

National Securities 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

NATIONAL SECURITIES CLEARING CORPORATION

TABLE OF CONTENTS

	Page
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:	
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 - 13

NATIONAL SECURITIES 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	\$ 10,524,736	\$ 7,389,294
Participants' segregated cash	1,806	134
Short-term investments	695,000	800,000
Accounts receivable - net of allowance for credit losses	—	46,544
Clearing Fund	12,230,481	12,972,776
Other Participants' assets	464	441
Other current assets	30,790	16,120
Total current assets	23,483,277	21,225,309
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$1,634 and \$1,561 as of September 30, 2021 and December 31, 2020, respectively	2,992	3,065
Intangible assets - net of accumulated amortization of \$92,085 and \$80,900 as of September 30, 2021 and December 31, 2020, respectively	51,898	47,159
Total non-current assets	54,890	50,224
TOTAL ASSETS	\$ 23,538,167	\$ 21,275,533
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount	\$ 6,780,267	\$ 3,843,290
Accounts payable and accrued expenses	71,276	18,940
Clearing Fund	12,230,481	12,972,776
Payable to Participants	2,270	575
Other current liabilities	—	19,255
Total current liabilities	19,084,294	16,854,836
OTHER NON-CURRENT LIABILITIES:		
Long-term debt	3,729,973	3,723,942
Other non-current liabilities	18,595	20,944
Total non-current liabilities	3,748,568	3,744,886
Total liabilities	22,832,862	20,599,722
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	635,853	606,359
Total shareholder's equity	705,305	675,811
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 23,538,167	\$ 21,275,533

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,	
	2021	2020	2021	2020
REVENUES				
Clearing services	\$ 45,513	\$ 93,243	\$ 316,786	\$ 298,367
Wealth management services	27,727	26,081	82,949	81,100
Other services	1,818	1,927	5,259	4,926
Total revenues	<u>75,058</u>	<u>121,251</u>	<u>404,994</u>	<u>384,393</u>
EXPENSES				
Employee compensation and related benefits	42,110	43,884	128,780	127,295
Information technology	13,029	10,891	46,642	33,193
Professional and other services	24,499	33,458	90,186	91,559
Occupancy	2,278	2,330	7,033	7,026
Depreciation and amortization	3,854	2,601	11,258	8,067
General and administrative	6,315	5,971	17,173	18,562
Total expenses	<u>92,085</u>	<u>99,135</u>	<u>301,072</u>	<u>285,702</u>
Total operating income (loss)	<u>(17,027)</u>	<u>22,116</u>	<u>103,922</u>	<u>98,691</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	8,367	7,485	23,262	75,866
Refunds to Participants	(3,492)	(3,008)	(10,620)	(39,894)
Interest expense	(14,592)	(14,189)	(43,491)	(76,250)
Other non-operating income, net	1,580	1,810	4,632	5,438
Total non-operating expense	<u>(8,137)</u>	<u>(7,902)</u>	<u>(26,217)</u>	<u>(34,840)</u>
Income (loss) before taxes	(25,164)	14,214	77,705	63,851
Provision (benefit) for income taxes	(7,011)	164	18,211	16,476
Net income (loss)	<u>\$ (18,153)</u>	<u>\$ 14,050</u>	<u>\$ 59,494</u>	<u>\$ 47,375</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, 2021	\$ 10	\$ 69,442	\$ 606,359	\$ 675,811
Common stock dividend	—	—	(30,000)	(30,000)
Net income	—	—	41,241	41,241
BALANCE - March 31, 2021	10	69,442	617,600	687,052
Net income	—	—	36,406	36,406
BALANCE - June 30, 2021	10	69,442	654,006	723,458
Net loss	—	—	(18,153)	(18,153)
BALANCE - September 30, 2021	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 635,853</u>	<u>\$ 705,305</u>

(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>

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,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 59,494	\$ 47,375
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	11,258	8,067
Deferred income taxes	4,416	2,001
Accretion of discount on Commercial paper, net of associated interest paid	(3,745)	(38,099)
Accretion of discount and amortization of debt issuance costs	6,031	1,711
Other	(4,329)	308
Net change in:		
Accounts receivable	46,540	(14,135)
Other assets	(14,670)	(818)
Accounts payable and accrued expenses	52,336	17,097
Other liabilities	(21,687)	13,552
Clearing Fund liabilities	(776,675)	4,164,882
Payable to Participants	1,695	(4,465)
Net cash provided by/(used in) operating activities	<u>(639,336)</u>	<u>4,197,476</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Short-term investments	(1,645,000)	(1,600,000)
Maturities of Short-term investments	1,750,000	1,600,000
Capitalized software development costs	(15,924)	(16,370)
Net cash provided by/(used in) investing activities	<u>89,076</u>	<u>(16,370)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Commercial paper	41,415,382	25,311,630
Repayments of Commercial paper	(38,474,660)	(29,308,173)
Proceeds from issuance of debt, net of debt issuance costs	—	1,984,810
Common stock dividend payment	(30,000)	—
Net cash provided by/(used in) financing activities	<u>2,910,722</u>	<u>(2,011,733)</u>
Net increase in Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets	2,360,462	2,169,373
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>19,235,612</u>	<u>12,360,618</u>
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 21,596,074</u>	<u>\$ 14,529,991</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 32,722</u>	<u>\$ 101,014</u>
Income taxes paid - net of refunds	<u>\$ 54,206</u>	<u>\$ —</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, 2021 AND DECEMBER 31, 2020 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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 (referred to herein as its 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 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 NSCC'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 NSCC'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 Statements of Financial Condition, Income or Cash Flows.

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.

NATIONAL SECURITIES 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)

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.

Wealth management services. Revenue derived from this revenue stream is 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 may be in the form of subscription revenue and usage fees, 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.

Rebate. On September 22, 2021, the Board of Directors authorized a rebate to NSCC Participants for \$75 million. Participants will receive a discretionary rebate based on a pro rata share of qualifying revenues at the legal entity level. Estimated 2021 profitability was used as the basis for the calculation of the rebate, which will be paid in December 2021. For the three and nine months ended September 30, 2021, the rebate is presented net in Clearing services revenue in the accompanying Statements of Income.

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 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 thousands):

	September 30, 2021	December 31, 2020	September 30, 2020
Cash and cash equivalents	\$ 10,524,736	\$ 7,389,294	\$ 4,808,613
Participants' segregated cash	1,806	134	1,465
Clearing Fund cash deposits (see Note 4)	11,069,068	11,845,743	9,719,468
Cash in Other Participants' assets	464	441	445
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>\$ 21,596,074</u>	<u>\$ 19,235,612</u>	<u>\$ 14,529,991</u>

Common stock dividend. On February 10, 2021, the Board of Directors approved a dividend in the amount of \$30 million from NSCC to DTCC, which was paid in April 2021.

NATIONAL SECURITIES 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 NSCC'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
Total deposits	\$ 12,230,481	\$ 12,972,776
Less: Required deposits	11,093,822	12,054,357
Excess deposits	<u>\$ 1,136,659</u>	<u>\$ 918,419</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 NSCC's rules, as of September 30, 2021 and December 31, 2020 follow (in thousands):

	2021	2020
Cash and cash equivalents	\$ 11,069,068	\$ 11,845,743
Securities - at fair value	1,161,413	1,127,033
Total	<u>\$ 12,230,481</u>	<u>\$ 12,972,776</u>

NATIONAL SECURITIES 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)

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

	<u>2021</u>	<u>2020</u>
Bank deposits	\$ 9,381,068	\$ 9,813,743
Money market fund investments - at fair value	1,688,000	1,607,000
Reverse repurchase agreements	—	425,000
Total	<u>\$ 11,069,068</u>	<u>\$ 11,845,743</u>

5. COMMERCIAL PAPER

Details for Commercial paper as of September 30, 2021 and December 31, 2020 follow (in thousands):

	<u>2021</u>	<u>2020</u>
Commercial paper - net of unamortized discount of \$1,883 and \$1,983 as of September 30, 2021 and December 31, 2020, respectively	\$ 6,780,267	\$ 3,843,290
Weighted-average interest rate	0.12 %	0.28 %

Interest expense on Commercial paper, included in Interest expense in the accompanying Statements of Income, was \$2,292,000 and \$4,658,000 for the three months ended September 30, 2021 and 2020, respectively, and \$6,520,000 and \$57,136,000 for the nine months ended September 30, 2021 and 2020, respectively.

6. LONG-TERM DEBT

Details for Long-term debt as of September 30, 2021 and December 31, 2020 follow (in thousands):

	<u>2021</u>	<u>2020</u>
Senior notes - net of unamortized discount and debt issuance costs of \$20,027 and \$26,058 as of September 30, 2021 and December 31, 2020, respectively	\$ 3,729,973	\$ 3,723,942
Non-current portion of long-term debt	<u>\$ 3,729,973</u>	<u>\$ 3,723,942</u>

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

2021	\$	—
2022		—
2023		2,000,000
2024		—
2025		1,750,000
Thereafter		—
		<u>\$ 3,750,000</u>

On April 23, 2020 and December 7, 2020, NSCC issued three-year and five-year senior unsecured notes for an aggregate total of \$3.75 billion. The proceeds from the issuances constitute liquid resources that, together with other liquid resources of the Company, are available to enable NSCC to affect the settlement of its payment obligations in the event of the default of any of its Participants pursuant to NSCC's rules.

NATIONAL SECURITIES 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. LONG-TERM DEBT (CONTINUED)

Details of the senior notes as of September 30, 2021 follow (in thousands):

Issue Date	Maturity	Rate	Principal Balance	Carrying Value
April 23, 2020	April 23, 2023	1.20% ⁽¹⁾	\$ 1,000,000	\$ 996,674
April 23, 2020	April 23, 2025	1.50% ⁽¹⁾	1,000,000	994,006
December 7, 2020	December 7, 2023	0.40% ⁽²⁾	1,000,000	995,283
December 7, 2020	December 7, 2025	0.75% ⁽²⁾	750,000	744,010
			<u>\$ 3,750,000</u>	<u>\$ 3,729,973</u>

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

(2) Interest is payable semi-annually in arrears on June 7 and December 7 of each year, beginning June 7, 2021.

Interest expense and amortization of discount and issuance costs, included in Interest expense in the accompanying Statements of Income, were \$11,011,000 and \$7,731,000 for the three months ended September 30, 2021 and 2020, respectively, and \$32,958,000 and \$13,561,000 for the nine months ended September 30, 2021 and 2020, respectively. The weighted-average interest rate was 0.98% as of September 30, 2021.

Line of credit. The Company maintains a line of credit to support settlement of its payment obligations in the event of the default of any of its Participants pursuant to NSCC's rules. Details for the terms of the outstanding line of credit as of September 30, 2021 and December 31, 2020 follow:

	2021	2020
Committed Amount	\$9.3 billion	\$10.9 billion
Number of Participants/Lenders	29/35	32/37
Borrowing Rate	The greatest of the FRBNY rate, adjusted LIBOR, or zero, on the day of borrowing, plus 1.40%.	
Maturity Date	May 2022	May 2021
Annual Facility Fee	0.10% ⁽¹⁾	0.20% ⁽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 2021 and 2020.

Details for debt covenants related to the line of credit as of September 30, 2021 and December 31, 2020 follow:

	2021	2020
Minimum Net Worth	\$200 million	\$200 million
Minimum Clearing Fund deposits	\$1.5 billion	\$1.5 billion

As of September 30, 2021 and December 31, 2020, 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, 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.

NATIONAL SECURITIES 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. FAIR VALUE MEASUREMENTS

See Note 10 in NSCC'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			Total
	Level 1	Level 2	Level 3	
Assets - Clearing Fund				
Securities on deposit	\$ 1,161,413	\$ —	\$ —	\$ 1,161,413
Cash deposits - Money market fund investments	1,688,000	—	—	1,688,000
Total	<u>\$ 2,849,413</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,849,413</u>
Liabilities - Clearing Fund				
Securities liabilities	\$ 1,161,413	\$ —	\$ —	\$ 1,161,413
Money market fund investments liabilities	1,688,000	—	—	1,688,000
Total	<u>\$ 2,849,413</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,849,413</u>
	2020			Total
	Level 1	Level 2	Level 3	
Assets - Clearing Fund				
Securities on deposit	\$ 1,127,033	\$ —	\$ —	\$ 1,127,033
Cash deposits - Money market fund investments	1,607,000	—	—	1,607,000
Total	<u>\$ 2,734,033</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,734,033</u>
Liabilities - Clearing Fund				
Securities liabilities	\$ 1,127,033	\$ —	\$ —	\$ 1,127,033
Money market fund investments liabilities	1,607,000	—	—	1,607,000
Total	<u>\$ 2,734,033</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,734,033</u>

NATIONAL SECURITIES 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. 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	\$10,524,736	\$10,524,736	\$10,524,736	\$ —	\$ —
Participants' segregated cash	1,806	1,806	1,806	—	—
Short-term investments	695,000	695,000	—	695,000	—
Clearing Fund - Cash deposits - Bank deposits	9,381,068	9,381,068	9,381,068	—	—
Other Participants' assets	464	464	464	—	—
Total	<u>\$20,603,074</u>	<u>\$20,603,074</u>	<u>\$19,908,074</u>	<u>\$ 695,000</u>	<u>\$ —</u>
Liabilities:					
Commercial paper	\$ 6,780,267	\$ 6,780,267	\$ —	\$ 6,780,267	\$ —
Clearing Fund - Cash deposits - Bank deposits	9,381,068	9,381,068	9,381,068	—	—
Payable to Participants	2,270	2,270	2,270	—	—
Long-term debt	3,729,973	3,767,105	—	3,767,105	—
Total	<u>\$19,893,578</u>	<u>\$19,930,710</u>	<u>\$ 9,383,338</u>	<u>\$10,547,372</u>	<u>\$ —</u>

	2020				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 7,389,294	\$ 7,389,294	\$ 7,389,294	\$ —	\$ —
Participants' segregated cash	134	134	134	—	—
Short-term investments	800,000	800,000	—	800,000	—
Clearing Fund:					
Cash deposits - Bank deposits	9,813,743	9,813,743	9,813,743	—	—
Cash deposits - Reverse repurchase agreements	425,000	425,000	—	425,000	—
Other Participants' assets	441	441	441	—	—
Total	<u>\$ 18,428,612</u>	<u>\$ 18,428,612</u>	<u>\$ 17,203,612</u>	<u>\$ 1,225,000</u>	<u>\$ —</u>
Liabilities:					
Commercial paper	\$ 3,843,290	\$ 3,843,290	\$ —	\$ 3,843,290	\$ —
Clearing Fund:					
Cash deposits - Bank deposits	9,813,743	9,813,743	9,813,743	—	—
Cash deposits - Reverse repurchase agreements	425,000	425,000	—	425,000	—
Payable to Participants	575	575	575	—	—
Long-term debt	3,723,942	3,785,944	—	3,785,944	—
Total	<u>\$ 17,806,550</u>	<u>\$ 17,868,552</u>	<u>\$ 9,814,318</u>	<u>\$ 8,054,234</u>	<u>\$ —</u>

NATIONAL SECURITIES 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. FAIR VALUE MEASUREMENTS (CONTINUED)

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. 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 NSCC were expense of \$2,729,000 and \$2,544,000 for the three months ended September 30, 2021 and 2020, respectively, and expense of \$7,776,000 and \$7,549,000 for the nine months ended September 30, 2021 and 2020, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to NSCC were income of \$155,000 and \$7,000 for the three months ended September 30, 2021 and 2020, respectively, and income of \$157,000 and expense of \$834,000 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.

9. INCOME TAXES

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

	2021	2020
Beginning balance	\$ 3,067	\$ 4,225
Decreases:		
Prior period tax positions	(1,900)	(1,101)
Settlements with tax authorities	(1,167)	(57)
Unrecognized tax benefit	—	3,067
Accrued interest	—	3,578
Ending balance	<u>\$ —</u>	<u>\$ 6,645</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 \$1,900,000 and \$2,433,000, respectively.

See Note 12 in NSCC's Audited Financial Statements for the years ended December 31, 2020 and 2019 for additional information pertaining to the Company's income taxes.

NATIONAL SECURITIES 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

10. 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 NSCC 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 NSCC'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	\$ 215,119	\$ 204,080
Corporate contribution	107,560	102,040
Total requirement	<u>322,679</u>	<u>306,120</u>
Liquid net assets funded by equity	705,305	620,079
Excess	<u>\$ 382,626</u>	<u>\$ 313,959</u>

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 default risk, NSCC uses risk-based margining to determine Participants' required cash and eligible securities deposits to its Clearing Fund, which are collected at the start of each business day and may also be collected on an intraday basis. 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 NSCC's open positions for which a trade guaranty applied as of September 30, 2021 and December 31, 2020 follow (in billions):

	<u>2021</u>	<u>2020</u>
NSCC	\$ 242	\$ 183

There were no defaults by Participants to these obligations in 2021 and 2020.

See Note 15 in NSCC's Audited Financial Statements for the years ended December 31, 2020 and 2019 for additional information on the Company's guarantees.

12. 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.