

National Securities Clearing Corporation

Financial Statements (Unaudited) as of September 30, 2023 and
December 31, 2022 and for the three and nine months ended
September 30, 2023 and 2022

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, 2023 | As of December 31, 2022 |
|--|-------------------------------------|------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 12,655,328 | \$ 13,832,897 |
| Participants' segregated cash | 143 | 2,020 |
| Short-term investments | 750,000 | 750,000 |
| Accounts receivable - net of allowance for credit losses | 24,699 | 25,261 |
| Clearing Fund | 11,833,954 | 12,002,310 |
| Other Participants' assets | 2,662 | 3,434 |
| Other current assets | 57,631 | 25,520 |
| Total current assets | 25,324,417 | 26,641,442 |
| NON-CURRENT ASSETS: | | |
| Premises and equipment - net of accumulated depreciation of \$1,828 and \$1,756 as of September 30, 2023 and December 31, 2022, respectively | 2,798 | 2,870 |
| Intangible assets - net of accumulated amortization of \$70,442 and \$60,812 as of September 30, 2023 and December 31, 2022, respectively | 37,885 | 54,501 |
| Total non-current assets | 40,683 | 57,371 |
| TOTAL ASSETS | \$ 25,365,100 | \$ 26,698,813 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| CURRENT LIABILITIES: | | |
| Commercial paper - net of unamortized discount | \$ 7,861,292 | \$ 9,109,638 |
| Long-term debt, current portion | 999,600 | 1,997,307 |
| Accounts payable and accrued expenses | 122,662 | 181,561 |
| Clearing Fund | 11,833,954 | 12,002,310 |
| Payable to Participants | 2,805 | 5,454 |
| Other current liabilities | 28,242 | 7,131 |
| Total current liabilities | 20,848,555 | 23,303,401 |
| OTHER NON-CURRENT LIABILITIES: | | |
| Long-term debt | 3,684,358 | 2,736,286 |
| Other non-current liabilities | 53,893 | 13,710 |
| Total non-current liabilities | 3,738,251 | 2,749,996 |
| Total liabilities | 24,586,806 | 26,053,397 |
| 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 | 708,842 | 575,964 |
| Total shareholder's equity | 778,294 | 645,416 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | \$ 25,365,100 | \$ 26,698,813 |

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

NATIONAL SECURITIES CLEARING CORPORATION

STATEMENTS OF INCOME (UNAUDITED)

| (In thousands) | For the three months ended September 30, | | For the nine months ended September 30, | |
|--|---|------------------|--|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| REVENUES | | | | |
| Clearing services | \$ 115,406 | \$ 122,904 | \$ 345,660 | \$ 415,813 |
| Wealth management services | 30,762 | 30,045 | 91,910 | 90,343 |
| Other services | 2,261 | 2,106 | 6,921 | 6,300 |
| Total revenues | <u>148,429</u> | <u>155,055</u> | <u>444,491</u> | <u>512,456</u> |
| EXPENSES | | | | |
| Employee compensation and related benefits | 49,405 | 49,308 | 156,442 | 145,114 |
| Information technology | 17,741 | 16,168 | 50,528 | 46,467 |
| Professional and other services | 37,275 | 34,907 | 98,214 | 92,780 |
| Occupancy | 3,567 | 4,433 | 10,125 | 10,556 |
| Depreciation and amortization | 5,268 | 5,807 | 17,285 | 14,179 |
| General and administrative | 7,296 | 7,161 | 21,484 | 20,585 |
| Impairment of intangible assets | 11,914 | — | 11,914 | — |
| Total expenses | <u>132,466</u> | <u>117,784</u> | <u>365,992</u> | <u>329,681</u> |
| Total operating income | <u>15,963</u> | <u>37,271</u> | <u>78,499</u> | <u>182,775</u> |
| NON-OPERATING INCOME (EXPENSE) | | | | |
| Interest income | 347,959 | 147,870 | 983,352 | 222,900 |
| Refunds to Participants | (152,061) | (71,273) | (427,561) | (110,847) |
| Interest expense | (163,830) | (60,798) | (455,013) | (108,786) |
| Other non-operating income, net | 2,472 | 1,277 | 7,651 | 4,492 |
| Total non-operating income | <u>34,540</u> | <u>17,076</u> | <u>108,429</u> | <u>7,759</u> |
| Income before taxes | 50,503 | 54,347 | 186,928 | 190,534 |
| Provision for income taxes | 14,832 | 17,163 | 54,050 | 56,120 |
| Net income | <u>\$ 35,671</u> | <u>\$ 37,184</u> | <u>\$ 132,878</u> | <u>\$ 134,414</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, 2023 | \$ 10 | \$ 69,442 | \$ 575,964 | \$ 645,416 |
| Net income | — | — | 50,267 | 50,267 |
| BALANCE - March 31, 2023 | \$ 10 | \$ 69,442 | \$ 626,231 | \$ 695,683 |
| Net income | — | — | 46,940 | 46,940 |
| BALANCE - June 30, 2023 | \$ 10 | \$ 69,442 | \$ 673,171 | \$ 742,623 |
| Net income | — | — | 35,671 | 35,671 |
| BALANCE - September 30, 2023 | <u>\$ 10</u> | <u>\$ 69,442</u> | <u>\$ 708,842</u> | <u>\$ 778,294</u> |

| (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> |

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, | |
|---|--|----------------------|
| | 2023 | 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 132,878 | \$ 134,414 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | | |
| Depreciation and amortization | 17,285 | 14,179 |
| Impairment of intangible assets | 11,914 | — |
| Deferred income taxes | (5,867) | (3,576) |
| Accretion of discount on Commercial paper, net of associated interest paid | 9,630 | 18,889 |
| Accretion of discount and amortization of debt issuance costs | 7,230 | 5,554 |
| Other | — | 23 |
| Net change in: | | |
| Accounts receivable | 562 | 26,228 |
| Other assets | (32,111) | (29,995) |
| Accounts payable and accrued expenses | 33,789 | 21,004 |
| Other liabilities | 27,324 | 6,251 |
| Clearing Fund liabilities | (222,586) | (478,714) |
| Payable to Participants | (2,649) | 3,294 |
| Net cash used in operating activities | <u>(22,601)</u> | <u>(282,449)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of Short-term investments | (1,150,000) | (1,095,000) |
| Maturities of Short-term investments | 1,150,000 | 890,000 |
| Capitalized software development costs | (12,510) | (16,966) |
| Net cash used in investing activities | <u>(12,510)</u> | <u>(221,966)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Commercial paper | 41,876,152 | 49,959,405 |
| Repayments of Commercial paper | (43,134,128) | (50,333,484) |
| Repayments on Long-term debt | (1,000,000) | — |
| Proceeds from issuance of Long-term debt, net of debt issuance costs | 990,283 | — |
| Dividend on common stock | (100,000) | (170,000) |
| Net cash used in financing activities | <u>(1,367,693)</u> | <u>(544,079)</u> |
| Net decrease in Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets | (1,402,804) | (1,048,494) |
| Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of period | <u>25,040,127</u> | <u>26,205,686</u> |
| Cash and cash equivalents, Participants' segregated cash, Clearing Fund cash deposits, Cash in Other Participants' assets - End of period | <u>\$ 23,637,323</u> | <u>\$ 25,157,192</u> |
| SUPPLEMENTAL DISCLOSURES: | | |
| Interest paid | <u>\$ 397,356</u> | <u>\$ 75,114</u> |
| Income taxes paid - net of refunds | <u>\$ 38,460</u> | <u>\$ 53,400</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, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

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, 2022 and 2021, 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, 2022 and 2021, for additional information on the Company's Summary of Significant Accounting Policies.

The interim 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.

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.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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, 2023 | December 31, 2022 | September 30, 2022 |
|--|-------------------------------|------------------------------|-------------------------------|
| Cash and cash equivalents | \$ 12,655,328 | \$ 13,832,897 | \$ 11,684,428 |
| Participants' segregated cash | 143 | 2,020 | 7,556 |
| Clearing Fund cash deposits (see Note 3) | 10,979,190 | 11,201,776 | 13,462,965 |
| Cash in Other Participants' assets | 2,662 | 3,434 | 2,243 |
| 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>\$ 23,637,323</u> | <u>\$ 25,040,127</u> | <u>\$ 25,157,192</u> |

Common stock dividend. On December 14, 2022, the Board of Directors approved a dividend in the amount of \$100 million from NSCC to DTCC, which was paid on March 24, 2023.

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 material adverse financial impacts from these events and crises.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

3. CLEARING FUND

Details for the Clearing Fund deposits as of September 30, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|-------------------------|---------------------|---------------------|
| Total deposits | \$ 11,833,954 | \$ 12,002,310 |
| Less: Required deposits | 10,087,837 | 10,817,731 |
| Excess deposits | <u>\$ 1,746,117</u> | <u>\$ 1,184,579</u> |

Cash and Securities. Details for cash and securities of the Clearing Fund, which may be applied to satisfy obligations of the depositing Participant, other Participants, or the Company pursuant to NSCC's rules, as of September 30, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents ⁽¹⁾ | \$ 10,979,190 | \$ 11,201,776 |
| U.S. Treasury Securities | 854,764 | 800,534 |
| Total | <u>\$ 11,833,954</u> | <u>\$ 12,002,310</u> |

(1) The Company's cash and cash equivalents of the Clearing Fund are all bank deposits as of September 30, 2023 and December 31, 2022, respectively.

4. INTANGIBLE ASSETS

The Company recognized impairment charges of \$11,914,000 and \$0 related to capitalized software for the three and nine months ended September 30, 2023 and 2022, respectively. The impairment charges are included in Impairment of intangible assets in the accompanying Consolidated Statements of Income.

During the three and nine months ended September 30, 2023, the Company recognized impairments of internally developed software related to the Securities Financing Transactions project due to experienced delays in revenues and a significant reduction in revenue projections compared to the original forecast triggering an evaluation for impairment. The evaluation concluded that the \$11,914,000 carrying value of its internally developed software was not recoverable and exceeded its fair value.

5. COMMERCIAL PAPER

Details for Commercial paper as of September 30, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|---|--------------|--------------|
| Commercial paper - net of unamortized discount of \$63,716 and \$27,750 as of September 30, 2023 and December 31, 2022, respectively | \$ 7,861,292 | \$ 9,109,638 |
| Weighted-average interest rate | 5.41 % | 4.11 % |

Interest expense on Commercial paper, included in Interest expense in the accompanying Statements of Income, was \$121,867,000 and \$48,265,000 for the three months ended September 30, 2023 and 2022, respectively, and \$353,762,000 and \$71,210,000 for the nine months ended September 30, 2023 and 2022, respectively.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

6. LONG-TERM DEBT

Details for Long-term debt as of September 30, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Senior notes - net of unamortized discount and debt issuance costs | \$ 4,683,958 | \$ 4,733,593 |
| Less: Current portion of long-term debt | (999,600) | (1,997,307) |
| Non-current portion of long-term debt | <u>\$ 3,684,358</u> | <u>\$ 2,736,286</u> |

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

| | |
|------------|---------------------|
| 2023 | \$ 1,000,000 |
| 2024 | 400,000 |
| 2025 | 2,150,000 |
| 2026 | — |
| 2027 | 600,000 |
| Thereafter | 600,000 |
| | <u>\$ 4,750,000</u> |

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.

The April 2020 senior note issuance at 1.2% with a principal of \$1 billion was repaid on April 24, 2023, the first business day after the maturity date.

Details of the senior notes as of September 30, 2023 follow (in thousands):

| <u>Issue Date</u> | <u>Maturity</u> | <u>Payable</u> | <u>Rate</u> | <u>Principal Balance</u> | <u>Carrying Value</u> |
|-------------------|-------------------|----------------|-------------|--------------------------|-----------------------|
| April 23, 2020 | April 23, 2025 | Semi-annually | 1.50% | \$ 1,000,000 | \$ 997,371 |
| December 7, 2020 | December 7, 2023 | Semi-annually | 0.40% | 1,000,000 | 999,600 |
| December 7, 2020 | December 7, 2025 | Semi-annually | 0.75% | 750,000 | 746,873 |
| November 21, 2022 | November 21, 2024 | Semi-annually | 5.05% | 400,000 | 398,482 |
| November 21, 2022 | November 21, 2027 | Semi-annually | 5.10% | 600,000 | 576,068 |
| May 30, 2023 | May 30, 2025 | Semi-annually | 5.15% | 400,000 | 397,864 |
| May 30, 2023 | May 30, 2028 | Semi-annually | 5.00% | 600,000 | 567,700 |
| | | | | <u>\$ 4,750,000</u> | <u>\$ 4,683,958</u> |

Interest expense and amortization of discount and issuance costs, included in Interest expense in the accompanying Statements of Income, were \$34,062,000 and \$11,009,000 for the three months ended September 30, 2023 and 2022, respectively, and \$84,539,000 and \$33,032,000 for the nine months ended September 30, 2023 and 2022, respectively. The weighted-average interest rate was 2.65% and 0.98% as of September 30, 2023 and 2022, respectively. The aggregate unamortized debt issuance costs and discount associated with the senior notes were \$20,337,000 and \$17,850,000, as of September 30, 2023 and December 31, 2022, respectively.

Fair value hedge. On November 21, 2022, the Company entered into an interest rate swap contract with a notional amount of \$600 million to receive a fixed-rate of 5.1% and pay floating-rate of USD-Federal Funds-OIS Compound plus 1.365%. The Company uses the interest rate swap to hedge the fair value of fixed-rate senior note of \$600 million, maturing November 21, 2027. The Company designated the interest rate swap as a fair value hedge of the related long-term debt and applied the short-cut method for hedge accounting purposes.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

6. LONG-TERM DEBT (CONTINUED)

On May 30, 2023, the Company entered into three interest rate swap contracts with notional amounts of \$300 million, \$150 million, and \$150 million, to receive a fixed-rate of 5.0% and pay floating-rate of USD-Federal Funds-OIS Compound plus 1.4621%. The Company uses the interest rate swaps to hedge the fair value of fixed-rate senior note of \$600 million, maturing May 30, 2028. The Company designated the interest rate swaps as a fair value hedge of the related long-term debt and applied the short-cut method for hedge accounting purposes.

Details for the total fair value of derivative assets and liabilities as of September 30, 2023 and December 31, 2022 follow (in thousands):

| | Other Current Assets | | Other Non-Current Liabilities | |
|--|----------------------|----------|-------------------------------|------|
| | 2023 | 2022 | 2023 | 2022 |
| Derivatives designated as hedging instruments: | | | | |
| Fair value hedges - Interest rate swap contracts | \$ — | \$ 1,443 | \$ 45,705 | \$ — |

Interest rate swaps may expose the Company to credit-related losses in the event of nonperformance by its counterparty. Credit risk is monitored on an ongoing basis. See Note 15, Off Balance Sheet and Concentrations of Credit Risks, in NSCC's Audited Financial Statements for the years ended December 31, 2022 and 2021, for the Company's concentration of credit risk related to interest rate swaps.

Line of credit. The Company maintains a committed line of credit, pursuant to NSCC's rules, to support settlement of its payment obligations in the event any of its Participants default. Details for the terms of the outstanding line of credit as of September 30, 2023 and December 31, 2022 follow:

| | 2023 | 2022 |
|---------------------------------------|---|---|
| Committed Amount | \$9.5 billion | \$10.0 billion |
| Number of Participants/Lenders | 29/35 | 30/36 |
| 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 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% |
| Maturity Date | April 2024 | May 2023 |
| 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 2023 and 2022.

Details for debt covenants related to the line of credit as of September 30, 2023 and December 31, 2022 follow:

| | 2023 | 2022 |
|---------------------------------------|---------------|---------------|
| Minimum Net Worth | \$200 million | \$200 million |
| Minimum Clearing Fund deposits | \$1.5 billion | \$1.5 billion |

As of September 30, 2023 and December 31, 2022, the Company was in compliance with its debt covenants.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

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, 2023 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, 2022 and 2021, 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, 2023 and December 31, 2022 are summarized below (in thousands):

| | 2023 | | | |
|-------------------------------|------------|-----------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Clearing Fund | | | | |
| U.S. Treasury Securities | \$ 854,764 | \$ — | \$ — | \$ 854,764 |
| Total | \$ 854,764 | \$ — | \$ — | \$ 854,764 |
| Liabilities: | | | | |
| Clearing Fund | | | | |
| Securities liabilities | \$ 854,764 | \$ — | \$ — | \$ 854,764 |
| Other non-current liabilities | | | | |
| Interest rate swaps | — | 45,705 | — | 45,705 |
| Total | \$ 854,764 | \$ 45,705 | \$ — | \$ 900,469 |

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7. FAIR VALUE MEASUREMENTS (CONTINUED)

| | 2022 | | | |
|--------------------------|-------------------|-----------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Clearing Fund | | | | |
| U.S. Treasury Securities | \$ 800,534 | \$ — | \$ — | \$ 800,534 |
| Other current assets | | | | |
| Interest rate swaps | — | 1,443 | — | 1,443 |
| Total | <u>\$ 800,534</u> | <u>\$ 1,443</u> | <u>\$ —</u> | <u>\$ 801,977</u> |
| Liabilities: | | | | |
| Clearing Fund | | | | |
| Securities liabilities | \$ 800,534 | \$ — | \$ — | \$ 800,534 |
| Total | <u>\$ 800,534</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 800,534</u> |

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, 2023 and December 31, 2022 follow (in thousands):

| | 2023 | | | | |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|-------------|
| | Carrying Amount | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | \$12,655,328 | \$12,655,328 | \$12,655,328 | \$ — | \$ — |
| Participants' segregated cash | 143 | 143 | 143 | — | — |
| Short-term investments | 750,000 | 750,000 | — | 750,000 | — |
| Clearing Fund: | | | | | |
| Cash deposits - Bank deposits | 10,979,190 | 10,979,190 | 10,979,190 | — | — |
| Other Participants' assets | 2,662 | 2,662 | 2,662 | — | — |
| Total | <u>\$24,387,323</u> | <u>\$24,387,323</u> | <u>\$23,637,323</u> | <u>\$ 750,000</u> | <u>\$ —</u> |
| Liabilities: | | | | | |
| Commercial paper | \$ 7,861,292 | \$ 7,861,292 | \$ — | \$ 7,861,292 | \$ — |
| Clearing Fund: | | | | | |
| Cash deposits - Bank deposits | 10,979,190 | 10,979,190 | 10,979,190 | — | — |
| Payable to Participants | 2,805 | 2,805 | 2,805 | — | — |
| Long-term debt | 4,683,958 | 4,595,804 | — | 4,595,804 | — |
| Total | <u>\$23,527,245</u> | <u>\$23,439,091</u> | <u>\$10,981,995</u> | <u>\$12,457,096</u> | <u>\$ —</u> |

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7. FAIR VALUE MEASUREMENTS (CONTINUED)

| | Carrying Amount | Total Fair Value | 2022 | | |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|-------------|
| | | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 13,832,897 | \$ 13,832,897 | \$ 13,832,897 | \$ — | \$ — |
| Participants' segregated cash | 2,020 | 2,020 | 2,020 | — | — |
| Short-term investments | 750,000 | 750,000 | — | 750,000 | — |
| Clearing Fund: | | | | | |
| Cash deposits - Bank deposits | 11,201,776 | 11,201,776 | 11,201,776 | — | — |
| Other Participants' assets | 3,434 | 3,434 | 3,434 | — | — |
| Total | <u>\$ 25,790,127</u> | <u>\$ 25,790,127</u> | <u>\$ 25,040,127</u> | <u>\$ 750,000</u> | <u>\$ —</u> |
| Liabilities: | | | | | |
| Commercial paper | \$ 9,109,638 | \$ 9,109,638 | \$ — | \$ 9,109,638 | \$ — |
| Clearing Fund: | | | | | |
| Cash deposits - Bank deposits | 11,201,776 | 11,201,776 | 11,201,776 | — | — |
| Payable to Participants | 5,454 | 5,454 | 5,454 | — | — |
| Long-term debt | 4,733,593 | 4,570,058 | — | 4,570,058 | — |
| Total | <u>\$ 25,050,461</u> | <u>\$ 24,886,926</u> | <u>\$ 11,207,230</u> | <u>\$ 13,679,696</u> | <u>\$ —</u> |

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, 2023 and December 31, 2022.

8. RETIREMENT PLANS

Defined contribution retirement plans. Eligible U.S. DTCC employees participate in one of two defined contribution plans, The Depository Trust & Clearing Corporation Employee Savings Plan (Employee Savings Plan) and The Depository Trust & Clearing Corporation Operations Level Employee Savings Plan (Operations Level Savings Plan). The Employee Savings Plan is a single employer plan covering non-bargaining unit employees. The Operations Level Savings Plan is a single employer plan covering bargaining unit employees.

Defined benefit pension and other postretirement benefit plans. Eligible DTCC employees participate in DTCC's non-contributory defined benefit pension and other postretirement plans, which provide for certain benefits upon retirement. DTCC's sponsored non-contributory plans include a defined benefit pension plan, supplemental executive retirement plan and benefit restoration plan. The other postretirement plans include retiree medical and life insurance plans for eligible retired employees and their beneficiaries.

Cost allocation. DTCC allocates the cost of these plans to its subsidiaries based primarily upon the estimated proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The defined contribution retirement plans costs allocated to NSCC were expense of \$2,984,000 and \$2,873,000 for the three months ended September 30, 2023 and 2022, respectively, and \$8,416,000 and \$8,766,000 for the nine months ended September 30, 2023 and 2022, respectively. The defined benefit pension and other postretirement benefit plans costs allocated to NSCC were expense of \$96,000 and \$315,000 for the three months ended September 30, 2023 and 2022, respectively, and \$332,000 and \$536,000 for the nine months ended September 30, 2023 and 2022, 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.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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9. INCOME TAXES

Rollforward of unrecognized tax benefits for the nine months ended September 30, 2023 and 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|------------------------------|-----------------|-----------------|
| Beginning balance | \$ 1,747 | \$ — |
| Increases: | | |
| Prior period tax positions | — | 1,747 |
| Current period tax positions | 345 | — |
| Unrecognized tax benefit | 2,092 | 1,747 |
| Accrued interest | 445 | 334 |
| Ending balance | <u>\$ 2,537</u> | <u>\$ 2,081</u> |

See Note 11 in NSCC's Audited Financial Statements for the years ended December 31, 2022 and 2021 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.

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, 2023 and December 31, 2022 follow (in thousands):

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|-------------------|
| General business risk capital requirement | \$ 237,274 | \$ 224,590 |
| Corporate contribution | 118,637 | 112,295 |
| Total requirement | 355,911 | 336,885 |
| Liquid net assets funded by equity | 778,294 | 645,416 |
| Excess | <u>\$ 422,383</u> | <u>\$ 308,531</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.

NATIONAL SECURITIES CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

AS OF SEPTEMBER 30, 2023 AND DECEMBER 31, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

11. GUARANTEES (CONTINUED)

Details for NSCC's open positions for which a trade guaranty applied as of September 30, 2023 and December 31, 2022 follow (in billions):

| | <u>2023</u> | <u>2022</u> |
|------|-------------|-------------|
| NSCC | \$ 230 | \$ 166 |

There were no defaults by Participants to these obligations in 2023 and 2022.

See Note 14 in NSCC's Audited Financial Statements for the years ended December 31, 2022 and 2021 for additional information on the Company's guarantees.

12. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after September 30, 2023 through October 30, 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.