Fixed Income Clearing Corporation

Audited Financial Statements as of and for the Years Ended December 31, 2019 and 2018, and Unaudited Condensed for the three Months Ended December 31, 2019 and 2018

FIXED INCOME CLEARING CORPORATION

TABLE OF CONTENTS

	Page
AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018, AND UNAUDITED CONDENSED FOR THE THREE MONTHS ENDED DECEMBER 31, 2019 AND 2018:	
Statements of Financial Condition	1
Statements of Income	2
Statements of Changes in Shareholder’s Equity	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 11

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	As of December 31, 2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 277,811	$ 265,724
Accounts receivable	13,330	9,802
Clearing Fund	32,960,513	26,522,224
Other Participants' assets	1,340	1,618
Other current assets	11,954	7,661
Total current assets	33,264,948	26,807,029
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of $325 and $304 as of December 31, 2019 and 2018, respectively	659	680
Intangible assets - net of accumulated amortization of $35,777 and $77,740 as of December 31, 2019 and 2018, respectively	45,385	27,117
Total non-current assets	46,044	27,797
TOTAL ASSETS	$ 33,310,992	$ 26,834,826
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 10,074	$ 10,328
Clearing Fund	32,960,513	26,522,224
Payable to Participants	1,340	1,618
Total current liabilities	32,971,927	26,534,170
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	19,081	12,358
Total liabilities	32,991,008	26,546,528
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	233,357	201,671
Total shareholder's equity	319,984	288,298
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 33,310,992	$ 26,834,826

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) 2019	2018	For the years ended December 31, 2019	2018
REVENUES				
Clearing services	$ 47,782	$ 67,517	$ 271,809	$ 261,999
Other services	—	294	105	563
	47,782	67,811	271,914	262,562
EXPENSES				
Employee compensation and related benefits	23,879	21,107	94,373	83,191
Information technology	4,484	4,232	17,242	16,372
Professional and other services	22,058	26,612	96,080	98,320
Occupancy	1,427	1,370	5,146	4,990
Depreciation and amortization	1,843	1,710	6,937	7,293
General and administrative	3,881	3,588	13,432	12,816
Impairment of Intangible assets	—	726	97	726
Total expenses	57,572	59,345	233,307	223,708
Total operating income (expense)	(9,790)	8,466	38,607	38,854
NON-OPERATING INCOME (EXPENSE)				
Interest income	38,221	38,206	160,810	155,573
Refunds to Participants	(37,111)	(36,764)	(155,127)	(151,117)
Interest expense	(1,240)	(1,147)	(4,958)	(4,586)
Other non-operating income, net	967	954	4,648	3,854
Total non-operating income	837	1,249	5,373	3,724
Income before taxes	(8,953)	9,715	43,980	42,578
Provision (benefit) for income taxes	(2,460)	2,237	12,294	7,889
Net income (loss)	$ (6,493)	$ 7,478	$ 31,686	$ 34,689

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	—	—	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	$ 10	$ 86,617	$ 233,357	$ 319,984

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2018	$ 10	$ 86,617	$ 166,982	$ 253,609
Net income	—	—	8,290	8,290
BALANCE - March 31, 2018	10	86,617	175,272	261,899
Net income	—	—	7,700	7,700
BALANCE - June 30, 2018	10	86,617	182,972	269,599
Net income	—	—	11,221	11,221
BALANCE - September 30, 2018	10	86,617	194,193	280,820
Net income	—	—	7,478	7,478
BALANCE - December 31, 2018	$ 10	$ 86,617	$ 201,671	$ 288,298

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, 2019**	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 31,686	$ 34,689
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	6,937	7,293
Impairment of Intangible assets	97	726
Discount on investments in marketable securities	—	(46)
Deferred income taxes	6,025	4,947
Net change in:		
Accounts receivable	(3,528)	1,734
Other assets	(4,293)	(29)
Other Participants' assets	382	448
Accounts payable and accrued expenses	(254)	3,707
Other liabilities	698	(7,495)
Clearing Fund liabilities	3,072,484	(1,993,596)
Payable to Participants	(278)	487
Net cash provided by/(used in) operating activities	3,109,956	(1,947,135)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of investments in marketable securities	—	75,000
Purchases of investments in marketable securities	—	(50,000)
Capitalized software development costs	(25,281)	(16,724)
Net cash provided by/(used in) investing activities	(25,281)	8,276
Net increase/(decrease) in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets	3,084,675	(1,938,859)
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of year	7,114,232	9,053,091
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of year	$ 10,198,907	$ 7,114,232
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 4,921	$ 4,901
Income taxes paid - net of refunds	$ 10,031	$ 7,036

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 (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. 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, 2019 and 2018, for additional information on the Company's summary of Significant Accounting Polices.

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, 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.

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

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

Clearing services. The Company delivers clearing services across the fixed income markets. Clearing services include mortgage backed securities clearing and government securities clearing. Occasionally, the Company offers rebates to its customers, which are discretionary and recognized upon approval by the Board of Directors, and are recorded as a reduction to Clearing services revenue.

Other services. The Company offers 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.

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 customers. The rebate was based on a pro rata share of qualifying revenues, using estimated 2019 operating margin of the Company as the basis for the calculation. The rebate is recorded as a reduction to Clearing services revenue in the accompanying Statements of Income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reconciliation of Cash, cash equivalents and restricted cash. The Company includes all cash on the Statements of Financial Condition when reconciling the beginning and ending total amounts shown in the Statements of Cash Flows, which includes Cash and cash equivalents and cash balances that are not available for general corporate purposes due to certain restrictions - Clearing Fund cash deposits and Cash in Other Participants' assets.

A reconciliation of Cash and cash equivalents, Clearing Fund cash deposits, 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 Statements of Cash Flows as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Cash and cash equivalents	$ 277,811	$ 265,724
Clearing Fund cash deposits (see Note 4)	9,919,756	6,847,272
Cash in Other Participants' assets (see Note 5)	1,340	1,236
Total Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets shown on the Statements of Cash Flows	$ 10,198,907	$ 7,114,232

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.

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.

3. ACCOUNTING AND REPORTING DEVELOPMENT

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 outside basis differences.	• Effective January 1, 2022. • The Company is evaluating the impact on related disclosures in its financial statements.
ASU 2019-05 Financial Instruments - Credit Losses: Targeted Transition Relief *Issued May 2019*	• Provides entities with an option upon adoption of ASU 2016-13 *Financial Instruments - Credit Losses* to irrevocably elect the fair value option on an instrument-by-instrument basis for certain financial instruments that are both within the scope of the current expected credit loss and eligible for the fair value option.	• Effective January 1, 2020. • The Company will not elect the fair value option on any instrument within the scope and therefore no impact on its financial statements and related disclosures.

3. ACCOUNTING AND REPORTING DEVELOPMENT (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted (Continued)		
ASU 2018-18 Clarifying Interactions of the Revenue Recognition and Collaborative Arrangements Standards *Issued November 2018*	• Amends Collaborative Arrangement standard to clarify that certain transactions between participants in a collaborative arrangement should be accounted for under new Revenue Recognition standard when the collaborative partner is considered the customer. Requires revenues from such collaborative contracts to be recognized upon transfer of control of a good or service in the amount of consideration expected to be received from the collaborative partner. • Precludes an entity from presenting collaborative arrangement consideration as revenue from contracts with customers if the collaborative partner is not considered the customer.	• Effective January 1, 2020. • The Company's implementation efforts included the identification and evaluation of collaborative arrangements that were not reviewed under the implementation of ASU 2014-09 *Revenue from Contracts with Customers*. • The adoption of the standard will not have a material impact to the recognition and timing of revenues for collaborative arrangements or on its financial statements and related disclosures.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract *Issued August 2018*	• 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.	• Effective January 1, 2020. • The adoption of the standard will not have a material impact on its financial statements and related disclosures.
ASU 2018-13 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 Level 3 fair value measurements. • Modifies certain disclosure requirements for nonpublic entities to make them less burdensome.	• Effective January 1, 2020. • The adoption of the standard is not expected to have an impact on the related disclosures in its financial statements.

3. ACCOUNTING AND REPORTING DEVELOPMENT (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
Financial Accounting Standards Board Standard Issued, but not yet Adopted (Continued)		
ASU 2016-13 Financial Instruments - Credit Losses *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.	• Effective January 1, 2020. • The Company determined the largest instrument in scope of the standard is trade receivables. Trade receivables will require an adjustment to its provision matrix for current and forward-looking projections however, adjustments are not expected to be material. • The adoption of the standard will not have a material impact on its financial statements and related disclosures.

4. CLEARING FUND

Details for the Clearing Fund deposits as of December 31, 2019 and 2018 follow (in thousands):

	2019			2018		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Required deposits	$ 19,549,374	$ 4,672,109	$ 24,221,483	$ 13,576,152	$ 4,477,522	$ 18,053,674
Excess deposits	7,333,531	1,405,499	8,739,030	7,029,000	1,439,550	8,468,550
Total	$ 26,882,905	$ 6,077,608	$ 32,960,513	$ 20,605,152	$ 5,917,072	$ 26,522,224

Details for the Clearing Fund deposits as of December 31, 2019 and 2018 follow (in thousands):

	2019			2018		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Securities on deposit - at fair value	$ 18,787,954	$ 4,252,803	$ 23,040,757	$ 15,253,927	$ 4,421,025	$ 19,674,952
Cash deposits	8,094,951	1,824,805	9,919,756	5,351,225	1,496,047	6,847,272
Total	$ 26,882,905	$ 6,077,608	$ 32,960,513	$ 20,605,152	$ 5,917,072	$ 26,522,224

Details for the Clearing Fund cash deposits as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Bank deposits	$ 7,851,756	$ 5,466,272
Money market fund investments - at fair value	1,618,000	931,000
Reverse repurchase agreements	450,000	450,000
Total	$ 9,919,756	$ 6,847,272

Clearing Fund cash deposits. Cash deposits of the Clearing Fund, may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company as provided in FICC's rules.

5. OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

Details for Other Participants' assets and Payable to Participants as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
Assets:		
Other Participants' assets:		
Cash	$ 1,340	$ 1,236
Other	—	382
Total Other Participants' assets	$ 1,340	$ 1,618
Liabilities:		
Payable to Participants	$ 1,340	$ 1,618

6. 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 trusteed 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 $3,892,000 and $2,969,000 for the years ended December 31, 2019 and 2018, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to FICC were $1,529,000 and $1,682,000 for the years ended December 31, 2019 and 2018, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income in the accompanying Statements of Income based on the nature of the pension expense component.

7. CAPITAL REQUIREMENTS

The capital requirements 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 requirements by holding liquid net assets funded by equity, as described in Rule 17Ad-22(e)(15) of the CCAS and the Clearing Agency Policy on Capital Requirements.

General Business Risk Capital Requirement. The general business risk capital requirement is determined according to Rule 17Ad-22(e)(15) of the CCAS and the Clearing Agency Policy on Capital Requirements. The capital requirement is held to cover potential general business losses so that the 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 general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of December 31, 2019 and 2018 follow (in thousands):

	2019	2018
General business risk capital requirement	$ 113,137	$ 107,845
Corporate contribution	56,568	53,922
Total requirement	169,705	161,767
Liquid net assets funded by equity	277,811	265,724
Excess	$ 108,106	$ 103,957

8. CREDIT RATINGS

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, 2019 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. 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 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.

Details for each division's open positions for which a trade guaranty applied as of December 31, 2019 and 2018 follow (in billions):

Division	2019	2018
GSD	$ 1,172	$ 1,160
MBSD	419	333

There were no defaults by Participants to these obligations.

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

10. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2019 through February 28, 2020, for potential recognition or disclosure in these accompanying financial statements. No events or transactions occurred during such period that would require recognition or disclosure in these accompanying financial statements.