

National Securities 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

NATIONAL SECURITIES CLEARING CORPORATION
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NATIONAL SECURITIES 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	\$ 4,808,613	\$ 6,799,657
Participants' segregated cash	1,465	4,876
Short-term investments	900,000	900,000
Accounts receivable	41,505	27,370
Clearing Fund	10,518,890	5,897,252
Other Participants' assets	445	1,499
Other current assets	26,084	25,266
Total current assets	16,297,002	13,655,920
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$1,537 and \$1,560 as of September 30, 2020 and December 31, 2019, respectively	3,089	3,162
Intangible assets - net of accumulated amortization of \$78,010 and \$70,190 as of September 30, 2020 and December 31, 2019, respectively	45,839	37,771
Total non-current assets	48,928	40,933
TOTAL ASSETS	\$ 16,345,930	\$ 13,696,853
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount	\$ 3,119,575	\$ 7,154,217
Accounts payable and accrued expenses	21,816	4,719
Clearing Fund	10,518,890	5,897,252
Payable to Participants	1,910	6,375
Other current liabilities	14,618	—
Total current liabilities	13,676,809	13,062,563
OTHER NON-CURRENT LIABILITIES:		
Long-term debt	1,986,521	—
Other non-current liabilities	20,385	19,450
Total non-current liabilities	2,006,906	19,450
Total liabilities	15,683,715	13,082,013
COMMITMENTS AND CONTINGENCIES (Note 2)		
SHAREHOLDER'S EQUITY		
Common stock, \$0.50 par value - 30,000 shares authorized; 20,000 shares issued and outstanding	10	10
Additional paid-in capital	69,442	69,442
Retained earnings	592,763	545,388
Total shareholder's equity	662,215	614,840
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 16,345,930	\$ 13,696,853

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

NATIONAL SECURITIES 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	\$ 93,243	\$ 79,705	\$ 298,367	\$ 242,150
Wealth management services	26,081	25,421	81,100	77,363
Other services	1,927	1,135	4,926	2,385
Total revenues	<u>121,251</u>	<u>106,261</u>	<u>384,393</u>	<u>321,898</u>
EXPENSES				
Employee compensation and related benefits	43,884	37,414	127,295	105,989
Information technology	10,891	9,231	33,193	26,812
Professional and other services	33,458	28,738	91,559	78,646
Occupancy	2,330	2,121	7,026	6,165
Depreciation and amortization	2,601	2,617	8,067	7,721
General and administrative	5,971	5,781	18,562	17,481
Total expenses	<u>99,135</u>	<u>85,902</u>	<u>285,702</u>	<u>242,814</u>
Total operating income	<u>22,116</u>	<u>20,359</u>	<u>98,691</u>	<u>79,084</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	7,485	77,498	75,866	263,705
Refunds to Participants	(3,008)	(38,250)	(39,894)	(137,536)
Interest expense	(14,189)	(42,253)	(76,250)	(136,558)
Other non-operating income, net	1,810	1,533	5,438	6,054
Total non-operating expense	<u>(7,902)</u>	<u>(1,472)</u>	<u>(34,840)</u>	<u>(4,335)</u>
Income before taxes	14,214	18,887	63,851	74,749
Provision for income taxes	164	5,146	16,476	20,695
Net income	<u>\$ 14,050</u>	<u>\$ 13,741</u>	<u>\$ 47,375</u>	<u>\$ 54,054</u>

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

NATIONAL SECURITIES 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	\$ 69,442	\$ 545,388	\$ 614,840
Net income	—	—	28,951	28,951
BALANCE - March 31, 2020	10	69,442	574,339	643,791
Net income	—	—	4,374	4,374
BALANCE - June 30, 2020	10	69,442	578,713	648,165
Net income	—	—	14,050	14,050
BALANCE - September 30, 2020	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 592,763</u>	<u>\$ 662,215</u>

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2019	\$ 10	\$ 69,442	\$ 489,280	\$ 558,732
Net income	—	—	21,191	21,191
BALANCE - March 31, 2019	10	69,442	510,471	579,923
Net income	—	—	19,122	19,122
BALANCE - June 30, 2019	10	69,442	529,593	599,045
Net income	—	—	13,741	13,741
BALANCE - September 30, 2019	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 543,334</u>	<u>\$ 612,786</u>

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

NATIONAL SECURITIES 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	\$ 47,375	\$ 54,054
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	8,067	7,721
Deferred income taxes	2,001	1,781
Accretion of discount on Commercial paper, net of payments	(38,099)	21,983
Accretion of discount and amortization of debt issuance costs	1,711	—
Other	308	200
Net change in:		
Accounts receivable	(14,135)	(985)
Other assets	(818)	1,605
Other Participants' assets	—	68
Accounts payable and accrued expenses	17,097	2,873
Other liabilities	13,552	1,950
Clearing Fund liabilities	4,164,882	(622,398)
Payable to Participants	(4,465)	(25,663)
Net cash provided by/(used in) operating activities	<u>4,197,476</u>	<u>(556,811)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Short-term investments	(1,600,000)	(1,500,000)
Maturities of Short-term investments	1,600,000	1,400,000
Capitalized software development costs	(16,370)	(17,742)
Net cash used in investing activities	<u>(16,370)</u>	<u>(117,742)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Commercial paper	25,311,630	22,945,071
Repayments of Commercial paper	(29,308,173)	(23,035,377)
Proceeds from issuance of debt, net of debt issuance costs	1,984,810	—
Net cash used in financing activities	<u>(2,011,733)</u>	<u>(90,306)</u>
Net increase/(decrease) in Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets	2,169,373	(764,859)
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>12,360,618</u>	<u>14,856,465</u>
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 14,529,991</u>	<u>\$ 14,091,606</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 101,014</u>	<u>\$ 114,485</u>
Income taxes paid - net of refunds	<u>\$ —</u>	<u>\$ 15,830</u>

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

NATIONAL SECURITIES 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

National Securities Clearing Corporation (NSCC or the Company) is organized as a business corporation under New York law, and is a clearing agency registered with the U.S. Securities and Exchange Commission (SEC). NSCC provides clearing, settlement, risk management, and central counterparty (CCP) services to its members (collectively referred to as Participants) for broker-to-broker trades involving equities, corporate and municipal debt, exchange-traded funds, and unit investment trusts.

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

NSCC 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 NSCC'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 NSCC'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.

NATIONAL SECURITIES 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.

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

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 NSCC, 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 - Participants' segregated cash, Clearing Fund cash deposits and Cash in Other Participants' assets.

A reconciliation of Cash and cash equivalents, Participants' segregated cash, 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 thousand):

	September 30, 2020	December 31, 2019	September 30, 2019
Cash and cash equivalents	\$ 4,808,613	\$ 6,799,657	\$ 7,008,863
Participants' segregated cash	1,465	4,876	52,350
Clearing Fund cash deposits (see Note 5)	9,719,468	5,554,586	7,028,635
Cash in Other Participants' assets (see Note 4)	445	1,499	1,758
Total Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, and Cash in Other Participants' assets shown on the Statements of Cash Flows	<u>\$ 14,529,991</u>	<u>\$ 12,360,618</u>	<u>\$ 14,091,606</u>

NATIONAL SECURITIES 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)

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.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

See Note 3 in NSCC'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 2020-04 Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting <i>Issued March 2020</i>	<ul style="list-style-type: none"> Provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that currently utilize the London Interbank Offered Rate (LIBOR) as their benchmark rate, subject to certain criteria being met. The standard is effective for all entities as of March 12, 2020 through December 31, 2020. 	<ul style="list-style-type: none"> Adopted April 2020 on a prospective basis. The adoption of the standard did not have an impact on the Company's financial statements and related disclosures. The Company will continue to evaluate the impacts of reference rate reform on contract modifications.
ASU 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (CCA) That Is a Service Contract <i>Issued August 2018</i>	<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.

NATIONAL SECURITIES 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 (CONTINUED)

Standard	Description	Impact on the financial statements or other significant matters
<i>Recently Adopted Accounting Standards (Continued)</i>		
ASU 2018-13 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 related disclosures in the Company's financial statements as no such applicable transfers and measurement occurred.
ASU 2016-13 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 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.

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

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

	<u>2020</u>	<u>2019</u>
Assets:		
Participants' segregated cash	\$ 1,465	\$ 4,876
Other Participants' assets	445	1,499
Total	<u>\$ 1,910</u>	<u>\$ 6,375</u>
Liabilities:		
Payable to Participants	<u>\$ 1,910</u>	<u>\$ 6,375</u>

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

NATIONAL SECURITIES 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

5. CLEARING FUND

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

	<u>2020</u>	<u>2019</u>
Required deposits	\$ 9,335,719	\$ 5,183,646
Excess deposits	1,183,171	713,606
Total	<u>\$ 10,518,890</u>	<u>\$ 5,897,252</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 as provided in NSCC's rules, as of September 30, 2020 and December 31, 2019 follow (in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 9,719,468	\$ 5,554,586
Securities - at fair value	799,422	342,666
Total	<u>\$ 10,518,890</u>	<u>\$ 5,897,252</u>

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

	<u>2020</u>	<u>2019</u>
Bank deposits	\$ 7,670,468	\$ 3,953,586
Money market fund investments - at fair value	1,574,000	1,226,000
Reverse repurchase agreements	475,000	375,000
Total	<u>\$ 9,719,468</u>	<u>\$ 5,554,586</u>

6. COMMERCIAL PAPER

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

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

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

NATIONAL SECURITIES 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

7. FAIR VALUE MEASUREMENTS

See Note 9 in NSCC'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	\$ 799,422	\$ —	\$ —	\$ 799,422
Cash deposits - Money market fund investments	1,574,000	—	—	1,574,000
Total	<u>\$ 2,373,422</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,373,422</u>
Liabilities - Clearing Fund				
Securities liabilities	\$ 799,422	\$ —	\$ —	\$ 799,422
Money market fund investments liabilities	1,574,000	—	—	1,574,000
Total	<u>\$ 2,373,422</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,373,422</u>
	2019			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
Securities on deposit	\$ 342,666	\$ —	\$ —	\$ 342,666
Cash deposits - Money market fund investments	1,226,000	—	—	1,226,000
Total	<u>\$ 1,568,666</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,568,666</u>
Liabilities - Clearing Fund				
Securities liabilities	\$ 342,666	\$ —	\$ —	\$ 342,666
Money market fund investments liabilities	1,226,000	—	—	1,226,000
Total	<u>\$ 1,568,666</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,568,666</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 .

NATIONAL SECURITIES 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

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 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	\$ 4,808,613	\$ 4,808,613	\$ 4,808,613	\$ —	\$ —
Participants' segregated cash	1,465	1,465	1,465	—	—
Short-term investments	900,000	900,000	—	900,000	—
Clearing Fund:					
Cash deposits - Bank deposits	7,670,468	7,670,468	7,670,468	—	—
Cash deposits - Reverse repurchase agreements	475,000	475,000	—	475,000	—
Other Participants' assets	445	445	445	—	—
Total	<u>\$13,855,991</u>	<u>\$13,855,991</u>	<u>\$12,480,991</u>	<u>\$ 1,375,000</u>	<u>\$ —</u>
Liabilities:					
Commercial paper	\$ 3,119,575	\$ 3,119,575	\$ —	\$ 3,119,575	\$ —
Clearing Fund - Cash deposits - Bank deposits and Reverse repurchase agreements	8,145,468	8,145,468	7,670,468	475,000	—
Payable to Participants	1,910	1,910	1,910	—	—
Long-term debt	1,986,521	2,033,981	—	2,033,981	—
Total	<u>\$13,253,474</u>	<u>\$13,300,934</u>	<u>\$ 7,672,378</u>	<u>\$ 5,628,556</u>	<u>\$ —</u>
2019					
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 6,799,657	\$ 6,799,657	\$ 6,799,657	\$ —	\$ —
Participants' segregated cash	4,876	4,876	4,876	—	—
Short-term investments	900,000	900,000	—	900,000	—
Clearing Fund:					
Cash deposits - Bank deposits	3,953,586	3,953,586	3,953,586	—	—
Cash deposits - Reverse repurchase agreements	375,000	375,000	—	375,000	—
Other Participants' assets	1,499	1,499	1,499	—	—
Total	<u>\$ 12,034,618</u>	<u>\$ 12,034,618</u>	<u>\$ 10,759,618</u>	<u>\$ 1,275,000</u>	<u>\$ —</u>
Liabilities:					
Commercial paper	\$ 7,154,217	\$ 7,154,217	\$ —	\$ 7,154,217	\$ —
Accounts payable and accrued expenses	4,719	4,719	—	4,719	—
Clearing Fund - Cash deposits - Bank deposits and Reverse repurchase agreements	4,328,586	4,328,586	4,328,586	—	—
Payable to Participants	6,375	6,375	6,375	—	—
Total	<u>\$ 11,493,897</u>	<u>\$ 11,493,897</u>	<u>\$ 4,334,961</u>	<u>\$ 7,158,936</u>	<u>\$ —</u>

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7. FAIR VALUE MEASUREMENTS (CONTINUED)

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.

8. LONG-TERM DEBT

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

	<u>2020</u>	<u>2019</u>
Medium-term notes, net of unamortized discount and debt issuance costs	\$ 1,986,521	\$ —
Less: Current portion of long-term debt	—	—
Non-current portion of long-term debt	<u>\$ 1,986,521</u>	<u>\$ —</u>

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

2020	\$ —
2021	—
2022	—
2023	1,000,000
2024	—
Thereafter	<u>1,000,000</u>
	<u>\$ 2,000,000</u>

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

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

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

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

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

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8. LONG-TERM DEBT (CONTINUED)

Line of credit. The Company maintains a line of credit to support settlement. Details for the terms of the outstanding line of credit as of September 30, 2020 and December 31, 2019 follow:

	2020	2019
Committed Amount	\$10.9 billion	\$12.1 billion
Number of Participants/Lenders	32/37	32/41
Borrowing Rate	The greater of the federal funds offered rate, adjusted LIBOR, or lenders' cost of funds, on the day of borrowing, plus 1.40%.	
Maturity Date	May 2021	May 2020
Annual Facility Fee	0.20% ⁽¹⁾	0.10% ⁽¹⁾

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

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

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

	2020	2019
Minimum Net Worth	\$200 million	\$125 million
Minimum Clearing Fund deposits	\$1.5 billion	\$1 billion

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

Credit Ratings. 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.

9. 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 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 trusted 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.

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9. PENSION AND POSTRETIREMENT BENEFITS (CONTINUED)

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 NSCC were expense of \$2,544,000 and \$1,556,000 for the three months ended September 30, 2020 and 2019, respectively, and expense of \$7,549,000 and \$4,136,000 for the nine months ended September 30, 2020 and 2019, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to NSCC were income of \$7,000 and expense of \$950,000 for the three months ended September 30, 2020 and 2019, respectively, and expense of \$834,000 and \$1,892,000 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.

10. CAPITAL REQUIREMENTS

The total capital requirement for NSCC 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	\$ 195,140	\$ 159,218
Corporate contribution	97,570	79,609
Total requirement	292,710	238,827
Liquid net assets funded by equity	599,092	524,817
Excess	<u>\$ 306,382</u>	<u>\$ 285,990</u>

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11. GUARANTEES

NSCC provides CCP services, including clearing, settlement and risk management services. Acting as a CCP, NSCC guarantees the settlement of trades in the event one or more of its Participants defaults. A Participant default is defined in NSCC's rules. In its guarantor role, NSCC has equal claims to and from Participants on opposite sides of netted transactions. To cover its guarantee risk, NSCC uses risk-based margining to collect cash and securities collateral through its Clearing Fund. NSCC's trade guaranty attaches at the point of validation for locked-in submissions, or at the point of comparison and validation for bilateral submissions.

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

	<u>2020</u>	<u>2019</u>
NSCC	\$ 201	\$ 143

There were no defaults by Participants to these obligations.

See Note 15 in NSCC's Audited Financial Statements for the years ended December 31, 2019 and 2018 for additional information on the Company's guarantees.

12. 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.