Fixed Income Clearing Corporation

Financial Statements as of and for the Years Ended December 31, 2020 and 2019, and Report of Independent Registered Public Accounting Firm

FIXED INCOME CLEARING CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of the
Fixed Income Clearing Corporation

Opinion on the Financial Statements

We have audited the accompanying statements of financial condition of the Fixed Income Clearing Corporation (the "Company") as of December 31, 2020 and 2019, the related statements of income, changes in shareholder's equity, and cash flows, and the related footnotes for each of the two years in the period ended December 31, 2020 (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, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, 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.

Critical Audit Matters

Critical audit matters are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

Deloitte & Touche LLP

February 26, 2021

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	As of December 31, 2020	As of December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 300,549	$ 277,811
Accounts receivable - net of allowance for credit losses	24,360	13,330
Clearing Fund	47,005,609	32,960,513
Other Participants' assets	1,142	1,340
Other current assets	89	11,954
Total current assets	47,331,749	33,264,948
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation	639	659
Intangible assets - net of accumulated amortization	52,796	45,385
Total non-current assets	53,435	46,044
TOTAL ASSETS	$ 47,385,184	$ 33,310,992
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 16,821	$ 10,074
Clearing Fund	47,005,609	32,960,513
Payable to Participants	1,142	1,340
Other current liabilities	2,358	—
Total current liabilities	47,025,930	32,971,927
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	21,140	19,081
Total liabilities	47,047,070	32,991,008
COMMITMENTS AND CONTINGENCIES (Note 2)		
SHAREHOLDER'S EQUITY		
Common stock, $0.50 par value - 105,000 shares authorized; 20,400 shares issued and outstanding	10	10
Additional paid-in capital	86,617	86,617
Retained earnings	251,487	233,357
Total shareholder's equity	338,114	319,984
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 47,385,184	$ 33,310,992

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

FIXED INCOME CLEARING CORPORATION
STATEMENTS OF INCOME

(In thousands)	For the years ended December 31, 2020	2019
REVENUES		
Clearing services	$ 297,280	$ 271,809
Other services	81	105
Total revenues	297,361	271,914
EXPENSES		
Employee compensation and related benefits	114,274	94,373
Information technology	21,260	17,242
Professional and other services	100,659	96,080
Occupancy	6,008	5,146
Depreciation and amortization	11,287	6,937
General and administrative	18,320	13,432
Impairment of intangible assets	254	97
Total expenses	272,062	233,307
Total operating income	25,299	38,607
NON-OPERATING INCOME (EXPENSE)		
Interest income	38,136	160,810
Refunds to Participants	(36,992)	(155,127)
Interest expense	(3,975)	(4,958)
Other non-operating income, net	4,850	4,648
Total non-operating income	2,019	5,373
Income before taxes	27,318	43,980
Provision for income taxes	9,188	12,294
Net income	$ 18,130	$ 31,686

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(In thousands)	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Total Shareholder's Equity**
BALANCE - January 1, 2019	$ 10	$ 86,617	$ 201,671	288,298
Net income	—	—	31,686	31,686
BALANCE - December 31, 2019	10	86,617	233,357	319,984
Net income	—	—	18,130	18,130
BALANCE - December 31, 2020	$ 10	$ 86,617	$ 251,487	$ 338,114

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS

(In thousands)	**For the years ended December 31, 2020**	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 18,130	$ 31,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,287	6,937
Impairment of intangible assets	254	97
Deferred income taxes	1,883	6,025
Net change in:		
Accounts receivable	(11,030)	(3,528)
Other assets	11,865	(4,293)
Other Participants' assets	—	382
Accounts payable and accrued expenses	6,747	(254)
Other liabilities	2,534	698
Clearing Fund liabilities	5,783,188	3,072,484
Payable to Participants	(198)	(278)
Net cash provided by operating activities	5,824,660	3,109,956
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software development costs	(18,932)	(25,281)
Net cash used in investing activities	(18,932)	(25,281)
Net increase in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets	5,805,728	3,084,675
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of year	10,198,907	7,114,232
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of year	$ 16,004,635	$ 10,198,907
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 4,020	$ 4,921
Income taxes paid - net of refunds	$ —	$ 10,031

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

1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides central counterparty (CCP) services to firms that participate in the U.S. government and mortgage-backed securities markets (referred to herein as Participants). Services provided by FICC consist 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).

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

FICC 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 risk management, 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, impairment of intangible assets, 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 credit losses and refunds to Participants. The Company establishes an allowance for estimated losses resulting from uncollectibility. Expected credit losses for newly recognized financial assets and changes to expected credit losses during the period are recognized in General and administrative in the accompanying Statements of Income. The Company determines the adequacy of the allowance by estimating the possibility of loss based on a variety of factors, including the length of time receivables are past due, forward looking macroeconomic projections, historical experience and the financial condition of customers and other debtors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Clearing Fund. The rules of FICC require Participants to maintain deposits related to their respective activities based on calculated requirements. The deposits are available to FICC to collaterize Participants' obligations and certain liabilities of the Company. Margin deposits and any additional Participant contributions are maintained within the Clearing Fund on the accompanying Statements of Financial Condition due to the benefits and risks of ownership incurred by the Company. Deposits and contributions may be in the form of cash, cash equivalents and securities. These deposits may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company pursuant to FICC's rules.

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, pursuant to an investment policy maintained by the Company. Reverse repurchase agreements provide for FICC'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. Reverse repurchase agreements are recorded at the contract amounts. All interest earned on investments is accrued and included within Interest income in the accompanying Statements of Income. This interest is refunded to Participants, and is included in Refunds to Participants in the accompanying Statements of Income.

Securities on deposit - at fair value. Securities deposited to the Clearing Fund may include U.S. Treasury securities, U.S. agency debt securities and U.S. agency residential mortgage-backed securities, pursuant to FICC's rules.

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	Depreciation Period	Depreciation Method
Building and improvements	39 years	Straight-line

Depreciation expense for 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.

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 ranging from three to five years using the straight-line method.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

From time to time, the Company is also involved in reviews, investigations and proceedings (both formal and informal) by governmental and regulatory agencies regarding the Company's business practices, including, among other matters, accounting and operational matters, which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The Company may contest the liability and/or the amount of damages as appropriate in each pending matter. The Company accrues for the estimated loss where available information indicates that it is probable a liability has been incurred at the date of the consolidated financial statements and the Company can reasonably estimate the amount of that loss.

As of December 31, 2020, the SEC identified potential compliance violations arising from a regulatory examination and the Company accrued an estimated liability for the probable loss based on currently available information. The Company evaluates, on a quarterly basis, developments in legal and regulatory proceedings that could cause an increase or decrease in the amount of the accrual that has been previously recorded; actual results may vary significantly.

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.

The Company derives its revenue from transaction fees, subscription revenue, and usage fees. Revenue from transaction fees is billed monthly and calculated based on the number of executed transactions and the established fee schedules, less any applicable volume discounts. The volume targets or thresholds for the discounts reset monthly. 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. Usage fees are recognized when services are provided based on contractual terms.

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

> *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 the continuous net settlement of equity and corporate bonds, mortgage backed securities clearing, and government securities clearing.
>
> *Other services.* Revenue derived from this revenue stream may be in the form of subscription revenue and usage fees, which include referential and activity-based announcement, security reference, and liquidity data sold 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 $26 million to it's clients. The rebate was calculated based on estimated 2019 profitability of the Company. Clients received a rebate in proportion to their fees paid in 2019. The rebate is presented net in Clearing 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 typically bills its customers up to 30 days in arrears. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. Deferred revenue represents the Company's liability to perform services in the future related to payments received in advance of those services. Deferred revenue as of December 31, 2020 and 2019 was $1,500,000 and $0, respectively, and is included in Other current liabilities on the accompanying Statements of Financial Condition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expense allocations. Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries, including FICC, 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.

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. The Company provides 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.

Reconciliation of Cash and cash equivalents and other limited-use cash. When reconciling the beginning and ending total amounts shown in the Statements of Cash Flows, the Company includes all cash on the 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 - Clearing Fund cash deposits and Cash in Other Participants' assets.

A reconciliation of Cash and cash equivalents, Clearing Fund cash deposits, and 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 accompanying Statements of Cash Flows as of December 31, 2020 and 2019 follow (in thousands):

	2020	2019
Cash and cash equivalents	$ 300,549	$ 277,811
Clearing Fund cash deposits (see Note 4)	15,702,944	9,919,756
Cash in Other Participants' assets (see Note 5)	1,142	1,340
Total Cash and cash equivalents, Clearing Fund cash deposits and Cash in Other Participants' assets shown on the Statements of Cash Flows	$ 16,004,635	$ 10,198,907

Novel coronavirus. 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. At this time the Company has not experienced any impairments to the Company's assets or material adverse financial impacts related to COVID-19.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

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 basis differences between book and tax.	• Effective January 1, 2022. • The Company is evaluating the impact on its financial statements and related disclosures.
Recently Adopted Accounting Standards		
ASU 2018-15 Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract *Issued August 2018*	• Aligns the accounting for implementation costs incurred in a CCA that does not include a license to internal-use software with one that does. • Requires companies to defer potentially significant implementation costs incurred in a CCA that was often expensed as incurred under legacy US GAAP and recognize them as expense over the term of the arrangement.	• Adopted January 1, 2020 on a prospective basis. • The adoption of the standard did not have an impact on the Company's financial statements and related disclosures.
ASU 2018-13 Fair value measurement (Topic 820): Disclosure Framework - 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. • 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.	• Adopted January 1, 2020. • The adoption of the standard did not have an impact on the Company's financial statements and related disclosures.
ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments *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.	• Adopted January 1, 2020 on a modified retrospective basis. • The Company determined the largest instrument in scope of the standard is accounts receivable. Accounts receivable 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 financial statements and related disclosures.

4. CLEARING FUND

Details for the Clearing Fund deposits as of December 31, 2020 and 2019 follow (in thousands):

	2020			2019		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Total deposits	$31,897,423	$15,108,186	$47,005,609	$26,882,905	$ 6,077,608	$32,960,513
Less: Required deposits	23,285,995	13,182,483	36,468,478	19,549,374	4,672,109	24,221,483
Excess deposits	$ 8,611,428	$ 1,925,703	$10,537,131	$ 7,333,531	$ 1,405,499	$ 8,739,030

Cash and Securities. Details for cash and securities of the Clearing Fund, which may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company pursuant to FICC's rules, as of December 31, 2020 and 2019 follow (in thousands):

	2020			2019		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash and cash equivalents	$10,473,235	$ 5,229,709	$15,702,944	$ 8,094,951	$ 1,824,805	$ 9,919,756
Securities - at fair value	21,424,188	9,878,477	31,302,665	18,787,954	4,252,803	23,040,757
Total	$31,897,423	$15,108,186	$47,005,609	$26,882,905	$ 6,077,608	$32,960,513

Details for the Clearing Fund cash deposits as of December 31, 2020 and 2019 follow (in thousands):

	2020	2019
Bank deposits	$ 12,859,944	$ 7,851,756
Money market fund investments - at fair value	2,343,000	1,618,000
Reverse repurchase agreements	500,000	450,000
Total	$ 15,702,944	$ 9,919,756

5. OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

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

	2020	2019
Assets:		
Other Participants' assets	$ 1,142	$ 1,340
Liabilities:		
Payable to Participants	$ 1,142	$ 1,340

6. PREMISES AND EQUIPMENT

The cost, accumulated deprecation and net book value of Premises and equipment for as of December 31, 2020 and 2019 follow (in thousands):

	2020	2019
Buildings and improvements	$ 789	$ 809
Land	175	175
Total Premises and equipment	964	984
Less: Accumulated depreciation	(325)	(325)
Net book value	$ 639	$ 659

Depreciation expense for premises and equipment for the years ended December 31, 2020 and 2019 was $20,000 and $21,000, respectively, and is included in Depreciation and amortization in the accompanying Statements of Income.

During the years ended December 31, 2020 and 2019, disposals of fully depreciated premises and equipment resulted in the removal of cost and accumulated depreciation of $20,000 and $0, respectively. There were no other disposals of premises and equipment for the years ended December 31, 2020 and 2019.

7. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization and net book value of capitalized software as of December 31, 2020 and 2019 follow (in thousands):

	2020	2019
Gross carrying value capitalized software	$ 99,484	$ 81,162
Less: Accumulated amortization	(46,688)	(35,777)
Capitalized software, net	$ 52,796	$ 45,385

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

2021	$ 16,936
2022	18,435
2023	12,851
2024	4,574
2025	—
Thereafter	—
Total future estimated amortization	$ 52,796

Amortization expense for capitalized software for the years ended December 31, 2020 and 2019 was $11,267,000 and $6,916,000, respectively, and is 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, 2020 and 2019 in the amount of $254,000 and $97,000, respectively. The impairment charges are included in Impairment of intangible assets in the accompanying Statements of Income.

During the years ended December 31, 2020 and 2019, disposals of fully amortized capitalized software resulted in the removal of cost and accumulated amortization of $0 and $48,822,000, respectively. There were no other disposals of capitalized software for the years ended December 31, 2020 and 2019.

8. 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, 2020 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.

9. 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.

9. FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets and liabilities measured at fair value on a recurring basis. For financial assets and liabilities measured at fair value on a recurring basis the Company applies the following valuation techniques to measure fair value:

Product/Instrument	Valuation Methodology	Classification in the valuation hierarchy
Assets - Clearing Fund - Securities on deposit		
U.S. Treasury Securities U. S. Agency Issued Debt Securities (Non-Callable)	Quoted market price of identical assets obtained from pricing services engaged by the Company.	Level 1
U. S. Agency Issued Debt Securities (Callable) U.S. Agency Residential Mortgage-Backed Securities	Quoted market price of recent trades of similar securities obtained from pricing services engaged by the Company.	Level 2
Assets - Clearing Fund - Cash deposits		
Money market fund investments	Quoted prices in active markets for identical assets.	Level 1
Liabilities - Clearing Fund - Securities on deposit and Cash deposits - Money market fund investments		
Clearing Fund liabilities	Derived from the corresponding Clearing Fund assets (see above).	Level 1 Level 2

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

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets - Clearing Fund				
Securities on deposit	$ 27,033,689	$ 4,268,976	$ —	$ 31,302,665
Cash deposits - Money market fund investments	2,343,000	—	—	2,343,000
Total	$ 29,376,689	$ 4,268,976	$ —	$ 33,645,665
Liabilities - Clearing Fund				
Securities liabilities	$ 27,033,689	$ 4,268,976	$ —	$ 31,302,665
Money market fund investments liabilities	2,343,000	—	—	2,343,000
Total	$ 29,376,689	$ 4,268,976	$ —	$ 33,645,665

9. FAIR VALUE MEASUREMENTS (CONTINUED)

	2019			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
Securities on deposit	$ 18,127,131	$ 4,913,626	$ —	$ 23,040,757
Cash deposits - Money market fund investments	1,618,000	—	—	1,618,000
Total	$ 19,745,131	$ 4,913,626	$ —	$ 24,658,757
Liabilities - Clearing Fund				
Securities liabilities	$ 18,127,131	$ 4,913,626	$ —	$ 23,040,757
Money market fund investments liabilities	1,618,000	—	—	1,618,000
Total	$ 19,745,131	$ 4,913,626	$ —	$ 24,658,757

There were no transfers between levels within the fair value hierarchy, nor were any amounts classified as Level 3 during the years ended December 31, 2020 and 2019 .

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, Clearing Fund - Cash deposits bank deposits and Reverse repurchase agreements (and corresponding liabilities), Other Participants' assets and Payable to Participants.

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, 2020 and 2019 follow (in thousands):

	2020				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 300,549	$ 300,549	$ 300,549	$ —	$ —
Clearing Fund:					
Cash deposits - Bank deposits	12,859,944	12,859,944	12,859,944	—	—
Cash deposits - Reverse repurchase agreements	500,000	500,000	—	500,000	—
Other Participants' assets	1,142	1,142	1,142	—	—
Total	$ 13,661,635	$ 13,661,635	$ 13,161,635	$ 500,000	$ —
Liabilities:					
Clearing Fund - Cash deposits - Bank deposits and Reverse repurchase agreements	$ 13,359,944	$ 13,359,944	$ 12,859,944	$ 500,000	$ —
Payable to Participants	1,142	1,142	1,142	—	—
Total	$ 13,361,086	$ 13,361,086	$ 12,861,086	$ 500,000	$ —

9. FAIR VALUE MEASUREMENTS (CONTINUED)

	2019				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 277,811	$ 277,811	$ 277,811	$ —	$ —
Clearing Fund:					
Cash deposits - Bank deposits	7,851,756	7,851,756	7,851,756	—	—
Cash deposits - Reverse repurchase agreements	450,000	450,000	—	450,000	—
Other Participants' assets	1,340	1,340	1,340	—	—
Total	$ 8,580,907	$ 8,580,907	$ 8,130,907	$ 450,000	$ —
Liabilities:					
Clearing Fund - Cash deposits - Bank deposits and Reverse repurchase agreements	8,301,756	8,301,756	8,301,756	—	—
Payable to Participants	1,340	1,340	1,340	—	—
Total	$ 8,303,096	$ 8,303,096	$ 8,303,096	$ —	$ —

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.

10. RETIREMENT PLANS

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 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 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 FICC were $6,988,000 and $3,892,000 for the years ended December 31, 2020 and 2019, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to FICC were $756,000 and $1,529,000 for the years ended December 31, 2020 and 2019, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income, net in the accompanying Statements of Income based on the nature of the pension expense component.

11. INCOME TAXES

FICC is included in DTCC's consolidated Federal and various state tax returns. FICC 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, 2020 and 2019 follow (in thousands):

	2020	2019
Current income tax/(benefit):		
Federal	$ 5,215	$ 4,151
State and local	2,090	2,118
Total current income tax/(benefit)	7,305	6,269
Deferred income tax/(benefit):		
Federal	946	4,322
State and local	937	1,703
Total deferred income tax/(benefit)	1,883	6,025
Provision for income taxes	$ 9,188	$ 12,294

Pursuant to a tax sharing agreement between DTCC and FICC, the Company is liable for its allocable share of Federal, state and local tax liabilities that are paid by DTCC. The Company received net refunds of $33,000 for 2020 and paid income taxes to DTCC, net of refunds, of $10,031,000 for 2019.

The 2020 and 2019 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, 2020 and 2019 follow:

	2020	2019
U.S. statutory tax rate	21.0 %	21.0 %
State and local income taxes, net of Federal tax benefit	8.8	6.1
Change in unrecognized tax benefits	1.5	1.3
Settlements of tax audits	(1.0)	—
Other	3.3	(0.4)
Effective tax rate	33.6 %	28.0 %

Details for the components of deferred tax assets and liabilities as of December 31, 2020 and 2019 follow (in thousands):

	2020	2019
Deferred tax assets:		
Deferred rent	3,515	4,090
Other	1,013	979
Total deferred tax assets	4,528	5,069
Deferred tax liabilities:		
Accrued compensation and benefits	(3,743)	(2,429)
Depreciation and amortization	(741)	(3,097)
Capitalized software	(16,000)	(13,616)
Total deferred tax liabilities	(20,484)	(19,142)
Net deferred tax liabilities	$ (15,956)	$ (14,073)

11. INCOME TAXES (CONTINUED)

The deferred tax assets are expected to be fully realized and, accordingly, no valuation allowance was established as of December 31, 2020 and 2019.

Details for unrecognized tax benefits as of December 31, 2020 and 2019 follow (in thousands):

	2020	2019
Beginning balance	$ 2,471	$ 2,250
Increases:		
Prior period tax positions	—	221
Decreases:		
Prior period tax positions	(209)	—
Settlements with tax authorities	(12)	—
Ending balance	$ 2,250	$ 2,471

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, 2020 and 2019, accrued interest related to unrecognized tax benefits recorded on the accompanying Statements of Financial Condition totaled $2,935,000 and $2,537,000, respectively.

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 the Company's income tax provision and results of operations. On February 1, 2021, the Company and the New York City tax authority reached a settlement agreement related to income tax audits of the 2010-2014 fiscal years. The Company reduced the related unrecognized tax benefit and accrued interest by approximately $1,394,000 and $2,010,000, respectively, in February 2021.

Details for the periods currently under examination and remaining subject to examination by jurisdiction as of December 31, 2020 follow:

	Tax Years	
Jurisdiction	**Under Examination**	**Subject to Examination**
U.S. Federal - Internal Revenue Service	-	2017 - 2019
New York State	2015 - 2016	2017 - 2019
New York City	2010 - 2017	2018 - 2019
State of Florida	-	2018 - 2019

12. CAPITAL REQUIREMENTS

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

General Business Risk Capital Requirement. This 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.

12. CAPITAL REQUIREMENTS (CONTINUED)

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

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	$ 130,261	$ 113,137
Corporate contribution	65,130	56,568
Total requirement	195,391	169,705
Liquid net assets funded by equity	300,549	277,811
Excess	$ 105,158	$ 108,106

13. 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. FICC has an agreement with DTCC whereby DTCC pays for substantially all of the operational expenses of FICC, and, from time-to-time, purchases of long-term assets acquired by DTCC on behalf of FICC. The related expenses are allocated to FICC 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 FICC 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 5% and 7% 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.

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

	Expenses		Payables (2)	
	For the years ended December 31,		As of December 31,	
Related party	**2020**	**2019**	**2020**	**2019**
DTCC (1)	$ 12,477	$ 14,171	$ 5,854	$ 5,038

(1) DTCC expenses represent the 5% and 7% mark-up fee for services described above.
(2) Included in Accounts payable and accrued expenses on the accompanying Statements of Financial Condition.

14. GUARANTEES

FICC, through GSD and MBSD, provides CCP services, including clearing, settlement and risk management services. Acting as a CCP, FICC guarantees the settlement of trades, with respect to each division, in the event one or more of its Participants defaults. A Participant default is defined in each division's rules. In its guarantor role, FICC has equal claims to and from Participants on opposite sides of netted transactions. To cover its guarantee risk, FICC uses risk-based margining to collect cash and securities collateral through its Clearing Fund. FICC maintains separate Clearing Funds for each of GSD and MBSD.

14. GUARANTEES (CONTINUED)

GSD provides real-time trade matching, clearing, netting, risk management and settlement for trades in U.S. government debt, including buy-sell transactions and repurchase agreement transactions. Securities processed by GSD include Treasury bills, bonds, notes, zero-coupon securities, government agency securities and inflation-indexed securities. The U.S. Government securities market is predominantly an over-the-counter market and most transactions are settled on trade date plus one day (T+1). Trades are guaranteed and novated upon comparison.

FICC's guarantee of GSD net settlement positions may result in a potential liability to FICC. Guaranteed positions that have not yet settled are margined and collateralized twice-daily through the Clearing Fund and marked-to-market twice-daily through the funds-only settlement process. In addition, a Participant may be subject to an additional amount referred to as the intraday supplemental required fund deposit, which, if applicable, may be collected on an intraday basis through the Clearing Fund.

MBSD provides real-time trade matching, clearing, netting, risk management and settlement for trades in the U.S. mortgage-backed securities market. Specifically, MBSD processes to-be-announced transactions, specified pool trades and stipulated trades.

FICC's guarantee of MBSD transactions may result in potential liability to FICC. Guaranteed positions that have not yet settled are margined and collateralized daily through the Clearing Fund. The daily Clearing Fund includes a mark-to-market component that is calculated using guaranteed positions and prices as of prior end-of-day. In addition, a Participant may become subject to an intraday mark-to-market charge which, if applicable, may be collected on an intraday basis through the Clearing Fund.

Details for each division's open positions for which a trade guaranty applied as of December 31, 2020 and 2019 follow (in billions):

Division	2020	2019
GSD	$ 1,201	$ 1,172
MBSD	629	419

If a Participant defaults, such Participant's deposits to the applicable division's Clearing Fund is the first source of funds and collateral that FICC would use to cover any losses that may result from the close-out and liquidation of the defaulting Participant's positions. FICC may also use amounts that may be available from FICC's multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and The Options Clearing Corporation (OCC). In accordance with this multilateral netting agreement, the clearing agencies have agreed to make payments to each other for unsatisfied obligations of a common defaulting Participant to the extent that these clearing agencies have excess resources belonging to the defaulting Participant. Each division would apply its own respective resources and determine its own liquidation results. In determining FICC's available net resources for purposes of the multilateral netting agreement, FICC would first offset the available net resources of GSD with those of MBSD.

In addition, with respect to GSD, FICC has entered into a cross-margining agreement with the Chicago Mercantile Exchange Inc. (CME), which may also provide for additional funds if the defaulting Participant was a cross-margining participant.

If FICC incurs a loss resulting from the liquidation of a defaulting Participant and there is still a deficit after applying such Participant's deposits to the applicable division's Clearing Fund (along with any other resources of, or attributable to, the defaulting Participant that FICC may access under each division's rules), FICC would, in accordance with each division's rules, satisfy this deficit by applying the corporate contribution, (see Note 12), or such greater amount as the Board of Directors may determine, before allocating any remaining loss to Participants.

14. GUARANTEES (CONTINUED)

For purposes of loss allocation, Participant defaults are grouped together chronologically into discrete event periods of 10 business days. Participants are grouped into three different tiers for purposes of loss allocation as well: Tier 1, Tier 2, and Sponsored Members. If there is remaining loss or liability from one or more Participant default events that occurred within the same event period, the division will divide such obligation between Tier 1 Participants and Tier 2 Participants. Tier 1 Participants will be assessed ratably in accordance with their respective average daily required deposits to the Clearing Fund over the prior 70 business days. Tier 2 Participants will only be subject to such loss or liability to the extent they traded with the defaulting Participant. Sponsored Members are not obligated for loss allocation. If the loss arises in connection with Sponsored Member trades, the loss shall be allocated to Tier 1 Participants. GSD Participants who act as inter-dealer brokers are limited to a loss allocation of $5 million per event period in respect of their inter-dealer broker activity.

15. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS

As a CCP, FICC is exposed to significant credit risk to third-parties including its Participants, 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. FICC's global Participant base includes participating brokers, dealers, banks, qualified institutional buyer clients via the sponsored membership service and other financial intermediaries.

Credit risk also comes from the investment of financial assets, which consist principally of cash and cash equivalents, investments, accounts receivable and the Clearing 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 of New York. 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.

Marketable securities. In addition to investing in reverse repurchase agreements, money market funds and bank deposits, the Company also directly invests in U.S. Treasury securities and debt obligations of the U.S. government or those U.S. government agencies guaranteed by the U.S. government, pursuant to its investment policy. Credit risk related to investments in marketable securities involves the risk of nonperformance by the counterparty, which could result in a material loss.

Accounts receivable. Credit risk related to accounts receivable involves the risk of non-payment 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.

Clearing Fund. In addition to risk management policies described above for cash and cash equivalents, when Participants provide cash deposits to the Clearing Fund, the Company may invest the cash in reverse repurchase agreements (reverse repos). The Company bears credit risk related to reverse repos only to the extent 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 through the Company’s credit review process. To avoid concentration of credit risk exposures, the Company sets credit limits for each investment counterparty.

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

Clearing Fund 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 with a stable net asset value of $1.00 and having cash returned daily.

The Company is exposed to credit risk on a daily basis. This risk arises at FICC as it guarantees certain obligations of its Participants under specified circumstances pursuant to its rules. 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 FICC clearing and 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 Clearing Fund; trade and netting and settlement; marking unsettled trades to market; and utilizing a variety of advanced quantitative analytical methodologies, such as back and stress testing.

To become a Participant, 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 Clearing 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 Clearing Fund requirements.

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

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

FICC maintains a rules-based, committed liquidity resource (i.e., the capped contingency liquidity facility) for each division to support potential liquidity needs in the event of a netting member 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 DTC, NSCC and 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.

16. 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, the Company settled with the New York City tax authorities with respect to ongoing state income tax audits related to the years 2010-2014. See Note 11 for additional information.