Fixed Income Clearing Corporation

Financial Statements as of and for the Years Ended December 31, 2022 and 2021, and Report of Independent Registered Public Accounting Firm

FIXED INCOME CLEARING CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of the
Fixed Income Clearing Corporation

Opinion on the Financial Statements

We have audited the accompanying statements of financial condition of the Fixed Income Clearing Corporation (the "Company") as of December 31, 2022 and 2021, the related statements of income, changes in shareholder's equity, and cash flows, and the related footnotes for each of the two years in the period ended December 31, 2022 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with the accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

Deloitte & Touche LLP

New York City, New York
February 27, 2023

We have served as the Company's auditor since 2009.

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)	As of December 31, 2022	As of December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 358,450	$ 328,792
Accounts receivable - net of allowance for credit losses	14,462	24,681
Clearing Fund	47,730,885	39,785,815
Other Participants' assets	76,569	14,845
Other current assets	7,856	526
Total current assets	48,188,222	40,154,659
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation	598	618
Intangible assets - net of accumulated amortization	44,006	42,127
Total non-current assets	44,604	42,745
TOTAL ASSETS	$ 48,232,826	$ 40,197,404
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 77,343	$ 47,820
Clearing Fund	47,730,885	39,785,815
Payable to Participants	76,569	14,845
Other current liabilities	2,192	4,425
Total current liabilities	47,886,989	39,852,905
OTHER NON-CURRENT LIABILITIES:		
Other non-current liabilities	9,690	12,978
Total liabilities	47,896,679	39,865,883
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	249,520	244,894
Total shareholder's equity	336,147	331,521
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 48,232,826	$ 40,197,404

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

FIXED INCOME CLEARING CORPORATION
STATEMENTS OF INCOME

(In thousands)	For the years ended December 31, 2022	2021
REVENUES		
Clearing services	$ 312,812	$ 309,984
Other services	1,044	196
Total revenues	313,856	310,180
EXPENSES		
Employee compensation and related benefits	129,297	117,247
Information technology	27,407	25,224
Professional and other services	110,374	101,155
Occupancy	9,248	6,630
Depreciation and amortization	19,155	17,388
General and administrative	15,121	16,557
Impairment of intangible assets	858	10,446
Total expenses	311,460	294,647
Total operating income	2,396	15,533
NON-OPERATING INCOME (EXPENSE)		
Interest income	271,940	14,642
Refunds to Participants	(266,742)	(14,157)
Interest expense	(3,224)	(2,758)
Other non-operating income, net	3,230	3,279
Total non-operating income	5,204	1,006
Income before taxes	7,600	16,539
Provision for income taxes	2,974	3,132
Net income	$ 4,626	$ 13,407

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDER’S EQUITY

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Shareholder's Equity
BALANCE - January 1, 2021	$ 10	$ 86,617	$ 251,487	$ 338,114
Common stock dividend	—	—	(20,000)	(20,000)
Net income	—	—	13,407	13,407
BALANCE - December 31, 2021	$ 10	$ 86,617	$ 244,894	$ 331,521
Net income	—	—	4,626	4,626
BALANCE - December 31, 2022	$ 10	$ 86,617	$ 249,520	$ 336,147

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

FIXED INCOME CLEARING CORPORATION

STATEMENTS OF CASH FLOWS

(In thousands)	For the years ended 2022	December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,626	$ 13,407
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	19,155	17,388
Impairment of intangible assets	858	10,446
Deferred income taxes	(3,668)	(2,978)
Other	4	(3,401)
Net change in:		
Accounts receivable	10,215	(321)
Other assets	(7,330)	(437)
Accounts payable and accrued expenses	49,523	10,999
Other liabilities	(1,853)	284
Clearing Fund liabilities	6,191,261	(3,127,127)
Payable to Participants	61,724	13,703
Net cash provided by/(used in) operating activities	6,324,515	(3,068,037)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized software development costs	(21,872)	(17,144)
Cash used in investing activities	(21,872)	(17,144)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend on common stock	(20,000)	—
Cash used in financing activities	(20,000)	—
Net increase/(decrease) in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets	6,282,643	(3,085,181)
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of year	12,919,454	16,004,635
Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of year	$ 19,202,097	$ 12,919,454
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 3,099	$ 2,908
Income taxes paid - net of refunds	$ 8,208	$ 9,918

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

1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides central counterparty (CCP) services to firms that participate in the U.S. government and mortgage-backed securities markets (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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

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.

Cash and cash equivalents. All highly liquid investments purchased with an original maturity of three months or less at the date of acquisition are classified as Cash and cash equivalents. Cash equivalents consist primarily of highly liquid investments in deposits held in banks.

Fair value measurements. The Company may be required or permitted to measure and disclose certain financial assets and liabilities using fair value measurements. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Company uses a three-level classification hierarchy of fair value measurements that establishes the quality of inputs used to measure fair value. The fair value of financial instruments is determined using various techniques that involve some level of estimation and judgment, the degree of which is dependent on the price transparency and the complexity of the instruments.

Accounts receivable. Accounts receivable are stated at cost, net of an allowance for credit losses and refunds to Participants. The Company establishes an allowance for estimated losses resulting from uncollectibility. Expected credit losses for newly recognized financial assets and changes to expected credit losses during the period are recognized in General and administrative expenses in the accompanying Statements of Income. The Company determines the adequacy of the allowance by estimating the possibility of loss based on a variety of factors, including the length of time receivables are past due, forward looking macroeconomic projections, historical experience and the financial condition of customers and other debtors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Clearing Fund. The rules of FICC require Participants to maintain deposits related to their respective activities based on calculated requirements. The deposits are available to FICC to secure Participants' obligations and certain liabilities of the Company. Margin deposits and any additional Participant contributions are maintained within the Clearing Fund on the accompanying Statements of Financial Condition due to the benefits and risks of ownership incurred by the Company. Deposits and contributions may be in the form of cash, cash equivalents and securities. These deposits may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company pursuant to FICC's rules.

Cash deposits. Deposits and contributions received in the form of cash may be invested in bank deposits and direct obligations of the U.S. Government, pursuant to an investment policy maintained by the Company. All interest earned on investments is accrued and included within Interest income in the accompanying Statements of Income. This interest is refunded to Participants and is included in Refunds to Participants in the accompanying Statements of Income.

Securities on deposit. Securities deposited to the Clearing Fund may include U.S. Treasury securities, U.S. agency debt securities and U.S. agency residential mortgage-backed securities, pursuant to FICC's rules.

Premises and equipment. Premises and equipment are stated at cost, net of accumulated depreciation. Routine maintenance, repairs and replacement costs are expensed as incurred, while improvements that extend the useful life of the assets are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the accompanying Statements of Income. Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. The following table summarizes how the Company depreciates Premises and equipment:

Premises and equipment	Depreciation Period	Depreciation Method
Building and improvements	39 years	Straight-line

Depreciation expense for buildings and improvements is included in Depreciation and amortization in the accompanying Statements of Income.

Intangible assets. Intangible assets represent capitalized software. The Company capitalizes eligible costs associated with the acquisition or development of internal-use software projects that provide new or significantly improved functionality. The Company capitalizes software costs expected to result in long-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. All other costs incurred in connection with an internal-use software project are expensed as incurred.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Intangible assets are amortized over estimated useful life of three years using the straight-line method.

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 recognizes revenue to depict the transfer of promised services and related performance obligations to customers in an amount that reflects the consideration to which the entity expects to be entitled, upon satisfaction, in exchange for those services.

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.

2. SUMMARY OF 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 are 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 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 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.

Accounts receivable and deferred revenue. The period in which the Company recognizes revenue may differ from the timing of payments received from customers. The Company typically bills its customers up to 30 days in arrears. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. 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 December 31, 2022 and 2021 was $1,903,000 and $2,191,000 respectively, and is included in Other current liabilities on the accompanying Statements of Financial Condition. Of the $2,191,000 as of December 31, 2021, $522,000 was recognized as revenue during the year ended December 31, 2022.

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 and General and administrative.

Income taxes. The Provision for income taxes is computed using the asset and liability method. The tax currently payable is based on taxable income for the year. Taxable income differs from Income before taxes as reported in the accompanying Statement of Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company records a deferred income tax (benefit) provision when there are differences between assets and liabilities measured for financial reporting and for income tax return purposes. These temporary differences result in taxable (deferred tax liability) or deductible (deferred tax asset) amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. Deferred tax assets and liabilities are reported net by jurisdiction in non-current assets or liabilities on the accompanying Statements of Financial Condition. The Company provides for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the tax authorities.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	2022	2021
Cash and cash equivalents	$ 358,450	$ 328,792
Clearing Fund cash deposits (see Note 4)	18,767,078	12,575,817
Cash in Other Participants' assets	76,569	14,845
Total Cash and cash equivalents, Clearing Fund cash deposits and Cash in Other Participants' assets shown on the Statements of Cash Flows	$ 19,202,097	$ 12,919,454

Common stock dividend. On December 15, 2021, the Company's Board of Directors approved a dividend in the amount of $20 million from FICC 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.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Impact on the financial statements or other significant matters
Recently Adopted Accounting Standards		
ASU 2021-08 - Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers *Issued October 2021*	• 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.	• Adopted December 31, 2022. • The adoption of the standard did not have an impact on the Company's financial statements and related disclosures.
ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes *Issued December 2019*	• Clarifies and simplifies aspects of accounting for income taxes. • Eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for basis differences between book and tax.	• Adopted December 31, 2022. • The adoption of the standard did not have a material impact on the Company's financial statements and related disclosures.

4. CLEARING FUND

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

	2022			2021		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Total deposits	$36,730,794	$11,000,091	$47,730,885	$28,383,239	$11,402,576	$39,785,815
Less: Required deposits	29,422,757	8,189,256	37,612,013	20,687,611	9,033,068	29,720,679
Excess deposits	$ 7,308,037	$ 2,810,835	$10,118,872	$ 7,695,628	$ 2,369,508	$10,065,136

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

	2022			2021		
	GS Division	MBS Division	Total	GS Division	MBS Division	Total
Cash and cash equivalents	$14,202,795	$ 4,564,283	$18,767,078	$ 9,753,767	$ 2,822,050	$12,575,817
U.S. Treasury Securities	19,965,470	5,974,034	25,939,504	16,402,778	7,798,162	24,200,940
U.S. Agency Residential Mortgage-Backed Securities	2,305,701	387,359	2,693,060	2,116,475	762,936	2,879,411
U.S. Agency Issued Debt Securities	256,828	74,415	331,243	110,219	19,428	129,647
Total	$36,730,794	$11,000,091	$47,730,885	$28,383,239	$11,402,576	$39,785,815

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

	2022	2021
Bank deposits	$ 18,767,078	$ 10,662,817
Money market fund investments - at fair value	—	1,913,000
Total	$ 18,767,078	$ 12,575,817

5. PREMISES AND EQUIPMENT

The cost, accumulated depreciation and net book value of Premises and equipment as of December 31, 2022 and 2021 follow (in thousands):

	2022	2021
Buildings and improvements	$ 789	$ 789
Land	175	175
Total Premises and equipment	964	964
Less: Accumulated depreciation	(366)	(346)
Net book value	$ 598	$ 618

Depreciation expense for premises and equipment for the years ended December 31, 2022 and 2021 was $20,000 and $21,000, respectively, and is included in Depreciation and amortization in the accompanying Statements of Income.

6. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization and net book value of capitalized software as of December 31, 2022 and 2021 follow (in thousands):

	2022	2021
Gross carrying value capitalized software	$ 107,001	$ 88,253
Less: Accumulated amortization	(62,995)	(46,126)
Capitalized software, net	$ 44,006	$ 42,127

Amortization expense for capitalized software for the years ended December 31, 2022 and 2021 was $19,135,000 and $17,367,000, respectively, and is included in Depreciation and amortization in the accompanying Statements of Income.

Details for estimated amortization expense for each of the next five years and thereafter follow (in thousands):

2023	$ 19,012
2024	13,462
2025	8,568
2026	2,964
2027	—
Thereafter	—
Total future estimated amortization	$ 44,006

During the years ended December 31, 2022 and 2021, disposals of fully amortized capitalized software resulted in the removal of cost and accumulated amortization of $2,230,000 and $17,929,000, respectively.

The Company recognized impairment charges of $858,000 and $10,446,000 related to capitalized software for the years ended December 31, 2022 and 2021, respectively. The impairment charges are included in Impairment of intangible assets in the accompanying Statements of Income.

During the year ended December 31, 2022 the Company recognized impairments of internally developed software related to the Common Matching project due to a change in strategy which resulted in a reprioritization of efforts triggering an evaluation for impairment. The evaluation concluded that the $858,000 carrying value of its internally developed software was not recoverable and exceeded its fair value.

During the year ended December 31, 2021 the Company recognized impairments of internally developed software related to the Common Margining project due to continued delays, the necessity for rewriting portions of the code and changes in legal and regulatory requirements triggering an evaluation for impairment. The evaluation concluded that the $10,446,000 carrying value of its internally developed software was not recoverable and exceeded its fair value.

7. CREDIT RATINGS

The Company is rated by Moody's Investors Service, Inc. (Moody's) and S&P Global Inc. (S&P). Details for issuer credit ratings and ratings outlooks for the Company as of December 31, 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.

8. FAIR VALUE MEASUREMENTS

Valuation hierarchy
U.S. GAAP provides for a three-level valuation hierarchy based on the transparency of inputs to the valuation of a financial asset or liability as of the measurement date. Details for the descriptions of the three levels follow:

- Level 1 — Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets as of the valuation date.

- Level 2 — Inputs to the valuation methodology are quoted market prices for similar assets and liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 — Inputs to the valuation methodology are unobservable and reflect the Company's own assumptions about the estimates market participants would use pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding timing and amount of expected cash flows).

A financial asset or liability's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Financial assets and liabilities measured at fair value on a recurring basis. For financial assets and liabilities measured at fair value on a recurring basis the Company applies the following valuation techniques to measure fair value:

Product/Instrument	Valuation Methodology	Classification in the valuation hierarchy
Assets - Clearing Fund - Securities on deposit		
U.S. Treasury Securities U.S. Agency Issued Debt Securities	Quoted market price of identical assets obtained from pricing services engaged by the Company.	Level 1
U.S. Agency Issued Debt Securities U.S. Agency Residential Mortgage-Backed Securities	Quoted market price of recent trades of similar securities obtained from pricing services engaged by the Company.	Level 2
Assets - Clearing Fund - Cash deposits		
Money market fund investments	Quoted market price of identical assets obtained from pricing services engaged by the Company.	Level 1
Liabilities - Clearing Fund - Securities on deposit and Cash deposits - Money market fund investments		
Clearing Fund liabilities	Derived from the corresponding Clearing Fund assets (see above).	Level 1 and Level 2

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements for those items measured on a recurring basis as of December 31, 2022 and 2021 are summarized below (in thousands):

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets - Clearing Fund				
U.S. Treasury Securities	$ 25,939,504	$ —	$ —	$ 25,939,504
U.S. Agency Issued Debt Securities	217,206	114,037	—	331,243
U.S. Agency Residential Mortgage-Backed Securities	—	2,693,060	—	2,693,060
Total	$ 26,156,710	$ 2,807,097	$ —	$ 28,963,807
Liabilities - Clearing Fund				
Securities liabilities	$ 26,156,710	$ 2,807,097	$ —	$ 28,963,807
Total	$ 26,156,710	$ 2,807,097	$ —	$ 28,963,807

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets - Clearing Fund				
U.S. Treasury Securities	$ 24,200,940	$ —	$ —	$ 24,200,940
U.S. Agency Issued Debt Securities (Non-Callable)	129,647	—	—	129,647
U.S. Agency Residential Mortgage-Backed Securities	—	2,879,411		2,879,411
Cash deposits - Money market fund investments	1,913,000	—	—	1,913,000
Total	$ 26,243,587	$ 2,879,411	$ —	$ 29,122,998
Liabilities - Clearing Fund				
Securities liabilities	$ 24,330,587	$ 2,879,411	$ —	$ 27,209,998
Money market fund investments liabilities	1,913,000	—	—	1,913,000
Total	$ 26,243,587	$ 2,879,411	$ —	$ 29,122,998

There were no transfers between levels within the fair value hierarchy, nor were any amounts classified as Level 3 during the years ended December 31, 2022 and 2021.

Financial assets and liabilities measured at other than fair value.
Financial assets and liabilities whose carrying value approximates fair value. The carrying values of certain financial assets and liabilities approximate their fair values because they are short-term in duration, have no defined maturity, or have market-based interest rates. These instruments include Cash and cash equivalents, Clearing Fund - Cash deposits - Bank deposits (and corresponding liabilities), Other Participants' assets, and Payable to Participants.

8. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	2022				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 358,450	$ 358,450	$ 358,450	$ —	$ —
Clearing Fund:					
Cash deposits - Bank deposits	18,767,078	18,767,078	18,767,078	—	—
Other Participants' assets	76,569	76,569	76,569	—	—
Total	$ 19,202,097	$ 19,202,097	$ 19,202,097	$ —	$ —
Liabilities:					
Clearing Fund:					
Cash deposits - Bank deposits	$ 18,767,078	$ 18,767,078	$ 18,767,078	$ —	$ —
Payable to Participants	76,569	76,569	76,569	—	—
Total	$ 18,843,647	$ 18,843,647	$ 18,843,647	$ —	$ —

	2021				
	Carrying Amount	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash and cash equivalents	$ 328,792	$ 328,792	$ 328,792	$ —	$ —
Clearing Fund:					
Cash deposits - Bank deposits	10,662,817	10,662,817	10,662,817	—	—
Other Participants' assets	14,845	14,845	14,845	—	—
Total	$ 11,006,454	$ 11,006,454	$ 11,006,454	$ —	$ —
Liabilities:					
Clearing Fund:					
Cash deposits - Bank deposits	$ 10,662,817	$ 10,662,817	$ 10,662,817	$ —	$ —
Payable to Participants	14,845	14,845	14,845	—	—
Total	$ 10,677,662	$ 10,677,662	$ 10,677,662	$ —	$ —

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

9. 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.

9. RETIREMENT PLANS (CONTINUED)

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 $7,846,000 and $7,188,000 for the years ended December 31, 2022 and 2021, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to FICC were expense of $348,000 and income of $8,000 for the years ended December 31, 2022 and 2021, respectively. The costs 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 as of December 31, 2022 and 2021 follow (in thousands):

	2022	2021
Employee compensation and related benefits	$ 8,201	$ 7,733
Interest expense	3,223	2,725
Other non-operating income	(3,230)	(3,278)
Pension cost, net	$ 8,194	$ 7,180

10. INCOME TAXES

FICC is included in DTCC's consolidated Federal and certain state tax returns. FICC also files other state tax returns on a separate company basis.

Details for the components of the Company's Provision (Benefit) for income taxes calculated on a separate company basis for the years ended December 31, 2022 and 2021 follow (in thousands):

	2022	2021
Current income tax/(benefit):		
Federal	$ 3,856	$ 6,406
State and local	2,786	(296)
Total current income tax/(benefit)	6,642	6,110
Deferred income tax/(benefit):		
Federal	(2,645)	(2,185)
State and local	(1,023)	(793)
Total deferred income tax/(benefit)	(3,668)	(2,978)
Provision for income taxes	$ 2,974	$ 3,132

Pursuant to a tax sharing agreement between DTCC and FICC, the Company is liable for its allocable share of Federal, state and local tax liabilities that are paid by DTCC. The Company paid income taxes to DTCC, net of refunds, amounting to $8,208,000 and $9,918,000 for 2022 and 2021, respectively.

10. INCOME TAXES (CONTINUED)

The 2022 and 2021 effective tax rates differ from the 21% Federal statutory rate, primarily due to state and local taxes, changes in unrecognized tax benefits and settlement of tax audits. Details for the reconciliation of the U.S. Federal statutory tax rate to the Company's effective tax rate on Income before taxes for the years ended December 31, 2022 and 2021 follow:

	2022	2021
U.S. statutory tax rate	21.0 %	21.0 %
State and local income taxes, net of Federal tax benefit	12.2	12.8
Change in unrecognized tax benefits	3.9	6.6
Settlements of tax audits	—	(22.8)
Other	2.0	1.3
Effective tax rate	39.1 %	18.9 %

Details for the components of deferred tax assets and liabilities as of December 31, 2022 and 2021 follow (in thousands):

	2022	2021
Deferred tax assets:		
Depreciation and amortization	$ 3,261	$ 2,101
Deferred rent	1,880	2,877
Total deferred tax assets	5,141	4,978
Deferred tax liabilities:		
Capitalized software	(8,491)	(13,539)
Accrued compensation and benefits	(5,950)	(4,338)
Other	(10)	(79)
Total deferred tax liabilities	(14,451)	(17,956)
Net deferred tax liabilities	$ (9,310)	$ (12,978)

The deferred tax assets are expected to be fully realized and, accordingly, no valuation allowance was established as of December 31, 2022 and 2021.

Details for unrecognized tax benefits as of December 31, 2022 and 2021 follow (in thousands):

	2022	2021
Beginning balance	$ —	$ 2,250
Increases:		
Prior period tax positions	316	—
Decreases:		
Prior period tax positions	—	(1,394)
Settlements with tax authorities	—	(856)
Ending balance	$ 316	$ —

The Company classifies interest and penalties related to unrecognized tax benefits, if incurred, in Provision for income taxes in its accompanying Statements of Income. As of December 31, 2022 and 2021, accrued interest related to unrecognized tax benefits recorded on the accompanying Statements of Financial Condition totaled $64,000 and $0, respectively.

10. INCOME TAXES (CONTINUED)

Unrecognized tax benefits are estimated based on judgment, assessment of relevant risks, facts and circumstances. Actual results could differ materially from those estimates. The Company believes that the liability for unrecognized tax benefits is the best estimate in relation to the potential for additional assessments. Unexpected results from one or more such tax audits could significantly adversely affect the Company's income tax provision and results of operations. 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.

Details for the periods currently under examination and remaining subject to examination by jurisdiction as of December 31, 2022 follow:

	Tax Years	
Jurisdiction	**Under Examination**	**Subject to Examination**
U.S. Federal - Internal Revenue Service	-	2019 - 2021
New York State	-	2019 - 2021
New York City	2015 - 2017	2019 - 2021
State of Florida	2018 - 2019	2020 - 2021
State of California	2017 - 2018	2019 - 2021
State of Michigan	2016 - 2019	-

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

	2022	**2021**
General business risk capital requirement	$ 150,500	$ 133,407
Corporate contribution	75,250	66,703
Total requirement	225,750	200,110
Liquid net assets funded by equity	336,147	328,792
Excess	$ 110,397	$ 128,682

12. TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of the business, the Company enters into significant related party transactions with DTCC and its other subsidiaries.

Transactions with DTCC. FICC has an agreement with DTCC whereby DTCC pays for substantially all of the operational expenses of FICC, and, from time-to-time, purchases of long-term assets acquired by DTCC on behalf of FICC. The related expenses are allocated to FICC based upon its estimated use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for FICC including administrative, internal audit, finance and legal services. For the years ended December 31, 2022 and 2021, the billing for these services amounted to the allocated expenses plus a 4% mark-up fee, excluding charges passed through to Participants and capitalized software costs. The fee, representing the amount in excess of the actual cost, is included in Professional and other services in the accompanying Statements of Income.

Transactions with DTCC Solutions LLC. DTCC Solutions LLC sells data products including referential and activity-based data, security reference, benchmark analytics, and repo activities, on behalf of FICC. All of the revenue from the sales is billed back to FICC and is included in Other services in the accompanying Statements of Income. The associated expenses incurred, plus a 5% mark-up fee, are also billed back to FICC, and these related expenses are included in substantially all of the operational expenses of FICC, in the accompanying Statements of Income. The revenues and expenses from related party transactions with DTCC Solutions LLC for the year ended December 31, 2022 were $1,022,000 and $2,150,000, respectively. The net payable from FICC to DTCC Solutions LLC, included on the accompanying Statements of Financial Condition as of December 31, 2022 was $219,000.

Details for related party transactions with DTCC for 2022 and 2021 follow (in thousands):

	Expenses		Payables/(Receivables) [2]	
	For the years ended December 31,		As of December 31,	
Related party	2022	2021	2022	2021
DTCC [1]	$ 9,933	$ 11,292	23,436	22,440

(1) DTCC expenses represent the 4% mark-up fee for services described above.
(2) Included in Accounts payable and accrued expenses on the accompanying Statements of Financial Condition.

13. 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.

GSD provides real-time trade matching, clearing, netting, risk management and settlement for trades in U.S. government debt, including buy-sell transactions and repurchase agreement ("Repo") transactions, as well as certain Mortgage-Backed Securities in its GCF Repo service. Securities processed by GSD include Treasury bills, bonds, notes, zero-coupon securities, government agency securities and inflation-indexed securities as well as certain eligible Mortgage-Backed Securities in its GCF Repo service. The U.S. Government securities market is predominantly an over-the-counter market and most buy-sell transactions are settled on trade date plus one day (T+1). Most Repo transactions settle same day, or T+0, via FICC's Same Day Settlement service. Trades are guaranteed and novated upon comparison.

13. GUARANTEES (CONTINUED)

FICC’s guarantee of GSD net settlement positions may result in a potential liability to FICC. Guaranteed positions that have not yet settled are margined and collateralized twice-daily through the Clearing Fund and marked-to-market twice-daily through the funds-only settlement process. In addition, a Participant may be subject to an additional amount referred to as the intraday supplemental fund deposit, which, if applicable, may be collected on an intraday basis through the Clearing Fund.

MBSD provides real-time trade matching, clearing, netting, risk management and settlement for trades in the U.S. mortgage-backed securities market. Specifically, MBSD processes to-be-announced transactions, specified pool trades and stipulated trades.

FICC’s guarantee of MBSD transactions may result in potential liability to FICC. Guaranteed positions that have not yet settled are margined and collateralized daily through the Clearing Fund. The daily Clearing Fund includes a mark-to-market component that is calculated using guaranteed positions and prices as of prior end-of-day. In addition, a Participant may become subject to an intraday mark-to-market charge which, if applicable, may be collected on an intraday basis through the Clearing Fund.

Details for each division's open positions for which a trade guaranty applied as of December 31, 2022 and 2021 follow (in billions):

Division	2022	2021
GSD	$ 1,418	$ 1,150
MBSD	282	434

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

If a Participant defaults, such Participant’s deposits to the applicable division’s Clearing Fund is the first source of funds and collateral that FICC would use to cover any losses that may result from the close-out and liquidation of the defaulting Participant's positions. FICC may also use amounts that may be available from FICC's multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and The Options Clearing Corporation (OCC). In accordance with this multilateral netting agreement, the clearing agencies have agreed to make payments to each other for unsatisfied obligations of a common defaulting Participant to the extent that these clearing agencies have excess resources belonging to the defaulting Participant. Each division would apply its own respective resources and determine its own liquidation results. In determining FICC's available net resources for purposes of the multilateral netting agreement, FICC would first offset the available net resources of GSD with those of 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.

If FICC incurs a loss resulting from the liquidation of a defaulting Participant and there is still a deficit after applying such Participant’s deposits to the applicable division’s Clearing Fund (along with any other resources of, or attributable to, the defaulting Participant that FICC may access under each division’s rules), FICC would, in accordance with each division’s rules, satisfy this deficit by applying the corporate contribution, (see Note 11), or such greater amount as the Board of Directors may determine, before allocating any remaining loss to Participants.

For purposes of loss allocation, in connection with defaulting member, Participant defaults are grouped together chronologically into discrete event periods of 10 business days. Participants are grouped into two different tiers for purposes of loss allocation as well: Tier 1 and, Tier 2. If there is remaining loss or liability from one or more Participant default events that occurred within the same event period, the division will divide such obligation between Tier 1 Participants and Tier 2 Participants. Tier 1 Participants will be assessed ratably in accordance with their respective average daily required deposits to the Clearing Fund over the prior 70 business days. Tier 2 Participants will only be subject to such loss or liability to the extent they traded with the defaulting Participant.

13. GUARANTEES (CONTINUED)

Sponsored Members are not obligated for loss allocation. If the loss arises in connection with Sponsored Member trades, (that is, in connection with the default of a Sponsoring Member), the loss shall be allocated to Tier 1 Participants. If the loss arises in connection with a default other than of the Sponsoring Member, the Sponsoring Member shall be responsible for any loss allocated to the Sponsoring Member Omnibus Account. GSD Participants who act as inter-dealer brokers are limited to a loss allocation of $5 million per event period in respect of their inter-dealer broker activity.

14. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS

As a CCP, FICC is exposed to significant credit risk to third-parties including its Participants, which extends to companies within the global financial services industry. Credit risk represents the potential for loss due to the default or deterioration in credit quality of a Participant. The Company's exposure to credit risk is primarily derived from providing clearing and settlement service operations. FICC's global Participant base includes participating brokers, dealers, banks, qualified institutional buyer clients via the sponsored membership service and other financial intermediaries.

Credit risk also comes from the investment of financial assets, which consist principally of cash and cash equivalents, investments, accounts receivable and the Clearing Fund. Concentrations of credit risk may arise due to large connected individual exposures and significant exposures to groups of Participants whose likelihood of default is driven by common underlying factors including economic conditions affecting the securities industry and debt-issuing countries.

Cash and cash equivalents. The Company maintains cash and cash equivalents with various financial institutions including the Federal Reserve Bank of New York. The Company's investment policy is designed to limit its exposure with any one financial institution. As part of its credit and risk management processes, the Company performs periodic evaluations of the relative credit standing of the financial institutions with whom it places funds. The Company generally makes deposits with financial institutions having a credit rating of at least BBB+/Baa1 or better from recognized rating agencies and that are approved via its internal credit review process. The Company also monitors the credit ratings of the financial institutions with whom it places funds on an ongoing basis to identify any significant change in a financial institution's condition. If such a change takes place, the amounts deposited in such financial institutions may be adjusted.

Marketable securities. In addition to investing in reverse repurchase agreements, money market funds and bank deposits, the Company also directly invests in U.S. Treasury securities and debt obligations of the U.S. government or those U.S. government agencies guaranteed by the U.S. government, pursuant to its investment policy. Credit risk related to investments in marketable securities involves the risk of nonperformance by the counterparty, which could result in a material loss.

Accounts receivable. Credit risk related to accounts receivable involves the risk of non-payment by the counterparty. Credit risk is diversified due to the large number of Participants. The Company also performs ongoing credit evaluations of the financial conditions of its Participants and evaluates the delinquency status of the receivables.

Clearing Fund. Cash deposits to the FICC Clearing Fund are invested in bank accounts that provide same day access to funds.

The Company is exposed to credit risk on a daily basis. This risk arises at FICC as it guarantees certain obligations of its Participants under specified circumstances pursuant to its rules. The Company manages and mitigates this risk by identifying, measuring and responding to these risks in order to protect the safety and soundness of the FICC clearing and settlement system. Various tools are utilized to mitigate these risks including, but not limited to: setting capital adequacy standards; assessing new applicants for membership; performing continuous monitoring of Participants' financial condition; reviewing Participants' daily trading activity and determining appropriate collateral requirements; maintaining its risk-based Clearing Fund; netting and settling trades; marking unsettled trades to market; and utilizing quantitative analytical tools.

14. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS (CONTINUED)

To become a Participant, an applicant must meet minimum eligibility criteria that are specified in the Company's rules. All applicants must provide the Company with certain financial and operational information to be a Participant. This information is reviewed to ensure the applicant has sufficient financial resources to make anticipated contributions to the Clearing Fund and to meet its obligations to the Company. The credit quality of the Participant is evaluated at the time of application and monitored on an ongoing basis to determine if the Participant continues to be financially stable and able to meet the financial requirements of membership. As part of its review, the Company utilizes an internal credit risk-rating matrix and/or other forms of surveillance to risk rate or monitor Participants. The resulting rating or degree of surveillance determines the level of financial review to be performed on each Participant and may impact their Clearing Fund requirements.

The Company collects Clearing Fund deposits from its Participants using a risk-based margin methodology. The risk-based methodology enables the Company to identify the risks posed by a Participant's unsettled portfolio and to quickly adjust and collect additional deposits as needed to cover those risks. At multiple times during the day, Clearing Fund requirements are calculated for each Participant based on their then-current unsettled and pending transactions. Security pricing is updated on an intraday basis and additional charges may be collected to cover significant price movements from those Participants with a significant exposure in the identified security. The Company monitors Participants' overall trading activities throughout the trading day to determine whether exposures exist that would require special actions to increase their Clearing Fund deposits.

The Company regularly performs back testing, stress testing, and model performance monitoring of the quality and accuracy of its risk management systems to ensure the adequacy of Clearing Fund requirements and to respond to other risk factors that the monitoring may reveal.

FICC maintains a rules-based, committed liquidity resource (i.e., the capped contingency liquidity facility) for each division to support potential liquidity needs in the event of a Participant default.

The Company also limits its exposure to potential losses from a Participant default through a multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and OCC, under which these clearing agencies have agreed to make payments to each other for unsatisfied obligations of a common defaulting Participant to the extent they have excess resources of the defaulting participant.

15. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2022 through February 27, 2023, 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.