all corporate actions communications with members. The new system will also include a new browser-based user interface.

DTC in 2011 implemented a new methodology for processing principal and income (P&I) payments that has significantly reduced the number of late or misidentified payments and their associated risks. DTC's dematerialization efforts continued to show success as the number of transferable certificates in DTC's vaults fell to 878,994 at the end of 2011. DTC vault inventory peaked in 1990, at more than 32 million certificates. ☐

## GLOBAL CORPORATE ACTIONS

Corporate action event announcements: 922,000 (down 5%)

Announcements on scheduled payments for fixed income securities: 10.4 million (up 9%)

DTCC's Global Corporate Actions Validation Service (GCA VS) tracks, validates and distributes corporate actions information on 2.5 million securities globally in more than 200 countries and 15 languages. DTCC maintains staff in New York, London and Shanghai to validate corporate actions announcements and provide timely, accurate information on the events.

DTCC extended the reach of GCA VS in 2011 by teaming up with leading software companies that automate the processing of corporate actions information. This initiative gives customers an end-to-end solution combining GCA VS's high-quality data with state-of-the-art processing capabilities offered by multiple vendors. DTCC designed a Certified Software Partner program to ensure that qualified firms were prepared to interface with the validation service. ☐

## SYNDICATED LOANS

DTCC, through its Loan/SERV suite of services, continues to build and expand the infrastructure needed to support the global syndicated loan market.

Loan/SERV Reconciliation, a service allowing agent banks and lenders to reconcile syndicated loan positions, transactions and contract information on a daily basis, now records over 6,000 loan facilities from 20 countries, and increased the customer base by 30% in 2011 to over 3,600 banks, funds and other lending vehicles.

In August 2011 Loan/SERV launched its Cash on Transfer service, the first "delivery versus payment" mechanism for secondary-market loan trade settlement. It will mitigate risk in the settlement process and improve firms' capital efficiency and cash utilization.

DTCC also announced a strategic partnership with Clearstream, the international central securities depository based in Luxembourg, to distribute the Loan/SERV Reconciliation Service to existing and prospective clients across Europe, the Middle East, Africa and Asia in 2012.

Under the strategic partnership, DTCC and Clearstream will develop bilateral loan services that will integrate DTCC's Loan/SERV platform with Clearstream's collateral management platform. ☐

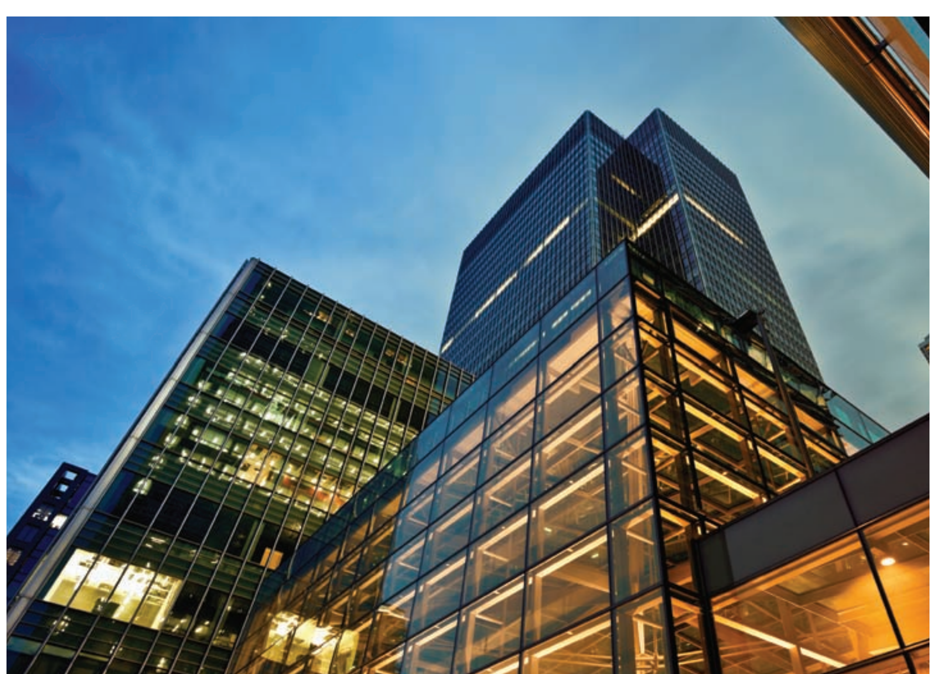
## OTC DERIVATIVES/ TRADE REPOSITORIES

Trade Information Warehouse

CDS contracts registered: 2.28 million (up 1%)

Value (USD equivalent) of net payment obligations: $570 billion (up 21%)

The global industry standard for over-the-counter (OTC) derivatives trade reporting, DTCC has helped bring greater transparency to this market. More than 2,000 customers globally are registered to



submit their trade information to DTCC's repository for OTC credit derivatives (CDS), which now holds records on 99% of the worldwide market. DTCC also operates a global trade repository for equity derivatives and our interest rates derivatives repository went live in December 2011. Repositories for foreign exchange (FX) and commodities derivatives are scheduled to launch in 2012.

In February 2011, DTCC launched our automated regulators portal providing supervisory authorities globally with direct, online access to granular counterparty data registered in our repositories. The first global regulatory service of its kind, the portal was designed according to the OTC Derivatives Regulators Forum (ODRF) guidelines on global sharing of trade data. Thirty-eight regulators worldwide are live on the portal and make use of it to obtain data on firms and markets within their oversight authority.

DTCC's Trade Information Warehouse, which provides asset servicing for the CDS market, seamlessly handled 28 credit events, 58 succession events and 6 restructurings in 2011.

DTCC is expanding the functionality of its OTC derivatives services to meet a broad range of risk mitigation requirements authorized in the U.S. Dodd-Frank Act and the European Commission's European Market Infrastructure Regulation (EMIR).

DTCC operates its OTC derivatives services through regulated subsidiaries in the U.S. and London. ☐

## WEALTH MANAGEMENT SERVICES

**Fund/SERV transactions: 223 million (up 2%)**

**Value of Fund/SERV transactions: $3.3 trillion (up 14%)**

**Securities in Mutual Fund Profile Service: 70,500 (up 9%)**

DTCC's Wealth Management Services (WMS) provides transactional and information services to three distinct markets: mutual funds, managed accounts and alternative investment products. These services link asset managers and their distribution partners, lowering risk and reducing operational costs and errors.

In 2011, WMS extended the reach of the Alternative Investment Products (AIP) service to the non-traded real estate investment trust (REIT) and hedge fund global administrator markets. The AIP service provides significant efficiencies to a firm's operations and supports market growth through an automated, centralized platform that links broker/dealers, fund managers, administrators and custodians and provides end-to-end processing of alternative investments.

In addition, WMS continued to address the operational challenges in the unified managed account (UMA) market by further developing its Model Management Xchange (MMX) service. Slated for roll out in early 2012, MMX streamlines the model distribution process between investment managers, overlay portfolio managers and program sponsors.

WMS introduced enhancements to its Mutual Funds Networking platform to help the mutual funds industry better monitor 529 Plans and comply with IRS rules and regulations. WMS also delivered additional services to support clients that have moved to "omnibus" processing for mutual funds. ☐

## INSURANCE & RETIREMENT SERVICES

Value of insurance applications, premiums & commissions processed: $43 billion (up 32%)

Position records processed: 4.8 billion (up 10%)

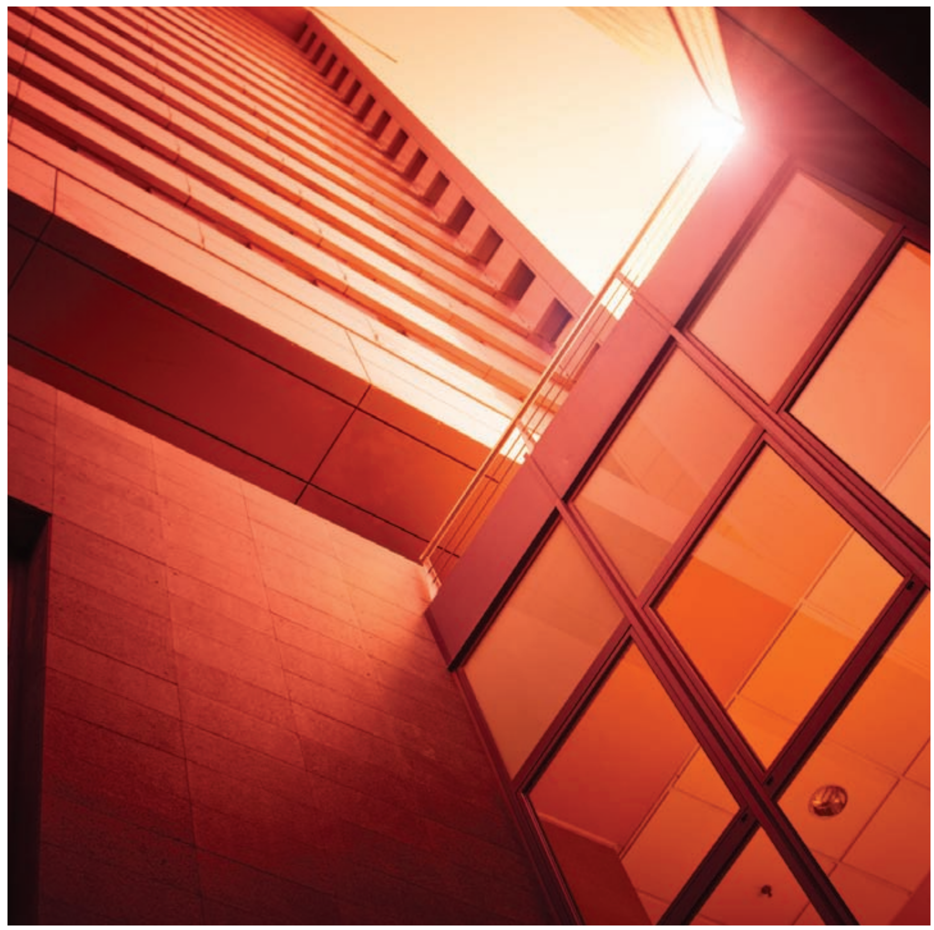
Financial Activity Reporting (FAR) transactions: 79 million (up 20%)

Licensing & Appointments transactions: 6.4 million (up 27%)

Insurance & Retirement Services (I&RS) offers a suite of streamlined processing and compliance-driven solutions for carriers and their distribution partners through a secure, centralized infrastructure.

I&RS in 2011 launched the Analytic Reporting Service, a new data analytics service that allows insurance carriers and distributors to assess their businesses in comparison to the overall market. Such data can support management decisions about sales, distribution arrangements, marketing and product offerings.

Also, in response to new state insurance regulations, I&RS released significant enhancements to its Licensing & Appointments service, which will enable carriers to track and confirm whether producers have been trained and certified to sell their specific annuity products. ☐



## EUROCCP

Transactions processed: 248 million (up 81%)

European Central Counterparty Limited (EuroCCP) provides clearing services for a number of equities-trading venues in Europe. It clears equities trades from 19 markets; its clearing services cover exchange-traded funds and depositary receipts. EuroCCP was set up to offer Europe the economies of scale achieved in the U.S. market.

EuroCCP continued to demonstrate market leadership by significantly altering Europe's market structure through multiple-CCP interoperability. It partnered with trading venue BATS Europe in July to create the "preferred CCP" arrangement, a ground-breaking move that gives firms trading on the venue a choice among multiple CCPs. Five major global firms almost immediately designated EuroCCP as their preferred CCP. The following month, BATS Europe and the largest equities trading venue in Europe, Chi-X, announced that their incumbent CCP would enter into full interoperability with EuroCCP and two others in January 2012.

EuroCCP was recognized as Best Clearing House in Europe for the second year running by *Financial News*, which also recognized the development of the preferred CCP option for its market innovation.

Also, for the second year in a row, EuroCCP received a 100% score in client satisfaction in its annual client survey. ☐

## AVOX

Avox, a wholly-owned subsidiary of DTCC, delivers validated, corrected and enriched business-entity reference data, such as corporate hierarchies and registered address information, to its global client base. For the third consecutive year, Inside Reference Data in 2011 named Avox as its Counterparty Data Provider of the Year.

Leveraging Avox's capabilities, DTCC together with SWIFT and the International Organization for Standardization (ISO) responded to a joint solicitation of interest from 14 industry trade associations for a solution to create a utility to assign a single global Legal Entity Identifier (LEI) to all legal entities that transact in financial markets. Assignment of a global LEI is considered a key building block for systemic-risk oversight capabilities being implemented by regulatory bodies around the world. The industry recommended the DTCC/ISO/SWIFT proposal to the global regulatory community. ☐

# JOINT COMPANY

## MarkitSERV

MarkitSERV, a 50-50 partnership between DTCC and Markit, provides an end-to-end solution for post-trade management of OTC derivative transactions.

In 2011 MarkitSERV expanded its capabilities in foreign exchange trade processing by acquiring Logicscope Limited, a leading provider of post-trade workflow solutions and straight-through processing for foreign exchange transactions.

To help the industry prepare for central clearing of OTC derivatives transactions, MarkitSERV launched trade matching and routing functionality to facilitate trade-date clearing for interdealer CDS trades. It also enhanced its connectivity and workflow tools to assist SwapClear, LCH.Clearnet Ltd's interest rate swap clearing service, in expanding its clearing services for buy-side firms and futures commission merchants and accepting forward rate agreements and amortizing/accreting interest rate swaps.

MarkitSERV's derivative middleware, which connects buy-side firms, banks and trade execution venues to CCPs, won *Asia Risk* magazine's Technology Development of the Year award. ☐

# JOINT VENTURES

## NYPC

New York Portfolio Clearing, LLC (NYPC), a joint-venture derivatives clearinghouse owned equally by DTCC and NYSE Euronext, has pioneered an innovative approach to clearing and margining of transactions across multiple asset classes in the fixed income markets. NYPC calculates one margin amount for a member firm's fixed income cash and futures positions. NYPC members' cash positions clear through FICC while their U.S. Treasury and Eurodollar futures clear through NYPC.

NYPC launched in March 2011, after two years of development by DTCC. It expects to enlarge the scope of its services in 2012 to provide expanded common margining capabilities. ☐

## OMGEO

Omgeo, DTCC's joint venture with Thomson Reuters, automates post-trade processing for institutional investors globally. It has a client base of more than 6,500 customers, including over 200 hedge funds, in 50 countries.

In 2011 Omgeo partnered with the Depósito Central de Valores, S.A. (DCV) of Chile to enable seamless connectivity between Omgeo Central Trade Manager (Omgeo CTM) and DCV, enabling brokers to access the central matching benefits of Omgeo CTM via DCV's institutional delivery system.

Omgeo also announced a new functionality for Omgeo ALERT, the world's largest and most compliant Web-based global database for the maintenance and communication of settlement and account instructions (SI). The new functionality, called SI Compliance Scan, lets users measure the quality of SI data by identifying, reviewing and correcting invalid instructions, allowing users to reach 100% compliance more efficiently. ☐

# INDEPENDENT AUDITORS' REPORT

Deloitte.

To the Board of Directors and Shareholders of
The Depository Trust & Clearing Corporation

We have audited the accompanying consolidated statements of financial condition of The Depository Trust & Clearing Corporation and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Depository Trust & Clearing Corporation and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

April 24, 2012
New York, N.Y.

# CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of December 31, 2011 and 2010
*(Dollars in thousands, except share data)*

| | 2011 | 2010 |
|---|---|---|
| **ASSETS:** | | |
| Cash and cash equivalents | $15,528,419 | $14,184,089 |
| Segregated cash and securities | 62,331 | 35,352 |
| Investments in marketable securities | 305,731 | 278,224 |
| Accounts receivable — less allowance for doubtful accounts of $575 at December 31, 2011 and 2010 | 152,907 | 170,220 |
| Participants funds | 9,366,960 | 18,200,889 |
| Fixed assets — less accumulated depreciation of $712,838 and $639,133 at December 31, 2011 and 2010, respectively | 249,754 | 236,088 |
| Deferred income taxes — net | 139,783 | 78,821 |
| Equity method investments | 287,547 | 281,093 |
| Other assets | 504,865 | 483,020 |
| TOTAL ASSETS | $26,598,297 | $33,947,796 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY:** | | |
| LIABILITIES: | | |
| Accounts payable and other liabilities | $1,347,308 | $1,165,118 |
| Payable to participants | 991,711 | 1,214,653 |
| Long-term debt and other borrowings | 365,834 | 387,028 |
| Clearing Fund: | | |
| Cash deposits | 13,795,882 | 12,290,305 |
| Other deposits | 9,366,960 | 18,200,889 |
| Total liabilities | 25,867,695 | 33,257,993 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Note 13) | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock: | | |
| Series A, $0.50 par value — 10,000 shares authorized, issued (above par) and outstanding | 300 | 300 |
| Series B, $0.50 par value — 10,000 shares authorized, issued (above par) and outstanding | 300 | 300 |
| Common stock, $100 par value — 28,500 shares authorized; 23,655 shares issued and outstanding | 2,366 | 2,366 |
| Paid in capital | 12,671 | 12,671 |
| Retained earnings: | | |
| Appropriated | 372,876 | 257,240 |
| Unappropriated | 441,379 | 425,844 |
| Treasury stock | (42) | (42) |
| | 829,850 | 698,679 |
| Accumulated other comprehensive loss — net of tax: | | |
| Defined benefit pension and other plans | (240,485) | (151,658) |
| Currency translation | (8,063) | (6,966) |
| Net unrealized loss on derivative instruments | (700) | (252) |
| Accumulated other comprehensive loss | (249,248) | (158,876) |
| Non-controlling interests | 150,000 | 150,000 |
| Total shareholders' equity | 730,602 | 689,803 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $26,598,297 | $33,947,796 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the years ended December 31, 2011 and 2010
*(Dollars in thousands)*

| | 2011 | 2010 |
|---|---|---|
| **REVENUES:** | | |
| Trading services | $679,108 | $560,416 |
| Custody services | 226,652 | 204,219 |
| Network services | 17,400 | 15,609 |
| Other services | 87,161 | 55,212 |
| Interest income | 24,535 | 43,143 |
| Equity in net income of equity method investments | 60,210 | 69,983 |
| Total revenues | 1,095,066 | 948,582 |
| Refunds to participants | (6,669) | (25,854) |
| Net revenues | 1,088,397 | 922,728 |
| **EXPENSES:** | | |
| Employee compensation and related benefits | 514,428 | 473,361 |
| Information technology | 114,496 | 103,662 |
| Professional, clearance, and other services | 192,680 | 149,503 |
| Occupancy | 54,573 | 54,809 |
| Interest expense | 24,985 | 25,625 |
| Other general and administrative | 24,262 | 22,902 |
| Expense reimbursements | (56,910) | (53,988) |
| Total expenses | 868,514 | 775,874 |
| Income before taxes | 219,883 | 146,854 |
| Provision for income taxes | 88,472 | 63,269 |
| Net income | 131,411 | 83,585 |
| Net income attributable to non-controlling interests | 240 | 240 |
| Net income attributable to DTCC | 131,171 | 83,345 |
| **OTHER COMPREHENSIVE LOSS — NET OF TAX:** | | |
| Defined benefit pension and other plans: | | |
| DTCC | (88,346) | (17,887) |
| DTCC's share of Omgeo LLC | (481) | (752) |
| Currency translation: | | |
| DTCC | (1,255) | 2,372 |
| DTCC's share of Omgeo LLC | 84 | (402) |
| DTCC's share of MarkitSERV LLC | 74 | (348) |
| Derivative instruments: | | |
| DTCC | (448) | (252) |
| DTCC's share of Omgeo LLC | — | (209) |
| Other comprehensive loss | (90,372) | (17,478) |
| Comprehensive income | 41,039 | 66,107 |
| Comprehensive income attributable to non-controlling interests | 240 | 240 |
| Comprehensive income attributable to DTCC | $40,799 | $65,867 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2011 and 2010

| | Preferred Stock | | Common | Paid in | Retained Earnings | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Series A | Series B | Stock | Capital | Appropriated | Unappropriated |
| Balance – December 31, 2009 | $300 | $300 | $2,366 | $12,671 | $203,880 | $395,859 |
| Net Income | | | | | 53,600 | 29,985 |
| Non-controlling interests | | | | | (240) | |
| Defined benefit pension and other plans: | | | | | | |
| DTCC (net of taxes of $10,792) | | | | | | |
| DTCC's share of Omgeo LLC | | | | | | |
| Currency translation: | | | | | | |
| DTCC | | | | | | |
| DTCC's share of Omgeo LLC | | | | | | |
| DTCC's share of MarkitSERV LLC | | | | | | |
| Derivative instruments: | | | | | | |
| DTCC (net of taxes of $175) | | | | | | |
| DTCC's share of Omgeo LLC | | | | | | |
| Balance – December 31, 2010 | 300 | 300 | 2,366 | 12,671 | 257,240 | 425,844 |
| Net Income | | | | | 115,876 | 15,535 |
| Non-controlling interests | | | | | (240) | |
| Defined benefit pension and other plans: | | | | | | |
| DTCC (net of taxes of $64,879) | | | | | | |
| DTCC's share of Omgeo LLC | | | | | | |
| Currency translation: | | | | | | |
| DTCC | | | | | | |
| DTCC's share of Omgeo LLC | | | | | | |
| DTCC's share of MarkitSERV LLC | | | | | | |
| Derivative instruments: | | | | | | |
| DTCC (net of taxes of $291) | | | | | | |
| Balance – December 31, 2011 | $300 | $300 | $2,366 | $12,671 | $372,876 | $441,379 |

*See notes to consolidated financial statements.*

| *(Dollars in thousands)* | Treasury Stock | Accumulated Other Comprehensive Income (Loss) Net of Tax: Defined Benefit Pension and Other Plans | Currency Translation | Derivative Instruments | Non-controlling Interests | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance – December 31, 2009 | ($42) | ($133,019) | ($8,588) | $209 | $150,000 | $623,936 |
| Net Income | | | | | | 83,585 |
| Non-controlling interests | | | | | | (240) |
| Defined benefit pension and other plans: | | | | | | |
| DTCC (net of taxes of $10,792) | | (17,887) | | | | (17,887) |
| DTCC's share of Omgeo LLC | | (752) | | | | (752) |
| Currency translation: | | | | | | |
| DTCC | | | 2,372 | | | 2,372 |
| DTCC's share of Omgeo LLC | | | (402) | | | (402) |
| DTCC's share of MarkitSERV LLC | | | (348) | | | (348) |
| Derivative instruments: | | | | | | |
| DTCC (net of taxes of $175) | | | | (252) | | (252) |
| DTCC's share of Omgeo LLC | | | | (209) | | (209) |
| Balance – December 31, 2010 | (42) | (151,658) | (6,966) | (252) | 150,000 | 689,803 |
| Net Income | | | | | | 131,411 |
| Non-controlling interests | | | | | | (240) |
| Defined benefit pension and other plans: | | | | | | |
| DTCC (net of taxes of $64,879) | | (88,346) | | | | (88,346) |
| DTCC's share of Omgeo LLC | | (481) | | | | (481) |
| Currency translation: | | | | | | |
| DTCC | | | (1,255) | | | (1,255) |
| DTCC's share of Omgeo LLC | | | 84 | | | 84 |
| DTCC's share of MarkitSERV LLC | | | 74 | | | 74 |
| Derivative instruments: | | | | | | |
| DTCC (net of taxes of $291) | | | | (448) | | (448) |
| Balance – December 31, 2011 | ($42) | ($240,485) | ($8,063) | ($700) | $150,000 | $730,602 |

*See notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

| *(Dollars in thousands)* | 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Income | $131,411 | $83,585 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization of fixed assets | 81,351 | 86,804 |
| Loss on disposal of fixed assets | 1,490 | — |
| Net premium amortized on investments in marketable securities | 828 | 1,109 |
| Deferred taxes | (60,962) | 36,014 |
| Distributions from equity method investments – net of earnings | 18,046 | 20,762 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 17,313 | (6,377) |
| Increase in equity method investments | (24,500) | (9,717) |
| Increase in other assets | (21,845) | (14,553) |
| Increase in accounts payable and other liabilities | 95,615 | 60,549 |
| Decrease in payable to participants | (222,942) | (98,845) |
| Increase (decrease) in participants' fund cash deposits | 1,505,577 | (600,127) |
| Net cash provided by (used in) operating activities | 1,521,382 | (440,796) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Business acquisition – net of cash received | — | (17,002) |
| Maturities of investments in marketable securities | 477,000 | 773,000 |
| Purchases of investments in marketable securities | (505,335) | (477,568) |
| (Increase) decrease in segregated cash and securities | (26,979) | 4,762 |
| Purchases of fixed assets | (96,507) | (82,349) |
| Net cash (used in) provided by investing activities | (151,821) | 200,843 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Payments to non-controlling interests | (240) | (240) |
| Proceeds from notes payable issuance | — | 24,905 |
| Principal payments on debt and capital lease obligations | (23,894) | (21,530) |
| Net cash (used in) provided by financing activities | (24,134) | 3,135 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (1,097) | 2,372 |
| Net increase (decrease) in cash and cash equivalents | 1,344,330 | (234,446) |
| Cash and cash equivalents, Beginning of year | 14,184,089 | 14,418,535 |
| Cash and cash equivalents, End of year | $15,528,419 | $14,184,089 |
| **SUPPLEMENTAL DISCLOSURES:** | | |
| Noncash financing activity – capitalized lease | $2,700 | $— |
| Income taxes paid – net of refunds | $57,672 | $46,639 |
| Interest paid | $22,216 | $24,875 |

*See notes to consolidated financial statements.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2011 and 2010

## 1. BUSINESS AND OWNERSHIP

**Subsidiaries –** The Depository Trust & Clearing Corporation (DTCC) is a holding company that supports various operating subsidiaries including The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC Deriv/SERV LLC, DTCC Solutions LLC, European Central Counterparty Limited (EuroCCP), DTCC Solutions Worldwide Limited, and Avox Limited (Avox), collectively, the “Company” or “Companies.”

DTC is a limited-purpose trust company under New York State banking law, a member of the Federal Reserve System, and a clearing agency registered with the U.S. Securities and Exchange Commission (SEC). It provides central securities depository, settlement and related services to members of the securities, banking, and other financial industries.

NSCC is a clearing agency registered with the SEC that provides various services to members of the financial community, consisting principally of securities trade comparison, netting, clearance, settlement, and risk management services.

FICC is a clearing agency registered with the SEC that provides various services to members of the government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, risk management, and electronic pool notification.

DTCC Deriv/SERV LLC provides matching, confirmation and payment processing services, and a global contracts repository to perform netting and money settlement services for the over-the-counter derivatives market.

DTCC Solutions LLC provides technology services that help financial institutions manage the rapid growth, high risk, and costs of corporate action transactions.

EuroCCP is a Registered Clearing House (RCH) in the United Kingdom regulated by the Financial Services Authority (FSA). The Company provides a pan-European clearing solution offering the economies of scale and risk management expertise of the U.S. market to European market participants.

DTCC Solutions Worldwide Limited is an authorized payment institution in the United Kingdom regulated by the FSA. The Company provides processing of non-U.S.-dollar settlements for offshore mutual funds.

The members of DTCC’s clearing agencies and RCH are collectively referred to as participants.

Avox validates and maintains business entity reference data, including corporate hierarchies, registered address information, industry sector codes, and company identifiers.

**Equity Method Investments –** Omgeo LLC (Omgeo) is a joint venture with Thomson Reuters Corporation (Thomson). Omgeo uses the institutional trade processing infrastructures of DTCC and Thomson to provide seamless global trade management and straight-through processing. The carrying value of DTCC’s investment in Omgeo included in equity method investments totaled $41,930,000 and $44,570,000 at December 31, 2011 and 2010, respectively, and represents 50% of Omgeo’s net book value.

MarkitSERV, LLC (MarkitSERV) is a joint venture with Markit Group Holdings Limited (MGHL). It engages in derivative transaction processing, confirmation, novation, and other related services for firms that conduct business in the over-the-counter derivatives market. The carrying value of DTCC’s investment in MarkitSERV included in equity method investments totaled $226,637,000 and $233,436,000 at December 31, 2011 and 2010, respectively, and reflects DTCC’s 50% ownership of MarkitSERV.

New York Portfolio Clearing LLC (NYPC) is a joint venture with NYSE Euronext, established as a derivatives clearing organization. The Company is registered with the Commodity Futures Trading Commission (CFTC). The carrying value of DTCC’s investment in NYPC included in equity method investments totaled $18,980,000 and $3,087,000 at December 31, 2011 and 2010, respectively, and reflects DTCC’s 50% ownership of NYPC.

**Noncontrolling Interests –** Under a plan adopted by the board of directors, each participant of DTC is required to own shares of its Series A preferred stock. The preferred stock does not reduce the funds available in the event of a DTC participant’s failure to settle. The ownership of DTC preferred stock is reported as noncontrolling interests in the consolidated financial statements. There was $150,000,000 of DTC Series A preferred stock outstanding as of December 31, 2011 and 2010 (1,500,000 shares at a par value of $100 per share). In December 2010, DTC’s authorized Series A preferred stock was increased by 1,750,000 shares, bringing the total to 3,250,000 authorized shares, or $325,000,000. None of the additional authorized shares have been issued.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation –** The consolidated financial statements include the accounts of DTCC and its subsidiaries. Intercompany balances and transactions are eliminated in consolidation.

**Cash and Cash Equivalents –** The Company classifies investments as cash equivalents if the original maturity of an investment is three months or less. Cash equivalents consist primarily of highly liquid investments in time deposits held in banks, commercial paper, reverse repurchase agreements and money market funds. As of December 31, 2011 and 2010, the carrying value of cash and cash equivalents approximates fair value due to the short period of time to maturity.

Reverse repurchase agreements provide for the Companies’ delivery of cash in exchange for securities having a fair value which is at least 102% of the amount of the agreements. Securities purchased under the overnight reverse repurchase agreements are typically U.S. Treasury and agency securities. Overnight reverse repurchase agreements are recorded at the contract amounts, which approximate fair value and totaled $7,399,678,000 and $7,788,042,000 at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the counterparties to these agreements were nine and ten financial institutions that are participants, respectively.

Overnight investments made in commercial paper are stated at amounts that approximate fair value totaling $2,133,866,000 and $859,955,000 at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the issuers of the commercial paper were two U.S. bank holding companies that are participants.

Money market accounts with participants are used to sweep any remaining funds available and are stated at amounts that approximate fair value. Overnight investments made in money market accounts totaled $3,717,379,000 and $3,144,390,000 at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the money market balance was with six and four financial institutions that are participants, respectively.

**Segregated Cash and Securities –** NSCC receives cash from participants that is for the exclusive benefit of the participants' customers for the participants' compliance with SEC rule 15c3-3 (customer protection). Beginning in 2011, the segregated cash and the securities in which the cash is invested are reported separately in the consolidated statement of financial condition. As of December 31, 2011, the Company held $32,331,000 of cash in a segregated cash account and two treasury notes with a carrying value of $30,000,000. Prior to 2011, the segregated cash and securities were reported as cash and cash equivalents and U.S. Treasury securities in the amount of $15,345,000 and $20,007,000, respectively. The Company restated 2010 to conform with the 2011 presentation. The impact on the 2010 consolidated statement of cash flows is a decrease in net cash from investing activities of $15,113,000 and a decrease in the beginning of year cash and cash equivalents balance of $232,000. There is no impact on the consolidated statements of income and comprehensive income.

**Investments in Marketable Securities –** The Company's investments consist principally of U.S. Treasury securities and investment-grade corporate notes. The maturity of marketable securities is typically 12 months or less. All of the marketable securities are classified as held-to-maturity and are recorded at amortized cost. The Company intends and has the ability to hold all held-to-maturity securities to maturity. The Company does not intend to reclassify any amount of held-to-maturity investments to available-for-sale or trading investments.

The Company performs a periodic review of its investment portfolio for impairment. A debt security is considered impaired if its fair value is less than its carrying value. The decline in fair value is determined to be other-than-temporary impairment if (a) the Company has the intent to sell the impaired debt security or (b) it is more likely than not the Company will be required to sell the security before the recovery of the amortized cost. Additionally, regardless of whether there is intention to sell or requirement to sell, if the Company does not expect to recover the entire amortized cost basis, the impaired debt security is considered an other-than-temporary impairment. The Company does not intend to sell those securities and it is not more likely than not that the Company will have to sell. The Company did not recognize any other-than-temporary impairment in 2011 and 2010.

The carrying value and fair value of securities as of December 31, 2011 and 2010, are as follows (dollars in thousands):

| December 31, 2011 | Carrying Value | Fair Value |
|---|---|---|
| U.S. Treasury securities | $104,759 | $104,805 |
| U.S. Treasury bills | 199,968 | 199,959 |
| Corporate notes | 1,004 | 1,052 |
| Total | $305,731 | $305,816 |

| December 31, 2010 | Carrying Value | Fair Value |
|---|---|---|
| U.S. Treasury securities | $277,220 | $295,038 |
| U.S. Treasury bills | — | — |
| Corporate notes | 1,004 | 1,083 |
| Total | $278,224 | $296,121 |

The maturity distribution by carrying amount and fair value of the Company's investment securities portfolio as of December 31, 2011 and 2010, is as follows (dollars in thousands):

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Maturity of one year or less | $304,727 | $304,764 | $277,220 | $295,038 |
| Maturity between one and five years | 1,004 | 1,052 | 1,004 | 1,083 |
| Total | $305,731 | $305,816 | $278,224 | $296,121 |

**Accounts Receivable –** Accounts receivable are related to clearing and transaction fees due from participants. Accounts receivable also represent cash dividends, interest, taxes receivable, and other. Accounts receivable are stated at cost.

The Company establishes an allowance for doubtful accounts for accounts receivable to ensure the Company has not overstated receivable balances due to uncollectibility. The Company determines the need for an allowance based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, historical experience, and the financial condition of customers and other debtors. Customers include participants and nonparticipants. The Company may record a specific reserve for individual accounts receivable when the Company becomes aware of specific customer circumstances, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. There is an allowance of $575,000 for doubtful accounts as of December 31, 2011 and 2010.

The accounts receivable as of December 31, 2011 and 2010, are as follows (dollars in thousands):

| | 2011 | 2010 |
|---|---|---|
| Due from participants for services | $78,690 | $75,818 |
| Cash dividends, interest, and related receivables | 5,469 | 13,252 |
| Taxes receivable and other | 68,748 | 81,150 |
| Total | $152,907 | $170,220 |

Stock dividends receivable are not recorded in the consolidated financial statements.

**Fixed Assets –** Fixed assets as of December 31, 2011 and 2010, consist of the following (dollars in thousands):

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Cost | Depreciation & Amortization | Net Book Value | Cost | Depreciation & Amortization | Net Book Value |
| Software | $501,496 | $350,374 | $151,122 | $435,990 | $302,338 | $133,652 |
| Furniture and equipment | 228,068 | 197,637 | 30,431 | 213,097 | 183,625 | 29,472 |
| Leasehold improvements | 156,970 | 121,536 | 35,434 | 153,032 | 113,124 | 39,908 |
| Leased property under capital leases | 40,187 | 36,531 | 3,656 | 37,487 | 34,168 | 3,319 |
| Building and improvements | 31,650 | 6,760 | 24,890 | 31,394 | 5,878 | 25,516 |
| Land | 4,221 | — | 4,221 | 4,221 | — | 4,221 |
| Total | $962,592 | $712,838 | $249,754 | $875,221 | $639,133 | $236,088 |

Leasehold improvements are amortized using the straight-line method over their useful lives or the remaining term of the related lease, whichever is shorter. Furniture and equipment are depreciated over estimated useful lives ranging from five to seven years, principally using accelerated double-declining-balance methods. Buildings and improvements are primarily amortized over 39 years using the straight-line method.

**Software Capitalization –** Internal and external costs incurred in developing or obtaining computer software for internal use are capitalized in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and are amortized on a straight-line basis over the estimated useful life of the software, generally three years. General and administrative costs related to developing or obtaining such software are expensed as incurred.

Capitalized costs related to software that was either developed for internal use or purchased totaled $72,035,000 and $75,638,000 in 2011 and 2010, respectively. The amortization of capitalized software costs was $53,724,000 in 2011 and $56,956,000 in 2010. The depreciation of other fixed assets was $27,627,000 in 2011 and $29,848,000 in 2010.

During 2011, disposals of software resulted in a charge of $841,000 and the removal of $6,529,000 and $5,688,000 from the related cost and accumulated amortization accounts, respectively. Disposals of other fixed assets resulted in a charge of $649,000 and the removal of $2,607,000 and $1,958,000 from the related cost and accumulated amortization accounts. There were no disposals of software or other fixed assets in 2010.

**Depreciation and Amortization –** Depreciation and amortization is reported in the expense classifications to which the charges are allocated in the consolidated statements of income and comprehensive income, including employee compensation and related benefits, information technology, occupancy, and other general and administrative.

**Goodwill and Intangible Assets –** Goodwill represents the excess of the purchase consideration over the fair value of net assets acquired and is recorded in other assets.

Acquired software intangible assets are amortized on a straight-line basis over their estimated useful lives. Customer relationship assets are amortized on an accelerated basis based upon management's estimate of future economic benefits to be realized. The estimated useful lives of acquired software and customer relationship intangible assets are 10 and 12 years, respectively.

Goodwill and intangible assets are reviewed annually for impairment. There was no impairment in 2011 or 2010.

**Income Taxes –** Deferred tax assets and liabilities are reported in deferred income taxes, net, in the consolidated statements of financial condition and represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

**Refunds to Participants –** The Companies invest available participants' fund cash deposits principally in overnight reverse repurchase agreements. For FICC, the earnings on these investments are included in interest income, and the amounts that were passed through to participants are included in refunds to participants. The total amount of earnings for the Company passed through to participants was $6,669,000 and $25,376,000 in 2011 and 2010, respectively.

DTC also has a policy to provide participants a monthly refund of interest earned from the overnight investment of unallocated cash dividends, interest, and reorganization funds payable to participants. Such refunds totaled $277,000 in 2011 and $478,000 in 2010.

**Securities on Deposit –** Securities held in custody by DTC for participants are not reported in the consolidated financial statements. Cash dividends and interest received by DTC or due on such securities and in the process of distribution or awaiting claim are included in payable to participants. Short positions occasionally exist in participants' securities balances. Such short positions are valued and collateralized daily by participants' cash, aggregating 130% of the short position. DTC's obligation to return such amounts to participants is reflected in payable to participants. At December 31, 2011 and 2010, short positions amounted to $32,531,000 and $37,283,000, respectively.

**Financial Instruments and Fair Value –** The carrying value of all financial instruments, which are short-term in nature, approximates fair value.

**Revenue Recognition –** Revenue is generally recognized as services are rendered. The majority of revenues are based on activities that are captured daily and billed on a monthly basis. Interest income is recorded on an accrual basis.

**Estimates –** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Management makes estimates regarding the collectibility of receivables, the outcome of litigation, the realization of deferred taxes, the recognition of uncertain tax positions, fair value measurements, the impairment of goodwill and intangibles, and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates.

**Foreign Currency –** Assets and liabilities denominated in foreign currencies are translated at rates of exchange prevailing on the dates of the consolidated statements of financial condition. Revenues and expenses are translated at average rates of exchange during the year. Gains or losses on foreign currency transactions are included in the consolidated statements of income and comprehensive income. Gains or losses on translation of the financial statements of foreign subsidiaries, when the functional currency is other than the U.S. dollar, are reflected as a separate component of equity and included in comprehensive income.

**Fair Value Measurements –** The framework for measuring fair value is established in Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement and Disclosures. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three-tier hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

*Level 1* — Financial assets and liabilities whose values are based on unadjusted, quoted prices for identical assets or liabilities in an active market.

*Level 2* — Financial assets and liabilities whose values are based on quoted prices in inactive markets, or whose values are based on models, but the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets.
b) Quoted prices for identical or similar assets or liabilities in nonactive markets.
c) Pricing models whose inputs are observable for substantially the full term of the asset or liability.
d) Pricing models whose inputs are derived principally from or corroborated by observable market data by correlation or other means for substantially the full term of the asset or liability.

*Level 3* — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of financial assets and liabilities are presented in accordance with these guidelines. The carrying value of all financial instruments, which are short-term in nature, approximates fair value.

**Noncontrolling Interests –** Noncontrolling interests represent participants' ownership of DTC's Series A preferred stock and are presented as equity in the consolidated statements of financial condition. The consolidated statements of income and comprehensive income present net income before noncontrolling interests and the net income attributable to noncontrolling interests to report the net income attributable to DTCC.

**Derivatives and Hedging –** The Company uses cash flow hedges for risk management purposes to hedge the exposure to variability in cash flows from floating-rate debt. All freestanding derivatives, including swaps, are recorded at fair value in the consolidated statements of financial condition in accounts payable and other liabilities.

Hedge accounting is applied when a derivative is highly effective at reducing the risk associated with the hedged exposure and the risk management objective and strategy are documented. Hedge documentation identifies the derivative hedging instrument, the asset or liability and type of risk hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. Derivatives that are not designated as hedges are marked to market through the consolidated statements of income.

To assess effectiveness, the Company uses the hypothetical derivative method as noted within Financial Accounting Standards Board (FASB) ASC Topic 815, *Derivatives and Hedging.* For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income (OCI) or loss and recognized in the consolidated statements of income and comprehensive income when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item. The ineffective portions of cash flow hedges, if any, are immediately recognized in the consolidated statements of income and comprehensive income. If a hedge relationship is terminated, the value of the derivative recorded in accumulated other comprehensive income (AOCI) or loss is recognized in the consolidated statements of income and comprehensive income when the cash flows that were hedged affect earnings. For hedge relationships that are discontinued because a forecasted transaction is not expected to occur according to the original hedge forecast, any related derivative values recorded in AOCI are immediately recognized in the consolidated statements of income and comprehensive income.

**Recent Accounting Pronouncements**

*ASC Topic 350, Intangibles — Goodwill and Other.* In September 2011, the FASB issued amended guidance under ASC Topic 350 in Accounting Standards Update (ASU) No. 2011-08, *Testing Goodwill for Impairment.* ASU No. 2011-08 amends ASC Topic 350 to provide an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Under the amendments in this update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The guidance is effective for the Company's year ended 2011. The adoption did not have an effect on the Company's consolidated financial statements.

*ASC Topic 820, Fair Value Measurements and Disclosures* — In May 2011, the FASB issued ASU No. 2011 04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements* in generally accepted accounting principles and International Financial Reporting Standards. The amendments to ASC Topic 820 include guidance on the application of the highest and best use and valuation premise concepts (including an exception to the valuation premise for certain risks managed on a portfolio basis), the valuation of equity instruments, and the use of premiums and discounts representing adjustments for the size of an entity's holding of an asset or liability (specifically, blockage factors are not permitted). The amendments also include expanded disclosures, including disclosures around fair value measurements categorized within Level 3 of the fair value hierarchy, and disclosures when the entity's use of a nonfinancial asset differs from the highest and best use of that asset. The amendments in ASU No. 2011-04 are to be applied prospectively. The guidance will be effective for the reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact, if any, the adoption may have on the Company's consolidated financial statements and does not expect a material impact on the consolidated financial statements.

*ASC Topic 860, Transfers and Servicing* — In April 2011, the FASB issued amended guidance under ASC Topic 860 in ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The amendments in ASU No. 2011-03 remove from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and the collateral maintenance implementation guidance related to that criterion. The new rules are effective prospectively for new transfers and exiting transactions for the period beginning on or after December 15, 2011. The Company is currently evaluating the impact, if any, the adoption may have on the Company's consolidated financial statements and does not expect a material impact on the consolidated financial statements.

*ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* — In July 2010, the FASB amended the accounting guidance for receivables as it relates to disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires disclosure of credit quality indicators, past due information, and modifications of financing receivables. For nonpublic entities, these disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption did not have an effect on the Company's consolidated financial statements.

## 3. ACQUISITIONS

On July 1, 2010, the Company acquired the outstanding shares of Avox in an all-cash transaction. Pursuant to ASC Topic 805, *Business Combinations*, the consideration of $17,775,000 paid by the Company for the outstanding shares of Avox was measured by reference to the fair value of the Avox business at the acquisition date. The transaction was accounted for as a purchase business combination, resulting in $7,836,000 of goodwill and has been adjusted in the current year by $3,440,000 to reflect a deferred tax liability. Technology and customer relationships acquired, totaling $9,095,000, are being amortized over a 10-year life and a 12-year life, respectively. In addition, a trade name valued at $3,248,000 and a noncompete agreement valued at $31,000 were acquired, and are not being amortized. The Company assumed net liabilities of $2,435,000. The acquisition was not material to the Company's operations, financial position, or cash flows.

## 4. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

A summary of financial assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2011 and 2010, by level within the fair value hierarchy is as follows (dollars in thousands):

| | As of December 31, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Clearing fund – U.S. government and federal agency securities | $7,169,215 | $2,197,745 | $ — | $9,366,960 |
| Liabilities: | | | | |
| Clearing fund – other deposits: U.S. government and federal agency securities | 7,169,215 | 2,197,745 | — | 9,366,960 |
| Derivative – over-the-counter interest rate swap | — | 1,166 | — | 1,166 |

| | As of December 31, 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Clearing fund – U.S. government and federal agency securities | $12,987,305 | $5,213,584 | $ — | $18,200,889 |
| Liabilities: | | | | |
| Clearing fund – other deposits: U.S. government and federal agency securities | 12,987,305 | 5,213,584 | — | 18,200,889 |
| Derivative – over-the-counter interest rate swap | — | 427 | — | 427 |

A description of the valuation basis, including valuation techniques and inputs, used in measuring financial assets and liabilities accounted for at fair value on a recurring basis is as follows:

**U.S. Government and Federal Agency Securities**

*U.S. Treasury Securities* — U.S. Treasury securities are measured based on quoted market prices and classified in Level 1 of the fair value hierarchy.

*U.S. Agency-Issued Debt Securities* — Callable and noncallable U.S. agency-issued debt securities are measured primarily based on quoted market prices obtained from external pricing services. Callable U.S. agency-securities are classified within Level 2 of the fair value hierarchy. Noncallable U.S. agency securities are classified within Level 1 of the fair value hierarchy.

*Agency Residential Mortgage-Backed Securities* — Agency residential mortgage-backed securities include mortgage pass-through securities (fixed and adjustable rate), interest-only securities, and principal-only securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.

**Derivative**

*Over-the-Counter Interest Rate Swap* — The over-the-counter interest rate swap is measured using standard valuation models with market-based observable inputs, including interest rate curves, and is classified within Level 2 of the fair value hierarchy.

## 5. INTANGIBLE ASSETS

A summary of intangible assets and accumulated amortization as of December 31, 2011 and 2010, included in other assets in the consolidated statements of financial condition, is as follows (dollars in thousands):

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Amortized intangible assets: | | | | | | |
| Customer relationships and other | $8,074 | $1,749 | $6,325 | $8,074 | $591 | $7,483 |
| Perpetual license | 600 | 120 | 480 | — | — | — |
| Total | $8,674 | $1,869 | $6,805 | $8,074 | $591 | $7,483 |
| Unamortized intangible assets: | | | | | | |
| Goodwill | $7,836 | n/a | $7,836 | $7,836 | n/a | $7,836 |
| Trademarks | 3,248 | n/a | 3,248 | 3,248 | n/a | 3,248 |
| Total | $11,084 | $ — | $11,084 | $11,084 | $ — | $11,084 |

Amortization of intangible assets related to customer relationships and other and perpetual licenses during 2011 was $1,158,000 and $120,000, respectively. Amortization of intangible assets related to customer relationships during 2010 was $591,000. There was no amortization of perpetual license in 2010.

As of December 31, 2011, the future estimated amortization expense is as follows (dollars in thousands):

| | |
|---|---|
| 2012 | $987 |
| 2013 | 891 |
| 2014 | 807 |
| 2015 | 735 |
| 2016 | 444 |
| Thereafter | 2,941 |
| Total future estimated amortization | $6,805 |

## 6. PARTICIPANTS AND CLEARING FUND

The rules of DTC, FICC, NSCC, and EuroCCP require their respective participants to maintain deposits related to their respective activities based on calculated requirements, which were $16,774,412,000 and $20,388,495,000 at December 31, 2011 and 2010, respectively. The deposits are available to secure participants' obligations and certain liabilities of the Companies, should they occur. All deposits of cash and securities are recorded in the consolidated statements of financial condition with the cash portion included in cash and cash equivalents.

A summary of the total Participants and Clearing Fund deposits held as of December 31, 2011 and 2010, including $6,388,431,000 and $10,102,699,000, respectively, in excess of the calculated requirements is as follows (dollars in thousands):

| | **2011** | **2010** |
|---|---|---|
| Cash | $13,795,882 | $12,290,305 |
| Other deposits – U.S. Treasury and agency securities – at fair value | 9,366,960 | 18,200,889 |
| Total | $23,162,842 | $30,491,194 |

## 7. TRANSACTIONS WITH RELATED PARTIES

DTCC has agreements with Omgeo, MarkitSERV, and NYPC to provide various support services and office facilities. Expense reimbursements under these agreements, which are included in expense reimbursements and accounts receivable, are as follows (dollars in thousands):

| | **Expense Reimbursements** | | **Receivables** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Omgeo | $28,464 | $29,980 | $2,855 | $2,887 |
| MarkitSERV | 20,244 | 20,592 | 1,894 | 1,510 |
| NYPC | 7,417 | 2,789 | 2,270 | 4,378 |
| Total | $56,125 | $53,361 | $7,019 | $8,775 |

DTCC has an agreement with Omgeo whereby, if Omgeo reduces or terminates certain services it receives from DTCC or its affiliates, Omgeo will pay extraction costs as specified in the agreement. There were no extraction costs in 2011 or 2010.

DTCC contributed software with a cost of $10,500,000 to NYPC during 2011 resulting in an increase in equity method investments in the consolidated statements of financial condition for the same amount.

DTCC entered into a loan agreement with MGHL in the amount of $15,000,000 to help facilitate the sale of the Loan/SERV Messaging Business (Loan/SERV) to MGHL during 2011. DTCC recognized a gain of $11,770,000 on the sale of the Loan/SERV Messaging Business as of December 31, 2011. The gain is recorded in other services in the consolidated statements of income and comprehensive income.

## 8. PAYABLE TO PARTICIPANTS

DTC receives cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its participants. Amounts received on registered securities withdrawn before the record date but not transferred from the name of DTC's nominee cannot be distributed, unless claimed by the owners of the securities.

Cash dividends, interest, reorganization, and redemption payables of $920,558,000 at December 31, 2011, and $1,138,521,000 at December 31, 2010, are included in payable to participants. Unclaimed balances are remitted to the appropriate authority when required by abandoned-property laws.

Payable to participants also includes settlement accounts payable, cash received from NSCC participants to facilitate their compliance with customer protection rules of the SEC, and cash received from DTC participants to collateralize their short positions. These payables totaled $71,153,000 at December 31, 2011, and $76,132,000 at December 31, 2010.

## 9. PENSION AND OTHER POSTRETIREMENT BENEFITS

DTCC has a noncontributory defined benefit pension plan covering substantially all full-time employees of the Companies. The pension plan is qualified under section 401(a) of the Internal Revenue Code. Pension benefits under the plan are determined on the basis of an employee's length of service and earnings. The funding policy is to make contributions to the plan that meet or exceed the minimum funding standards under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. DTCC also maintains a 401(h) account to fund the retiree medical plans.

Retirement benefits are also provided under supplemental nonqualified pension plans for eligible officers of the Companies. The cost of nonqualified defined benefits is determined based on substantially the same actuarial methods and economic assumptions as those used for the qualified pension plan. The Companies maintain certain assets in trust for nonqualified retirement benefit obligations. DTCC also provides health care and life insurance benefits to eligible retired employees.

In accordance with FASB guidance on employers' accounting for defined benefit pension and other postretirement plans, for the year ended December 31, 2011, DTCC recorded a charge of $153,225,000 on a pretax basis offset by a deferred tax benefit of $64,879,000, resulting in a net charge of $88,346,000 to the accumulated other comprehensive loss account to report the funded status of the defined benefit pension and other postretirement benefit plans, thereby decreasing shareholders' equity. The increase in the obligation was mainly due to a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount, partially offset by an increase in the value of the plan assets. The net decrease in shareholders' equity represents an amount not yet recognized as pension expense.

For the year ended December 31, 2010, there was a charge of $28,679,000 on a pretax basis offset by a deferred tax benefit of $10,792,000, resulting in a net charge of $17,887,000 to the accumulated other comprehensive loss account, thereby decreasing shareholders' equity. The increase in the obligation was primarily the result of a decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount, partially offset by an increase in the value of the plan's assets.

**Fair Value of Pension and Other Benefit Plan Assets** – Following are the descriptions and valuation methodologies used for assets measured at fair value.

*Mutual Funds* – This category includes actively managed investments in U.S. large cap growth, value and small cap equity securities, and international equity securities. It also includes an equity index fund that tracks the performance of the S&P 500 Index. The fair value represents the net asset value (NAV) of the shares held by the plan at year-end.

*Group Annuity Contract* – This category represents a pooled interest in an actively managed bond portfolio. The fair value is based on the balance in the account at year-end.

*Pooled Investment Fund* – This category represents an actively managed bond portfolio benchmarked to a broad U.S. bond market index. The fair value of the fund is based on the purchase price and redemption price of the units as of the close of each day the fund is open for business.

*Short-Term Investments* – This category is designed to provide safety of principal, daily liquidity, and a competitive yield by investing in high-quality money market instruments (MMIs). It is valued at the NAV of the shares held by the plan at year-end, which approximates fair value.

*Hedge Fund* – This category represents a pooled hedge fund of funds. The fund valuation is based on the NAV of the underlying funds provided by the fund managers as of year-end.

A summary of changes in the fair value of the plan's Level 3 assets for the years ended December 31, 2011 and 2010, is as follows (dollars in thousands):

| Level 3 Assets | Group Annuity Contract | Hedge Fund |
|---|---|---|
| Balance – December 31, 2009 | $21,668 | $3,000 |
| Purchases, sales and settlements | (20,107) | (1,159) |
| Realized/unrealized gains (losses) | 780 | (1,503) |
| Balance – December 31, 2010 | 2,341 | 338 |
| Purchases, sales and settlements | (1,871) | (335) |
| Realized/unrealized gains (losses) | 271 | (3) |
| Balance – December 31, 2011 | $741 | $ — |

The estimated transition obligation, actuarial loss, and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are as follows (dollars in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Transition obligation | $— | $— | $40 | $40 |
| Actuarial loss | 25,232 | 13,597 | 2,310 | 1,455 |
| Prior service cost | 1,510 | 1,637 | (7,789) | (7,790) |

The components of the funded status as of December 31, 2011 and 2010, including the classification of plan assets in accordance with the three-tier fair valuation hierarchy are as follows (dollars in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Benefit obligation at end of year: | | | | |
| Qualified plan | $896,969 | $739,904 | $— | $— |
| Other plans | 134,096 | 128,415 | 86,221 | 72,870 |
| Total benefit obligation at end of year | 1,031,065 | 868,319 | 86,221 | 72,870 |
| Fair value of plan assets at end of year | 597,090 | 556,932 | 7,593 | 7,279 |
| Funded Status | ($433,975) | ($311,387) | ($78,628) | ($65,591) |
| | Level 1 | Level 2 | Level 3 | Total |
| Pension asset fair value levels at December 31, 2011: | | | | |
| Mutual funds | $225,312 | $149,514 | $— | $374,826 |
| Short-term investments | — | 1,460 | — | 1,460 |
| Pooled investment funds | — | 220,063 | — | 220,063 |
| Group annuity contract | — | — | 741 | 741 |
| Pension assets at fair value | $225,312 | $371,037 | $741 | $597,090 |
| Pension asset fair value levels at December 31, 2010: | | | | |
| Mutual funds | $349,137 | $— | $— | $349,137 |
| Short-term investments | — | 117 | — | 117 |
| Pooled investment funds | — | 204,999 | — | 204,999 |
| Group annuity contract | — | — | 2,341 | 2,341 |
| Hedge fund | — | — | 338 | 338 |
| Pension assets at fair value | $349,137 | $205,116 | $2,679 | $556,932 |

Other benefit plan assets of $7,593 as of December 31, 2011, and $7,279 as of December 31, 2010, are all mutual funds in the Level 1 category.

Details of the net amount recognized on the consolidated statements of financial condition (excluding taxes) are as follows (dollars in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Amount not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss: | | | | |
| Prior service cost | ($3,887) | ($5,524) | $36,661 | $44,452 |
| Accumulated loss | (390,693) | (253,014) | (32,105) | (22,674) |
| Transition obligation | — | — | (40) | (80) |
| Accumulated other comprehensive loss | (394,580) | (258,538) | 4,516 | 21,698 |
| Cumulative net periodic benefit cost in excess of employer contributions | (39,394) | (52,849) | (83,144) | (87,289) |
| Net amount recognized at year-end | ($433,974) | ($311,387) | ($78,628) | ($65,591) |

The accumulated benefit obligation for all defined benefit plans as of December 31, 2011 and 2010, was $908,197 and $763,256, respectively.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted-average assumptions used to determine benefit obligations at December 31: | | | | |
| Discount rate | 4.65% | 5.55% | 4.57% | 5.41% |
| Rate of compensation increase | 3.56% | 3.56% | n/a | n/a |
| Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31: | | | | |
| Discount rate | 5.55% | 6.07% | 5.41% | 5.98% |
| Expected long-term rate of return on plan assets | 8.00% | 8.00% | 8.00% | 8.00% |
| Rate of compensation increase | 3.56% | 3.56% | n/a | n/a |
| Assumed health care cost trend rates at December 31: | | | | |
| Health care cost trend rate assumed for next year | | | 7.89% | 8.13% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | | | 4.50% | 4.50% |
| Year that the rate reaches the ultimate rate | | | 2029 | 2029 |

DTCC's actual pension plan weighted-average asset allocations as of December 31, 2011 and 2010, by asset category are as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Equity securities | 62% | 63% | 60% | 60% |
| Debt securities | 38 | 37 | 40 | 40 |
| Total | 100% | 100% | 100% | 100% |

To develop the expected long-term rate of return on assets assumptions, DTCC considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 8% long-term rate of return on assets assumption. The actual historical rate of return achieved by these assets exceeded the 8% assumption. Based on DTCC's target asset allocation guidelines, 57% to 63% of the plan assets are to be invested in equity securities, 32% to 38% in fixed-income securities (including guaranteed investment contracts), and up to 10% in alternative investments.

Details of the components of net periodic benefit cost and other changes recognized in OCI are as follows (dollars in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Components of net periodic benefit cost: | | | | |
| Service cost | $32,668 | $32,503 | $2,288 | $2,175 |
| Interest cost | 45,832 | 45,705 | 3,941 | 3,790 |
| Expected return on plan assets | (45,894) | (40,467) | (527) | (603) |
| Amortizations: | | | | |
| Prior service cost | 1,637 | 1,637 | (7,790) | (7,802) |
| Transition obligation | — | — | 40 | 40 |
| Actuarial loss | 13,761 | 9,591 | 1,636 | 1,244 |
| Settlement loss | 1,572 | 2,345 | — | — |
| Net periodic cost (benefit) | 49,576 | 51,314 | (412) | (1,156) |
| Other changes recognized in OCI: | | | | |
| Prior service cost (credit) arising during the period | — | — | — | — |
| Net gain arising during the period | 153,013 | 32,273 | 11,068 | 3,461 |
| Amortizations: | | | | |
| Transition obligation | — | — | (40) | (40) |
| Prior service cost | (1,637) | (1,637) | 7,790 | 7,802 |
| Actuarial and settlement loss | (15,334) | (11,936) | (1,635) | (1,244) |
| Net other changes in OCI | 136,042 | 18,700 | 17,183 | 9,979 |
| Total recognized in OCI | $185,618 | $70,014 | $16,771 | $8,823 |

The Companies contributed $55,000,000 to the benefit plan in 2011 and expect to contribute approximately $55,000,000 during 2012. There were no participant contributions to the plans in 2011 or 2010. During 2011, benefit payments totaled $29,848,000 for the pension plan and $3,758,000 for the other plans. In 2010, the amounts were $30,181,000 and $2,391,000, respectively. Settlement losses relate to the early retirement of executives who elected lump-sum and periodic payments.

The amounts expected to be paid or (received) in the next five years are as follows (dollars in thousands):

| | **Pension** | **Employer Benefit Payments** | **Medicare Subsidy Receipts** |
|---|---|---|---|
| 2012 | $72,589 | $3,617 | ($33) |
| 2013 | 36,040 | 3,823 | (33) |
| 2014 | 35,097 | 3,902 | (32) |
| 2015 | 41,721 | 4,125 | (31) |
| 2016 | 38,165 | 4,311 | (30) |
| Thereafter | 289,155 | 26,630 | (126) |
| Total | $512,767 | $46,408 | ($285) |

## 10. INCOME TAXES

DTCC and its subsidiaries file a consolidated federal income tax return and combined New York State and New York City income tax returns with the exception of DTC, which files separate New York State and New York City income tax returns. DTCC and its subsidiaries file unitary, combined, and separate income tax returns in various other states and non-U.S. jurisdictions. The components of the Company's income tax provision for the years ended December 31, 2011 and 2010, are as follows (dollars in thousands):

| | 2011 | 2010 |
|---|---|---|
| Current income taxes: | | |
| Federal | $58,520 | $9,829 |
| State and local | 24,396 | 7,024 |
| Foreign | 732 | — |
| Deferred income tax: | | |
| Federal | 6,496 | 33,771 |
| State and local | (1,672) | 12,645 |
| Provision for income taxes | $88,472 | $63,269 |

The 2011 and 2010 effective tax rate differs from the 35% federal statutory rate mainly due to state and local taxes, permanent differences between financial statement income and taxable income, and adjustments to deferred tax balances. Deferred tax balances include adjustments made to reflect estimated recoverable amounts in future years.

The components of deferred tax assets and (liabilities) as of December 31, 2011 and 2010, are as follows (dollars in thousands):

| | 2011 | 2010 |
|---|---|---|
| Employee benefit related | $292,413 | $203,085 |
| Rent | 3,899 | 5,399 |
| Depreciation and amortization | 6,950 | 15,190 |
| Capitalization of software developed for internal use | (62,886) | (58,419) |
| Investment tax basis difference – MarkitSERV | (88,772) | (81,037) |
| Sale and leaseback costs and other | (11,821) | (5,397) |
| Net deferred income tax asset | $139,783 | $78,821 |

The net deferred tax asset is expected to be fully realized and, accordingly, no valuation allowance was established.

DTCC applies the provisions of FASB-issued Financial Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes," (codified primarily in FASB ASC Topic 740, Income Taxes) to record unrecognized tax benefits (UTBs). As of December 31, 2011 and 2010, UTBs totaled $44,302,000 and $41,183,000, respectively.

The Company classifies interest related to UTBs, and penalties, if incurred, in tax expense in its consolidated statement of operations. As of December 31, 2011 and 2010, the amount of accrued interest recorded in the Company's consolidated statements of financial condition related to UTBs was $7,449,000 and $6,359,000, respectively.

The Company is subject to U.S. federal income tax as well as income tax in various state and local and non-U.S. jurisdictions. Federal income tax returns filed for the tax years 2007 through 2009 are currently under examination, and the federal income tax return for 2010 remains subject to examination by the IRS. New York State income tax returns for 2000 through 2007 are currently under examination, and 2008 through 2010 remain open to examination. New York City income tax returns for 2008 through 2010 remain open to examination.

For the current ongoing audits related to open tax years, the Company estimates that it is possible that the balance of UTBs could decrease in the next twelve months as a result of the effective settlement of these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which might necessitate increases to the balance of UTBs. As the Company is unable to predict the timing of conclusion of these audits, the Company is unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

## 11. LONG-TERM DEBT

Long-term debt as of December 31, 2011 and 2010, consists of the following (dollars in thousands):

| | 2011 | 2010 |
|---|---|---|
| Industrial Development Agency Bonds | $205,302 | $205,302 |
| Notes payable | 134,881 | 152,642 |
| Hudson County Improvement Authority Bond | 22,950 | 24,905 |
| Capital lease obligations | 2,701 | 4,179 |
| Total | $365,834 | $387,028 |

Long-term debt is reported at the remaining principal balance of the obligations. If the Company was to seek similar financing for the remaining terms of the long-term debt obligations as of December 31, 2011, the fair value of the Industrial Development Agency (IDA) payable, notes payable, bond payable, and capital lease obligations would be $192,546,000, $123,170,000, $23,234,000, and $2,730,000, respectively. The December 31, 2010, fair value of the IDA payable, notes payable, bond payable, and capital lease obligations were $190,180,000, $149,834,000, $24,905,000, and $3,807,000, respectively.

As of December 31, 2011 and 2010, DTC had a payable to the New York City IDA. There is a corresponding investment in IDA bonds included in other assets in the consolidated statements of financial condition. Interest expense related to the IDA payable was $15,398,000 in 2011 and 2010, respectively. These bonds mature at December 31, 2012.

Notes payable at December 31, 2011, include secured borrowings totaling $1,700,000 ($3,400,000 in 2010) from two insurance companies at a fixed rate of 4.62%. The notes are secured by certain property, plant, and equipment that were pledged at the inception of the borrowing, totaling $17,000,000. Principal and interest payments are due semiannually on March 15 and September 15 of each year through 2012. Interest expense related to these notes totaled $97,000 in 2011 and $243,000 in 2010. In addition, notes payable include unsecured borrowings totaling $18,947,000 and $20,526,000 at December 31, 2011 and 2010, respectively, from an insurance company to finance the acquisition of real estate, at a fixed rate of 5.03%. Principal payments are due annually on December 15 of each year through 2023. Interest payments are due semiannually on June 15 and December 15 of each year through the same period. Interest expense related to these notes totaled $1,032,000 in 2011 and $1,112,000 in 2010.

At December 31, 2011 and 2010, notes payable also include a DTC private placement from two insurance companies totaling $91,126,000 at fixed rates of 5.59% and 5.63%, respectively. Interest payments are due semiannually on April 15 and October 15 of each year through the notes' maturity on April 15, 2016. Interest expense related to the private placement totaled $5,110,000 in 2011 and 2010. In addition, at December 31, 2011 and 2010, notes payable include a secured borrowing from a bank with a principal balance of $23,108,000 and $37,590,000, respectively, at a fixed rate of 4.94%. At the loan's inception, certain equipment included in fixed assets in the consolidated statements of financial condition was pledged to collateralize the loan. Principal and interest payments are due semiannually on June 30 and December 30 of each year through 2013. Interest expense on this loan totaled $1,703,000 in 2011 and $2,401,000 in 2010.

Principal payments due on long-term debt over the next five years from 2012 to 2016 are $226,029,000, $11,790,000, $3,964,000, $4,049,000, and $95,255,000, respectively. DTC will receive proceeds of $205,302,000 in 2012 on the maturity of the IDA bonds, which will fund a corresponding amount of the 2012 payment.

On December 17, 2010, the Company entered into a recovery zone facility bond with the Hudson County Improvement Authority, with a principal balance of $24,905,000. The debt has a variable interest rate that is equal to the sum of the London InterBank Offered Rate (LIBOR) index rate plus 1.65%, multiplied by a factor of 68%, and matures on December 1, 2020. The weighted-average interest rate of the debt was 1.28% and 1.31% for the years ended December 31, 2011 and 2010, respectively. Repayment of the debt commenced on February 1, 2011. The Hudson County Improvement Authority has the ability to call the debt immediately due and payable if the Company fails to pay in accordance with the terms of the debt agreement or fails to comply with the other provisions stipulated in the agreement. Interest expense related to the bond totaled $333,000 in 2011. There was no interest expense in 2010.

On December 17, 2010, the Company entered into an interest rate swap arrangement to hedge the Hudson County Improvement Authority floating-rate debt payments in the principal amount of $24,905,000. The rate on the swap is fixed at 3.12% until December 1, 2020, when the swap terminates. The Company designated the swap as a cash flow hedge against variability in the future cash flows on the floating-rate payments under the bond arrangement with the Hudson County Improvement Authority, and management has concluded that the hedge is effective. At December 31, 2011 and 2010, the fair value of the swap resulted in a loss of $739,000 and $427,000, respectively. At December 31, 2011, the loss is offset by a deferred tax benefit of $291,000, and the net impact of $448,000 is reported as other comprehensive loss, net of tax in the consolidated statements of changes in shareholder's equity. The equivalent amounts in 2010 were $175,000 and $252,000, respectively. There were no undesignated derivatives at December 31, 2011 or 2010.

As of December 31, 2011, the Company was in compliance with applicable debt covenants.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. At December 31, 2011, there was a new capital lease agreement with remaining future minimum payments, including interest, which are due through February 2017, totaling $2,971,000. At December 31, 2010, remaining future minimum payments, including interest totaled $4,247,000 and were settled in 2011.

## 12. SHAREHOLDERS' EQUITY

Appropriated retained earnings represent an amount that is available for the satisfaction of losses arising out of the clearance and settlement of transactions, should they arise (see Note 14). Such amount of retained earnings is excluded from the calculation of book value per share for purposes of capital stock transactions of DTCC.

At December 31, 2011 and 2010, there were 11 shares in treasury stock.

## 13. COMMITMENTS AND CONTINGENT LIABILITIES

The Companies lease office space and data-processing and other equipment. The leases for office space provide for rent escalations subsequent to 2011. Rent expense under these leases was $19,640,000 in 2011 and $19,222,000 in 2010.

At December 31, 2011, future minimum rental payments under all non-cancelable leases are as follows (dollars in thousands):

| | |
|---|---|
| 2012 | $21,521 |
| 2013 | 12,522 |
| 2014 | 17,566 |
| 2015 | 17,610 |
| 2016 | 17,669 |
| Thereafter | 300,924 |
| Total minimum rental payments | $387,812 |

The Company also has put/call arrangements related to its Omgeo equity method investment that would require it to make payments in connection with the acquisition of the venture partner's interest. The value of the put/call would be based on the appraised value of Omgeo pursuant to the agreement terms. The put/call may be exercised at any time. As of December 31, 2011, the put/call option has not been exercised.

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 Company's consolidated financial position, operations, or cash flows.

**Lines of Credit**

At December 31, 2011 and 2010, DTC maintained a committed line of credit of $1,900,000,000 with 31 banks during 2011 and 24 banks during 2010 that include participants to support settlement. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBOR, or the lender's cost of funds, on the day of a borrowing, plus 1.375%. DTC also maintained uncommitted credit lines totaling Canadian dollar 150,000,000 with a Canadian bank to support Canadian settlement during 2011 and 2010. Further, a $50,000,000 shared uncommitted credit line with NSCC and DTCC is maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under any of these credit facilities in 2011 or 2010. In addition, to support processing of principal and income payments, DTC maintained a committed $50,000,000 credit line with a participant in 2010; the credit line was not renewed during 2011.

At December 31, 2011, NSCC maintained a committed line of credit of $6,175,000,000 with 31 banks that include participants to provide for potential liquidity needs. The borrowing rate under this facility will be the greater of the federal funds offered rate or the adjusted LIBOR, or the lender's cost of funds, for that day, plus 1.375%. At December 31, 2010, NSCC maintained a committed line of credit of $4,757,000,000 with 24 banks that include participants to provide for potential liquidity needs. The borrowing rate under this facility was the greater of the federal funds offered rate or the adjusted LIBOR, or the lender's cost of funds, for that day, plus 1.375%. In addition, a $50,000,000 shared uncommitted credit line with DTC and DTCC was maintained with a participant to support potential short-term operating cash requirements. There were no borrowings under these credit facilities in 2011 or 2010.

At December 31, 2011 and 2010, EuroCCP maintained a committed line of credit of €135,000,000 and €105,000,000, respectively, with seven banks during 2011, and six banks during 2010, that include participants to provide for potential liquidity needs. During 2011, the borrowing rate under this facility was the adjusted LIBOR, or the lender's cost of funds, for that day, plus 1.25%. During 2010, the borrowing rate under this facility was the adjusted LIBOR, or the lender's cost of funds, for that day, plus 2%. There were no borrowings under these credit facilities in 2011 or 2010.

## 14. GUARANTEES

Certain DTCC subsidiaries (NSCC, FICC, and EuroCCP) provide central counterparty (CCP) services, including clearing, settlement, and risk management services. Acting as a CCP, they guarantee the settlement of trades in the event that one party to a trade defaults. A default, as it relates to the participant, is defined in each clearing subsidiary's rules. It generally means that the participant is in formal insolvency proceedings or is in default of its obligations to the relevant subsidiary. In its guarantor role, each clearing subsidiary has equal claims to and from participating firms on opposite sides of netted transactions. To cover their guarantee risk, the clearing subsidiaries use risk-based margining to collect cash and securities collateral ("Clearing Fund").

NSCC is the leading provider of U.S. trade matching, clearing, netting, risk management and settlement for virtually all U.S. broker-to-broker trades involving equities, corporate and municipal debt, American Depositary Receipts, exchange-traded funds, and unit investment trusts. Through its continuous net settlement (CNS) system, NSCC is interposed between participants in securities clearance and settlement. CNS transactions are generally guaranteed as of the later of midnight of T+1 or midnight of the day they are reported to the membership as compared/recorded. Because NSCC stands between the participants delivering and receiving CNS trades, the failure of participants to deliver securities to NSCC on settlement date, and the corresponding failure of NSCC to redeliver the securities results in open positions. Open CNS positions are marked to market daily. Such marks are debited from or credited to the involved participants through the settlement process. The settlement of trades is generally scheduled to occur three days after the trade date. As of December 31, 2011, trades totaling $38,478,693,000 were scheduled to settle over the next three settlement days ($41,900,000,000 as of December 31, 2010). There were no defaults by participants to these obligations.

FICC, through its Government Securities Division (GSD), is the leading provider of real-time trade matching, clearing, netting, risk management and settlement for trades in U.S. government debt, including repurchase agreements. Securities processed by GSD include Treasury bills, bonds, notes, zero-coupon securities, government agency securities, and inflation-indexed securities. The U.S. government securities market is predominantly an over-the-counter market and most transactions are settled on a T+1 basis. Trades are guaranteed upon comparison. GSD's netting system interposes FICC as settlement counterparty between GSD participants for eligible trades that have been netted. The guarantee of net settlement positions by FICC results in a potential liability to FICC. Guaranteed positions that have not yet settled are marked to market daily and are debited from or credited to the responsible participants through the funds-only settlement process. At December 31, 2011, the amount of guaranteed positions due from netting GSD participants to FICC approximated $790,507,358,000. There is an equal amount due to certain other GSD participants from FICC after consideration of deliveries pending to FICC. The comparable amount at December 31, 2010, was $710,640,195,000. There were no defaults by participants to these obligations.

EuroCCP is a CCP that clears trades in 19 markets, including equities issues, and listed depositary receipts in Europe. Through the process of novation, EuroCCP substitutes itself for all counterparties, becoming the buyer to each seller, and seller to each buyer, thus assuming counterparty risk for its participants and allowing the settlement of trades in the event of participant failure. At December 31, 2011 and 2010, the total value of all pending obligations scheduled to settle over the next three settlement days was $2,735,402,000 and $1,546,185,000, respectively. There were no defaults by participants to these obligations.

If an NSCC, FICC, or EuroCCP participant defaults, such participant's deposits to the Clearing Fund would be liquidated to satisfy an outstanding obligation and/or loss. If those funds are insufficient to cover the liquidation of the defaulting participant's outstanding obligations, NSCC and FICC would then use any funds available from any applicable multilateral netting contract and limited cross-guaranty agreements, under which these clearing agencies have agreed to make payments to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that these clearing agencies have excess resources belonging to the defaulting participant.

If there is still a deficit, in the case of NSCC and FICC, they would apply no less than 25% of their retained earnings, or, in the case of EuroCCP, a discretionary amount out of its retained earnings approved by EuroCCP's board of directors, to cover the loss. Any remaining deficiency would be satisfied through a loss allocation to nondefaulting participants by using the relevant clearing subsidiary's Clearing Fund based upon a loss allocation formula set out in that subsidiary's rules.

## 15. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments held by the Company. The Company's exposure to credit risk comes primarily from clearing and settlement service operations. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, investments, accounts receivable, and participants and Clearing Fund.

Concentrations of credit risk may arise through having large connected individual exposures and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors, including economic conditions affecting the securities industry and debt-issuing countries.

Given that NSCC, FICC and EuroCCP are counterparties, they are exposed to significant credit risk of third parties, including their customer base, which extends to companies within the global financial services industry. Customers are based in the United States and overseas and include participating brokers, dealers, institutional investors, banks, trust issuers, mutual fund companies, insurance carriers, hedge funds, and other financial intermediaries — either directly or through correspondent relationships.

**Cash and Cash Equivalents**

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located in different geographical regions, and the Company's policy is designed to limit exposure with any one institution. As part of its cash and risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions. The Company only makes deposits with banks and financial institutions with a credit rating of at least A– or better from Standard & Poor's and Fitch, or A3 or better from Moody's. The Company also monitors the financial condition of the financial institutions on an ongoing basis to identify any significant change in a financial institution's financial condition. If such a change takes place, the amounts deposited in such financial institutions are adjusted.

When participants provide Participants and Clearing Fund deposits in the form of cash, the Company may invest cash deposits in overnight reverse repurchase agreements (reverse repos). The Company bears credit risk related to overnight reverse repurchase agreements only to the extent that cash advanced to the counterparty exceeds the value of collateral received. Securities purchased under overnight reverse repos are generally composed of U.S. Treasury and Agency securities and, therefore, have minimal credit risk due to low probability of U.S. government default and the highly liquid nature of these securities. Reverse repo investments are secured; collateral must have a market value greater than or equal to 102% of the cash invested. Additionally, overnight reverse repo investments are only placed with financial institutions with a credit rating of A– or better from Standard & Poor's and Fitch, or A3 or better from Moody's. To avoid concentration of credit risk exposures, the Company sets credit limits for each counterparty.

The Participants and Clearing Fund cash may also be invested in money market mutual funds under Rule 2a-7 of the Investment Company Act of 1940 with a credit rating of AAA from Standard & Poor's and Fitch, and A3 from Moody's. Since the Company only invests in highly rated money market mutual funds and the cash is returned each morning, the Company has minimal credit risk related to overnight money market mutual funds.

**Marketable Securities**

In addition to making investments in overnight reverse repos and money market funds, the Company also makes direct investments in U.S. Treasury securities. Credit risk related to marketable securities involves the risk of nonperformance by the counterparty, which could result in a material loss. To mitigate the risk of credit loss, the Company only makes investments in debt obligations of the U.S. government or those U.S. government agencies guaranteed by the U.S. government.

**Accounts Receivable**

Credit risk related to accounts receivable involves the risk of nonpayment by the counterparty. Credit risk is diversified due to the large number of participants composing the Company's customer base. The Company also performs ongoing credit evaluations of the financial conditions of its customers and evaluates the delinquency status of the receivables.

**Participants and Clearing Fund**

DTC, NSCC, FICC, and EuroCCP are exposed to credit risk on a daily basis. This risk arises at NSCC, FICC, and EuroCCP because these entities guarantee certain obligations of their participants under specified circumstances, and at DTC should a participant fail to fulfill its settlement obligation.

The Company provides risk management/mitigation by identifying, measuring and responding to these risks in order to protect the safety and soundness of the clearing and settlement system. Various tools are utilized to mitigate these risks, including, but not limited to, setting capital adequacy standards, assessing new applicants, performing continuous monitoring of participants' financial condition, reviewing participants' daily trading activity and determining appropriate collateral requirements, maintaining Participants and Clearing Fund, trade and continuous trade netting, marking unsettled trades to market, and utilizing a variety of advanced quantitative analytical methodologies, such as back and stress testing.

In order to become a participating member at any of DTCC's clearing agency or RCH subsidiaries, an applicant must meet minimum eligibility criteria (which are specified in the subsidiaries' respective rules). All applicants for membership must provide DTCC with certain financial and operational information. This information is reviewed to ensure that the applicant has sufficient financial ability to make anticipated contributions to the relevant subsidiary's Participants or Clearing Fund and to meet obligations to the subsidiary. The credit quality of the clearing participant is evaluated at the time of application and monitored on an ongoing basis to determine if the participant continues to be financially stable and continue to meet the financial requirements of membership. As part of its review, the Company utilizes an internal credit risk rating matrix to risk-rate its bank and broker participants. The resulting rating determines the level of financial review that will be performed on each participant and may impact its Participants and Clearing Fund requirements.

NSCC, FICC, and EuroCCP collect Clearing Fund deposits from their participants using a risk-based margin methodology. The risk-based methodology enables them to identify the risks posed by a participant's unsettled portfolio and to quickly adjust and collect additional deposits as needed to cover those risks. At multiple times during the day, Clearing Fund requirements are calculated for each participant based on its then-current unsettled and pending transactions. Security pricing is updated on an intraday basis, and additional charges may be collected to cover significant price movements from those participants with a significant exposure in the identified security. The Company monitors participants' overall trading activities throughout the trading day to determine whether exposures are building up that would require special actions to increase their Clearing Fund deposits.

The Company regularly performs back and stress testing of the quality and accuracy of its risk management systems to ensure the adequacy of Clearing Fund requirements and to respond to other risk factors the tests may reveal.

Collateralization controls and net debit caps are employed by DTC to protect participants against the inability of one or more participants to pay for their settlement obligations. DTC's collateralization controls prevent the completion of transactions that would cause a participant's net debit to exceed the total available collateral in its account. This is designed to assure that a participant that fails to pay for its settlement obligation will have sufficient collateral in its account to liquidate in the event it becomes insolvent. DTC's net debit cap controls limit the net settlement debit that each participant can incur to an amount, based upon activity level, which would be covered by DTC's sources of liquidity. The net debit cap helps ensure that DTC will have sufficient liquidity to complete settlement should any single participant or participant family fail to settle.

DTC, NSCC and EuroCCP also maintain lines of credit to support potential liquidity needs in the event of a participant default (see note 13).

The Company also limits its exposure to potential losses from default by participants through multilateral netting contracts and limited cross-guaranty agreements with other clearing agencies. These arrangements are designed to provide a mechanism for the sharing of excess net collateral resources of a common defaulting participant held at one clearing agency to cover losses incurred at another clearing agency. NSCC, FICC, and DTC have a multilateral netting contract and limited cross-guaranty agreement with OCC under which these clearing agencies have agreed to make payment to each other for any remaining unsatisfied obligations of a common defaulting participant to the extent that they have excess resources of the defaulting participant. NSCC and OCC also have an agreement providing for payments to each other relating to the settlement of certain option exercises and assignments in the event of a mutual participant's failure. Further, DTC and NSCC have a netting contract and limited cross-guaranty agreement which includes certain arrangements and financial guarantees to ensure that securities delivered by DTC to NSCC to cover CNS allocations are fully collateralized.

FICC, through its Government Securities Division (GSD), has a cross-margin agreement with the Chicago Mercantile Exchange designed to provide margin reduction benefits to certain "cross-margining" participants and their affiliates. FICC, through its Government Securities Division, has also entered into a "one-pot" cross-margining arrangement with NYPC. The arrangement allows certain GSD participants to combine their positions at the GSD with their positions (or those of certain permitted affiliates) cleared at NYPC within a single margin portfolio.

## 16. OTHER MATTERS

At December 31, 2011, DTC incurred severance expenses totaling $4,983,000 that are included in employee compensation and related benefits. In 2010, there was a similar expense of $3,510,000.

On September 19, 2008, a trustee was appointed, under the Securities Investor Protection Act (SIPA), to administer and liquidate the business of Lehman Brothers Inc. (LBI). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. ("Barclays"), which assets did not, however, include the accounts that LBI maintained at NSCC, FICC, and DTC.

As a result, the trustee, Barclays, and DTCC, on behalf and for the benefit of NSCC, FICC, and DTC (collectively, the "Clearing Agency Subsidiaries") entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the closeout of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify, and hold harmless DTCC, each of NSCC, FICC, and DTC, and their officers, directors, employees, owners, agents, and representatives against any and all losses, claims, damages, expenses (including legal fees) or liabilities that any of them may incur as a result of winding down and closing out the respective accounts, which guaranty is limited to a $250,000,000 cash deposit (the "Cash Deposit") it provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC, and DTC, respectively (including through application of LBI's clearing or participants fund deposits and any Clearing Agency cross-guaranty agreements). If any portion of such funds remain after the closeout of the LBI accounts and satisfaction of all obligations of NSCC, FICC, and DTC, they will be remitted to the trustee.

The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the trustee.

With respect to LBI, at December 31, 2011, DTCC and its subsidiaries held funds in the aggregate amount of $93,360,000, including the balances of the Barclays' Cash Deposit, Participants and Clearing Fund, and matured MMI accounts. As of December 31, 2010, DTCC and its subsidiaries held aggregate funds of $630,972,000 and securities of $158,615,000 including the Cash Deposit, Participants and Clearing Fund balances, and proceeds from winding down and closing out the respective accounts. As of December 31, 2011, DTCC had delivered to the trustee of the LBI estate $5,095,811,000 in cash and Participants and Clearing Fund securities valued at $159,479,000, attributable to the LBI estate. As of December 31, 2010, payment to the trustee of the LBI estate totaled $4,551,761,000.

On October 31, 2011, a trustee was appointed, under the SIPA, to administer and liquidate the business of MF Global Inc. (MFG). As part of the liquidation of MFG, any losses will first be satisfied in accordance with the rules and procedures of NSCC, FICC, DTC, and EuroCCP, respectively (including through application of MFG's Participants and Clearing Fund deposits and any clearing agency cross-guaranty agreements). If any portion of such funds remains after the closeout of the MFG accounts and satisfaction of all obligations of NSCC, FICC, DTC, and EuroCCP, they will be remitted to the trustee.

With respect to MFG at December 31, 2011, DTCC and its subsidiaries held funds in the aggregate amount of $255,454,000, including Participants and Clearing Fund, and matured MMI accounts.

Management does not expect there will be any losses attributable to the liquidation of the LBI or MFG accounts to be assessed against retained earnings or participants.

## 17. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2011, through April 24, 2012, for potential recognition or disclosure in these consolidated financial statements. On February 15, 2012, the DTCC Board of Directors approved changes to amend the DTCC benefit plan to freeze the benefit for certain participants effective December 31, 2013. After the plan freeze, certain plan participants will no longer accrue any benefits under the plans. The freeze of the plans coincides with an enhanced savings plan for eligible employees. The plan changes were communicated to plan participants on February 23, 2012. The plan freeze is expected to result in a curtailment gain, and the amount of the gain cannot yet be determined.

On March 12, 2012, DTCC was notified it had been approved by the SEC to operate a new CCP for U.S. mortgage-backed securities in its FICC subsidiary. FICC launched the CCP for all members on April 2, 2012.

On March 23, 2012, EuroCCP renewed its line of credit for €120,000,000. The borrowing rate under this facility is the adjusted LIBOR, or the lender's cost of funds, for that day, plus 1.25%.

Other than the matters noted above, no other events or transactions occurred during such period that would require recognition or disclosure in these consolidated financial statements.

## 2011 DTCC BOARD OF DIRECTORS

The Board is currently composed of nineteen directors. Three are independent, non-participant directors. Eleven directors represent clearing agency participants, including broker/dealers, custodian and clearing banks, and investment institutions. Two directors are designated by DTCC's preferred shareholders (NYSE Euronext and the Financial Industry Regulatory Authority). Three are management directors – the Executive Chairman, the President and Chief Executive Officer, and the Chief Operating Officer.

All directors except those designated by the preferred shareholders are elected annually to one-year terms. Absent exceptional circumstances, directors are not expected to serve on the Board for more than five years.

Using cumulative voting, DTCC shareholders vote on the slate of director nominees at the annual meeting of shareholders.

**Robert Druskin**
*Executive Chairman, DTCC*

**Donald F. Donahue**
*President and Chief Executive Officer, DTCC*

**Mark Alexander**
*Chief Information Officer and Head of Technology & Operations for Global Wealth and Investment Management, Bank of America Merrill Lynch*

**Michael C. Bodson**
*Chief Operating Officer, DTCC; Chief Operating Officer and President of DTC, NSCC and FICC; Chairman, EuroCCP and MarkitSERV*

**Art Certosimo**
*Senior Executive Vice President, Bank of New York Mellon*

**Christopher Concannon**
*Partner and Executive Vice President of Virtu Financial LLC*

**Stephen C. Daffron**
*Managing Director and Global Head of Operations, Technology and Data, Morgan Stanley*

**Jonathan W. Hitchon**
*Global Head of Markets Clearing, Deutsche Bank*

**Lori Hricik**
*Former Chief Executive Officer and Head of JPMorgan Treasury Services*

**Gerard LaRocca**
*Managing Director, Chief Administrative Officer, Americas, Barclays Capital*

**Stephen Luparello**
*Vice Chairman, FINRA*

**John C. Parker**
*Executive Vice President at Wells Fargo Advisors and President of the Business Services Group*

**Louis G. Pastina**
*Executive Vice President of NYSE Operations, NYSE Euronext*

**Derek A. Ross**
*Former Partner at Deloitte U.K.*

**Neeraj Sahai**
*Managing Director, Global Business Head – Securities and Fund Services, Citi*

**Gary H. Stern**
*Former President and Chief Executive Officer of the Federal Reserve Bank of Minneapolis*

**Richard G. Taggart**
*Senior Vice President and Head of Global Operations, AllianceBernstein L.P.*

**Robin A. Vince**
*Chief Operating Officer, Goldman Sachs International*

**David A. Weisbrod**
*Vice Chairman of Risk Management, JPMorgan Chase Bank, NA*

## DTCC MANAGEMENT COMMITTEE *as of December 31, 2011*

**Robert Druskin**
*Executive Chairman*

**Donald F. Donahue**
*President and Chief Executive Officer*

**Michael C. Bodson**
*Chief Operating Officer, DTCC;*
*Chief Operating Officer and President of DTC, NSCC and FICC;*
*Chairman, EuroCCP and MarkitSERV*

**John J. Colangelo**
*Managing Director, Operations, Business Reengineering and Client Services*

**Noel Donohoe**
*Executive Managing Director and Group Chief Risk Officer*

**Robert Garrison**
*Managing Director and Chief Information Officer*

**Andrew I. Gray**
*Managing Director, Core Business Management*

**Ellen Fine Levine**
*Managing Director, Chief Financial Officer and Treasurer*

**Anthony Portannese**
*Managing Director, Human Resources*

**Larry E. Thompson**
*Managing Director and General Counsel*

## THE DEPOSITORY TRUST & CLEARING CORPORATION (DTCC)

Tel: 1 212 855 1000
E-mail inquiries: info@dtcc.com
Web site: www.dtcc.com

### Subsidiaries:

**The Depository Trust Company (DTC)**
Tel: 1 212 855 5745
Fax: 1 212 855 4095
E-mail inquiries: info@dtcc.com

**National Securities Clearing Corporation (NSCC)**
Tel: 1 212 855 5745
Fax: 1 212 855 4095
E-mail inquiries: info@dtcc.com

**Fixed Income Clearing Corporation (FICC)**
Tel: 1 212 855 7500
Fax: 1 212 269 0162
E-mail inquiries: rmsupport@dtcc.com

**European Central Counterparty Limited (EuroCCP)**
Tel: +44 (0)20 7650 1594
Fax: +44 (0)20 7650 1499
Web site: www.euroccp.co.uk

**DTCC Deriv/SERV LLC**
**DTCC Derivatives Repository Ltd.**
**The Warehouse Trust Company LLC**
U.S. and Canada Tel: 1 877 765 8737
Europe/Asia Tel: +44 (0)84 4994 7378

**DTCC Solutions LLC**
New York Tel: 1 212 855 4215
London Tel: +44 (0)20 7650 1500 or +44 (0)20 7650 1544
Shanghai Tel: +86 21 3220 4710 x8015

**DTCC Loan/SERV LLC**
U.S. Tel: 1 212 855 2345
Europe Tel: +44 (0)20 7650 1425

**Avox Limited**
U.S. Tel: 1 212 855 8324
Europe Tel: +44 (0)20 7650 1426
Asia Tel: +81 3 5532 7629
Web site: www.avox.info

### Joint Company:

**MarkitSERV**
U.S. Tel: 1 212 205 7110
Europe Tel: +44 (0)20 7260 2000
APAC Tel: +81 3 6402 0260
Web site: www.markitserv.com

### Joint Ventures:

**Omgeo**
Tel: 1 866 496 6436
Web site: www.omgeo.com

**New York Portfolio Clearing (NYPC)**
Tel: 1 212 855 5210
Web site: www.nypclear.com

www.dtcc.com