The Depository Trust Company

Financial Statements as of and for the Years Ended December 31, 2019 and 2018, and Report of Independent Registered Public Accounting Firm

THE DEPOSITORY TRUST COMPANY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
The Depository Trust Company
New York, NY

Opinion on the Financial Statements

We have audited the accompanying statements of financial condition of The Depository Trust Company (the "Company") as of December 31, 2019 and 2018, the related statements of income, changes in shareholders' equity, and cash flows, and the related footnotes for each of the two years in the period ended December 31, 2019 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with the accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and 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, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

February 28, 2020

We have served as the Company's auditor since 2009.

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	As of December 31, 2019	As of December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 606,572	$ 529,478
Accounts receivable	43,954	40,826
Participants' Fund cash deposits	1,957,140	1,834,363
Other Participants' assets	510,092	513,542
Other current assets	10,695	6,893
Total current assets	3,128,453	2,925,102
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $9,466 and $117,582 as of December 31, 2019 and 2018, respectively	16,730	17,447
Intangible assets - net of accumulated amortization of $51,075 and $131,598 as of December 31, 2019 and 2018, respectively	33,477	26,283
Other non-current assets	30,721	45,004
Total non-current assets	80,928	88,734
TOTAL ASSETS	$ 3,209,381	$ 3,013,836
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 22,562	$ 20,332
Participants' Fund cash deposits	1,957,140	1,834,363
Payable to Participants	510,092	513,542
Total current liabilities	2,489,794	2,368,237
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	6,276	6,165
Total liabilities	2,496,070	2,374,402
COMMITMENTS AND CONTINGENCIES (Note 2)		
SHAREHOLDERS' EQUITY		
Preferred stock, Series A, $100 par value - 3,250,000 shares authorized; 1,500,000, issued and outstanding	150,000	150,000
Common stock, $100 par value - 18,500 shares authorized; issued and outstanding	1,850	1,850
Additional paid-in capital	61,546	61,546
Retained earnings	499,915	426,038
Total shareholders' equity	713,311	639,434
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,209,381	$ 3,013,836

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

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF INCOME

(In thousands)	For the years ended December 31, 2019	2018
REVENUES		
Settlement and asset services	$ 420,192	$ 427,547
Other services	19,705	17,884
Total revenues	439,897	445,431
EXPENSES		
Employee compensation and related benefits	183,636	180,739
Information technology	33,513	29,429
Professional and other services	86,073	95,717
Occupancy	11,240	11,307
Depreciation and amortization	9,892	12,386
General and administrative	24,334	21,046
Impairment of Intangible assets	165	1,233
Total expenses	348,853	351,857
Total operating income	91,044	93,574
NON-OPERATING INCOME (EXPENSE)		
Interest income	60,470	50,594
Refunds to Participants	(44,193)	(36,964)
Interest expense	(11,339)	(10,199)
Other non-operating income, net	9,543	8,574
Total non-operating income	14,481	12,005
Income before taxes	105,525	105,579
Provision for income taxes	29,008	22,462
Net income	$ 76,517	$ 83,117

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

THE DEPOSITORY TRUST COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)	Preferred Stock Series A	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
BALANCE - January 1, 2018	$ 150,000	$ 1,850	$ 61,546	$ 345,261	$ 558,657
Net income	—	—	—	83,117	83,117
Dividend on preferred stock	—	—	—	(2,340)	(2,340)
BALANCE - December 31, 2018	150,000	1,850	61,546	426,038	639,434
Net income	—	—	—	76,517	76,517
Dividend on preferred stock	—	—	—	(2,640)	(2,640)
BALANCE - December 31, 2019	$ 150,000	$ 1,850	$ 61,546	$ 499,915	$ 713,311

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

THE DEPOSITORY TRUST COMPANY

STATEMENTS OF CASH FLOWS

(In thousands)	**For the years ended December 31, 2019**	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 76,517	$ 83,117
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	9,892	12,386
Impairment of Intangible assets	165	1,233
Deferred income taxes	14,283	8,675
Net change in:		
Accounts receivable	(3,128)	(397)
Other assets	(3,802)	(1,165)
Other Participants' assets	—	4,184
Accounts payable and accrued expenses	1,930	8,023
Other liabilities	111	(11,508)
Participants' Fund liabilities	122,777	63,285
Payable to Participants	(3,450)	(350,994)
Net cash provided by/(used in) operating activities	215,295	(183,161)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software development costs	(16,534)	(14,071)
Net cash used in investing activities	(16,534)	(14,071)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend on preferred stock	(2,340)	(1,080)
Net cash used in financing activities	(2,340)	(1,080)
Net increase/(decrease) in Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets	196,421	(198,312)
Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets - Beginning of the year	2,877,383	3,075,695
Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets - End of the year	$ 3,073,804	$ 2,877,383
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 11,256	$ 10,478
Income taxes paid - net of refunds	$ 16,098	$ 25,309

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

1. BUSINESS AND OWNERSHIP

The Depository Trust Company (DTC or the Company) is a limited purpose trust company formed under the Banking Law of New York State and supervised by the New York State Department of Financial Services (NYSDFS); a State member bank of the Federal Reserve System (FRS), subject to examination by the Federal Reserve Bank of New York (FRBNY) under delegated authority from the Board of Governors (the FRB) of the FRS; and a clearing agency registered with and under the supervision of the U.S. Securities and Exchange Commission (SEC). DTC provides central securities depository, settlement and related services to members of the securities, banking and other financial industries (collectively referred to as Participants).

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC ITP LLC, DTCC Deriv/SERV LLC and DTCC Solutions LLC.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

Use of estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Management makes estimates regarding, among other things, the collectability of receivables, the outcome of litigation, the realization of deferred taxes, unrecognized tax benefits, fair value measurements, expense allocations and other matters that affect the reported amounts. Estimates are based on judgment and available information; therefore, actual results could differ materially from those estimates.

Cash and cash equivalents. All highly liquid investments purchased with an original maturity of three months or less at the date of acquisition are classified as Cash and cash equivalents. Cash equivalents consist primarily of highly liquid investments in deposits held in banks.

Fair value measurements. The Company may be required or permitted to measure and disclose certain assets and liabilities using fair value measurements. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Company uses a three-level classification hierarchy of fair value measurements that establishes the quality of inputs used to measure fair value. The fair value of financial instruments is determined using various techniques that involve some level of estimation and judgment, the degree of which is dependent on the price transparency and the complexity of the instruments.

Accounts receivable. Accounts receivable are stated at cost, net of an allowance for doubtful accounts. The Company establishes an allowance for estimated losses resulting from 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Participants' Fund. The rules of DTC require Participants to maintain deposits in the Participants' Fund related to their DTC activities based on calculated requirements, as determined by the Company. The deposits may be applied to satisfy obligations of the depositing Participants, other Participants or DTC as provided in DTC's rules. Participant cash deposits are maintained within the Participants' Fund on the accompanying Statements of Financial Condition due to the benefits and risks of ownership incurred by the Company.

Cash deposits. Deposits and contributions received in the form of cash may be invested in bank deposits, reverse repurchase agreements, money market funds and direct obligations of the U.S. Government. Reverse repurchase agreements provide for DTC's delivery of cash in exchange for securities having a market value that is at least 102% of the amount of the agreements. Securities purchased under reverse repurchase agreements are typically U.S. Treasury and agency securities. All interest earned on investments is accrued and refunded to Participants within Refunds to Participants in the accompanying Statements of Income.

Securities held in custody. Securities held in custody by DTC for Participants, which are predominantly in electronic book form, but also include physical certificates, are not reported in the accompanying 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 Other Participants' assets with a corresponding liability recorded in Payable to Participants on the accompanying Statements of Financial Condition. Short positions occasionally exist in securities balances and are credited to the account of the Participants; such short positions are valued and collateralized daily by 130% of the short position reflected in Other Participants' assets on the accompanying Statements of Financial Condition. DTC's obligation to return such cash collateral to Participant is also reflected in Payable to Participants.

Federal reserve stock. DTC is a member of the FRBNY and, as a member, is required to maintain a minimum level of investment in FRB stock based on the Company's capital. The FRB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Based on this evaluation, the Company determined there is not an other-than temporary impairment as of December 31, 2019 and 2018. The FRB stock, amount to $6,402,000 at December 31, 2019 and 2018, is included in Other non-current assets on the accompanying Statements of Financial Condition.

Premises and equipment. Premises and equipment are stated at cost, net of accumulated depreciation. Routine maintenance, repairs and replacement costs are expensed as incurred, while improvements that extend the useful life of the assets are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the accompanying Statements of Income. Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. The following table summarizes how the Company depreciates Premises and equipment:

Premises and equipment	Amortization Period	Amortization Method
Leasehold improvements	Shorter of useful life or remaining term of the lease	Straight-line
Furniture and equipment	5 to 7 years	Straight-line
Building and improvements	39 years	Straight-line

Depreciation expense for leasehold improvements, furniture and equipment, and buildings and improvements is included in Depreciation and amortization in the accompanying Statements of Income.

Intangible assets. Intangible assets represent capitalized software. The Company capitalizes eligible costs associated with the acquisition or development of internal-use software projects that provide new or significantly improved functionality. The Company capitalizes software costs expected to result in long-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. All other costs incurred in connection with an internal-use software project are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Intangible assets are amortized over estimated useful lives of three years using the straight-line method.

Revenue recognition. The Company recognizes revenue to depict the transfer of promised services and related performance obligations to customers in an amount that reflects the consideration to which the entity expects to be entitled, upon satisfaction, in exchange for those services. Promised services and related performance obligations are recognized at the point in time when the control of the promised services is transferred to the customer.

To recognize revenue the Company applies the following steps: identify the contract(s) with the customer, identify the performance obligations in the contract(s), determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation.

Certain contracts with customers contain variable consideration, where the amount the Company receives is contingent on a future event occurring or not occurring, even though the amount itself may be fixed. Variable consideration primarily relates to volume based discounts or rebates for certain services, however does not have an impact on the revenue recognition due to volume targets or thresholds typically resetting on a monthly basis.

The Company derives its revenue from transaction fees, subscription and other services. Revenue from transaction fees is recognized at a point in time on the transaction date, as the customer obtains the control and benefit of the service at that point. Subscription revenues are recognized ratably over the performance period of the relevant contract using a time elapsed measure of progress as the customer receives the benefits of the services throughout the term of the contract. Other services, which represents fees generated from offering referential based data and business processing solutions to financial institutions globally, is recognized when services are provided based on contractual terms.

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

S*ettlement and asset services.* The Company provides settlement services for equity, corporate and municipal debt trades and money market instruments in the United States of America. Through asset services, the Company, offers a broad range of services for underwriting, custody, corporate actions, dividend, proxy and reorganization services, as well as the electronic registration and transfer of securities. Occasionally, the Company offers rebates to its customers, which are discretionary and recognized upon approval by the Board of Directors, and are recorded as a reduction to Settlement and asset services revenue.

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

*Rebates***.** During 2019, the Company recorded and paid a one-time rebate approved by the Board of Directors in the amount of $13 million to its customers. The rebate was based on a pro rata share of qualifying revenues, using estimated 2019 operating margin of the Company as the basis for the calculation. The rebate is recorded as a reduction to Settlement and asset services revenue in the accompanying Statements of Income.

Accounts receivable and deferred revenue. The period in which the Company recognizes revenue may differ from the timing of payments received from customers. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied. Deferred revenue represents the Company's contract liabilities related to billings or payments received in advance for subscription and other services, when the performance obligation has not yet been satisfied. Deferred revenues as of December 31, 2019 and 2018 was $2,615,000 and $0, respectively, and are included in Accounts payable and accrued expenses on the accompany Statements of Financial Condition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reconciliation of Cash, cash equivalents and restricted cash. The Company includes all cash on the Statements of Financial Condition when reconciling the beginning and ending total amounts shown in the Statements of Cash Flows, which includes Cash and cash equivalents and cash balances that are not available for general corporate purposes due to certain restrictions - Participants' Fund cash deposits and Cash in Other Participants' assets.

A reconciliation of Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets, reported within the Statements of Financial Condition that sum to the total of the same such amounts shown on the Statements of Cash Flows as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Cash and cash equivalents	$ 606,572	$ 529,478
Participants' Fund cash deposits (see Note 4)	1,957,140	1,834,363
Cash in Other Participants' assets (see Note 5)	510,092	513,542
Total Cash and cash equivalents, Participants' Fund cash deposits, Cash in Other Participants' assets shown on the Statements of Cash Flows	$ 3,073,804	$ 2,877,383

Income taxes. The Provision for income taxes is computed using the asset and liability method. The tax currently payable is based on taxable income for the year. Taxable income differs from Income before taxes as reported in the accompanying Statement of Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company records a deferred income tax (benefit) provision when there are differences between assets and liabilities measured for financial reporting and for income tax return purposes. These temporary differences result in taxable (deferred tax liability) or deductible (deferred tax asset) amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. 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. Deferred tax assets and liabilities are reported net by jurisdiction in non-current assets or liabilities on the accompanying Statements of Financial Condition. 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.

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

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

3. ACCOUNTING AND REPORTING DEVELOPMENT

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted		
ASU 2019-12 Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes *Issued December 2019*	• Clarifies and simplifies aspects of accounting for income taxes. • Eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences.	• Effective January 1, 2022. • The Company is evaluating the impact on related disclosures in its financial statements.
ASU 2019-05 Financial Instruments - Credit Losses: Targeted Transition Relief *Issued May 2019*	• Provides entities with an option upon adoption of ASU 2016-13 *Financial Instruments - Credit Losses* to irrevocably elect the fair value option on an instrument-by-instrument basis for certain financial instruments that are both within the scope of the current expected credit loss and eligible for the fair value option.	• Effective January 1, 2020. • The Company will not elect the fair value option on any instrument within the scope and therefore no impact on its financial statements and related disclosures.
ASU 2018-18 Clarifying Interactions of the Revenue Recognition and Collaborative Arrangements Standards *Issued November 2018*	• Amends Collaborative Arrangement standard to clarify that certain transactions between participants in a collaborative arrangement should be accounted for under new Revenue Recognition standard when the collaborative partner is considered the customer. Requires revenues from such collaborative contracts to be recognized upon transfer of control of a good or service in the amount of consideration expected to be received from the collaborative partner. • Precludes an entity from presenting collaborative arrangement consideration as revenue from contracts with customers if the collaborative partner is not considered the customer.	• Effective January 1, 2020. • The Company's implementation efforts included the identification and evaluation of collaborative arrangements that were not reviewed under the implementation of ASU 2014-09 *Revenue from Contracts with Customers*. • The adoption of the standard will not have a material impact to the recognition and timing of revenues for collaborative arrangements or on its financial statements and related disclosures.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract *Issued August 2018*	• Implementation costs related to a CCA will be deferred or expensed as incurred in accordance with the existing internal-use software guidance for similar costs.	• Effective January 1, 2020. • The adoption of the standard will not have a material impact on its financial statements and related disclosures.

3. ACCOUNTING AND REPORTING DEVELOPMENT (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted (continued)		
ASU 2018-13 Changes to the Disclosure Requirements for Fair Value Measurement *Issued August 2018*	• Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy (see Note 8). • Public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. • Modifies certain disclosure requirements for nonpublic entities to make them less burdensome.	• Effective January 1, 2020. • The adoption of the standard is not expected to have an impact on the related disclosures in its financial statements.
ASU 2016-13 Financial Instruments - Credit Losses *Issued June 2016*	• Replaces the current incurred loss approach for credit losses with an "expected loss" model for instruments measured at amortized cost. • Requires all lifetime credit losses for financial assets held at the reporting date to be estimated based on factors such as historical experience, current conditions and forecasts. • Requires entities to record allowances for available-for-sale debt securities.	• Effective January 1, 2020. • The Company determined the largest instrument in scope of the standard is trade receivables. Trade receivables will require an adjustment to its provision matrix for current and forward-looking projections however, adjustments are not expected to be material. • The adoption of the standard will not have a material impact on its financial statements and related disclosures.

4. PARTICIPANTS' FUND CASH DEPOSITS

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

	2019	2018
Required cash deposits	$ 1,150,000	$ 1,150,000
Excess cash deposits	807,140	684,363
Total	$ 1,957,140	$ 1,834,363

Participants' cash deposits in the Participants' Fund may be applied to satisfy obligations of the depositing Participants, other Participants or DTC as provided in DTC's rules.

5. OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

The Company receives cash and stock dividends, interest, reorganization and redemption proceeds on securities registered in the name of its nominee, Cede and Co., and interest and redemption proceeds on bearer securities, which it distributes to Participants. Balances representing cash dividends, interest, reorganization, redemptions, and cash collateral received of respectively, are included in Other Participants' assets, with a corresponding liability recorded in Payable to Participants, on the accompanying Statements of Financial Condition.

Details for Other Participants' assets and Payable to Participants as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Assets:		
Other Participants' assets:		
Cash	$ 510,092	$ 513,542
Liabilities:		
Payable to Participants	$ 510,092	$ 513,542

Payable to Participants also includes $126,000 and $127,000 of cash collateral received from Participants, representing 130% of short positions as of December 31, 2019 and 2018, respectively. Unclaimed balances are remitted to the appropriate authority when required, pursuant to abandoned property laws.

6. PREMISES AND EQUIPMENT

The cost, accumulated depreciation and net book value of Premises and equipment for the years ended December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Furniture and equipment	$ —	$ 53,664
Leasehold improvements	12,207	67,376
Buildings and improvements	11,483	11,483
Land	2,506	2,506
Cost Premises and equipment	26,196	135,029
Less accumulated depreciation	(9,466)	(117,582)
Premises and equipment, net	$ 16,730	$ 17,447

Depreciation expense for premises and equipment for the years ended December 31, 2019 and 2018 was $717,000 and $726,000, respectively, and are included in Depreciation and amortization in the accompany Statements of Income.

During the years ended December 31, 2019 and 2018, disposal of fully depreciated premises and equipment resulted in the removal of cost and accumulated depreciation of $108,833,000 and $14,890,000, respectively. There were no other disposals of premises and equipment for the years ended December 31, 2019 and 2018.

7. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization and net book value of capitalized software for the years ended December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Gross carrying value capitalized software	$ 84,552	$ 157,881
Less accumulated amortization	(51,075)	(131,598)
Capitalized software, net	$ 33,477	$ 26,283

Details for estimated amortization expense for each of the next four years follow (in thousands):

2020	$ 10,791
2021	11,033
2022	8,265
2023	3,388
Total future estimated amortization	$ 33,477

Amortization expense for capitalized software for the years ended December 31, 2019 and 2018 was $9,175,000 and $11,660,000, respectively, and are included in Depreciation and amortization in the accompanying Statements of income.

The Company recognized impairment charges on capitalized software determined to have no realizable value for December 31, 2019 and 2018 in the amount of $165,000 and $1,233,000, respectively. The impairment charges are included in Impairment of Intangible assets in the accompanying Statements of Income.

During the years ended December 31, 2019 and 2018, disposal of fully amortized capitalized software resulted in the removal of cost and accumulated amortization of $89,600,000 and $0, respectively. There were no other disposals of capitalized software for the years ended December 31, 2019 and 2018.

8. FAIR VALUE MEASUREMENTS

Valuation hierarchy
U.S. GAAP provides for a three-level valuation hierarchy based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. Details for the descriptions of the three levels follow:

- Level 1 — Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets as of the valuation date.

- Level 2 — Inputs to the valuation methodology are quoted market prices for similar assets and liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 — Inputs to the valuation methodology are unobservable and reflect the Company's own assumptions about the estimates market participants would use pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding timing and amount of expected cash flows).

A financial asset or liability's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets and liabilities measured at fair value on a recurring basis.
There were no assets or liabilities measured at fair value on a recurring basis during the years ended December 31, 2019 and 2018.

Financial assets and liabilities measured at other than fair value.
Financial assets and liabilities whose carrying value approximates fair value. The carrying values of certain assets and liabilities approximate their fair values because they are short-term in duration, have no defined maturity, or have market-based interest rates. These instruments include Cash and cash equivalents, Participants' Fund - Cash deposits, Other Participants' assets, Accounts payable and accrued expenses and Payable to Participants.

The tables below present the carrying values, fair values and fair value hierarchy levels of all financial instruments measured at other than fair value on the accompanying Statements of Financial Condition as of December 31, 2019 and 2018 (in thousands):

	2019				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 606,572	$ 606,572	$ 606,572	$ —	$ —
Participants' Fund cash deposits	1,957,140	1,957,140	1,957,140	—	—
Other Participants' assets	510,092	510,092	510,092	—	—
Total	$ 3,073,804	$ 3,073,804	$ 3,073,804	$ —	$ —
Liabilities:					
Accounts payable and accrued expenses	$ 22,562	$ 22,562	$ —	$ 22,562	$ —
Participants' Fund liabilities	1,957,140	1,957,140	1,957,140	—	—
Payable to Participants	510,092	510,092	510,092	—	—
Total	$ 2,489,794	$ 2,489,794	$ 2,467,232	$ 22,562	$ —

	2018				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 529,478	$ 529,478	$ 529,478	$ —	$ —
Participants' Fund cash deposits	1,834,363	1,834,363	1,834,363	—	—
Other Participants' assets	513,542	513,542	513,542	—	—
Total	$ 2,877,383	$ 2,877,383	$ 2,877,383	$ —	$ —
Liabilities:					
Accounts payable and accrued expenses	$ 20,332	$ 20,332	$ —	$ 20,332	$ —
Participants' Fund liabilities	1,834,363	1,834,363	1,834,363	—	—
Payable to Participants	513,542	513,542	513,542	—	—
Total	$ 2,368,237	$ 2,368,237	$ 2,347,905	$ 20,332	$ —

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets measured at fair value on a non-recurring basis. Certain assets are subject to measurement at fair value on a non-recurring basis. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if determined to be impaired. Fair value is based on discounted cash flow analyses or comparing values of similar instruments. Discounted cash flow analyses are dependent upon various factors including estimated future cash flows, interest rate yield curves and volatility of inputs.

Fair values on the aforementioned impairments disclosed in Note 7 were based on discounted cash flows using Level 3 inputs under the fair value guidance. The cash flows are those expected to be generated by the market participants, discounted at a rate commensurate with the risk of the cash flows.

9. PENSION AND POSTRETIREMENT BENEFITS

Defined contribution retirement plans. Eligible U.S. DTCC employees participate in one of two defined contribution plans, The Depository Trust & Clearing Corporation Employee Savings Plan (Employee Savings Plan) and The Depository Trust & Clearing Clearing Corporation Operations Level Employee Savings Plan (Operations Level Savings Plan). The Employee Savings Plan is a single employer plan covering non-bargaining unit employees. The Operations Level Savings Plan is a single employer plan covering bargaining unit employees.

Defined benefit pension and other postretirement benefit plans. Eligible DTCC employees participate in DTCC's trusteed non-contributory defined benefit pension and other postretirement plans, which provide for certain benefits upon retirement. DTCC's sponsored non-contributory plans include a defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan. Eligible DTCC employees also participate in DTCC's life insurance program, which provides for the payment of death benefits to beneficiaries of eligible retired employees, and DTCC's health care program, which provides benefits to eligible retired employees.

Cost allocation. DTCC allocates the cost of these plans to its subsidiaries based primarily upon the estimated proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The defined contribution retirement plans costs allocated to DTC were $7,077,000 and $5,423,000 for the years ended December 31, 2019 and 2018, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to DTC were $3,211,000 and $3,361,000 for the years ended December 31, 2019 and 2018, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income in the accompanying Statements of Income based on the nature of the pension expense component.

10. INCOME TAXES

DTC is included in DTCC's consolidated Federal and various state tax returns. DTC also files other state tax returns on a separate company basis.

Details for the components of the Company's Provision (Benefit) for income taxes calculated on a separate company basis for the years ended December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Current income tax/(benefit):		
Federal	$ 10,624	$ 15,389
State and local	4,101	9,739
Total current income tax/(benefit)	14,725	25,128
Deferred income tax/(benefit):		
Federal	9,825	6,072
State and local	4,458	(8,738)
Total deferred income tax/(benefit)	14,283	(2,666)
Provision for income taxes	$ 29,008	$ 22,462

10. INCOME TAXES (CONTINUED)

Pursuant to a tax sharing agreement between DTCC and DTC, the Company is liable for its allocable share of Federal, state and local tax liabilities that are paid by DTCC. For the years ended December 31, 2019 and 2018, the Company paid income taxes to DTCC, net of refunds, of $16,098,000 and $25,309,000, respectively.

The 2019 and 2018 effective tax rates differ from the 21% Federal statutory rate, respectively, primarily due to state and local taxes, and changes in unrecognized tax benefits. Details for the reconciliation of the U.S. Federal statutory tax rate to the Company's effective tax rate on Income before taxes for the years ended December 31, 2019 and 2018 follow:

	2019	2018
U.S. statutory tax rate	21.0%	21.0%
State and local income taxes, net of Federal tax benefit	6.1	6.2
Change in unrecognized tax benefits	0.3	(8.5)
Enactment of the Tax Reform Act	—	(1.0)
Settlements of tax audits	—	2.8
Other	0.1	0.8
Effective tax rate	27.5%	21.3%

Details for the components of deferred tax assets and liabilities as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Deferred tax assets:		
Accrued compensation and benefits	$ 29,322	$ 32,900
Depreciation	—	4,659
Deferred rent	23,137	4,062
Other	1,046	1,396
Total deferred tax assets	53,505	43,017
Deferred tax liabilities:		
Capitalized software	(6,161)	(4,415)
Depreciation and amortization	(23,025)	—
Total deferred tax liabilities	(29,186)	(4,415)
Net deferred tax assets	$ 24,319	$ 38,602

The deferred tax assets are expected to be fully realized and, accordingly, no valuation allowance was established as of December 31, 2019 and 2018.

Details for unrecognized tax benefits as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Beginning balance at January 1,	$ 3,024	$ 10,146
Increases based on prior period tax positions	—	665
Decreases based on prior period tax positions	—	(5,685)
Decreases related to settlements with taxing authorities	—	(2,102)
Ending balance as of December 31,	$ 3,024	$ 3,024

The Company classifies interest and penalties related to unrecognized tax benefits, if incurred, in Provision for income taxes in its accompanying Statements of Income. As of December 31, 2019 and 2018, accrued interest related to unrecognized tax benefits recorded on the accompanying Statements of Financial Condition totaled $1,988,000 and $1,544,000, respectively.

10. INCOME TAXES (CONTINUED)

Unrecognized tax benefits are estimated based on judgment, assessment of relevant risks, facts and circumstances. Actual results could differ materially from those estimates. The Company believes that the liability for unrecognized tax benefits is the best estimate in relation to the potential for additional assessments. Unexpected results from one or more such tax audits could significantly adversely affect our income tax provision and our results of operations.

Details for the periods currently under examination and remaining subject to examination by jurisdiction as of December 31, 2019 follow:

	Tax Years	
Jurisdiction	**Under Examination**	**Subject to Examination**
U.S. Federal - Internal Revenue Service	2014	2016 - 2018
New York State	2015 - 2016	2017 - 2018
New York City	2012 - 2014	2015 - 2018
State of Florida	2013 - 2015	2016 - 2018

11. SHAREHOLDERS' EQUITY

DTC Series A Non-Cumulative Perpetual Preferred Stock. Under a plan adopted by the Board of Directors, each Participant of DTC is required to own shares of DTC Series A preferred stock. There was $150,000,000 of DTC Series A preferred stock (1,500,000 shares at par value of $100 per share) outstanding as of December 31, 2019 and 2018. Annual dividends are accrued based on the weighted average rate of interest paid by the Company on required Participants Fund deposits during the dividend period as disclosed in the DTC's rules. The 2019 annual dividend amount of $2,640,000 will be paid in April 2020, to the holders of DTC Series A Preferred stock during 2019.

12. CAPITAL REQUIREMENTS

The capital requirements for DTC is equal to the sum of the general business risk capital requirement and corporate contribution, as described below. The Company must meet the capital requirements by holding liquid net assets funded by equity, as described in Rule 17Ad-22(e)(15) of the CCAS and the Clearing Agency Policy on Capital Requirements.

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

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

12. CAPITAL REQUIREMENTS (CONTINUED)

Details for general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
General business risk capital requirement	$ 169,398	$ 169,119
Corporate contribution	84,699	84,559
Total requirement	254,097	253,678
Liquid net assets funded by equity	606,572	529,478
Excess	$ 352,475	$ 275,800

Capital Adequacy. The capital and leverage ratios filed with the FRBNY and the NYSDFS as of December 31, 2019 follow:

	Ratio	Minimum Capital Ratio[a]	Well Capitalized Ratio[a]
Tier 1 capital ratio [a]	103.94%	6.00%	8.00%
Total capital ratio [1]	103.94%	8.00%	10.00%
Tier 1 leverage ratio [2]	20.07%	4.00%	4.00%

(a) As defined by the regulations issued by the Federal Reserve, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.
(1) Tier 1 capital primarily includes common stock, retained earnings and preferred stock. DTC's tier 1 capital and total capital ratios are based on tier 1 capital and total risk-weighted assets.
(2) Tier 1 leverage ratio is based on tier 1 capital and quarterly average total assets.

13. LINES OF CREDIT AND CREDIT RATINGS

Lines of credit. The Company maintains lines of credit to support settlement. Details for the terms of the outstanding lines of credit as of December 31, 2019 and 2018 follow:

Committed	2019	2018
Amount	$1.9 billion [1]	$1.9 billion [1]
Denomination	USD	USD
Number of Participants/Lenders	32/41	33/41
Borrowing rate	The greater of the federal funds offered rate, adjusted LIBOR, or lenders' cost of funds, on the day of borrowing, plus 1.40%	
Maturity Date	May 2020	May 2019

(1) The annual facility fee associated with maintaining the line of credit was 10 basis points of the total line of credit, for the years ended December 31, 2019 and 2018, and is included in Professional and other services in the accompanying Statements of Income.

13. LINES OF CREDIT AND CREDIT RATINGS (CONTINUED)

Uncommitted	2019	2018
Amount	C$150 million [2]	C$150 million [2]
Denomination	CAD	CAD
Number of Participants/Lenders	1/1	1/1
Borrowing rate	A rate per annum equal to the Canadian Prime Rate minus 0.50%	
Maturity Date	On Demand	On Demand

(2) Used to support Canadian settlement.

There were no borrowings under any of these lines during 2019 and 2018.

Details for debt covenants related to the committed line of credit as of December 31, 2019 and 2018 follow:

	2019	2018
Minimum Net Worth	$150 million	$150 million
Minimum Participants' Fund deposits	$750 million	$750 million

For the years ended December 31, 2019 and 2018, the Company was in compliance with its debt covenants.

Credit Ratings. The Company is rated by Moody's Investors Service, Inc. (Moody's) and S&P Global Inc. (S&P). Details for issuer credit ratings and ratings outlooks for the Company as of December 31, 2019 follow:

Moody's [1]			S&P		
Long-term	**Short-term**	**Outlook**	**Long-term**	**Short-term**	**Outlook**
Aaa	P-1	Stable	AA+	A-1+	Stable

(1) Moody's categorizes the long-term issuer ratings of the Company as a clearing counterparty rating (CCR) under the agency's Clearing Houses Rating Methodology.

14. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of the business, the Company enters into significant related party transactions with DTCC and its other subsidiaries.

Transactions with DTCC. DTC has an agreement with DTCC whereby DTCC pays for substantially all of the operational expenses of DTC, and from time-to-time purchases of long-term assets acquired by DTCC on behalf of DTC. The related expenses are allocated to DTC based upon its estimated use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services and certain other services for DTC including administrative, internal audit, finance and legal services. For the years ended December 31, 2019 and 2018, the billing for these services was 108% of total allocated expenses, excluding charges passed through to Participants and capitalized software costs. The fee, representing the amount in excess of the actual cost, is included in Professional and other services in the accompanying Statements of Income.

Transactions with DTCC Solutions LLC. DTCC Solutions LLC perform announcement creation and validation services on behalf of DTC in connection with DTC's corporate action data information and are billed at cost. On May 1, 2018, the agreement between these two companies was terminated. Expenses under this agreement were included in Professional and other services in the accompanying Statements of Income.

On January 1, 2018, a new agreement was created for the Data Services product. Under the agreement, DTCC Solutions LLC sells data products including referential and activity-based data, announcement, security reference, and liquidity, on

14. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

behalf of DTC. All of the revenue from the sales is billed back to DTC and is included in Other services, in the accompanying Statements of Income. The associated expenses incurred, plus a 5% mark-up fee, are also billed back to DTC, and these related expenses are included in Employee compensation and related benefits, Information technology, Professional and other services, Occupancy, Depreciation and amortization and General and administrative, respectively, in the accompanying Statements of Income.

Details for related party transactions for 2019 and 2018 follow (in thousands):

	Revenues (2) For the years ended December 31,		Expenses For the years ended December 31,		Payables/(Receivables) (3) As of December 31,	
Related parties	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
DTCC (1)	$ —	$ —	$ 23,726	$ 24,019	$ 10,525	$ 7,144
DTCC Solutions LLC	12,807	11,123	2,826	21,614	(841)	2,229
Total	$ 12,807	$ 11,123	$ 26,552	$ 45,633	$ 9,684	$ 9,373

(1) DTCC expenses relate to the 8% mark-up fee for services described above.
(2) Included in Other services in the accompanying Statements of income.
(3) Included in Accounts payable and accrued expenses on the accompanying Statements of Financial Condition.

15. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS

DTC is exposed to significant credit risk to third-parties including its customer base, which extends to companies within the global financial services industry. Credit risk represents the potential for loss due to the default or deterioration in credit quality of a Participant. The Company's exposure to credit risk is primarily derived from clearing and settlement service operations. Customers are based in the United States of America and overseas and include participating brokers, dealers, banks, mutual fund companies, insurance carriers, and other financial intermediaries. Credit risk also comes from financial assets, which consist principally of cash and cash equivalents, accounts receivable and the Participants' Fund.

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

Cash and cash equivalents. The Company maintains cash and cash equivalents with various financial institutions including the Federal Reserve Bank. These financial institutions are located in the United States of America and Canada, and the Company's policy is designed to limit exposure with any one financial institution. As part of its credit and risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions with whom it places funds. The Company generally makes deposits with financial institutions having a credit rating of at least BBB+/Baa1 or better from recognized rating agencies and that are approved via its internal credit review process. The Company also monitors the condition of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's condition. If such a change takes place, the amounts deposited in such financial institutions may be adjusted.

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 comprising 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.

15. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS (CONTINUED)

Participants' Fund cash deposits. In addition to risk management policies described above for cash and cash equivalents, when Participants provide cash deposits to the Participants' Fund, the Company may invest the cash in reverse repurchase agreements (reverse repos). The Company bears credit risk related to reverse repurchase agreements only to the extent that cash advanced to the counterparty exceeds the value of collateral received. Securities purchased under reverse repos are generally U.S. Treasury and Agency securities having minimal credit risk due to low probability of U.S. government default, coupled with the highly liquid nature of these securities. Reverse repos are collateralized and the collateral must have a market value greater than or equal to 102% of the cash invested. Additionally, reverse repos are typically placed with financial institutions with a credit rating of BBB+/Baa1 or better from recognized rating agencies and that are approved via the Company's credit review process. To avoid concentration of credit risk exposures, the Company sets credit limits for each counterparty.

Participant cash deposits may also be invested in money market mutual funds under Rule 2a-7 of the Investment Company Act of 1940 having a credit rating of AAA/Aaa from recognized rating agencies. Credit risk is mitigated by investing in highly rated money market mutual funds and having cash returned daily.

The Company is exposed to credit risk on a daily basis. This risk arises at DTC should a Participant fail to fulfill its settlement obligation. The Company manages and mitigates this risk by identifying, measuring and responding to these risks in order to protect the safety and soundness of the DTC 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 the Participants' Fund; netting trades continuously; marking unsettled trades to market; and utilizing a variety of advanced quantitative analytical methodologies, such as back and stress testing.

To become a participating member, an applicant must meet minimum eligibility criteria that are specified in the Company's rules. All applicants must provide the Company with certain financial and operational information to be a DTC Participant. This information is reviewed to ensure the applicant has sufficient financial resources to make anticipated contributions to the Participants' Fund and to meet its obligations to the Company. The credit quality of the 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 able 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 Participants. The resulting rating determines the level of financial review to be performed on each Participant and may impact their Participants' Fund requirements.

Collateralization controls and net debit caps are employed by DTC to protect Participants against the risk that one or more Participants may fail to pay for their settlement obligations. DTC's collateralization controls prevent the completion of transactions that would cause a Participant's net debit balance to exceed the value of collateral in its account. The controls are designed to provide DTC with sufficient collateral to obtain funding for settlement in the event a Participant fails to pay its settlement obligation. 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 liquidity resources. The net debit cap requires DTC to maintain sufficient liquidity to complete settlement should any single Participant or Participant family fail to settle.

DTC maintains a committed, secured line of credit to support potential liquidity needs in the event of a Participant default.

The Company also limits its exposure to potential losses from default by Participants through its multilateral netting contract and limited cross-guaranty agreements with NSCC, FICC and the Options Clearing Corporation (OCC). These arrangements are designed to provide a mechanism for the sharing of excess net resources of a common defaulting Participant held at one clearing agency to cover losses incurred at another clearing agency. DTC and the 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 has a netting contract and limited cross-guaranty agreement with NSCC, which includes certain arrangements. Securities delivered by DTC to NSCC to cover Continuous Net Settlement (CNS) system allocations are fully collateralized.

15. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS (CONTINUED)

If a Participant defaults, such Participant’s deposits to the Participants' Fund would be liquidated to satisfy an outstanding obligation and/or loss incurred by DTC. If those funds are insufficient to cover the defaulting Participant’s outstanding obligations, DTC may use other Participant deposits in the Participants' Fund or apply a portion of its retained earnings to cover the loss.

16. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2019 through February 28, 2020, for potential recognition or disclosure in these accompanying financial statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying financial statements.