

Fixed Income Clearing Corporation

Financial Statements (Unaudited) as of September 30, 2021 and
December 31, 2020 and for the three and nine months ended
September 30, 2021 and 2020

FIXED INCOME CLEARING CORPORATION

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FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands, except share data)	As of September 30, 2021	As of December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 335,600	\$ 300,549
Accounts receivable - net of allowance for credit losses	23,761	24,360
Clearing Fund	43,255,061	47,005,609
Other Participants' assets	1,056	1,142
Other current assets	608	89
Total current assets	<u>43,616,086</u>	<u>47,331,749</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$341 and \$325 as of September 30, 2021 and December 31, 2020, respectively	623	639
Intangible assets - net of accumulated amortization of \$59,417 and \$46,688 as of September 30, 2021 and December 31, 2020, respectively	53,555	52,796
Total non-current assets	<u>54,178</u>	<u>53,435</u>
TOTAL ASSETS	<u><u>\$ 43,670,264</u></u>	<u><u>\$ 47,385,184</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 32,656	\$ 16,821
Clearing Fund	43,255,061	47,005,609
Payable to Participants	1,056	1,142
Other current liabilities	2,739	2,358
Total current liabilities	<u>43,291,512</u>	<u>47,025,930</u>
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	18,407	21,140
Total liabilities	<u>43,309,919</u>	<u>47,047,070</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	273,718	251,487
Total shareholder's equity	<u>360,345</u>	<u>338,114</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	<u><u>\$ 43,670,264</u></u>	<u><u>\$ 47,385,184</u></u>

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

FIXED INCOME CLEARING CORPORATION
STATEMENTS OF INCOME (UNAUDITED)

(In thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
REVENUES				
Clearing services	\$ 75,234	\$ 72,620	\$ 234,478	\$ 224,522
Other services	53	56	132	56
Total revenues	<u>75,287</u>	<u>72,676</u>	<u>234,610</u>	<u>224,578</u>
EXPENSES				
Employee compensation and related benefits	28,249	29,512	85,963	84,387
Information technology	6,233	5,418	18,448	15,410
Professional and other services	24,990	24,960	73,004	74,102
Occupancy	1,410	1,473	4,359	4,221
Depreciation and amortization	4,544	3,327	12,745	7,898
General and administrative	6,385	3,333	12,815	9,755
Total expenses	<u>71,811</u>	<u>68,023</u>	<u>207,334</u>	<u>195,773</u>
Total operating income	<u>3,476</u>	<u>4,653</u>	<u>27,276</u>	<u>28,805</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	4,245	2,972	10,624	34,873
Refunds to Participants	(4,124)	(2,897)	(10,275)	(33,900)
Interest expense	(686)	(957)	(2,142)	(2,954)
Other non-operating income, net	841	963	2,465	2,901
Total non-operating income	<u>276</u>	<u>81</u>	<u>672</u>	<u>920</u>
Income before taxes	3,752	4,734	27,948	29,725
Provision for income taxes	1,653	1,305	5,717	8,361
Net income	<u>\$ 2,099</u>	<u>\$ 3,429</u>	<u>\$ 22,231</u>	<u>\$ 21,364</u>

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2021	\$ 10	\$ 86,617	\$ 251,487	\$ 338,114
Net income	—	—	12,818	12,818
BALANCE - March 31, 2021	10	86,617	264,305	350,932
Net income	—	—	7,314	7,314
BALANCE - June 30, 2021	10	86,617	271,619	358,246
Net income	—	—	2,099	2,099
BALANCE - September 30, 2021	<u>\$ 10</u>	<u>\$ 86,617</u>	<u>\$ 273,718</u>	<u>\$ 360,345</u>

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

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	For the nine months ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 22,231	\$ 21,364
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	12,745	7,898
Deferred income taxes	2,452	1,779
Other	(3,401)	—
Net change in:		
Accounts receivable	599	(9,513)
Other assets	(519)	11,719
Accounts payable and accrued expenses	15,835	1,937
Other liabilities	(1,403)	318
Clearing Fund liabilities	(1,969,687)	3,010,276
Payable to Participants	(86)	1,587
Net cash provided by/(used in) operating activities	<u>(1,921,234)</u>	<u>3,047,365</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software development costs	(13,488)	(15,931)
Net cash used in investing activities	<u>(13,488)</u>	<u>(15,931)</u>
Net increase/(decrease) in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets	(1,934,722)	3,031,434
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>16,004,635</u>	<u>10,198,907</u>
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 14,069,913</u>	<u>\$ 13,230,341</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 2,205</u>	<u>\$ 3,075</u>
Income taxes paid - net of refunds	<u>\$ 7,034</u>	<u>\$ —</u>

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

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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. BASIS OF PRESENTATION AND USE OF ESTIMATES

Basis of presentation. The accompanying unaudited interim financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The interim financial statements exclude some of the disclosures required in audited financial statements and should be read in conjunction with FICC's Audited Financial Statements for the years ended December 31, 2020 and 2019, which are located on the Company's website at <http://www.dtcc.com/legal/financial-statements>. See Note 2 in FICC's Audited Financial Statements for the years ended December 31, 2020 and 2019, 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 Consolidated Statements of Financial Condition, Income or Cash Flows. The Company evaluates, on a quarterly basis, developments in legal and regulatory proceedings that could cause an increase or decrease to the amounts accrued, if any; actual results may vary significantly.

The Company was fined by the SEC for compliance violations arising from a regulatory examination. Without admitting or denying the findings, the Company consented to pay a \$8 million penalty in 2021. The charge for the fine is included in General and administrative in the accompanying Statements of Income of which \$5 million was recorded in fourth quarter of 2020 and \$3 million was recorded in the three and nine months ending September 30th, 2021.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

2. BASIS OF PRESENTATION AND USE OF ESTIMATES (CONTINUED)

Revenue recognition. 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 is 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.

Deferred revenue. 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 September 30, 2021 and December 31, 2020 was \$2,250,000 and \$1,500,000, respectively, and is included in Other current liabilities on the accompanying Statements of Financial Condition. Of the \$1,500,000 as of December 31, 2020, there was no amount recognized as revenue during the three and nine months ended September 30, 2021.

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 level of support provided and utilization of technology resources. Accordingly, the expenses in the accompanying Statements of Income represent allocated costs including Employee compensation and related benefits, Information technology, Professional and other services, Occupancy, Depreciation and amortization and General and administrative.

Reconciliation of Cash and cash equivalents and other limited-use cash. When reconciling the beginning and ending total amounts shown in the Statements of Cash Flows, the Company includes all cash on the Statements of Financial Condition, regardless of which line it is included. The Statement of Cash Flows includes Cash and cash equivalents and cash balances that are not available for general corporate purposes due to certain limitations, including - Clearing Fund cash deposits and Cash in Other Participants' assets.

A reconciliation of Cash and cash equivalents, Clearing Fund cash deposits, and Cash in Other Participants' assets, reported within the Statements of Financial Condition that sum to the total of the same such amounts shown on the accompanying Statements of Cash Flows follows (in thousands):

	September 30, 2021	December 31, 2020	September 30, 2020
Cash and cash equivalents	\$ 335,600	\$ 300,549	\$ 297,382
Clearing Fund cash deposits (see Note 4)	13,733,257	15,702,944	12,930,032
Cash in Other Participants' assets	1,056	1,142	2,927
Total Cash and cash equivalents, Clearing Fund cash deposits and Cash in Other Participants' assets shown on the Statements of Cash Flows	<u>\$ 14,069,913</u>	<u>\$ 16,004,635</u>	<u>\$ 13,230,341</u>

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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. 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

See Note 3 in FICC's Audited Financial Statements for the years ended December 31, 2020 and 2019, for additional information on the Company's 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.

4. CLEARING FUND

Details for the Clearing Fund deposits as of September 30, 2021 and December 31, 2020 follow (in thousands):

	2021			2020		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Total deposits	\$28,023,125	\$15,231,936	\$43,255,061	\$31,897,423	\$15,108,186	\$47,005,609
Less: Required deposits	19,172,744	11,685,783	30,858,527	23,285,995	13,182,483	36,468,478
Excess deposits	<u>\$ 8,850,381</u>	<u>\$ 3,546,153</u>	<u>\$12,396,534</u>	<u>\$ 8,611,428</u>	<u>\$ 1,925,703</u>	<u>\$10,537,131</u>

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

4. CLEARING FUND (CONTINUED)

Cash and Securities. Details for cash and securities of the Clearing Fund, which may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company pursuant to FICC's rules, as of September 30, 2021 and December 31, 2020 follow (in thousands):

	2021			2020		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash and cash equivalents	\$ 10,130,703	\$ 3,602,554	\$ 13,733,257	\$ 10,473,235	\$ 5,229,709	\$ 15,702,944
Securities - at fair value	17,892,422	11,629,382	29,521,804	21,424,188	9,878,477	31,302,665
Total	<u>\$28,023,125</u>	<u>\$15,231,936</u>	<u>\$43,255,061</u>	<u>\$31,897,423</u>	<u>\$15,108,186</u>	<u>\$47,005,609</u>

Details for the Clearing Fund cash deposits as of September 30, 2021 and December 31, 2020 follow (in thousands):

	2021	2020
Bank deposits	\$ 11,283,257	\$ 12,859,944
Money market fund investments - at fair value	2,450,000	2,343,000
Reverse repurchase agreements	—	500,000
Total	<u>\$ 13,733,257</u>	<u>\$ 15,702,944</u>

5. 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, 2021 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.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

6. 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 September 30, 2021 and December 31, 2020 are summarized below (in thousands):

	2021			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
Securities on deposit	\$ 25,787,988	\$ 3,733,816	\$ —	\$ 29,521,804
Cash deposits - Money market fund investments	2,450,000	—	—	2,450,000
Total	<u>\$ 28,237,988</u>	<u>\$ 3,733,816</u>	<u>\$ —</u>	<u>\$ 31,971,804</u>
Liabilities - Clearing Fund				
Securities liabilities	\$ 25,787,988	\$ 3,733,816	\$ —	\$ 29,521,804
Money market fund investments liabilities	2,450,000	—	—	2,450,000
Total	<u>\$ 28,237,988</u>	<u>\$ 3,733,816</u>	<u>\$ —</u>	<u>\$ 31,971,804</u>
	2020			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
Securities on deposit	\$ 27,033,689	\$ 4,268,976	\$ —	\$ 31,302,665
Cash deposits - Money market fund investments	2,343,000	—	—	2,343,000
Total	<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>

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets and liabilities measured at other than fair value. The carrying values, fair values and fair value hierarchy levels of all financial instruments measured at other than fair value on the accompanying Statements of Financial Condition as of September 30, 2021 and December 31, 2020 follow (in thousands):

	2021				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 335,600	\$ 335,600	\$ 335,600	\$ —	\$ —
Clearing Fund - Cash deposits - Bank deposits	11,283,257	11,283,257	11,283,257	—	—
Other Participants' assets	1,056	1,056	1,056	—	—
Total	\$ 11,619,913	\$ 11,619,913	\$ 11,619,913	\$ —	\$ —
Liabilities:					
Clearing Fund - Cash deposits - Bank deposits	\$ 11,283,257	\$ 11,283,257	\$ 11,283,257	\$ —	\$ —
Payable to Participants	1,056	1,056	1,056	—	—
Total	\$ 11,284,313	\$ 11,284,313	\$ 11,284,313	\$ —	\$ —
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	\$ 12,859,944	\$ 12,859,944	\$ 12,859,944	\$ —	\$ —
Cash deposits - Reverse repurchase agreements	500,000	500,000	—	500,000	—
Payable to Participants	1,142	1,142	1,142	—	—
Total	\$ 13,361,086	\$ 13,361,086	\$ 12,861,086	\$ 500,000	\$ —

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.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

7. 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. The other postretirement plans include retiree medical and life insurance plans for eligible retired employees and their beneficiaries.

Cost allocation. DTCC allocates the cost of these plans to its subsidiaries based primarily upon the estimated proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The defined contribution retirement plans costs allocated to FICC were expense of \$1,844,000 and \$1,764,000 for the three months ended September 30, 2021 and 2020, respectively, and expense of \$5,319,000 and \$5,181,000 for the nine months ended September 30, 2021 and 2020, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to FICC were income of \$63,000 and \$3,000 for the three months ended September 30, 2021 and 2020, respectively, and income of \$4,000 and expense of \$547,000 for the nine months ended September 30, 2021 and 2020, respectively. These costs are included in Employee compensation and related benefits, Interest expense, and Other non-operating income, net in the accompanying Statements of Income based on the nature of the pension expense component.

8. INCOME TAXES

Rollforward of unrecognized tax benefits for the nine months ended September 30, 2021 and 2020 follow (in thousands):

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 2,250	\$ 2,471
Decreases:		
Prior period tax positions	(1,394)	(209)
Settlements with tax authorities	(856)	(12)
Unrecognized tax benefit	—	2,250
Accrued interest	—	2,818
Ending balance	<u>\$ —</u>	<u>\$ 5,068</u>

On February 1, 2021, the Company and the New York City tax authority reached a settlement agreement related to income tax audits of the 2010-2014 fiscal years. The Company reduced the related unrecognized tax benefit and accrued interest by \$1,394,000 and \$2,007,000, respectively.

See Note 11 in FICC's Audited Financial Statements for the years ended December 31, 2020 and 2019 for additional information pertaining to the Company's income taxes.

FIXED INCOME CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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 corporate contribution is 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 September 30, 2021 and December 31, 2020 follow (in thousands):

	<u>2021</u>	<u>2020</u>
General business risk capital requirement	\$ 133,618	\$ 130,261
Corporate contribution	66,809	65,130
Total requirement	<u>200,427</u>	<u>195,391</u>
Liquid net assets funded by equity	<u>335,600</u>	<u>300,549</u>
Excess	<u>\$ 135,173</u>	<u>\$ 105,158</u>

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 default risk, FICC uses risk-based margining to determine Participants' required cash and eligible securities deposits to 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 September 30, 2021 and December 31, 2020 follow (in billions):

<u>Division</u>	<u>2021</u>	<u>2020</u>
GSD	\$ 1,053	\$ 1,201
MBSD	459	629

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 September 30, 2021 through October 29 2021, 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.