

National Securities Clearing Corporation

Financial Statements (Unaudited) as of September 30, 2022 and
December 31, 2021 and for the three and nine months ended
September 30, 2022 and 2021

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, 2022	As of December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,684,428	\$ 12,257,502
Participants' segregated cash	7,556	6,078
Short-term investments	650,000	445,000
Accounts receivable - net of allowance for credit losses	32,410	58,661
Clearing Fund	14,176,205	14,753,453
Other Participants' assets	2,243	427
Other current assets	38,328	8,333
Total current assets	26,591,170	27,529,454
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$1,731 and \$1,659 as of September 30, 2022 and December 31, 2021, respectively	2,895	2,967
Intangible assets - net of accumulated amortization of \$61,043 and \$46,936 as of September 30, 2022 and December 31, 2021, respectively	55,779	52,920
Total non-current assets	58,674	55,887
TOTAL ASSETS	\$ 26,649,844	\$ 27,585,341
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount	\$ 7,936,743	\$ 8,291,933
Long-term debt, current portion	998,799	—
Accounts payable and accrued expenses	65,010	214,006
Clearing Fund	14,176,205	14,753,453
Payable to Participants	9,799	6,505
Other current liabilities	6,743	2,573
Total current liabilities	23,193,299	23,268,470
OTHER NON-CURRENT LIABILITIES:		
Long-term debt	2,738,569	3,731,814
Other non-current liabilities	13,233	14,728
Total non-current liabilities	2,751,802	3,746,542
Total liabilities	25,945,101	27,015,012
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	635,291	500,877
Total shareholder's equity	704,743	570,329
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 26,649,844	\$ 27,585,341

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

NATIONAL SECURITIES CLEARING CORPORATION

STATEMENTS OF INCOME (UNAUDITED)

<u>(In thousands)</u>	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
REVENUES				
Clearing services	\$ 122,904	\$ 45,513	\$ 415,813	\$ 316,786
Wealth management services	30,045	27,727	90,343	82,949
Other services	2,106	1,818	6,300	5,259
Total revenues	<u>155,055</u>	<u>75,058</u>	<u>512,456</u>	<u>404,994</u>
EXPENSES				
Employee compensation and related benefits	49,308	42,110	145,114	128,780
Information technology	16,168	13,029	46,467	46,642
Professional and other services	34,907	24,499	92,780	90,186
Occupancy	4,433	2,278	10,556	7,033
Depreciation and amortization	5,807	3,854	14,179	11,258
General and administrative	7,161	6,315	20,585	17,173
Total expenses	<u>117,784</u>	<u>92,085</u>	<u>329,681</u>	<u>301,072</u>
Total operating income (loss)	<u>37,271</u>	<u>(17,027)</u>	<u>182,775</u>	<u>103,922</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	147,870	8,367	222,900	23,262
Refunds to Participants	(71,273)	(3,492)	(110,847)	(10,620)
Interest expense	(60,798)	(14,592)	(108,786)	(43,491)
Other non-operating income, net	1,277	1,580	4,492	4,632
Total non-operating expense	<u>17,076</u>	<u>(8,137)</u>	<u>7,759</u>	<u>(26,217)</u>
Income (loss) before taxes	54,347	(25,164)	190,534	77,705
Provision (benefit) for income taxes	17,163	(7,011)	56,120	18,211
Net income (loss)	<u>\$ 37,184</u>	<u>\$ (18,153)</u>	<u>\$ 134,414</u>	<u>\$ 59,494</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, 2022	\$ 10	\$ 69,442	\$ 500,877	\$ 570,329
Net income	—	—	51,086	51,086
BALANCE - March 31, 2022	\$ 10	\$ 69,442	\$ 551,963	\$ 621,415
Net income	—	—	46,144	46,144
BALANCE - June 30, 2022	\$ 10	\$ 69,442	\$ 598,107	\$ 667,559
Net Income	—	—	37,184	37,184
BALANCE - September 30, 2022	<u>\$ 10</u>	<u>\$ 69,442</u>	<u>\$ 635,291</u>	<u>\$ 704,743</u>

(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>

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,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 134,414	\$ 59,494
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14,179	11,258
Deferred income taxes	(3,576)	4,416
Accretion of discount on Commercial paper, net of associated interest paid	18,889	(3,745)
Accretion of discount and amortization of debt issuance costs	5,554	6,031
Other	23	(4,329)
Net change in:		
Accounts receivable	26,228	46,540
Other assets	(29,995)	(14,670)
Accounts payable and accrued expenses	21,004	52,336
Other liabilities	6,251	(21,687)
Clearing Fund liabilities	(478,714)	(776,675)
Payable to Participants	3,294	1,695
Cash used in operating activities	<u>(282,449)</u>	<u>(639,336)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Short-term investments	(1,095,000)	(1,645,000)
Maturities of Short-term investments	890,000	1,750,000
Capitalized software development costs	(16,966)	(15,924)
Net cash (used in)/provided by investing activities	<u>(221,966)</u>	<u>89,076</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Commercial paper	49,959,405	41,415,382
Repayments of Commercial paper	(50,333,484)	(38,474,660)
Dividend on common stock	(170,000)	(30,000)
Net cash (used in)/provided by financing activities	<u>(544,079)</u>	<u>2,910,722</u>
Net (decrease)/increase in Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets	(1,048,494)	2,360,462
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period	<u>26,205,686</u>	<u>19,235,612</u>
Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period	<u>\$ 25,157,192</u>	<u>\$ 21,596,074</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 75,114</u>	<u>\$ 32,722</u>
Income taxes paid - net of refunds	<u>\$ 53,400</u>	<u>\$ 54,206</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, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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 central counterparty (CCP) services, including clearing, settlement and risk management services to its members (referred to herein as its Participants) for 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. SIGNIFICANT ACCOUNTING POLICIES

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, 2021 and 2020, 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, 2021 and 2020, 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 value and volume of executed transactions and the established fee schedules, less any applicable volume discounts. The volume targets or thresholds for the discounts primarily 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, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

2. SIGNIFICANT ACCOUNTING POLICIES (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 securities and corporate bonds.

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 \$75,000,000. The amount of the rebate was determined based on specific metrics at the legal entity level. The Board of Directors did not authorize any rebate for the nine months ended September 30, 2022. The rebate presented net in Clearing services revenue in the accompanying Statements of Income was \$0 and \$75,000,000 for the three and nine months ended September 30, 2022 and 2021, respectively.

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, 2022 and December 31, 2021 was \$15,000 and \$60,000, respectively, and is included in Other current liabilities on the accompanying Statements of Financial Condition. Of the \$60,000 as of December 31, 2021, \$15,000 and \$45,000 were recognized as revenue during the three and nine months ended September 30, 2022, respectively.

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, 2022	December 31, 2021	September 30, 2021
Cash and cash equivalents	\$ 11,684,428	\$ 12,257,502	\$ 10,524,736
Participants' segregated cash	7,556	6,078	1,806
Clearing Fund cash deposits (see Note 4)	13,462,965	13,941,679	11,069,068
Cash in Other Participants' assets	2,243	427	464
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>\$ 25,157,192</u>	<u>\$ 26,205,686</u>	<u>\$ 21,596,074</u>

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 on April 19, 2021. On December 15, 2021, the Board of Directors approved a dividend in the amount of \$170 million from NSCC to DTCC, which was paid on January 24, 2022.

Global Events and Crises. Global pandemics, sanctions, war, or natural disasters may have an adverse impact on market, economic and geopolitical conditions and trigger a period of global economic slowdown. Such a slowdown may have a material impact on the Company's financial results including changes in revenue, interest rates, liquidity/credit, and government and regulatory policy. At this time, the Company has not experienced any adverse impacts to its financial results or operations related to the novel coronavirus ("COVID-19") pandemic or conflicts in Russia, Belarus or Ukraine.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Impact on the financial statements or other significant matters
<i>Financial Accounting Standards Board Standard Issued, but not yet Adopted</i>		
ASU 2021-08 - Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers <i>Issued October 2021</i>	<ul style="list-style-type: none">Requires contract assets and contract liabilities (i.e. deferred revenue) acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers, which results in the acquirer recognizing contract assets and contract liabilities at the same amounts recorded by the acquiree.	<ul style="list-style-type: none">Effective January 1, 2023.The Company does not anticipate that the adoption of this standard will have a significant impact on its financial statements and related disclosures.The Company will continue to evaluate the impact this standard will have on its financial statements and related disclosures.
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 for fiscal year end beginning January 1, 2022 and effective interim period beginning January 1, 2023.The Company does not anticipate that the adoption of this standard will have a significant impact on its financial statements and related disclosures.

4. CLEARING FUND

Details for the Clearing Fund deposits as of September 30, 2022 and December 31, 2021 follow (in thousands):

	2022	2021
Total deposits	\$ 14,176,205	\$ 14,753,453
Less: Required deposits	13,152,022	8,343,253
Excess deposits	<u>\$ 1,024,183</u>	<u>\$ 6,410,200</u>

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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 NSCC's rules, as of September 30, 2022 and December 31, 2021 follow (in thousands):

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 13,462,965	\$ 13,941,679
U.S. Treasury Securities	713,240	811,774
Total	<u>\$ 14,176,205</u>	<u>\$ 14,753,453</u>

Details for the Clearing Fund cash deposits as of September 30, 2022 and December 31, 2021 follow (in thousands):

	<u>2022</u>	<u>2021</u>
Bank deposits	\$ 13,462,965	\$ 12,197,679
Money market fund investments - at fair value	—	1,744,000
Total	<u>\$ 13,462,965</u>	<u>\$ 13,941,679</u>

5. COMMERCIAL PAPER

Details for Commercial paper as of September 30, 2022 and December 31, 2021 follow (in thousands):

	<u>2022</u>	<u>2021</u>
Commercial paper - net of unamortized discount of \$34,647 and \$1,067 as of September 30, 2022 and December 31, 2021, respectively	\$ 7,936,743	\$ 8,291,933
Weighted-average interest rate	2.88 %	0.13 %

Interest expense on Commercial paper, included in Interest expense in the accompanying Statements of Income, was \$48,265,000 and \$2,292,000 for three months ended September 30, 2022 and 2021, respectively, and \$71,210,000 and \$6,520,000 for the nine months ended September 30, 2022 and 2021, respectively.

6. LONG-TERM DEBT

Details for Long-term debt as of September 30, 2022 and December 31, 2021 follow (in thousands):

	<u>2022</u>	<u>2021</u>
Senior notes - net of unamortized discount and debt issuance costs	\$ 3,737,368	\$ 3,731,814
Less: Current portion of long-term debt	(998,799)	—
Non-current portion of long-term debt	<u>\$ 2,738,569</u>	<u>\$ 3,731,814</u>

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

2022	\$	—
2023		2,000,000
2024		—
2025		1,750,000
2026		—
Thereafter		—
		<u>\$ 3,750,000</u>

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AS OF SEPTEMBER 30, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

6. LONG-TERM DEBT (CONTINUED)

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.

Details of the senior notes as of September 30, 2022 follow (in thousands):

Issue Date	Maturity	Rate	Principal Balance	Carrying Value
April 23, 2020	April 23, 2023	1.20% ⁽¹⁾	\$ 1,000,000	\$ 998,799
April 23, 2020	April 23, 2025	1.50% ⁽¹⁾	1,000,000	995,687
December 7, 2020	December 7, 2023	0.40% ⁽²⁾	1,000,000	997,441
December 7, 2020	December 7, 2025	0.75% ⁽²⁾	750,000	745,441
			<u>\$ 3,750,000</u>	<u>\$ 3,737,368</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 \$11,009,000 and \$11,011,000 for the three months ended September 30, 2022 and 2021, respectively, and \$33,032,000 and \$32,958,000 for the nine months ended September 30, 2022 and 2021, respectively. The weighted-average interest rate was 0.98% as of September 30, 2022. The aggregate debt issuance costs and unamortized discount associated with the senior notes were \$12,632,000 and \$18,186,000, as of September 30, 2022 and December 31, 2021, respectively.

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, 2022 and December 31, 2021 follow:

	2022	2021
Committed Amount	\$10.0 billion	\$9.3 billion
Number of Participants/Lenders	30/36	29/35
Borrowing Rate	The greatest of the Federal Reserve Bank of New York (FRBNY) rate, Adjusted Daily Secure Overnight Financing Rate (SOFR), or zero on the day of borrowing, plus 1.40%	The greatest of the FRBNY rate, Adjusted London Interbank Offered Rate (LIBOR), or zero, on the day of borrowing, plus 1.40%
Maturity Date	May 2023	May 2022
Annual Facility Fee	0.10% ⁽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 2022 and 2021.

Details for debt covenants related to the line of credit as of September 30, 2022 and December 31, 2021 follow:

	2022	2021
Minimum Net Worth	\$200 million	\$200 million
Minimum Clearing Fund deposits	\$1.5 billion	\$1.5 billion

As of September 30, 2022 and December 31, 2021, the Company was in compliance with its debt covenants.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

6. LONG-TERM DEBT (CONTINUED)

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, 2022 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.

7. FAIR VALUE MEASUREMENTS

See Note 9 in NSCC's Audited Financial Statements for the years ended December 31, 2021 and 2020, 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, 2022 and December 31, 2021 are summarized below (in thousands):

	2022			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
U.S. Treasury Securities	\$ 713,240	\$ —	\$ —	\$ 713,240
Total	<u>\$ 713,240</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 713,240</u>
Liabilities - Clearing Fund				
Securities liabilities	\$ 713,240	\$ —	\$ —	\$ 713,240
Total	<u>\$ 713,240</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 713,240</u>
	2021			
	Level 1	Level 2	Level 3	Total
Assets - Clearing Fund				
U.S. Treasury Securities	\$ 811,774	\$ —	\$ —	\$ 811,774
Cash deposits - Money market fund investments	1,744,000	—	—	1,744,000
Total	<u>\$ 2,555,774</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,555,774</u>
Liabilities - Clearing Fund				
Securities liabilities	\$ 811,774	\$ —	\$ —	\$ 811,774
Money market fund investments liabilities	1,744,000	—	—	1,744,000
Total	<u>\$ 2,555,774</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,555,774</u>

NATIONAL SECURITIES CLEARING CORPORATION

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AS OF SEPTEMBER 30, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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, 2022 and December 31, 2021 follow (in thousands):

	2022				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$11,684,428	\$11,684,428	\$11,684,428	\$ —	\$ —
Participants' segregated cash	7,556	7,556	7,556	—	—
Short-term investments	650,000	650,000	—	650,000	—
Clearing Fund:					
Cash deposits - Bank deposits	13,462,965	13,462,965	13,462,965	—	—
Other Participants' assets	2,243	2,243	2,243	—	—
Total	\$25,807,192	\$25,807,192	\$25,157,192	\$ 650,000	\$ —
Liabilities:					
Commercial paper	\$ 7,936,743	\$ 7,936,743	\$ —	\$ 7,936,743	\$ —
Clearing Fund:					
Cash deposits - Bank deposits	13,462,965	13,462,965	13,462,965	—	—
Payable to Participants	9,799	9,799	9,799	—	—
Long-term debt	3,737,368	3,568,756	—	3,568,756	—
Total	\$25,146,875	\$24,978,263	\$13,472,764	\$11,505,499	\$ —

	2021				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 12,257,502	\$ 12,257,502	\$ 12,257,502	\$ —	\$ —
Participants' segregated cash	6,078	6,078	6,078	—	—
Short-term investments	445,000	445,000	—	445,000	—
Clearing Fund:					
Cash deposits - Bank deposits	12,197,679	12,197,679	12,197,679	—	—
Other Participants' assets	427	427	427	—	—
Total	\$ 24,906,686	\$ 24,906,686	\$ 24,461,686	\$ 445,000	\$ —
Liabilities:					
Commercial paper	\$ 8,291,933	\$ 8,291,933	\$ —	\$ 8,291,933	\$ —
Clearing Fund:					
Cash deposits - Bank deposits	12,197,679	12,197,679	12,197,679	—	—
Payable to Participants	6,505	6,505	6,505	—	—
Long-term debt	3,731,814	3,744,935	\$ —	3,744,935	\$ —
Total	\$ 24,227,931	\$ 24,241,052	\$ 12,204,184	\$ 12,036,868	\$ —

Assets measured at fair value on a non-recurring basis.

There were no assets measured at fair value on a non-recurring basis during the periods ended September 30, 2022 and December 31, 2021.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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 \$2,873,000 and \$2,729,000 for the three months ended September 30, 2022 and 2021, respectively, and \$8,766,000 and \$7,776,000 for the nine months ended September 30, 2022 and 2021, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to NSCC were expense of \$315,000 and income of \$155,000 for the three months ended September 30, 2022 and 2021, respectively, and expense of \$536,000 and income of \$157,000 for the nine months ended September 30, 2022 and 2021, 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, 2022 and 2021 follow (in thousands):

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ —	\$ 3,067
Decreases:		
Prior period tax positions	1,747	(1,900)
Settlements with tax authorities	—	(1,167)
Unrecognized tax benefit	1,747	—
Accrued interest	334	—
Ending balance	<u>\$ 2,081</u>	<u>\$ —</u>

See Note 11 in NSCC's Audited Financial Statements for the years ended December 31, 2021 and 2020 for additional information pertaining to the Company's income taxes.

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.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2022 AND DECEMBER 31, 2021 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

10. CAPITAL REQUIREMENTS (CONTINUED)

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, 2022 and December 31, 2021 follow (in thousands):

	<u>2022</u>	<u>2021</u>
General business risk capital requirement	\$ 211,964	\$ 211,964
Corporate contribution	105,982	105,982
Total requirement	<u>317,946</u>	<u>317,946</u>
Liquid net assets funded by equity	625,670	570,329
Excess	<u>\$ 307,724</u>	<u>\$ 252,383</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 generally 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, 2022 and December 31, 2021 follow (in billions):

	<u>2022</u>	<u>2021</u>
NSCC	\$ 248	\$ 185

There were no defaults by Participants to these obligations in 2022 and 2021.

See Note 14 in NSCC's Audited Financial Statements for the years ended December 31, 2021 and 2020 for additional information on the Company's guarantees.

12. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2022 through October 28, 2022, the date these financial statements were 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.