13. CAPITAL REQUIREMENTS (CONTINUED)

Details for the general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of December 31, 2020 and 2019 follow (in thousands):

	2020	2019
General business risk capital requirement	$ 179,187	$ 169,398
Corporate contribution	89,593	84,699
Total requirement	268,780	254,097
Liquid net assets funded by equity	684,377	606,572
Excess	$ 415,597	$ 352,475

Capital Adequacy. The capital and leverage ratios filed with the FRBNY and the NYSDFS as of December 31, 2020 follow:

	Ratio	Minimum Capital Ratio[a]	Well Capitalized Ratio[a]
Tier 1 capital ratio [1]	103.26 %	6.00 %	8.00 %
Total capital ratio [1]	103.26 %	8.00 %	10.00 %
Tier 1 leverage ratio [2]	20.55 %	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) Total capital and Tier 1 capital include 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.

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, 2020 and 2019, the billing for these services amounted to the allocated expenses plus a 7% and 8% of mark-up fee, respectively; 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 sells data products including referential and activity-based data, announcement, security reference, and liquidity, on 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.

14. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Details for related party transactions for 2020 and 2019 follow (in thousands):

	Revenues [2]		Expenses		Payables/(Receivables) [3]	
	For the years ended December 31,		For the years ended December 31,		As of December 31,	
Related parties	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
DTCC [1]	$ —	$ —	$ 22,484	$ 23,726	$ 8,392	$ 10,525
DTCC Solutions LLC	14,721	12,807	3,667	2,826	(164)	(841)
Total	$ 14,721	$ 12,807	$ 26,151	$ 26,552	$ 8,228	$ 9,684

(1) DTCC expenses represent the 7% and 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 Participants 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 providing clearing and settlement service operations. DTC's global Participant base includes participating brokers, dealers, banks, mutual fund companies, insurance carriers, and other financial intermediaries.

Credit risk also comes from the investment of 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 FRBNY. The Company’s investment policy is designed to limit its 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 credit ratings 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. The Company also performs ongoing credit evaluations of the financial conditions of its Participants and evaluates the delinquency status of the receivables.

Participants' Fund cash deposits. Cash deposits to the DTC Participants' Fund may only be invested in bank deposit accounts that provide same day access to funds.

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 for membership; performing continuous monitoring of Participants' financial condition; reviewing Participants' daily trading activity and determining appropriate collateral requirements; maintaining its risk-based 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.

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

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 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 and/or other forms of surveillance to risk rate or monitor Participants. The resulting rating or degree of surveillance 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 a Participant's net debit balance from exceeding 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 agreement with NSCC, FICC and the Options Clearing Corporation (OCC). This arrangement is 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. NSCC and DTC are also party to a netting contract and limited cross-guaranty agreement that includes special cross-guaranties and related arrangements designed to permit transactions to flow smoothly between DTC's system and NSCC's CNS system in a collateralized environment.

If a Participant defaults, such Participant's deposits to the Participants' Fund would be used 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. OTHER MATTERS

The outbreak of the novel coronavirus ("COVID-19") in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The World Health Organization has declared COVID-19 a "Public Health Emergency of International Concern." The global impact of the outbreak continues to evolve, and as cases of the virus have continued to be identified, many countries have reacted by instituting quarantines and restrictions on travel. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of COVID-19. Nevertheless, COVID-19 could have a material impact on the Company's financial statements. In addition to the factors described above, other factors either in the U.S or internationally that may affect market, economic and geopolitical conditions, and thereby adversely affect the Company's business include, without limitation, economic slowdown, changes in interest rates and/or a lack of availability of credit, changes in law and/or regulation, and uncertainty regarding government and regulatory policy.

16. OTHER MATTERS (CONTINUED)

The ongoing concerns related to the COVID-19 virus caused DTC to suspend all physical securities processing services from the Company's vault from March 20, 2020 to May 18, 2020. DTC is at risk for a range of additional potential exposures, the most significant of which stem from the inability to process physical securities. As a result, the Company has potential contingent liabilities from: (i) the acceptance of Letters of Securities Possession (LOP) and (ii) the issuance of Letters of Indemnification certificates (LOI). The LOP is used when, due to extraordinary circumstances, the underwriter of a new issue is unable to deliver the physical certificates to DTC as required by DTC's operating rules. An LOI is issued to Transfer Agents to enable the processing of transactions when the presentment of physical certificates is not possible. An LOI is effective until such time that the physical certificates become available and are returned to the Transfer Agent.

Since March 20, 2020, DTC received 3,559 LOPs from underwriters for $91.1 billion in new issuances and issued 5,005 LOIs for a total value of $39.3 billion. As of December 31, 2020, of the $91.1 billion, 7 LOPs were outstanding with a total value of $114.1 million and of the $39.3 billion, 46 LOIs were outstanding with a total value of $132.4 million. The Company continues to assess this matter and believes, based on information available to it, the resolution of these matters will not have a material adverse effect on the financial condition and to the Company's operating results or cash flows for any particular period. Accordingly, no such amounts have been recognized by the Company in the accompanying financial statements. The Company continues to assess the probability and the estimation of the exposure to determine the extent of further disclosures and/or whether recognition may be necessary going forward.

All other DTC services remain uninterrupted and the Company has not experienced any impairments to the Company's assets or material adverse financial impacts related to COVID-19.

17. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2020 through February 26, 2021, the date these financial statements are available to be issued, for potential recognition or disclosure. No additional events or transactions, other than as disclosed below, occurred during such period that would require recognition or disclosure in these financial statements.

On February 1, 2021, a settlement agreement was executed with the New York City tax authorities with respect to ongoing state income tax audits related to the years 2012-2014. See Note 11 for additional information.

On February 10, 2021, the Board of Directors approved a cash distribution in the amount of $30 million from DTC to DTCC. The distribution will be made in April 2021.