

The Depository Trust & Clearing Corporation

Consolidated Financial Statements as of September 30, 2020
and December 31, 2019 and for the three and nine months
ended September 30, 2020 and 2019

THE DEPOSITORY TRUST & CLEARING CORPORATION

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THE DEPOSITORY TRUST & CLEARING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands, except share data)	As of September 30, 2020	As of December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,293,834	\$ 8,395,163
Participants' segregated cash	1,465	4,876
Short-term investments	1,145,000	900,000
Accounts receivable - net of allowance for credit losses	172,666	177,219
Participants' and Clearing Funds	56,506,395	40,814,905
Other Participants' assets	1,193,682	514,104
Other current assets	129,659	177,940
Total current assets	<u>65,442,701</u>	<u>50,984,207</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$254,529 and \$322,474 as of September 30, 2020 and December 31, 2019, respectively	207,213	216,417
Goodwill	57,699	57,699
Intangible assets - net of accumulated amortization of \$636,047 and \$747,006 as of September 30, 2020 and December 31, 2019, respectively	323,413	325,125
Equity method investments	—	10,676
Operating lease right-of-use-asset	225,302	237,689
Other non-current assets	294,885	304,719
Total non-current assets	<u>1,108,512</u>	<u>1,152,325</u>
TOTAL ASSETS	<u>\$ 66,551,213</u>	<u>\$ 52,136,532</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount	\$ 3,119,575	\$ 7,154,217
Current portion of long-term debt	3,969	4,103
Current portion of pension and postretirement benefits	30,842	34,270
Current portion of operating lease liability	27,052	25,906
Accounts payable and accrued expenses	115,062	102,179
Participants' and Clearing Funds	56,506,395	40,814,905
Payable to Participants	1,195,147	518,980
Other current liabilities	202,931	266,160
Total current liabilities	<u>61,200,973</u>	<u>48,920,720</u>
NON-CURRENT LIABILITIES:		
Non-current portion of long-term debt	1,987,026	3,921
Non-current portion of pension and postretirement benefits	175,746	178,384
Non-current operating lease liability	251,063	264,848
Other non-current liabilities	278,354	263,681
Total non-current liabilities	<u>2,692,189</u>	<u>710,834</u>
Total liabilities	<u>63,893,162</u>	<u>49,631,554</u>
COMMITMENTS AND CONTINGENCIES (Note 2)		
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
Series C, \$0.50 par value - 1,600 shares authorized, issued (above par), and outstanding	390,516	390,516
Common stock, \$100 par value - 80,000 shares authorized, 50,908 shares issued and outstanding	5,091	5,091
Additional paid-in capital	411,065	411,065
Retained earnings	1,925,239	1,769,638
Accumulated other comprehensive loss, net of tax	(224,460)	(221,932)
Non-controlling interests	150,000	150,000
Total shareholders' equity	<u>2,658,051</u>	<u>2,504,978</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 66,551,213</u>	<u>\$ 52,136,532</u>

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

THE DEPOSITORY TRUST & CLEARING CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
REVENUES				
Settlement and asset services	\$ 95,608	\$ 118,188	\$ 333,140	\$ 344,780
Clearing services	166,833	157,229	525,882	469,063
Matching services	70,376	67,689	220,931	204,752
Repository and derivatives services	65,237	71,467	202,198	218,180
Wealth management services	26,198	25,531	81,451	77,684
Data and other services	11,194	9,949	29,028	30,119
Investment income	6,457	4,098	2,319	13,272
Total revenues	<u>441,903</u>	<u>454,151</u>	<u>1,394,949</u>	<u>1,357,850</u>
EXPENSES				
Employee compensation and related benefits	204,081	190,091	567,946	552,522
Information technology	46,927	44,735	142,106	130,702
Professional and other services	84,393	89,639	252,094	250,559
Occupancy	12,775	12,198	37,010	35,073
Depreciation and amortization	37,911	34,616	106,696	105,434
General and administrative	10,647	15,162	33,222	38,637
Impairment of Intangible assets	—	968	7,001	2,968
Total expenses	<u>396,734</u>	<u>387,409</u>	<u>1,146,075</u>	<u>1,115,895</u>
Total operating income	<u>45,169</u>	<u>66,742</u>	<u>248,874</u>	<u>241,955</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	11,878	134,223	124,329	443,684
Refunds to Participants	(6,442)	(86,197)	(81,328)	(290,869)
Interest expense	(21,307)	(51,693)	(98,456)	(164,712)
Net income from Equity method investments	42	185	558	150
Other non-operating income, net	8,721	7,556	28,890	29,408
Total non-operating (expense) income	<u>(7,108)</u>	<u>4,074</u>	<u>(26,007)</u>	<u>17,661</u>
Income before taxes	38,061	70,816	222,867	259,616
Provision for income taxes	7,929	18,126	53,958	67,805
Net income	<u>\$ 30,132</u>	<u>\$ 52,690</u>	<u>\$ 168,909</u>	<u>\$ 191,811</u>

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

THE DEPOSITORY TRUST & CLEARING CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net income	\$ 30,132	\$ 52,690	\$ 168,909	\$ 191,811
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax:				
Foreign currency translation	1,080	(2,157)	(2,528)	(1,611)
Other comprehensive income (loss)	1,080	(2,157)	(2,528)	(1,611)
Comprehensive income	<u>\$ 31,212</u>	<u>\$ 50,533</u>	<u>\$ 166,381</u>	<u>\$ 190,200</u>

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

THE DEPOSITORY TRUST & CLEARING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(In thousands)	Preferred Stock			Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax		Non-controlling Interests	Total Shareholders' Equity
	Series A	Series B	Series C				Defined Benefit Pension and Other Plans	Foreign Currency Translation		
BALANCE - January 1, 2020	\$ 300	\$ 300	\$ 390,516	\$ 5,091	\$ 411,065	\$ 1,769,638	\$ (216,758)	\$ (5,174)	\$ 150,000	\$ 2,504,978
Net income	—	—	—	—	—	86,252	—	—	—	86,252
Other comprehensive loss	—	—	—	—	—	—	—	(3,610)	—	(3,610)
BALANCE - March 31, 2020	300	300	390,516	5,091	411,065	1,855,890	(216,758)	(8,784)	150,000	2,587,620
Net income	—	—	—	—	—	52,525	—	—	—	52,525
Other comprehensive income	—	—	—	—	—	—	—	2	—	2
Dividend on preferred stock	—	—	—	—	—	(9,750)	—	—	—	(9,750)
BALANCE - June 30, 2020	300	300	390,516	5,091	411,065	1,898,665	(216,758)	(8,782)	150,000	2,630,397
Net income	—	—	—	—	—	30,132	—	—	—	30,132
Other comprehensive income	—	—	—	—	—	—	—	1,080	—	1,080
Dividend on preferred stock	—	—	—	—	—	(3,558)	—	—	—	(3,558)
BALANCE - September 30, 2020	\$ 300	\$ 300	\$ 390,516	\$ 5,091	\$ 411,065	\$ 1,925,239	\$ (216,758)	\$ (7,702)	\$ 150,000	\$ 2,658,051

(In thousands)	Preferred Stock			Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax		Non-controlling Interests	Total Shareholders' Equity
	Series A	Series B	Series C				Defined Benefit Pension and Other Plans	Foreign Currency Translation		
BALANCE - January 1, 2019	\$ 300	\$ 300	\$ 390,516	\$ 5,091	\$ 411,065	\$ 1,571,298	\$ (189,472)	\$ (6,863)	\$ 150,000	\$ 2,332,235
Net income	—	—	—	—	—	61,956	—	—	—	61,956
Other comprehensive income	—	—	—	—	—	—	—	212	—	212
BALANCE - March 31, 2019	300	300	390,516	5,091	411,065	1,633,254	(189,472)	(6,651)	150,000	2,394,403
Net income	—	—	—	—	—	77,165	—	—	—	77,165
Other comprehensive income	—	—	—	—	—	—	—	334	—	334
Dividend on preferred stock	—	—	—	—	—	(9,750)	—	—	—	(9,750)
BALANCE - June 30, 2019	300	300	390,516	5,091	411,065	1,700,669	(189,472)	(6,317)	150,000	2,462,152
Net income	—	—	—	—	—	52,690	—	—	—	52,690
Other comprehensive loss	—	—	—	—	—	—	—	(2,157)	—	(2,157)
BALANCE - September 30, 2019	\$ 300	\$ 300	\$ 390,516	\$ 5,091	\$ 411,065	\$ 1,753,359	\$ (189,472)	\$ (8,474)	\$ 150,000	\$ 2,512,685

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

THE DEPOSITORY TRUST & CLEARING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	For the nine months ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 168,909	\$ 191,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106,696	105,434
Impairment of Intangible assets	7,001	2,968
Net loss on disposal of Premises and equipment and Intangible assets	—	2,716
Net (income)/loss from Equity method investments	(558)	(150)
Deferred income taxes	1,943	2,197
Accretion of discount on Commercial paper, net of associated interest paid	(38,099)	21,983
Other	22,114	18,238
Net change in:		
Accounts receivable	2,743	6,644
Other Participants' assets	—	450
Other assets	62,663	2,543
Accounts payable and accrued expenses	15,776	16,313
Pension and postretirement benefits	(6,049)	(18,854)
Operating lease liability	(19,696)	(18,444)
Other liabilities	(48,561)	(21,442)
Participants' and Clearing Funds liabilities	7,187,815	1,967,962
Payable to Participants	676,167	863,731
Net cash provided by operating activities	<u>8,138,864</u>	<u>3,144,100</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Short-term investments	(1,845,000)	(1,500,000)
Maturities of Short-term investments	1,600,000	1,400,000
Purchases of Premises and equipment	(27,745)	(34,883)
Capitalized software development costs	(75,321)	(82,408)
Proceeds from sale of Equity method investments	9,902	—
Purchase of equity investments	—	(500)
Net cash used in investing activities	<u>(338,164)</u>	<u>(217,791)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Commercial paper	25,311,630	22,945,071
Repayments of Commercial paper	(29,308,173)	(23,035,377)
Proceeds from issuance of debt, net of debt issuance costs	1,984,823	—
Repayments on long-term debt and other borrowings	(3,550)	(7,037)
Preferred stock dividend payments	(13,308)	(9,750)
Payment to Non-controlling interests	(2,640)	(2,340)
Net cash used in financing activities	<u>(2,031,218)</u>	<u>(109,433)</u>
Effect of foreign exchange rate changes on Cash and cash equivalents	(259)	(1,100)
Net increase in Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets, Long-term restricted cash	5,769,223	2,815,776
Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets, Long-term restricted cash - Beginning of period	<u>26,345,625</u>	<u>25,569,357</u>
Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets, Long-term restricted cash - End of period	<u>\$ 32,114,848</u>	<u>\$ 28,385,133</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 95,638</u>	<u>\$ 108,611</u>
Income taxes paid - net of refunds	<u>\$ 20,900</u>	<u>\$ 57,109</u>

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

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

1. BUSINESS AND OWNERSHIP

The Depository Trust & Clearing Corporation (DTCC) is the parent company of various operating subsidiaries, including, but not limited to, The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), DTCC ITP LLC (ITP), DTCC Deriv/SERV LLC (Deriv/SERV), DTCC Solutions LLC (Solutions), Business Entity Data, B.V. (BED); collectively, the “Company” or “Companies.”

Subsidiaries

DTC 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.

NSCC is organized as a business corporation under New York law, and is a clearing agency registered with the SEC. *NSCC* provides clearing, settlement, risk management, and central counterparty (CCP) services to its members for broker-to-broker trades involving equities, corporate and municipal debt, exchange-traded funds, and unit investment trusts.

FICC is a clearing agency registered with the SEC that provides CCP services to members that participate in the U.S. government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting, settlement, trade confirmation, clearing, risk management and electronic pool notification. *FICC* has two divisions: the Government Securities Division (GSD) and the Mortgage-Backed Securities Division (MBSD).

DTC, *NSCC* and *FICC* are designated as Systemically Important Financial Market Utilities (SIFMUs) 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. This designation subjects the clearing agencies to enhanced standards for operation and governance, as established by the SEC's Standards for Covered Clearing Agencies (CCAS).

The members of DTCC's clearing agencies are collectively referred to as Participants.

ITP provides post-trade matching, processing and other related services, primarily to members of the financial community.

Deriv/SERV, through its subsidiaries and affiliates, enhances transparency and provides operational efficiency for derivatives and securities financing transactions. *Deriv/SERV* also offers the Trade Information Warehouse asset servicing for credit default swaps.

Solutions provides information and data related-solutions.

BED owns and operates the Global Market Entity Identifier (GMEI) Utility legal entity identifier (LEI) solution in the federated Global LEI system (GLEIS). The GMEI Utility is designed to provide a single, universal standard identifier to any organization or firm involved in a financial transaction internationally across all asset classes. LEIs issued by the GMEI Utility are ISO 17442 compliant and are recognized by all 55 global regulators who are members of the Regulatory Oversight Committee.

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

2. BASIS OF PRESENTATION AND USE OF ESTIMATES

Basis of presentation. The accompanying unaudited consolidated financial statements (interim financial statements) are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The accompanying interim financial statements exclude some of the disclosures required in audited financial statements and should be read in conjunction with DTCC's Audited consolidated financial statements for the years ended December 31, 2019 and 2018, which are located on the Company's website at <http://www.dtcc.com/legal/financial-statements>. See Note 2 in DTCC's Audited consolidated financial statements for the years ended December 31, 2019 and 2018, for additional information on the Company's Summary of Significant Accounting Policies.

The consolidated financial statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

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 consolidated 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, impairment of intangible assets, fair value measurements and other matters that affect the reported amounts. Estimates are based on judgment and available information; therefore, actual results could differ materially from those estimates.

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

Revenue recognition. The Company derives its revenue from transaction fees, subscription revenue and support services, 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 and support 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 represent fees generated from offering referential based data and business processing solutions to financial institutions globally, is recognized when services are provided based on contractual terms.

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

Settlement and asset services. Revenue derived from this revenue stream are in the form of transaction fees and subscription revenue. The Company provides settlement services for equity, corporate and municipal debt trades and money market instruments in the United States of America. Asset Servicing includes 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 processing.

Clearing services. Revenue derived from this revenue stream are in the form of transaction fees that are based on either the volume or value of trading activity. Services include continuous net settlement of equity and corporate bonds, mortgage backed securities clearing, and government securities clearing.

Matching services. Revenue derived from this revenue stream are in the form of transaction fees, subscription revenue and support services. Services include trade enrichment, trade agreement, LEIs and data analytics.

Repository and derivatives services. Revenue derived from this revenue stream may be in the form of transaction fees, subscription revenue and support services. Services support derivatives trade data submissions covering real-time price reporting, transaction details, valuation data to meet members' reporting obligations in various jurisdictions globally, as well as an asset servicing infrastructure for credit default swaps, matching service for equity derivatives payments and tools to member firms to address the quality of their derivatives trade submissions.

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

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

Wealth management services. Revenue derived from this revenue stream may be in the form of transaction fees. Services include centralized, automated processing and information services for mutual fund, alternative investment, and insurance and retirement products.

Data and other services. Revenue derived from this revenue stream may be in the form of other services, which include 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.

Rebate

On September 16, 2020, the Board of Directors authorized a rebate to DTC Participants for \$25 million. Participants will receive a rebate based on a pro rata share of qualifying revenues at the legal entity level. Estimated 2020 profitability was used as the basis for the calculation of the rebate, which will be paid in December 2020. For the three and nine months ended September 30, 2020, the rebate is presented net in Settlement and asset services revenue in the accompanying Consolidated Statements of Income.

Contract balances

Deferred revenue represents the Company's contract liabilities related to billings or payments received in advance for subscription and support services where the performance obligation has not yet been satisfied. Deferred revenue is included in Other current liabilities and Other non-current liabilities on the accompanying Consolidated Statements of Financial Condition, as disclosed in Note 12.

Reconciliation of Cash and cash equivalents and other limited use cash. When reconciling the beginning and ending total amounts shown in the Consolidated Statements of Cash Flows, the Company includes all cash on the Consolidated Statements of Financial Condition, regardless of which line it is included. The Statement of Cash Flows includes Cash and cash equivalents and cash balances that are not available for general corporate purposes due to certain limitations, including - Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets and Long-term restricted cash.

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

	September 30, 2020	December 31, 2019	September 30, 2019
Cash and cash equivalents	\$ 6,293,834	\$ 8,395,163	\$ 8,624,669
Participants' segregated cash	1,465	4,876	52,350
Participants' and Clearing Funds cash deposits	24,619,298	17,431,482	18,300,630
Cash in Other Participants' assets	1,193,682	514,104	1,407,484
Long-term restricted cash included in Other non-current assets	6,569	—	—
Total Cash and cash equivalents, Participants' segregated cash, Participants' and Clearing Funds cash deposits, Cash in Other Participants' assets and Long-term restricted cash shown on the Consolidated Statements of Cash Flows	<u>\$ 32,114,848</u>	<u>\$ 26,345,625</u>	<u>\$ 28,385,133</u>

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2020 AND DECEMBER 31, 2019 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018, for additional information on the Company's Accounting and Reporting Developments.

Standard	Description	Impact on the financial statements or other significant matters
<i>Financial Accounting Standards Board Standard Issued, but not yet Adopted</i>		
ASU 2020-01 Clarifying the Interactions Between the Accounting for Equity Securities, Equity Method Investments, and Certain Derivative Instruments	<ul style="list-style-type: none"> Clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative immediately before applying or upon discontinuing the equity method. 	<ul style="list-style-type: none"> Effective January 1, 2021 for public companies and January 1, 2022 for non-public companies. The adoption of the standard will not have a material impact on the Company's consolidated financial statements and related disclosures.
<i>Issued January 2020</i>	<ul style="list-style-type: none"> Clarifies the scoping consideration for forward contracts and purchased options on certain securities. 	
Standard	Description	Impact on the financial statements or other significant matters
<i>Recently Adopted Accounting Standards</i>		
ASU 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	<ul style="list-style-type: none"> Provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that currently utilize the London Interbank Offered Rate (LIBOR) as their benchmark rate, subject to certain criteria being met. 	<ul style="list-style-type: none"> Adopted April 2020 on a prospective basis. The adoption of the standard did not have an impact on the Company's consolidated financial statements and related disclosures.
<i>Issued March 2020</i>	<ul style="list-style-type: none"> The standard is effective for all entities as of March 12, 2020 through December 31, 2022. 	<ul style="list-style-type: none"> The Company will continue to evaluate the impacts of reference rate reform on contract modifications.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Adopted January 1, 2020 on a prospective basis. The adoption of the standard did not have a material impact on the Company's consolidated financial statements and related disclosures.
<i>Issued August 2018</i>		
ASU 2018-13 Changes to the Disclosure Requirements for Fair Value Measurement	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Adopted January 1, 2020. The adoption of the standard did not have an impact on the related disclosures in the Company's consolidated financial statements as no such applicable transfers and measurement occurred.
<i>Issued August 2018</i>	<ul style="list-style-type: none"> Public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for recurring Level 3 fair value measurements. 	
ASU 2017-04 Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment	<ul style="list-style-type: none"> Eliminates the second step from the goodwill impairment test. If a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. 	<ul style="list-style-type: none"> Adopted January 1, 2020 on a prospective basis. The adoption of the standard did not have an impact on the Company's consolidated financial statements and related disclosures. The adoption of the standard will reduce the complexity of future goodwill impairment assessments.
<i>Issued January 2017</i>		

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3. ACCOUNTING AND REPORTING DEVELOPMENTS (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
<i>Recently Adopted Accounting Standards (Continued)</i>		
ASU 2016-13 Measurement of Credit Losses on Financial Instruments	<ul style="list-style-type: none"> Replaces the current incurred loss approach for credit losses with an "expected loss" model for instruments measured at amortized cost. 	<ul style="list-style-type: none"> Adopted January 1, 2020 on a modified retrospective basis.
<i>Issued June 2016</i>	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The Company determined the largest instrument in scope of the standard is trade receivables. Trade receivables and management's provision matrix were assessed for current economic conditions and forward-looking projections however, an adjustment was not required. The adoption of the standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

4. PARTICIPANTS' SEGREGATED CASH, OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

Details for Participants' segregated cash, Other Participants' assets and Payable to Participants as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020	2019
Assets:		
Participants' segregated cash	\$ 1,465	\$ 4,876
Other Participants' assets	1,193,682	514,104
Total	<u>\$ 1,195,147</u>	<u>\$ 518,980</u>
Liabilities:		
Payable to Participants	<u>\$ 1,195,147</u>	<u>\$ 518,980</u>

Participants' segregated cash represents cash received from Participants to facilitate their compliance with SEC customer protection rules.

Payable to Participants included \$588,000 and \$126,000 of cash collateral received from Participants, representing 130% of short positions as of September 30, 2020 and December 31, 2019, respectively.

5. ACCOUNTS RECEIVABLE

Details for Accounts receivable as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020	2019
Due from Participants and customers for services	\$ 162,197	\$ 163,432
Allowance for credit losses	(427)	(614)
Due from Participants and customers for services, net	161,770	162,818
Other receivables	10,896	14,401
Total	<u>\$ 172,666</u>	<u>\$ 177,219</u>

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5. ACCOUNTS RECEIVABLE (CONTINUED)

Details for allowance for credit losses for the three and nine months ended September 30, 2020 and 2019 follow (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Beginning balance of allowance for credit losses	\$ 1,006	\$ 598	\$ 614	\$ 1,650
Provision/(benefit)	330	(103)	1,172	(95)
Less: Write-offs	(909)	(235)	(1,359)	(1,295)
Ending balance of allowance for credit losses	<u>\$ 427</u>	<u>\$ 260</u>	<u>\$ 427</u>	<u>\$ 260</u>

6. PARTICIPANTS' AND CLEARING FUNDS

Details for the Participants' and Clearing Funds as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020			
	DTC	NSCC	FICC	Total
Required deposits	\$ 1,150,000	\$ 9,335,719	\$ 32,480,963	\$ 42,966,682
Excess deposits	819,798	1,183,171	11,536,744	13,539,713
Total	<u>\$ 1,969,798</u>	<u>\$ 10,518,890</u>	<u>\$ 44,017,707</u>	<u>\$ 56,506,395</u>
	2019			
	DTC	NSCC	FICC	Total
Required deposits	\$ 1,150,000	\$ 5,183,646	\$ 24,221,483	\$ 30,555,129
Excess deposits	807,140	713,606	8,739,030	10,259,776
Total	<u>\$ 1,957,140</u>	<u>\$ 5,897,252</u>	<u>\$ 32,960,513</u>	<u>\$ 40,814,905</u>

Cash and Securities. Details for cash and securities of the Participants' and Clearing Funds, which may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company as provided in the rules of the relevant subsidiaries of the Company, as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020			
	DTC	NSCC	FICC	Total
Cash and cash equivalents	\$ 1,969,798	\$ 9,719,468	\$ 12,930,032	\$ 24,619,298
Securities - at fair value	—	799,422	31,087,675	31,887,097
Total	<u>\$ 1,969,798</u>	<u>\$ 10,518,890</u>	<u>\$ 44,017,707</u>	<u>\$ 56,506,395</u>
	2019			
	DTC	NSCC	FICC	Total
Cash and cash equivalents	\$ 1,957,140	\$ 5,554,586	\$ 9,919,756	\$ 17,431,482
Securities - at fair value	—	342,666	23,040,757	23,383,423
Total	<u>\$ 1,957,140</u>	<u>\$ 5,897,252</u>	<u>\$ 32,960,513</u>	<u>\$ 40,814,905</u>

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6. PARTICIPANTS' AND CLEARING FUNDS (CONTINUED)

Details for the Participants' and Clearing Funds cash deposits as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020			
	DTC	NSCC	FICC	Total
Bank deposits	\$ 1,969,798	\$ 7,670,468	\$ 10,664,032	\$ 20,304,298
Money market fund investments - at fair value	—	1,574,000	1,716,000	3,290,000
Reverse repurchase agreements	—	475,000	550,000	1,025,000
Total	<u>\$ 1,969,798</u>	<u>\$ 9,719,468</u>	<u>\$ 12,930,032</u>	<u>\$ 24,619,298</u>

	2019			
	DTC	NSCC	FICC	Total
Bank deposits	\$ 1,957,140	\$ 3,953,586	\$ 7,851,756	\$ 13,762,482
Money market fund investments - at fair value	—	1,226,000	1,618,000	2,844,000
Reverse repurchase agreements	—	375,000	450,000	825,000
Total	<u>\$ 1,957,140</u>	<u>\$ 5,554,586</u>	<u>\$ 9,919,756</u>	<u>\$ 17,431,482</u>

7. PREMISES AND EQUIPMENT

Disposals of fully depreciated premises and equipment resulted in the removal of cost and accumulated depreciation of \$104,640,000 and \$132,256,000, for the three months ended September 30, 2020 and 2019, respectively, and \$104,640,000 and \$132,256,000 for the nine months ended September 30, 2020 and 2019, respectively.

8. INTANGIBLE ASSETS

Disposals of fully amortized capitalized software resulted in the removal of cost and accumulated amortization of \$180,333,000 and \$188,401,000 for the three months ended September 30, 2020 and 2019, respectively, and \$180,333,000 and \$188,401,000 for the nine months ended September 30, 2020 and 2019, respectively.

The Company recognized impairment charges of \$0 and \$968,000 related to capitalized software for the three months ended September 30, 2020 and 2019, respectively, and \$7,001,000 and \$2,968,000 for the nine months ended September 30, 2020 and 2019, respectively, that were determined to have no realizable value. The impairment charges were included in Impairment of Intangible assets in the accompanying Consolidated Statements of Income.

9. EQUITY METHOD INVESTMENTS

European Central Counterparty N.V. (ECCP N.V.), a joint venture with ABN AMRO Clearing Investments B.V., NASDAQ AB, CBOE Worldwide Holdings Limited and Euronext N.V., provides a pan-European clearing solution offering economies of scale and risk management expertise to European market participants. ECCP N.V. uses the risk management framework and customer service organization of European Multilateral Clearing Facility N.V. (EMCF), and conducts its operations using the technology platform and infrastructure of EMCF.

On December 9, 2019, the Company entered into a binding agreement to sell its 20% minority stake in ECCP N.V., along with the other ECCP N.V. shareholders, to CBOE Worldwide Holdings Limited. The transaction closed on July 1, 2020 and as a result, the Company transferred its investment in ECCP N.V. to CBOE Worldwide Holdings Limited in exchange for cash totaling \$9,902,000. The transaction resulted in a gain of \$269,000 for the three and nine months ended, which is included in Other non-operating income, net in the accompanying Consolidated Statements of Income.

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9. EQUITY METHOD INVESTMENTS (CONTINUED)

DTCC-Euroclear GlobalCollateral LTD (DEGCL), a joint venture with Euroclear plc, provides support to financial institutions in addressing significant regulatory, operational and industry challenges related to the management of margin calls and collateral impacting the over-the-counter (OTC) derivatives market.

On March 10, 2020, Euroclear plc and the Company finalized a dissolution, business and share transfer agreement with respect to the DEGCL joint venture. As a result, the Company transferred its investment in DEGCL to Euroclear plc in exchange for cash totaling \$4,690,000 and the rights to certain products of the joint venture. In addition, all agreements between DEGCL and DTCC, which provided various support services and office facilities on a reimbursement basis, were terminated. The dissolution, business and share transfer resulted in a gain of \$0 and \$3,640,000 for the three and nine months ended September 30, 2020, respectively, which is included in Other non-operating income, net in the accompanying Consolidated Statements of Income.

10. LEASES

The Company leases corporate offices, data centers and certain equipment primarily through operating leases. The Company's leases have remaining lease terms of 1 to 14 years, some of which may include options to extend the lease up to 10 additional years, and some of which may include options to terminate the lease within 1 year.

The Company determines if an arrangement is or contains a lease at contract inception and accounts for lease and non-lease components as a single lease component. Operating leases are included in Operating lease right-of-use (ROU) asset, Current portion of operating lease liability, and Non-current operating lease liability on the Company's Consolidated Statements of Financial Condition.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The ROU assets are measured at the amount equal to the lease liabilities, adjusted for balances of accrued or prepaid rent and unamortized lease incentives provided by lessors.

Operating lease liabilities are recognized based on the present value of the future lease payments over the remaining lease term. The Company uses its incremental borrowing rate, factoring in the lease term, to determine the lease liability. When determining lease term, the Company considers renewal options that the Company is reasonably certain to exercise and termination options that the Company is reasonably certain not to exercise. For operating leases, expense is generally recognized on a straight-line basis over the lease term.

Details for operating lease assets and lease liabilities as of September 30, 2020 and December 31, 2019 follow (in thousands):

	<u>2020</u>	<u>2019</u>
Assets		
Operating lease right-of-use-asset	\$ 225,302	\$ 237,689
Liabilities		
Current portion of operating lease liability	27,052	25,906
Non-current operating lease liability	251,063	264,848
Total leased liabilities	<u>\$ 278,115</u>	<u>\$ 290,754</u>

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10. LEASES (CONTINUED)

Details for the maturity of lease liabilities as of September 30, 2020 for each of the next five years and thereafter follow (in thousands):

2020	\$ 9,011
2021	35,406
2022	29,495
2023	29,448
2024	28,185
Thereafter	<u>203,505</u>
Total lease payments	335,050
Less: Imputed interest	<u>(56,935)</u>
Present value of lease liability	<u><u>\$ 278,115</u></u>

Details for lease expense for the three and nine months ended September 30, 2020 and 2019 follow (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Occupancy	\$ 9,400	\$ 5,587	\$ 24,900	\$ 21,264
Information technology	673	2,630	2,345	5,323
Total lease expense	<u>10,073</u>	<u>8,217</u>	<u>27,245</u>	<u>26,587</u>
Sublease income	<u>(1,447)</u>	<u>(1,440)</u>	<u>(4,307)</u>	<u>(4,344)</u>
Net lease expense	<u><u>\$ 8,626</u></u>	<u><u>\$ 6,777</u></u>	<u><u>\$ 22,938</u></u>	<u><u>\$ 22,243</u></u>

Details for supplemental cash flow information related to lease liabilities for the nine months ended September 30, 2020 and 2019 follow (in thousands):

	2020	2019
Lease payments included in the measurement of lease liabilities	\$ (26,995)	\$ (25,978)
Accretion of lease liabilities	7,299	7,534
Net change in Operating lease liability ⁽¹⁾	<u><u>\$ (19,696)</u></u>	<u><u>\$ (18,444)</u></u>

(1) Included in operating activities in the Consolidated Statements of Cash Flows

Details of the weighted average remaining lease term and weighted average discount rate used to determine the lease liability as of September 30, 2020 and December 31, 2019 follow:

	2020	2019
Weighted average remaining lease term (years)	13.2	11.1
Weighted average discount rate	3.96 %	3.37 %

Leased assets obtained in exchange for operating lease obligations were \$0 and \$12,876,000 for the three months ended September 30, 2020 and 2019, respectively, and \$3,672,000 and \$12,876,000 for the nine months ended September 30, 2020 and 2019, respectively.

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11. OTHER ASSETS

Details for Other assets as of September 30, 2020 and December 31, 2019 follow (in thousands):

	<u>2020</u>	<u>2019</u>
Prepays	\$ 93,239	\$ 93,661
Prepaid taxes	33,147	64,069
Interest receivable	2,840	19,872
Other current assets	433	338
Total other current assets	<u>129,659</u>	<u>177,940</u>
Long-term incentive plan assets	150,920	158,264
Cash surrender value on insurance policies	66,917	66,324
Deferred tax assets	30,446	32,472
Prepays	18,281	26,082
Equity investments	12,393	12,393
Long-term restricted cash	6,569	—
Investment in Federal reserve stock	6,402	6,402
Other non-current assets	2,957	2,782
Total other non-current assets	<u>294,885</u>	<u>304,719</u>
Total	<u>\$ 424,544</u>	<u>\$ 482,659</u>

12. OTHER LIABILITIES

Details for Other liabilities as of September 30, 2020 and December 31, 2019 follow (in thousands):

	<u>2020</u>	<u>2019</u>
Compensation payable	\$ 112,347	\$ 147,363
Long-term incentive plan liabilities	27,248	52,450
Deferred revenue	11,877	8,627
Other current liabilities	51,459	57,720
Total other current liabilities	<u>202,931</u>	<u>266,160</u>
Long-term incentive plan liabilities	231,643	216,092
Unrecognized tax benefits	42,780	43,474
Deferred revenue	1,139	1,264
Deferred tax liabilities	566	660
Other non-current liabilities	2,226	2,191
Total other non-current liabilities	<u>278,354</u>	<u>263,681</u>
Total	<u>\$ 481,285</u>	<u>\$ 529,841</u>

13. COMMERCIAL PAPER

Details for Commercial paper as of September 30, 2020 and December 31, 2019 follow (in thousands):

	<u>2020</u>	<u>2019</u>
Commercial paper - net of unamortized discount of \$3,425 and \$20,623 as of September 30, 2020 and December 31, 2019, respectively	\$ 3,119,575	\$ 7,154,217
Weighted-average interest rate	0.29 %	1.95 %

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13. COMMERCIAL PAPER (CONTINUED)

Interest expense on Commercial paper, included in Interest expense in the accompanying Consolidated Statements of Income, was \$4,658,000 and \$39,911,000 for the three months ended September 30, 2020 and 2019, respectively, and \$57,136,000 and \$129,571,000 for the nine months ended September 30, 2020 and 2019, respectively.

14. LONG-TERM DEBT

Details for Long-term debt as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020	2019
Medium-term notes, net of unamortized discount and debt issuance costs	\$ 1,986,521	\$ —
Information technology financing	4,474	8,024
Total Long-term debt	1,990,995	8,024
Less: Current portion of long-term debt	(3,969)	(4,103)
Non-current portion of long-term debt	<u>\$ 1,987,026</u>	<u>\$ 3,921</u>

Details for principal payments due on Long-term debt as of September 30, 2020 for each of the next five years and thereafter follow (in thousands):

	Medium-Term Notes	Information Technology Financing	Total
2020	\$ —	\$ 552	\$ 552
2021	—	3,922	3,922
2022	—	—	—
2023	1,000,000	—	1,000,000
2024	—	—	—
Thereafter	1,000,000	—	1,000,000
Total	<u>\$ 2,000,000</u>	<u>\$ 4,474</u>	<u>\$ 2,004,474</u>

Medium-term notes. On April 23, 2020, NSCC issued three-year and five-year senior unsecured medium-term notes for a total of \$2 billion. The proceeds from the issuances constitute liquid resources that, together with other liquid resources of the Company, will enable NSCC to affect the settlement of its payment obligations in the event of the default of any of its Participants in accordance with NSCC's rules and procedures.

Details of the medium-term notes follow (in thousands):

Issue Date	Maturity	Rate	September 30, 2020	
			Principal Balance	Carrying Value
April 23, 2020	April 23, 2023	1.2% ⁽¹⁾	\$ 1,000,000	\$ 994,378
April 23, 2020	April 23, 2025	1.5% ⁽¹⁾	1,000,000	992,143
			<u>\$ 2,000,000</u>	<u>\$ 1,986,521</u>

(1) Interest is payable semi-annually in arrears on October 23 and April 23 of each year, beginning October 23, 2020.

Interest expense and amortization of discount and issuance costs, included in Interest expense in the accompanying Consolidated Statements of Income, were \$7,731,000 and \$13,561,000 for the three and nine months ended September 30, 2020, respectively. The weighted-average interest rate was 1.35% as of September 30, 2020. As of September 30, 2020, the aggregate debt issuance costs and unamortized discount associated with the medium-term notes were \$13,479,000.

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14. LONG-TERM DEBT (CONTINUED)

Information Technology Financing. On January 1, 2019, the Company obtained three year financing of \$14 million from IBM Credit LLC in connection to its software and services purchase agreement with IBM. The weighted-average interest rate of the loan was 3.90% as of September 30, 2020. Interest expense on the loan included in the accompanying Consolidated Statements of Income was \$45,000 and \$95,000 for the three months ended September 30, 2020 and 2019, respectively, and \$158,000 and \$325,000 for the nine months ended September 30, 2020 and 2019, respectively.

Lines of credit. DTCC maintains a committed line of credit for general funding purposes while certain of its subsidiaries, DTC and NSCC, also maintain committed lines of credit to support settlement.

Details for the terms of the outstanding lines of credit as of September 30, 2020 and December 31, 2019 follow:

	2020	2019
DTCC		
Committed Amount	\$500 million	\$500 million
Denomination	USD	USD
Number of Participants/Lenders	10/10	10/10
Borrowing Rate	Either base rate plus 0.25% or eurodollar plus 1.25%	Either base rate plus 0.25% or eurodollar plus 1.25%
Maturity Date	January 2022	January 2022
Annual Facility Fee	0.15% ⁽¹⁾	0.15% ⁽¹⁾
DTC		
Committed Amount	\$1.9 billion	\$1.9 billion
Denomination	USD	USD
Number of Participants/Lenders	32/37	32/41
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 2021	May 2020
Annual Facility Fee	0.20% ⁽¹⁾	0.10% ⁽¹⁾
Uncommitted 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
NSCC		
Committed Amount	\$10.9 billion	\$12.1 billion
Denomination	USD	USD
Number of Participants/Lenders	32/37	32/41
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 2021	May 2020
Annual Facility Fee	0.20% ⁽¹⁾	0.10% ⁽¹⁾

(1) The annual facility fee associated with maintaining the line of credit is included in Professional and other services in the accompanying Consolidated Statements of Income.

(2) Used to support Canadian settlement.

There were no borrowings under the lines of credit during 2020 and 2019.

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14. LONG-TERM DEBT (CONTINUED)

Details for debt covenants related to the lines of credit as of September 30, 2020 and December 31, 2019 follow:

	2020	2019
<u>DTCC</u>		
Minimum Net Worth	\$1.25 billion	\$1.25 billion
Maximum Priority Debt	\$200 million	\$200 million
<u>DTC</u>		
Minimum Net Worth	\$200 million	\$150 million
Minimum Participants' Fund deposits	\$750 million	\$750 million
<u>NSCC</u>		
Minimum Net Worth	\$200 million	\$125 million
Minimum Clearing Fund deposits	\$1.5 billion	\$1 billion

As of September 30, 2020 and December 31, 2019, the Company was in compliance with its debt covenants.

Credit Ratings. DTCC, DTC, FICC and NSCC are 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 DTCC and its three clearing agency subsidiaries as of September 30, 2020 follow:

	Moody's ⁽¹⁾			S&P		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
DTCC	Aa3	N/A	Stable	AA-	A-1+	Stable
DTC	Aaa	P-1	Stable	AA+	A-1+	Stable
FICC	Aaa	P-1	Stable	AA	A-1+	Stable
NSCC	Aaa	P-1	Stable	AA+	A-1+	Stable

(1) Moody's categorizes the long-term issuer ratings of DTC, FICC and NSCC as clearing counterparty ratings (CCR) under the agency's Clearing Houses Rating Methodology.

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15. FAIR VALUE MEASUREMENTS

See Note 15 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018, for the Company's valuation basis, including valuation techniques and inputs, as well as the fair value hierarchy used in measuring the Company's financial assets and liabilities that are both accounted for at fair value and at other than fair value.

Financial Assets and Liabilities measured at fair value on a recurring basis.

Fair value measurements of those items measured on a recurring basis as of September 30, 2020 and December 31, 2019 are summarized below (in thousands):

	2020			Total
	Level 1	Level 2	Level 3	
Assets:				
Participants' and Clearing Funds				
Securities	\$ 27,761,056	\$ 4,126,041	\$ —	\$ 31,887,097
Cash deposits - Money market fund investments	3,290,000	—	—	3,290,000
Non-current assets				
Long-term incentive plan assets - Mutual fund and Stable value fund investments	116,299	34,621	—	150,920
Total assets	<u>\$ 31,167,355</u>	<u>\$ 4,160,662</u>	<u>\$ —</u>	<u>\$ 35,328,017</u>
Liabilities:				
Participants' and Clearing Funds				
Securities liabilities	\$ 27,761,056	\$ 4,126,041	\$ —	\$ 31,887,097
Money market fund investments liabilities	3,290,000	—	—	3,290,000
Total liabilities	<u>\$ 31,051,056</u>	<u>\$ 4,126,041</u>	<u>\$ —</u>	<u>\$ 35,177,097</u>
	2019			Total
	Level 1	Level 2	Level 3	
Assets:				
Participants' and Clearing Funds				
Securities	\$ 18,469,797	\$ 4,913,626	\$ —	\$ 23,383,423
Cash deposits - Money market fund investments	2,844,000	—	—	2,844,000
Non-current assets				
Long-term incentive plan assets - Mutual fund and Stable value fund investments	100,706	33,813	—	134,519
Total assets, excluding investments at fair value based on NAV	<u>\$ 21,414,503</u>	<u>\$ 4,947,439</u>	<u>\$ —</u>	<u>\$ 26,361,942</u>
Liabilities:				
Participants' and Clearing Funds				
Securities liabilities	\$ 18,469,797	\$ 4,913,626	\$ —	\$ 23,383,423
Money market fund investments liabilities	2,844,000	—	—	2,844,000
Total liabilities	<u>\$ 21,313,797</u>	<u>\$ 4,913,626</u>	<u>\$ —</u>	<u>\$ 26,227,423</u>

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15. FAIR VALUE MEASUREMENTS (CONTINUED)

During 2019, the Company used Net Asset Value (NAV) to estimate the fair value of certain investments related to the long-term incentive plan. Investments in common collective trust funds were valued at NAV based upon the redemption price of the units, which was based on the current fair value of the common collective trust funds' underlying assets. Unit values were determined by the financial institution sponsoring such funds by dividing the funds' net assets at fair value by its units outstanding at the valuation dates.

Details of investments measured at fair value using NAV as of December 31, 2019 follow (in thousands):

	2019			
	NAV	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Common collective trusts	\$ 23,745	Daily	None	None

There were no unfunded commitments related to these investments as of December 31, 2019.

Certain investments may transfer between the fair value hierarchy classifications during the year due to changes in valuation methodology and pricing sources. There were no financial assets and liabilities measured at fair value on a recurring basis classified as Level 3 for the periods ended September 30, 2020 and December 31, 2019.

Financial Assets and Liabilities measured at other than fair value. The carrying values, fair values and fair value hierarchy levels of all financial instruments measured at other than fair value on the accompanying Consolidated Statements of Financial Condition as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 6,293,834	\$ 6,293,834	\$ 6,293,834	\$ —	\$ —
Participants' segregated cash	1,465	1,465	1,465	—	—
Short-term investments	1,145,000	1,145,000	—	1,145,000	—
Participants' and Clearing Funds:					
Cash deposits - Bank deposits	20,304,298	20,304,298	20,304,298	—	—
Cash deposits - Reverse repurchase agreements	1,025,000	1,025,000	—	1,025,000	—
Other Participants' assets	1,193,682	1,193,682	1,193,682	—	—
Total	\$29,963,279	\$29,963,279	\$27,793,279	\$ 2,170,000	\$ —
Liabilities:					
Commercial paper	\$ 3,119,575	\$ 3,119,575	\$ —	\$ 3,119,575	\$ —
Participants' and Clearing Funds Cash deposits - Bank deposits and Reverse repurchase agreements	21,329,298	21,329,298	20,304,298	1,025,000	—
Payable to Participants	1,195,147	1,195,147	1,195,147	—	—
Long-term debt	1,990,995	2,038,742	—	2,038,742	—
Total	\$27,635,015	\$27,682,762	\$21,499,445	\$ 6,183,317	\$ —

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15. FAIR VALUE MEASUREMENTS (CONTINUED)

	2019				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 8,395,163	\$ 8,395,163	\$ 8,395,163	\$ —	\$ —
Participants' segregated cash	4,876	4,876	4,876	—	—
Short-term investments	900,000	900,000	—	900,000	—
Participants' and Clearing Funds:					
Cash deposits - Bank deposits	13,762,482	13,762,482	13,762,482	—	—
Cash deposits - Reverse repurchase agreements	825,000	825,000	—	825,000	—
Other Participants' assets	514,104	514,104	514,104	—	—
Total	\$24,401,625	\$24,401,625	\$22,676,625	\$ 1,725,000	\$ —
Liabilities:					
Commercial paper	\$ 7,154,217	\$ 7,154,217	\$ —	\$ 7,154,217	\$ —
Accounts payable and accrued expenses	102,179	102,179	—	102,179	—
Participants' and Clearing Funds Cash deposits - Bank deposits and Reverse repurchase agreements	14,587,482	14,587,482	14,587,482	—	—
Payable to Participants	518,980	518,980	518,980	—	—
Long-term debt	8,024	8,565	—	8,565	—
Total	\$22,370,882	\$22,371,423	\$15,106,462	\$ 7,264,961	\$ —

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 they are determined to be impaired or when an observable event occurs. Financial assets measured at fair value on a non-recurring basis are comprised of equity investments, which are classified as Level 3 instruments.

There were no additional cash investments related to equity investments during 2020. On August 29, 2019, the Company made an additional cash investment of \$500,000 in equity investments, which increased the Company's total investment in equity investments to \$12,393,000, including a \$143,000 mark-to market investment gain included in Other non-operating income, net in the accompanying Consolidated Statements of Income. The fair value of the investments were determined based on the latest valuation of equity investments from their most recent round of financing, using Level 3 inputs.

The valuation techniques used to measure the fair value of the financial asset and the significant unobservable inputs as of December 31, 2019 follow:

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	Input Range	Weighted Average
Equity investments	\$12,393	Cost less impairment plus/minus observable inputs	Price Per Share ⁽¹⁾	\$18 - \$107 ⁽²⁾	\$64 ⁽²⁾

(1) Price is determined using the latest valuation from the most recent round of financing of equity investments.

(2) The unobservable input range and weighted-average prices are driven by the individual equity investments.

There were no sales, unrealized gains, or unrealized losses of the Company's equity investments categorized within Level 3 in the fair value hierarchy for the three and nine months ended September 30, 2020 and 2019.

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16. PENSION AND POSTRETIREMENT BENEFITS

Defined benefit pension and other postretirement benefit plans. Details of the components of net periodic benefit expense (income) and amortization for the Company's pension and postretirement benefit plans, included in Employee compensation and related benefits, Interest expense, and Other non-operating income, net in the accompanying Consolidated Statements of Income, for the three months ended September 30, 2020 and 2019 follow (in thousands):

	Pension Benefits		Other Benefits	
	2020	2019	2020	2019
Components of net periodic benefit expense (income):				
Expected return on plan assets	\$ (9,998)	\$ (8,296)	\$ —	\$ —
Interest cost	7,774	10,107	454	611
Service cost	(204)	499	167	167
Amortizations:				
Prior service cost (credit)	210	234	(1,392)	(1,482)
Actuarial loss	1,918	1,396	381	318
Settlement loss	586	815	—	—
Net periodic benefit expense (income)	<u>\$ 286</u>	<u>\$ 4,755</u>	<u>\$ (390)</u>	<u>\$ (386)</u>

Details of the components of net periodic benefit expense (income) and amortization for the Company's pension and postretirement benefit plans for the nine months ended September 30, 2020 and 2019 follow (in thousands):

	Pension Benefits		Other Benefits	
	2020	2019	2020	2019
Components of net periodic benefit expense (income):				
Expected return on plan assets	\$ (30,036)	\$ (28,500)	\$ —	\$ —
Interest cost	24,138	30,153	1,362	1,833
Service cost	1,608	2,601	501	501
Amortizations:				
Prior service cost (credit)	624	702	(4,176)	(4,446)
Actuarial loss	7,020	4,032	1,143	954
Settlement loss	1,350	861	—	—
Net periodic benefit expense (income)	<u>\$ 4,704</u>	<u>\$ 9,849</u>	<u>\$ (1,170)</u>	<u>\$ (1,158)</u>

The Company did not make any contributions to the Pension Plan during 2020 and does not anticipate making any contributions for the remainder of the fiscal year. The Company contributed \$20,000,000 to the Pension Plan for the nine months ended September 30, 2019.

Defined contribution retirement plans. Total expense for the defined contribution retirement plans included in Employee compensation and related benefits in the accompanying Consolidated Statements of Income was \$11,718,000 and \$11,741,000 for the three months ended September 30, 2020 and 2019, respectively, and \$33,831,000 and \$32,740,000 for the nine months ended September 30, 2020 and 2019, respectively.

See Note 16 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018 for additional information.

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17. INCOME TAXES

Details for unrecognized tax benefits, included in Other non-current liabilities on the accompanying Consolidated Statements of Financial Condition, as of September 30, 2020 and 2019 follow (in thousands):

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 29,197	\$ 28,692
Increases:		
Current period tax positions	150	—
Decreases:		
Prior period tax positions	(2,271)	(771)
Settlements with tax authorities	(113)	(42)
Unrecognized tax benefit	26,963	27,879
Accrued interest	15,817	14,235
Ending balance	<u>\$ 42,780</u>	<u>\$ 42,114</u>

See Note 17 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018 for additional information.

18. SHAREHOLDERS' EQUITY

DTCC Series A Preferred stock. All 10,000 shares of DTCC Series A Preferred stock are issued and outstanding and held of record by Stock Clearing Corporation, a wholly owned subsidiary of the New York Stock Exchange LLC, the successor-in-interest to the New York Stock Exchange Inc. In the event of DTCC's voluntary or involuntary liquidation, dissolution or winding-up, the holders of Series A Non-Cumulative Perpetual Preferred stock are entitled to a liquidation preference of \$30.00 per share.

DTCC Series B Preferred stock. All 10,000 shares of DTCC Series B Preferred stock are issued and outstanding and held of record by National Clearing Corporation, a wholly owned subsidiary of the Financial Industry Regulatory Authority Inc. ("FINRA"). In the event of DTCC's voluntary or involuntary liquidation, dissolution or winding-up, the holders of Series B Preferred stock are entitled to a liquidation preference of \$30.00 per share.

DTCC Series C Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred stock. DTCC issued 1,600 shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred stock, Series C, \$0.50 par value per share, with a liquidation preference of \$250,000 per share. When declared by DTCC's Board of Directors, in accordance with the Amended Certificate of Incorporation of DTCC, dividends on the Series C Preferred stock are payable in arrears on June 15 and December 15 of each year through June 15, 2020 at a fixed rate of 4.875% per annum. From June 15, 2020 onward, dividends will accrue at a floating rate equal to three-month LIBOR plus 3.167% per annum, and, when declared by DTCC's Board of Directors, dividends on the Series C Preferred stock are payable in arrears on March 15, June 15, September 15 and December 15 of each year beginning on September 15, 2020.

DTCC may redeem the Series C Preferred Stock at its option, for cash, i) in whole or in part, from time to time, on any dividend payment date on or after June 15, 2020 at a redemption price equal to \$250,000 per share, plus any declared and unpaid dividends to, but excluding the redemption date, or ii) in whole but not in part, at any time within 90 days following a Regulatory Capital Treatment Event, as defined in the Series C Preferred Stock Offering Memorandum, at a redemption price equal to \$250,000 per share, plus any declared and unpaid dividends to, but excluding, the redemption date.

Details of dividends paid to holders of the Series C Preferred Stock during the nine months ended September 30, 2020 follow (in thousands):

<u>Approved and Declared Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Declared Dividend</u>	<u>Shares Outstanding</u>	<u>Dividend Paid</u>
April 7, 2020	May 29, 2020	June 15, 2020	\$6,093.75	1,600	\$ 9,750,000
July 27, 2020	August 28, 2020	May 29, 2020	\$2,223.58	1,600	\$ 3,557,728

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18. SHAREHOLDERS' EQUITY (CONTINUED)

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. The ownership of DTC preferred stock is reported as non-controlling interests in the consolidated financial statements. 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 September 30, 2020 and December 31, 2019. 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 was approved and declared by the Board of Directors in February 2020, and was paid in March 2020, to the holders of DTC Series A Preferred stock during 2019.

19. CAPITAL REQUIREMENTS

The total capital requirement for each of the clearing agencies is equal to the sum of the general business risk capital requirement and corporate contribution, as described below. The clearing agencies 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 clearing agencies can continue operations and provide services as a going concern if those losses materialize. It is determined based on the general business risk profile and estimated time to execute a recovery or orderly wind-down of critical operations for each of the clearing agencies and, at a minimum, is equal to six months of operating expenses.

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

Details of the general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the clearing agencies as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020		
	DTC	NSCC	FICC
General business risk capital requirement	\$ 173,399	\$ 195,140	\$ 121,754
Corporate contribution	86,699	97,570	60,877
Total requirement	260,098	292,710	182,631
Liquid net assets funded by equity	685,374	599,092	297,382
Excess	\$ 425,276	\$ 306,382	\$ 114,751

	2019		
	DTC	NSCC	FICC
General business risk capital requirement	\$ 169,398	\$ 159,218	\$ 113,137
Corporate contribution	84,699	79,609	56,568
Total requirement	254,097	238,827	169,705
Liquid net assets funded by equity	606,572	524,817	277,811
Excess	\$ 352,475	\$ 285,990	\$ 108,106

Regulatory capital. DTCC's regulated subsidiaries maintain and report regulatory capital in accordance with all relevant laws, rules and guidelines. As a multinational enterprise, various DTCC subsidiaries are subject to regulatory capital regimes, as applicable. Certain DTCC subsidiaries submit regulatory capital reports to various regulators, including, but not limited to, FRBNY, the NYSDFS and the Commodity Futures Trading Commission in the United States; Ontario Securities Commission in Canada; and the Monetary Authority of Singapore in Singapore.

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19. CAPITAL REQUIREMENTS (CONTINUED)

Capital adequacy. DTC is subject to capital guidelines issued by United States federal and state banking regulators.

DTC capital and leverage ratios filed with the FRBNY and the NYSDFS as of September 30, 2020 follow:

	Ratio	Minimum Capital Ratio^(a)	Well Capitalized Ratio^(a)
Tier 1 capital ratio ⁽¹⁾	91.71 %	6.00 %	8.00 %
Total capital ratio ⁽¹⁾	91.71 %	8.00 %	10.00 %
Tier 1 leverage ratio ⁽²⁾	16.87 %	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.

20. GUARANTEES

FICC and NSCC provide CCP services, including clearing, settlement and risk management services. Acting as a CCP, FICC (through GSD and MBSD) and NSCC guarantee the settlement of trades in the event one or more of their Participants' defaults. A Participant default is defined in the respective rules of NSCC, GSD and MBSD. In their guarantor role, each clearing subsidiary has equal claims to and from Participants, as applicable, on opposite sides of netted transactions. To cover their guarantee risk, FICC (through GSD and MBSD) and NSCC use risk-based margining to collect cash and securities collateral through their Clearing Funds. NSCC's trade guaranty attaches at the point of validation for locked-in submissions, or at the point of comparison and validation for bilateral submissions.

DTC, NSCC, FICC and The Options Clearing Corporation have also entered into a multilateral netting contract and limited cross-guaranty agreement. In accordance with the cross-guaranty agreement, 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. Under this agreement, no party ever needs to pay out of pocket and no party can receive more than its loss.

Details for open CCP positions for which a trade guaranty applied as of September 30, 2020 and December 31, 2019 follow (in billions):

	2020	2019
FICC		
GSD	\$ 1,123	\$ 1,172
MBSD	705	419
NSCC	201	143

See Note 21 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018 for additional information on the Company's guarantees.

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21. 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.

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 3,496 LOPs from underwriters for \$89.7 billion in new issuances. Of the \$89.7 billion, 232 LOPs were outstanding with a total value of \$7.1 billion as of September 30, 2020. DTC issued 5,117 LOIs for a total value of \$39.8 billion. Of the \$39.8 billion, 3,687 LOIs were outstanding with a total value of \$10.3 billion as of September 30, 2020. 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 consolidated 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 DTCC services remain uninterrupted and the Company has not experienced any impairments to the Company's assets or negative financial impacts related to COVID-19.

22. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2020 through November 6, 2020, the date these consolidated financial statements are available to be issued, for potential recognition or disclosure. No events or transactions occurred during such period that would require recognition or disclosure in these consolidated financial statements.