

Fixed Income Clearing Corporation

Audited Financial Statements as of and for the Years Ended
December 31, 2020 and 2019, and Unaudited Condensed for
the three Months Ended December 31, 2020 and 2019

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	As of December 31,	
	2020	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	<u>47,331,749</u>	<u>33,264,948</u>
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	<u>53,435</u>	<u>46,044</u>
TOTAL ASSETS	<u>\$ 47,385,184</u>	<u>\$ 33,310,992</u>
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	<u>47,025,930</u>	<u>32,971,927</u>
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	21,140	19,081
Total liabilities	<u>47,047,070</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	251,487	233,357
Total shareholder's equity	<u>338,114</u>	<u>319,984</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u>\$ 47,385,184</u>	<u>\$ 33,310,992</u>

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

FIXED INCOME CLEARING CORPORATION
STATEMENTS OF INCOME

(In thousands)	For the three months ended December 31, (Unaudited)		For the years ended December 31,	
	2020	2019	2020	2019
REVENUES				
Clearing services	\$ 72,758	\$ 47,782	\$ 297,280	\$ 271,809
Other services	25	—	81	105
Total revenues	<u>72,783</u>	<u>47,782</u>	<u>297,361</u>	<u>271,914</u>
EXPENSES				
Employee compensation and related benefits	29,887	23,879	114,274	94,373
Information technology	5,850	4,484	21,260	17,242
Professional and other services	26,557	22,058	100,659	96,080
Occupancy	1,787	1,427	6,008	5,146
Depreciation and amortization	3,389	1,843	11,287	6,937
General and administrative	8,565	3,881	18,320	13,432
Impairment of intangible assets	254	—	254	97
Total expenses	<u>76,289</u>	<u>57,572</u>	<u>272,062</u>	<u>233,307</u>
Total operating income (expense)	<u>(3,506)</u>	<u>(9,790)</u>	<u>25,299</u>	<u>38,607</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	3,263	38,221	38,136	160,810
Refunds to Participants	(3,092)	(37,111)	(36,992)	(155,127)
Interest expense	(1,021)	(1,240)	(3,975)	(4,958)
Other non-operating income, net	1,949	967	4,850	4,648
Total non-operating income	<u>1,099</u>	<u>837</u>	<u>2,019</u>	<u>5,373</u>
Income (loss) before taxes	(2,407)	(8,953)	27,318	43,980
Provision (benefit) for income taxes	827	(2,460)	9,188	12,294
Net income (loss)	<u>\$ (3,234)</u>	<u>\$ (6,493)</u>	<u>\$ 18,130</u>	<u>\$ 31,686</u>

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, 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	10	86,617	254,721	341,348
Net loss	—	—	(3,234)	(3,234)
BALANCE - December 31, 2020	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 251,487</u>	<u>\$ 338,114</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	10	86,617	239,850	326,477
Net loss	—	—	(6,493)	(6,493)
BALANCE - December 31, 2019	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 233,357</u>	<u>\$ 319,984</u>

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	<u>5,824,660</u>	<u>3,109,956</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software development costs	(18,932)	(25,281)
Net cash used in investing activities	<u>(18,932)</u>	<u>(25,281)</u>
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	<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 year	<u>\$ 16,004,635</u>	<u>\$ 10,198,907</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 4,020</u>	<u>\$ 4,921</u>
Income taxes paid - net of refunds	<u>\$ —</u>	<u>\$ 10,031</u>

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

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019, AND THE THREE MONTHS ENDED DECEMBER 31, 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 (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). See Note 2 in FICC's Audited Financial Statements for the years ended December 31, 2020 and 2019, for additional information on the Company's Summary of Significant Accounting Policies.

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.

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.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019, AND THE THREE MONTHS ENDED DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 its 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.

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.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019, AND THE THREE MONTHS ENDED DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	<u>\$ 16,004,635</u>	<u>\$ 10,198,907</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 material adverse financial impacts related to COVID-19.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Impact on the financial statements or other significant matters
<i>Financial Accounting Standards Board Standard Issued, but not yet Adopted</i>		
ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes <i>Issued December 2019</i>	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Effective January 1, 2022. The Company is evaluating the impact on its financial statements and related disclosures.
<i>Recently Adopted Accounting Standards</i>		
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 <i>Issued August 2018</i>	<ul style="list-style-type: none"> 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. 	<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.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019, AND THE THREE MONTHS ENDED DECEMBER 31, 2020 AND 2019

3. ACCOUNTING AND REPORTING DEVELOPMENTS (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
<i>Recently Adopted Accounting Standards (Continued)</i>		
ASU 2018-13 Fair value measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement <i>Issued August 2018</i>	<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 Company's financial statements and related disclosures.
ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments <i>Issued June 2016</i>	<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 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	<u>\$8,611,428</u>	<u>\$1,925,703</u>	<u>\$10,537,131</u>	<u>\$7,333,531</u>	<u>\$1,405,499</u>	<u>\$8,739,030</u>

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	<u>\$31,897,423</u>	<u>\$15,108,186</u>	<u>\$47,005,609</u>	<u>\$26,882,905</u>	<u>\$6,077,608</u>	<u>\$32,960,513</u>

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4. CLEARING FUND (CONTINUED)

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

	<u>2020</u>	<u>2019</u>
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	<u>\$ 15,702,944</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 December 31, 2020 and 2019 follow (in thousands):

	<u>2020</u>	<u>2019</u>
Assets:		
Other Participants' assets	<u>\$ 1,142</u>	<u>\$ 1,340</u>
Liabilities:		
Payable to Participants	<u>\$ 1,142</u>	<u>\$ 1,340</u>

6. 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:

<u>Moody's ⁽¹⁾</u>			<u>S&P</u>		
<u>Long-term</u>	<u>Short-term</u>	<u>Outlook</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Outlook</u>
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.

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NOTES TO FINANCIAL STATEMENTS

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7. FAIR VALUE MEASUREMENTS

See Note 9 in FICC's Audited Financial Statements for the years ended December 31, 2020 and 2019, 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 December 31, 2020 and 2019 are summarized below (in thousands):

	2020			Total
	Level 1	Level 2	Level 3	
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	<u>\$ 29,376,689</u>	<u>\$ 4,268,976</u>	<u>\$ —</u>	<u>\$ 33,645,665</u>
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	<u>\$ 29,376,689</u>	<u>\$ 4,268,976</u>	<u>\$ —</u>	<u>\$ 33,645,665</u>

	2019			Total
	Level 1	Level 2	Level 3	
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 December 31, 2020 and 2019.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019, AND THE THREE MONTHS ENDED DECEMBER 31, 2020 AND 2019

7. 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 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	\$ —
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.

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8. 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.

9. 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.

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

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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 the 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 December 31, 2020 and 2019 follow (in billions):

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

See Note 14 in FICC's Audited Financial Statements for the years ended December 31, 2020 and 2019 for additional information on the Company's guarantees.

11. 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 in FICC's Audited Financial Statements for the years ended December 31, 2020 and 2019 for additional information.