

Fixed Income Clearing Corporation

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

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION

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	\$ 297,382	\$ 277,811
Accounts receivable	22,843	13,330
Clearing Fund	44,017,707	32,960,513
Other Participants' assets	2,927	1,340
Other current assets	235	11,954
Total current assets	<u>44,341,094</u>	<u>33,264,948</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$320 and \$325 as of September 30, 2020 and December 31, 2019, respectively	644	659
Intangible assets - net of accumulated amortization of \$43,660 and \$35,777 as of September 30, 2020 and December 31, 2019, respectively	53,433	45,385
Total non-current assets	<u>54,077</u>	<u>46,044</u>
TOTAL ASSETS	<u><u>\$ 44,395,171</u></u>	<u><u>\$ 33,310,992</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 12,011	\$ 10,074
Clearing Fund	44,017,707	32,960,513
Payable to Participants	2,927	1,340
Other current liabilities	258	—
Total current liabilities	<u>44,032,903</u>	<u>32,971,927</u>
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	20,920	19,081
Total liabilities	<u>44,053,823</u>	<u>32,991,008</u>
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	254,721	233,357
Total shareholder's equity	<u>341,348</u>	<u>319,984</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u><u>\$ 44,395,171</u></u>	<u><u>\$ 33,310,992</u></u>

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

FIXED INCOME CLEARING CORPORATION

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				
Clearing services	\$ 72,620	\$ 76,530	\$ 224,522	\$ 224,027
Other services	56	(227)	56	105
	<u>72,676</u>	<u>76,303</u>	<u>224,578</u>	<u>224,132</u>
EXPENSES				
Employee compensation and related benefits	29,512	24,865	84,387	70,494
Information technology	5,418	4,322	15,410	12,758
Professional and other services	24,960	25,873	74,102	74,022
Occupancy	1,473	1,275	4,221	3,719
Depreciation and amortization	3,327	1,713	7,898	5,094
General and administrative	3,333	3,254	9,755	9,648
Total expenses	<u>68,023</u>	<u>61,302</u>	<u>195,773</u>	<u>175,735</u>
Total operating income	<u>4,653</u>	<u>15,001</u>	<u>28,805</u>	<u>48,397</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	2,972	37,885	34,873	122,589
Refunds to Participants	(2,897)	(36,430)	(33,900)	(118,016)
Interest expense	(957)	(1,245)	(2,954)	(3,718)
Other non-operating income, net	963	815	2,901	3,681
Total non-operating income	<u>81</u>	<u>1,025</u>	<u>920</u>	<u>4,536</u>
Income before taxes	4,734	16,026	29,725	52,933
Provision for income taxes	1,305	4,415	8,361	14,754
Net income	<u>\$ 3,429</u>	<u>\$ 11,611</u>	<u>\$ 21,364</u>	<u>\$ 38,179</u>

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2020	\$ 10	\$ 86,617	\$ 233,357	\$ 319,984
Net income	—	—	12,015	12,015
BALANCE - March 31, 2020	10	86,617	245,372	331,999
Net income	—	—	5,920	5,920
BALANCE - June 30, 2020	10	86,617	251,292	337,919
Net income	—	—	3,429	3,429
BALANCE - September 30, 2020	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 254,721</u>	<u>\$ 341,348</u>

(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	—	—	12,586	12,586
BALANCE - March 31, 2019	10	86,617	214,257	300,884
Net income	—	—	13,982	13,982
BALANCE - June 30, 2019	10	86,617	228,239	314,866
Net income	—	—	11,611	11,611
BALANCE - September 30, 2019	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 239,850</u>	<u>\$ 326,477</u>

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	For the nine months ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 21,364	\$ 38,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,898	5,094
Deferred income taxes	1,779	1,635
Other	—	97
Net change in:		
Accounts receivable	(9,513)	(2,374)
Other assets	11,719	3,236
Other Participants' assets	—	382
Accounts payable and accrued expenses	1,937	1,911
Other liabilities	318	1,635
Clearing Fund liabilities	3,010,276	2,454,224
Payable to Participants	1,587	(248)
Net cash provided by operating activities	<u>3,047,365</u>	<u>2,503,771</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software development costs	(15,931)	(18,755)
Net cash used in investing activities	<u>(15,931)</u>	<u>(18,755)</u>
Net increase in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets	3,031,434	2,485,016
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>10,198,907</u>	<u>7,114,232</u>
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 13,230,341</u>	<u>\$ 9,599,248</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 3,075</u>	<u>\$ 3,671</u>
Income taxes paid - net of refunds	<u>\$ —</u>	<u>\$ 10,011</u>

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

FIXED INCOME CLEARING CORPORATION

NOTES TO 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

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 (collectively referred to 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 operation and governance, as established by the SEC's Standards for Covered Clearing Agencies (CCAS).

2. BASIS OF PRESENTATION AND USE OF ESTIMATES

Basis of presentation. The accompanying unaudited, interim financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The interim financial statements exclude some of the disclosures required in audited financial statements and should be read in conjunction with FICC's Audited 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 FICC's Audited Financial Statements for the years ended December 31, 2019 and 2018, for additional information on the Company's Summary of Significant Accounting Policies.

The 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.

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.

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.

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.

FIXED INCOME CLEARING CORPORATION

NOTES TO 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)

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 continuous net settlement of equity and corporate bonds, mortgage backed securities clearing, and government securities clearing.

Other services. Revenue derived from this revenue stream are 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.

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.

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 follows (in thousands):

	September 30, 2020	December 31, 2019	September 30, 2019
Cash and cash equivalents	\$ 297,382	\$ 277,811	296,382
Clearing Fund cash deposits (see Note 4)	12,930,032	9,919,756	9,301,496
Cash in Other Participants' assets (see Note 5)	2,927	1,340	1,370
Total Cash and cash equivalents, Clearing Fund cash deposits, and Cash in Other Participants' assets shown on the Statements of Cash Flows	<u>\$ 13,230,341</u>	<u>\$ 10,198,907</u>	<u>\$ 9,599,248</u>

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 negative financial impacts related to COVID-19.

FIXED INCOME CLEARING CORPORATION

NOTES TO 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 FICC's Audited 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>Recently Adopted Accounting Standards</i>		
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 an impact on the Company's 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. 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. 	<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 financial statements as no such applicable transfers and measurement occurred.
<i>Issued August 2018</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. 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"> Adopted January 1, 2020 on a modified retrospective basis. 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 financial statements and related disclosures.
<i>Issued June 2016</i>		

4. CLEARING FUND

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

	2020			2019		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	\$21,736,996	\$10,743,967	\$32,480,963	\$19,549,374	\$ 4,672,109	\$24,221,483
Excess deposits	9,238,613	2,298,131	11,536,744	7,333,531	1,405,499	8,739,030
Total	<u>\$30,975,609</u>	<u>\$13,042,098</u>	<u>\$44,017,707</u>	<u>\$26,882,905</u>	<u>\$ 6,077,608</u>	<u>\$32,960,513</u>

FIXED INCOME CLEARING CORPORATION

NOTES TO 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

4. CLEARING FUND (CONTINUED)

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 as provided in FICC's rules, as of September 30, 2020 and December 31, 2019 follow (in thousands):

	2020			2019		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash and cash equivalents	\$ 9,123,655	\$ 3,806,377	\$ 12,930,032	\$ 8,094,951	\$ 1,824,805	\$ 9,919,756
Securities - at fair value	21,851,954	9,235,721	31,087,675	18,787,954	4,252,803	23,040,757
Total	<u>\$30,975,609</u>	<u>\$13,042,098</u>	<u>\$44,017,707</u>	<u>\$26,882,905</u>	<u>\$ 6,077,608</u>	<u>\$32,960,513</u>

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

	2020	2019
Bank deposits	\$ 10,664,032	\$ 7,851,756
Money market fund investments - at fair value	1,716,000	1,618,000
Reverse repurchase agreements	550,000	450,000
Total	<u>\$ 12,930,032</u>	<u>\$ 9,919,756</u>

5. OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

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

	2020	2019
Assets:		
Other Participants' assets	<u>\$ 2,927</u>	<u>\$ 1,340</u>
Liabilities:		
Payable to Participants	<u>\$ 2,927</u>	<u>\$ 1,340</u>

FIXED INCOME CLEARING CORPORATION

NOTES TO 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

6. FAIR VALUE MEASUREMENTS

See Note 8 in FICC's Audited 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 for those items measured on a recurring basis as of September 30, 2020 and December 31, 2019 are summarized below (in thousands):

	2020			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
Securities on deposit	\$ 26,961,634	\$ 4,126,041	\$ —	\$ 31,087,675
Cash deposits - Money market fund investments	1,716,000	—	—	1,716,000
Total	<u>\$ 28,677,634</u>	<u>\$ 4,126,041</u>	<u>\$ —</u>	<u>\$ 32,803,675</u>
Liabilities - Clearing Fund				
Securities liabilities	\$ 26,961,634	\$ 4,126,041	\$ —	\$ 31,087,675
Money market fund investments liabilities	1,716,000	—	—	1,716,000
Total	<u>\$ 28,677,634</u>	<u>\$ 4,126,041</u>	<u>\$ —</u>	<u>\$ 32,803,675</u>

	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	<u>\$ 19,745,131</u>	<u>\$ 4,913,626</u>	<u>\$ —</u>	<u>\$ 24,658,757</u>
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	<u>\$ 19,745,131</u>	<u>\$ 4,913,626</u>	<u>\$ —</u>	<u>\$ 24,658,757</u>

There were no transfers between levels within the fair value hierarchy, nor were any amounts classified as Level 3 during the periods ended September 30, 2020 and December 31, 2019.

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NOTES TO 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

6. FAIR VALUE MEASUREMENTS (CONTINUED)

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 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	\$ 297,382	\$ 297,382	\$ 297,382	\$ —	\$ —
Clearing Fund:					
Cash deposits - Bank deposits	10,664,032	10,664,032	10,664,032	—	—
Cash deposits - Reverse repurchase agreements	550,000	550,000	—	550,000	—
Other Participants' assets	2,927	2,927	2,927	—	—
Total	\$ 11,514,341	\$ 11,514,341	\$ 10,964,341	\$ 550,000	\$ —
Liabilities:					
Clearing Fund - Cash deposits - Bank deposits and Reverse repurchase agreements	\$ 11,214,032	\$ 11,214,032	\$ 10,664,032	\$ 550,000	\$ —
Payable to Participants	2,927	2,927	2,927	—	—
Total	\$ 11,216,959	\$ 11,216,959	\$ 10,666,959	\$ 550,000	\$ —
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:					
Accounts payable and accrued expenses	\$ 10,074	\$ 10,074	\$ —	\$ 10,074	\$ —
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	\$ 8,313,170	\$ 8,313,170	\$ 8,303,096	\$ 10,074	\$ —

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.

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NOTES TO 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

7. PENSION AND POSTRETIREMENT BENEFITS

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

Defined benefit pension and other postretirement benefit plans. Eligible DTCC employees participate in DTCC's trustee 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 expense of \$1,764,000 and \$1,092,000 for the three months ended September 30, 2020 and 2019, respectively, and expense of \$5,181,000 and \$2,897,000 for the nine months ended September 30, 2020 and 2019, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to FICC were income of \$3,000 and expense of \$529,000 for the three months ended September 30, 2020 and 2019, respectively, and expense of \$547,000 and \$1,116,000 for the nine months ended September 30, 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.

8. CAPITAL REQUIREMENTS

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

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

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

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

	<u>2020</u>	<u>2019</u>
General business risk capital requirement	\$ 121,754	\$ 113,137
Corporate contribution	60,877	56,568
Total requirement	<u>182,631</u>	<u>169,705</u>
Liquid net assets funded by equity	<u>297,382</u>	<u>277,811</u>
Excess	<u>\$ 114,751</u>	<u>\$ 108,106</u>

FIXED INCOME CLEARING CORPORATION

NOTES TO 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

9. 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 September 30, 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.

10. 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.

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

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

Division	2020	2019
GSD	\$ 1,123	\$ 1,172
MBSD	705	419

See Note 14 in FICC's Audited Financial Statements for the years ended December 31, 2019 and 2018 for additional information on the Company's guarantees.

11. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2020 through October 30, 2020, the date these 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 financial statements.