

The Depository Trust & Clearing Corporation

Unaudited Condensed Consolidated Financial Statements
as of September 30, 2016 and December 31, 2015 and for
the nine months and three months ended September 30,
2016 and 2015

THE DEPOSITORY TRUST & CLEARING CORPORATION

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THE DEPOSITORY TRUST & CLEARING CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share data)

	As of September 30, 2016	As of December 31, 2015 (audited)
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,954,838	\$ 2,521,558
Investment in marketable securities	—	7,400
Reverse repurchase agreements	100,000	—
Participants' segregated cash	30,639	26,581
Accounts receivable - net of allowance for doubtful accounts of \$1,288 and \$2,010 at September 30, 2016 and December 31, 2015, respectively	211,292	187,253
Participants and Clearing Fund:		
Cash deposits	16,171,836	13,464,610
Investments in marketable securities	25,000	100,000
Securities on deposit - at fair value	10,761,563	7,827,458
Other Participants' assets	2,071,058	439,838
Other current assets	66,622	92,330
Total current assets	<u>33,392,848</u>	<u>24,667,028</u>
NON-CURRENT ASSETS:		
Premises and equipment - net of accumulated depreciation of \$411,345 and \$397,142 at September 30, 2016 and December 31, 2015, respectively	253,331	275,499
Goodwill	65,535	65,535
Intangible assets - net of accumulated amortization of \$890,530 and \$769,330 at September 30, 2016 and December 31, 2015, respectively	423,685	471,370
Equity method investments	23,038	18,398
Other non-current assets	369,953	362,403
Total non-current assets	<u>1,135,542</u>	<u>1,193,205</u>
TOTAL ASSETS (1)	<u><u>\$ 34,528,390</u></u>	<u><u>\$ 25,860,233</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Commercial paper - net of unamortized discount of \$1,808 and \$435 at September 30, 2016 and December 31, 2015, respectively	\$ 2,525,097	\$ 1,007,124
Current portion of long term debt	19,466	66,395
Accounts payable	125,621	142,202
Participants and Clearing Fund:		
Cash deposits	16,196,836	13,564,610
Securities on deposit - at fair value	10,761,563	7,827,458
Payable to Participants	2,101,697	466,419
Other current liabilities	211,782	225,866
Total current liabilities	<u>31,942,062</u>	<u>23,300,074</u>
NON-CURRENT LIABILITIES:		
Non-current portion of long-term debt	45,972	92,440
Pension and postretirement benefits	313,364	307,402
Other non-current liabilities	370,757	361,137
Total non-current liabilities	<u>730,093</u>	<u>760,979</u>
Total liabilities (2)	<u>32,672,155</u>	<u>24,061,053</u>
COMMITMENTS AND CONTINGENCIES (Note 17)		
SHAREHOLDERS' EQUITY:		
Preferred stock:		
Series A, \$0.50 par value - 10,000 shares authorized, issued (above par), and outstanding	300	300
Series B, \$0.50 par value - 10,000 shares authorized, issued (above par), and outstanding	300	300
Series C, \$0.50 par value - 1,600 shares authorized, issued (above par), and outstanding	390,516	390,516
Common stock, \$100 par value - 80,000 shares authorized, 50,908 shares issued and outstanding	5,091	5,091
Paid-in capital	411,065	411,065
Retained earnings	1,071,098	1,008,522
Accumulated other comprehensive loss, net of tax	(164,331)	(162,348)
Non-controlling interests	142,196	145,734
Total shareholders' equity	<u>1,856,235</u>	<u>1,799,180</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 34,528,390</u></u>	<u><u>\$ 25,860,233</u></u>

- (1) Our consolidated assets at September 30, 2016 and December 31, 2015, include the following assets of certain variable interest entities (VIEs) that can only be used to settle the liabilities of those VIEs (in thousands): Cash and cash equivalents, \$10,347 and \$17,321; Accounts receivable – net, \$3,062 and \$94; Other current assets, \$1,402 and \$973; Intangible assets, \$6,526 and \$4,168; Other non-current assets, \$611 and \$815; and Total Assets, \$21,948 and \$23,371, respectively.
- (2) Our consolidated liabilities at September 30, 2016 and December 31, 2015, include the following VIE liabilities for which the VIE creditors do not have recourse to DTCC (in thousands): Accounts payable, \$3,190 and \$10,438; Other current liabilities, \$40,086 and \$22,628; and Total liabilities, \$43,276 and \$33,066, respectively.

The Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
REVENUES:				
Settlement and asset services	\$ 110,132	\$ 110,234	\$ 323,097	\$ 320,560
Clearing services	123,834	111,659	364,561	327,670
Data services	76,898	80,903	238,362	235,261
Repository services	72,895	66,842	223,978	191,374
Wealth management services	25,893	25,780	78,553	76,512
Other services	8,589	10,123	42,636	36,162
Investment (loss) income	(434)	(7,845)	719	(6,849)
Total revenues	<u>417,807</u>	<u>397,696</u>	<u>1,271,906</u>	<u>1,180,690</u>
EXPENSES:				
Employee compensation and related benefits	161,487	146,559	513,370	455,147
Information technology	37,801	41,807	128,838	119,296
Professional and other services	84,691	104,714	265,802	280,644
Occupancy	16,007	12,214	36,303	33,990
Depreciation and amortization	56,019	51,329	180,268	164,531
General and administrative	10,441	11,332	32,773	34,629
Impairment on intangible assets	—	28,418	1,700	28,418
Total expenses	<u>366,446</u>	<u>396,373</u>	<u>1,159,054</u>	<u>1,116,655</u>
Total operating income	<u>51,361</u>	<u>1,323</u>	<u>112,852</u>	<u>64,035</u>
NON-OPERATING INCOME (EXPENSE):				
Interest income	15,393	3,452	38,524	8,879
Refunds to Participants	(12,228)	(1,916)	(27,917)	(5,036)
Interest expense	(4,964)	(1,913)	(12,169)	(6,544)
Gain (loss) on equity method investments	1,464	(962)	(3,587)	(3,945)
Other non-operating (expense) income	(4,387)	(2,904)	(13,023)	458
Total non-operating expense	<u>(4,722)</u>	<u>(4,243)</u>	<u>(18,172)</u>	<u>(6,188)</u>
Income (loss) before taxes	46,639	(2,920)	94,680	57,847
Provision for income taxes	<u>17,356</u>	<u>15,204</u>	<u>34,592</u>	<u>46,450</u>
Net income (loss)	29,283	(18,124)	60,088	11,397
Net loss attributable to non-controlling interests	(4,668)	(13,132)	(12,238)	(21,525)
Net income (loss) attributable to DTCC	<u>\$ 33,951</u>	<u>\$ (4,992)</u>	<u>\$ 72,326</u>	<u>\$ 32,922</u>

The Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$ 29,283	\$ (18,124)	\$ 60,088	\$ 11,397
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax:				
Defined benefit pension and other plans	—	(5,224)	—	2,616
Currency translation	(264)	943	(1,983)	(387)
Other comprehensive income (loss)	(264)	(4,281)	(1,983)	2,229
Comprehensive income (loss)	29,019	(22,405)	58,105	13,626
Comprehensive loss attributable to non-controlling interests	(4,668)	(13,132)	(12,238)	(21,525)
Comprehensive income (loss) attributable to DTCC	\$ 33,687	\$ (9,273)	\$ 70,343	\$ 35,151

The Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

	Preferred Stock			Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax			Non- controlling Interests	Total Shareholders' Equity
	Series A	Series B	Series C					Defined Benefit Pension and Other Plans	Currency Translation			
BALANCE - December 31, 2014	\$ 300	\$ 300	\$ —	\$ 2,366	\$ 13,571	\$ 976,319	\$ (42)	\$ (174,518)	\$ 1,521	\$ 160,850	\$ 980,667	
Net income (loss)	—	—	—	—	—	42,928	—	—	—	(25,177)	17,751	
Other comprehensive income (loss)	—	—	—	—	—	—	—	13,587	(2,938)	—	10,649	
Contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	10,301	10,301	
Issuance of preferred series C shares	—	—	400,000	—	—	—	—	—	—	—	400,000	
Issuance cost for preferred series C shares	—	—	(9,484)	—	—	—	—	—	—	—	(9,484)	
Issuance of common stock	—	—	—	2,725	397,494	—	42	—	—	—	400,261	
Dividend to non-controlling interests	—	—	—	—	—	—	—	—	—	(240)	(240)	
Dividend on preferred stock	—	—	—	—	—	(10,725)	—	—	—	—	(10,725)	
BALANCE - December 31, 2015	\$ 300	\$ 300	\$ 390,516	\$ 5,091	\$ 411,065	\$ 1,008,522	\$ —	\$ (160,931)	\$ (1,417)	\$ 145,734	\$ 1,799,180	
Net income (loss)	—	—	—	—	—	72,326	—	—	—	(12,238)	60,088	
Other comprehensive (loss)	—	—	—	—	—	—	—	—	(1,983)	—	(1,983)	
Contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	8,700	8,700	
Dividend on preferred stock	—	—	—	—	—	(9,750)	—	—	—	—	(9,750)	
BALANCE - September 30, 2016	\$ 300	\$ 300	\$ 390,516	\$ 5,091	\$ 411,065	\$ 1,071,098	\$ —	\$ (160,931)	\$ (3,400)	\$ 142,196	\$ 1,856,235	

The Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the nine months ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 60,088	\$ 11,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Net premium amortized on investments in marketable securities	(13)	(44)
Depreciation and amortization	180,268	164,531
Loss on impairment of intangible assets	1,700	28,418
Loss on disposal of premises and equipment	279	—
Loss on Equity method investments	5,360	4,411
Deferred income taxes	(14,913)	(5,445)
Changes in operating assets and liabilities:		
(Increase) decrease in Accounts receivable	(25,532)	883
Increase in Participants and Clearing Fund Cash deposits	(75,000)	—
Increase in Other Participants' assets	(1,631,220)	(138,422)
Decrease (increase) in Other assets	32,763	(954)
Decrease in Accounts payable	(17,021)	(16,229)
Increase in Payable to Participants	1,635,278	183,598
Increase (decrease) in Pension and postretirement benefits	5,962	(6,333)
Decrease in Other liabilities	(5,748)	(27,832)
Net cash provided by operating activities	152,251	197,979
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of securities under Reverse repurchase agreements	—	100,000
Purchase of securities under Reverse repurchase agreements	(100,000)	—
Increase in Participants' segregated cash	(4,058)	(45,176)
Maturities of Investments in marketable securities	107,400	200,000
Purchases of Investments in marketable securities	(25,000)	(200,000)
Purchases of Premises and equipment	(33,720)	(37,408)
Purchases of software	(75,215)	(86,156)
Purchases of Equity method investments	(10,000)	—
Net cash used in investing activities	(140,593)	(68,740)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in Commercial paper, net	1,517,973	551,300
Principal payments on debt and capital lease obligations	(96,856)	(241,329)
Proceeds from issuance of preferred stock, net of issuance fees	—	390,000
Preferred stock dividend payment	(9,750)	—
Proceeds from issuance of common stock	—	400,261
Proceeds from non-controlling interests	8,700	10,301
Payments to non-controlling interests	—	(180)
Net cash provided by financing activities	1,420,067	1,110,353
Effect of foreign exchange rate changes on cash and cash equivalents	1,555	(387)
Net increase in cash and cash equivalents	1,433,280	1,239,205
Cash and cash equivalents - Beginning of period	2,521,558	780,734
Cash and cash equivalents - End of period	\$ 3,954,838	\$ 2,019,939
SUPPLEMENTAL DISCLOSURES:		
Non-cash financing activity - capital lease	\$ 3,459	\$ —
Cash interest paid	\$ 8,978	\$ 3,445
Cash income taxes paid - net of refunds	\$ 9,440	\$ 37,813

The Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

THE DEPOSITORY TRUST & CLEARING CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND OWNERSHIP

The Depository Trust & Clearing Corporation (DTCC) is a holding company that is the parent company of various operating subsidiaries, including The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), Fixed Income Clearing Corporation (FICC), Omgeo LLC (Omgeo), DTCC Deriv/SERV LLC, DTCC Solutions LLC, Business Entity Data, B.V. (GMEI) and Avox Limited (Avox); collectively, the “Company” or “Companies.”

Subsidiaries

DTC is a limited-purpose trust company under New York State banking law, a member of the Federal Reserve System, and a clearing agency registered with the U.S. Securities and Exchange Commission (SEC). DTC provides central securities depository, settlement and related services to members of the financial community.

NSCC is a clearing agency registered with the SEC and a central counterparty (CCP) that provides various services to members of the financial community, consisting principally of securities trade capture (validation and comparison), clearance, netting and risk management services.

FICC is a clearing agency registered with the SEC and a CCP that provides various services to members that participate in the government and mortgage-backed securities markets, consisting principally of automated real-time trade comparison, netting settlement, trade confirmation, risk management and electronic pool notification. FICC has two divisions: the Government Securities Division (GSD) and the Mortgage-Backed Securities Division (MBSD).

Omgeo provides post-trade processing and other related services primarily to financial institutions.

DTCC Deriv/SERV LLC, through its subsidiaries and affiliates, enhances transparency and provides operational efficiency for the derivatives market. Its trade repositories support a multitude of data submissions, including real-time price reporting, transaction details, confirmation records and valuation data. Its subsidiary, The Warehouse Trust Company (WTC), provides life cycle event processing, including credit event processing and payment reconciliation/netting.

DTCC Solutions LLC provides information and technology solutions that help financial institutions manage risk and create more efficient internal processes.

GMEI, formerly known as the U.S. Commodity Futures Trading Commission (CFTC) Interim Compliant Identifier (CICI) utility is DTCC’s legal identifier (LEI) solution offered in collaboration with Society for Worldwide Interbank Financial Telecommunication (SWIFT). GMEI is designed to create and apply a single universal standard identifier to any organization or firm involved in a financial transaction internationally.

Avox validates and maintains business entity reference data, including corporate hierarchies, registered address information, industry sector codes and company identifiers.

The members of DTCC’s clearing agencies are collectively referred to as Participants.

2. BASIS OF PRESENTATION AND USE OF ESTIMATES

Basis of presentation. The accompanying Unaudited Condensed Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The Unaudited Condensed Consolidated Financial Statements do not include all of the information and notes required by U.S. GAAP for complete financial statements and should be read in conjunction with DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014 which is located on the Company's website <http://www.dtcc.com/legal/financial-statements>.

The Unaudited Condensed Consolidated 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. The Unaudited Condensed Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries and consolidated Variable Interest Entities (VIEs). Intercompany accounts and transactions have been eliminated in consolidation.

The Company applies the VIE subsections of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation* (ASC 810), which provide guidance on the various consolidation models and how to identify a VIE and determine whether or not assets, liabilities, non-controlling interests and results of operations of a VIE need to be included in the Company's Unaudited Condensed Consolidated Financial Statements. Accounting guidance on the consolidation of variable interest entities is included in ASC 810 as amended by Accounting Standard Update (ASU) 2015-02, *Amendments to the Consolidation Analysis*. Where the Company holds current or potential rights that provide DTCC with sufficient control to direct the activities of a VIE that most significantly impact the VIE's economic performance, combined with a variable interest that gives DTCC the right to receive potentially significant benefits or the obligation to absorb potentially significant losses, the Company is deemed to have a controlling financial interest in that VIE. Rights held by others to remove the party with control over the VIE are not considered unless one party can exercise those rights unilaterally. When changes occur to the design of the entity, the Company reconsiders whether it is subject to the VIE model. For additional information, refer to Note 4.

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 Unaudited Condensed Consolidated 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 (UTBs), fair value measurements and other matters that affect the reported amounts. Estimates, by their nature, are based on judgment and available information; therefore, actual results could differ materially from those estimates.

3. ACCOUNTING AND REPORTING DEVELOPMENTS

Standard	Description	Date of Issuance/ Adoption	Affect on the financial statements or other significant matters
<i>Recently Issued Accounting Standards</i>			
ASU No. 2016-15, <i>FASB ASC Topic 230, Statement of Cash Flows</i>	The amendments in this update address eight specific cash flow issues with the objective of reducing the existing diversity in treatment. The cash flow issues addressed include: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees, beneficial interests in securitization transactions; separately identifiable cash flows and application of the predominance principle. The amendments provide guidance for each of the eight issues, where current guidance is either unclear or does not specify treatment, thereby reducing the current and potential future diversity in practice.	August 2016/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the impact this ASU will have on its Unaudited Condensed Consolidated Statement of Cash Flows and related disclosures.
ASU No. 2016-13, <i>FASB ASC Topic 326, Financial Instruments - Credit Losses</i>	The standard provides timely recording of credit losses on loans and other financial instruments held by financial institutions. All credit losses for financial assets held at the reporting date will be required to be measured based on historical experience, current conditions and forecasts.	June 2016/ January 1, 2020 Early adoption is permitted for fiscal years beginning after December 15, 2018.	The Company is evaluating the effect on our Consolidated Financial Statements and related disclosures.
ASU No. 2016-02, <i>FASB ASC Topic 842, Leases</i>	The standard requires a lessee to recognize leases with terms of longer than 12 months within balance sheet assets and liabilities. The recognition measurement and presentation of expenses and cash flows arising from a lease will now depend on its classification as a financing or operating lease as determined by the lessee. Lessor accounting will remain largely unchanged from current GAAP. Leases of fewer than 12 months are exempt from the updated standard.	February 2016/ January 1, 2019 (including interim periods) Early adoption is permitted.	The Company is evaluating the effect on our Consolidated Financial Statements and related disclosures.

Standard	Description	Date of Issuance/ Adoption	Affect on the financial statements or other significant matters
<i>Recently Issued Accounting Standards (Continued)</i>			
ASU No. 2016-01, <i>FASB ASC Topic 825, Recognition and Measurement of Financial Assets and Financial Liabilities</i>	The standard requires equity investments (aside from those measured under the equity method investment or consolidation) to be measured at fair value, with changes to fair value recognized in net income. The impairment analysis will be simplified and if the qualitative assessment results suggest an impairment, the entity will measure the investment at fair value and the disclosure of fair value of financial instruments at amortized cost is no longer required.	January 2016/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the effect on our Consolidated Financial Statements and related disclosures.
ASU No. 2014-09, <i>FASB ASC Topic 606 Revenue from Contracts with Customers</i> ASU No. 2016-08, <i>Principal versus Agent Considerations (Reporting Revenue Gross versus Net)</i> ASU No. 2016-10, <i>Identifying Performance Obligations and Licensing</i> ASU No. 2016-12 <i>Narrow-Scope Improvements and Practical Expedients</i>	In May 2014, the FASB issued ASU No. 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Additionally, the ASU expands the disclosure requirements for revenue recognition. The ASU was originally effective for the annual reporting period in the fiscal year that begins after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date," which defers the effective date of the standard to the annual reporting period in the fiscal year that begins after December 15, 2017.	May 2014/ January 1, 2018 Early adoption is permitted.	The Company is evaluating the updated revenue recognition guidance collectively, including the alternative methods of adoption and the effect on our Consolidated Financial Statements and related disclosures.

Standard	Description	Date of Issuance/ Adoption	Affect on the financial statements or other significant matters
<i>Recently Adopted Accounting Standards</i>			
ASU No. 2016-07, <i>FASB ASC Topic 323, Investments – Equity Method and Joint Ventures-Simplifying the Transition to the Equity Method of Accounting</i>	The standard eliminates the step-by-step retroactive adjustment requirement when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. The amendments require the inclusion of the cost of acquiring the additional interest in the current basis of the investor’s previously held interest and the adoption of the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The update also requires that an entity with an available-for-sale equity security that becomes qualified for equity method accounting recognize the unrealized holding gain or loss in accumulated other comprehensive income (loss) at the date the investment qualifies for equity method accounting.	March 2016/ January 1, 2017	The adoption of this guidance did not have a material impact on the Company’s Unaudited Condensed Consolidated Statements of Financial Condition, Statements of Operations, Cash Flows or related disclosures.
ASU No. 2015-02, <i>FASB ASC Topic 810, Consolidation</i>	The standard changed the analysis that the Company must perform to determine whether it should consolidate certain types of legal entities and whether or not such legal entities are considered VIEs. The Company is required to reevaluate its interests in legal entities in scope of the new guidance under the revised consolidation model.	February 2015/ January 1, 2016	The adoption of this guidance did not have a material impact on the Company’s Unaudited Condensed Consolidated Statements of Financial Condition, Statements of Operations, Cash Flows or related disclosures.
ASU No. 2015-17, <i>FASB ASC Topic 740, Income Taxes</i>	The standard was part of the initiative to reduce complexity in accounting standards, in which cost and complexity can be reduced while maintaining the information presented in the financial statements. In order to simplify the presentation of deferred income taxes, the update requires deferred tax assets and liabilities to be presented as noncurrent deferred tax assets or noncurrent deferred tax liabilities in a classified statement of financial position. This update aligns the presentation of deferred tax assets and liabilities with International Financial Reporting Standards.	November 2015/ January 1, 2017	The Company early adopted this standard prospectively and reclassified all of its deferred tax assets to noncurrent deferred tax assets on its Audited Consolidated Statement of Financial Condition as of December 31, 2015. The adoption did not have a material impact to the Company’s Audited Consolidated Statements of Operations or Cash Flows or related disclosures. This standard was not retrospectively applied and prior periods were not adjusted.
ASU No. 2013-11, <i>FASB ASC Topic 740, Income Taxes</i>	The standard required public and private entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carry forward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date.	July 2013/ January 1, 2015	The adoption of this guidance did not have a material impact on the Company’s Unaudited Condensed Consolidated Statements of Financial Condition, Statements of Operations, Cash Flows or related disclosures.

Standard	Description	Date of Issuance/ Adoption	Affect on the financial statements or other significant matters
<i>Recently Adopted Accounting Standards (Continued)</i>			
ASU No. 2015-07, <i>FASB ASC Topic 820, Fair Value Measurement (ASC 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)</i>	Under the amendments in the standard, investments in which fair value is measured at net asset value per share using the practical expedient would be removed from the fair value hierarchy. The requirement of certain disclosures for investments that are eligible to be measured at fair value using the net asset value per share practical expedient is also removed. The change will ensure that all investments categorized in the fair value hierarchy are valued using a consistent approach.	May 2015/ January 1, 2016	The adoption of this guidance did not have a material impact on the Company's Unaudited Condensed Consolidated Statements of Financial Condition, Statements of Operations, Cash Flows or related disclosures.

4. VARIABLE INTEREST ENTITIES

Consolidated VIEs

A VIE is an entity in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as the primary beneficiary and is the entity that: (i) has the control to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (ii) has an obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company consolidates VIEs of which it is the primary beneficiary. The Company performs ongoing qualitative, and in certain cases, quantitative analyses to determine whether the Company is the primary beneficiary of a VIE based on the facts and circumstances and the Company's interest(s) in the VIE.

Clariant Global LLC (Clariant) is a joint venture with Credit Suisse Finance (GUERNSEY) Ltd, The Goldman Sachs Group, Inc., LabMorgan Investment Corporation, SSB Investments, Inc., Barclays Bank PLC and BNY Capital Corporation that was incorporated on July 25, 2014. Clariant is a comprehensive reference data solution providing control, standardization and transparency of client reference data during the client onboarding process and through ongoing client lifecycle events. The Company holds a variable interest in Clariant, which it consolidates based on the aforementioned VIE accounting guidance.

The impact of the consolidation of Clariant on the Company's Unaudited Condensed Consolidated Statements of Financial Condition at September 30, 2016 and December 31, 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Consolidated assets:		
Cash and cash equivalents	\$ 10,347	\$ 17,321
Accounts receivable	3,062	94
Other current assets	1,402	973
Intangible assets	6,526	4,168
Other assets	611	815
Total assets	<u>\$ 21,948</u>	<u>\$ 23,371</u>
Consolidated liabilities:		
Accounts payable	\$ 3,190	\$ 10,438
Other current liabilities	40,086	22,628
Total liabilities	<u>\$ 43,276</u>	<u>\$ 33,066</u>

The creditors or other beneficial interest holders of Clariant have no recourse to the general credit of DTCC, the primary beneficiary. Furthermore, liabilities of Clariant have no recourse to DTCC.

The losses of the consolidated VIE included within Income before taxes in the Company's Unaudited Condensed Consolidated Statements of Operations were \$22,132,000 and \$49,826,000 for the nine months ended September 30, 2016 and 2015, respectively, and \$7,504,000 and \$29,983,000, for the three months ended September 30, 2016 and 2015, respectively.

5. PARTICIPANTS' SEGREGATED CASH, OTHER PARTICIPANTS' ASSETS AND PAYABLE TO PARTICIPANTS

Details for Participants' segregated cash, Other Participants' assets and Payable to Participants as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Assets:		
Participants' segregated cash	\$ 30,639	\$ 26,581
Other Participants' assets	2,071,058	439,838
Total	<u>\$ 2,101,697</u>	<u>\$ 466,419</u>
Liabilities:		
Payable to Participants	<u>\$ 2,101,697</u>	<u>\$ 466,419</u>

Participants' segregated cash held in a NSCC's special reserve account represents cash received from Participants for the exclusive benefit of the Participants' customers and related to the Participants' compliance with SEC rule 15c3-3 (customer protection).

Other Participants' assets reflect the Company's receipt of cash and stock dividends, interest and reorganization and redemption proceeds on securities registered in the name of its nominee and interest and redemption proceeds on bearer securities, which it distributes to its Participants. Amounts received on registered securities withdrawn before record date, but not transferred from the name of the Company's nominee, cannot be distributed unless claimed by the owners of the securities.

Payable to Participants reflects cash dividends, interest, reorganization, redemption payables, securities held in custodial accounts and settlement accounts payable. Stock dividends payable are not reported in the Unaudited Condensed Consolidated Financial Statements. At September 30, 2016 and December 31, 2015, Payable to Participants also included \$202,000 and \$838,000 respectively, of cash collateral received from Participants representing 130% of short positions. Unclaimed balances are remitted to the appropriate authority when required by abandoned property laws.

6. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of September 30, 2016 and December 31, 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Due from Participants for services	\$ 191,171	\$ 165,519
Other receivables	20,121	21,734
Total	<u>\$ 211,292</u>	<u>\$ 187,253</u>

As of September 30, 2016 and December 31, 2015, the allowance for doubtful accounts was \$1,288,000 and \$2,010,000, respectively. Total write-offs in the allowance for doubtful accounts for the nine months ended September 30, 2016 and 2015 were \$516,000 and \$624,000 and \$53,000 and \$624,000 for the three months ended September 30, 2016 and 2015, respectively.

7. PARTICIPANTS AND CLEARING FUNDS

The rules of DTC, NSCC and FICC require their Participants to maintain deposits related to their respective activities based on calculated requirements. The deposits are available to secure Participants' obligations and certain liabilities of the Companies. All deposits of cash and securities are recorded on the Unaudited Condensed Consolidated Statements of Financial Condition under Participants and Clearing Funds.

A summary of the deposits held at September 30, 2016 and December 31, 2015 were as follows (in thousands):

	2016			
	DTC	NSCC	FICC	Total
Required deposits	\$ 1,150,000	\$ 4,731,239	\$ 14,662,803	\$ 20,544,042
Excess deposits	594,961	799,954	5,019,442	6,414,357
Total	\$ 1,744,961	\$ 5,531,193	\$ 19,682,245	\$ 26,958,399

	2015			
	DTC	NSCC	FICC	Total
Required deposits	\$ 1,150,000	\$ 3,164,627	\$ 11,970,161	\$ 16,284,788
Excess deposits	588,971	972,843	3,545,466	5,107,280
Total	\$ 1,738,971	\$ 4,137,470	\$ 15,515,627	\$ 21,392,068

Cash deposits, Investments in marketable securities and Securities on deposit. Cash deposits, Investments in marketable securities and Securities on deposit of the Participants and Clearing Funds, which may be applied to satisfy obligations of the depositing Participants as provided in the respective clearing agency rules, as of September 30, 2016 and December 31, 2015, were as follows (in thousands):

	2016			
	DTC	NSCC	FICC	Total
Cash deposits	\$ 1,744,961	\$ 5,239,073	\$ 9,187,802	\$ 16,171,836
Investments in marketable securities	—	—	25,000	25,000
Securities on deposit - at fair value	—	292,120	10,469,443	10,761,563
Total	\$ 1,744,961	\$ 5,531,193	\$ 19,682,245	\$ 26,958,399

	2015			
	DTC	NSCC	FICC	Total
Cash deposits	\$ 1,738,971	\$ 3,847,082	\$ 7,878,557	\$ 13,464,610
Investments in marketable securities	—	—	100,000	100,000
Securities on deposit - at fair value	—	290,388	7,537,070	7,827,458
Total	\$ 1,738,971	\$ 4,137,470	\$ 15,515,627	\$ 21,392,068

A summary of the investment of the Participants and Clearing Fund cash deposits held as of September 30, 2016 and December 31, 2015, consisted of the following (in thousands):

	2016			
	DTC	NSCC	FICC	Total
Reverse repurchase agreements	\$ —	\$ 500,000	\$ 685,000	\$ 1,185,000
Money market fund investments	—	1,269,000	2,543,000	3,812,000
Bank deposits	1,744,961	3,470,073	5,959,802	11,174,836
U.S. Treasury bills	—	—	25,000	25,000
Total	\$ 1,744,961	\$ 5,239,073	\$ 9,212,802	\$ 16,196,836

	2015			
	DTC	NSCC	FICC	Total
Reverse repurchase agreements	\$ —	\$ 615,000	\$ 1,465,000	\$ 2,080,000
Money market fund investments	—	2,382,000	4,793,000	7,175,000
Bank deposits	1,738,971	850,082	1,620,557	4,209,610
U.S. Treasury bills	—	—	100,000	100,000
Total	\$ 1,738,971	\$ 3,847,082	\$ 7,978,557	\$ 13,564,610

Refunds to Participants. The total amount of Interest income the Company earned from the investment of cash deposits in the Participants and Clearing Funds were \$27,917,000 and \$5,036,000 for the nine months ended September 30, 2016 and 2015 and \$12,228,000 and \$1,916,000 for the three months ended September 30, 2016 and 2015, respectively, in the Unaudited Condensed Consolidated Statements of Operations.

8. EQUITY METHOD INVESTMENTS

Investments of less than a majority, but at least 20% ownership, or where the company can exert significant influence over the operations of the investment are accounted for using the equity method. Details for DTCC's equity method investments as of September 30, 2016 and December 31, 2015 were as follows (in thousands, other than ownership percentage):

	2016	2015
European Central Counterparty N.V.		
Percentage ownership	25%	25%
Carrying value	\$ 11,820	\$ 11,852
Soltra Solutions, LLC		
Percentage ownership	N/A	50%
Carrying value	N/A	\$ 700
DTCC-Euroclear GlobalCollateral, LTD		
Percentage ownership	50%	50%
Carrying value	\$ 11,218	\$ 5,846

European Central Counterparty N.V. (ECCP N.V.), a joint venture with BATS Chi-x Europe, NASDAQ OMX and ABN AMRO Clearing Bank, provides a pan-European clearing solution offering economies of scale and risk management expertise to European market participants. ECCP N.V. uses the risk management framework and customer service organization of European Multilateral Clearing Facility N.V. (EMCF), and conducts its operations using the technology platform and infrastructure of EMCF.

On August 17, 2016, the Company signed an agreement to sell a portion of its ownership interest in ECCP N.V. After the sale, the Company's ownership interest in ECCP N.V. will be reduced from 25% to 20%. The Company will continue to record ECCP N.V. as an equity method investment.

Soltra Solutions, LLC (Soltra), a joint venture with Financial Services Information Sharing and Analysis Center (FS-ISAC), develops solutions to facilitate sharing of information related to cyber threats among critical infrastructure companies in real time. On April 11, 2016, the Company made a capital contribution to Soltra. This capital contribution resulted in DTCC holding a majority voting interest and required DTCC to consolidate Soltra in the current period. DTCC currently retains 68% of Soltra's equity interests.

DTCC-Euroclear GlobalCollateral LTD, a joint venture with Euroclear, provides support to financial institutions in addressing significant regulatory, operational and industry challenges related to the management of margin calls and collateral impacting the over-the-counter (OTC) derivatives market.

9. FAIR VALUE MEASUREMENTS

For a discussion of 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 not accounted for at fair value, refer to Note 10 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis.

During the second quarter of 2016, the Company recognized a \$1,700,000 impairment related to the Omgeo acquired tradename, which is included within Impairment of intangible assets expense in the accompanying Unaudited Condensed Consolidated Statements of Operations. A review of Omgeo's goodwill and intangible assets was triggered pursuant to ASC 350, *Intangibles-Goodwill* and Other, based on anticipation of increased competition in the post-trade services market. The review resulted in a lower value of the Omgeo acquired tradename; further, there were no impairments on Omgeo's other intangible assets or goodwill.

During the third quarter of 2015, the Company recognized a \$20,195,000 impairment related to capitalized software costs that were determined to have no realizable value. These items are included within Impairment of intangible assets expenses in the accompanying Unaudited Condensed Consolidated Statements of Operations.

During the third quarter of 2015, the Company folded two of its subsidiary tradenames related to its Omgeo and Avox businesses, each an acquired business, under the DTCC brand. This decision, an element of the Company's brand migration strategy, resulted in a triggering event pursuant to ASC 350, which required the Company to complete an evaluation of the Omgeo and Avox tradenames to assess whether they were impaired. The evaluation resulted in a reduction in fair value to \$15,524,000 for the aforementioned acquired tradenames and, as a result, the Company recognized an impairment of \$8,223,000 as of December 31, 2015, which is included within Impairment on intangible assets in the accompanying Consolidated Statements of Operations. The impairment related to the tradenames described above was re-classified from non-operating expense to operating expense to conform to the current period Unaudited Condensed Consolidated Statements of Operations presentation of Impairment of intangible assets. The reclassification had no impact on the Company's previously reported Net income, Shareholders' equity or operating cash flows.

For additional information, refer to Note 8, Goodwill and Intangible Assets in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

Fair values on the aforementioned capitalized software and acquired tradenames were based on expected future cash flows using Level 3 inputs under ASC 820. The cash flows are those expected to be generated by the market participants, discounted at the risk-free rate of interest.

Assets and liabilities measured at fair value on a recurring basis. Fair value measurements for those items measured on a recurring basis are summarized below as of September 30, 2016 (in thousands):

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Clearing Fund - U.S. government and Federal Agency securities	\$ 9,253,279	\$ 1,508,284	\$ —	\$ 10,761,563
Other financial assets	140,152	39,861	—	180,013
Total	\$ 9,393,431	\$ 1,548,145	\$ —	\$ 10,941,576
Liabilities:				
Clearing Fund - U.S. government and Federal Agency securities	\$ 9,253,279	\$ 1,508,284	\$ —	\$ 10,761,563
Total	\$ 9,253,279	\$ 1,508,284	\$ —	\$ 10,761,563

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2015 (in thousands):

	2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Clearing Fund - U.S. government and Federal Agency securities	\$ 7,186,627	\$ 640,831	\$ —	\$ 7,827,458
Other financial assets	151,058	32,242	—	183,300
Total	\$ 7,337,685	\$ 673,073	\$ —	\$ 8,010,758
Liabilities:				
Clearing Fund - U.S. government and Federal Agency securities	\$ 7,186,627	\$ 640,831	\$ —	\$ 7,827,458
Total	\$ 7,186,627	\$ 640,831	\$ —	\$ 7,827,458

There were no transfers between all levels within the fair value hierarchy, nor were any amounts classified as Level 3 during the nine months ended September 30, 2016 and the year ended December 31, 2015.

Assets and Liabilities not measured at fair value. The tables below present the carrying value, fair value and fair value hierarchy level of certain financial assets and liabilities not measured at fair value on the Unaudited Condensed Consolidated Statement of Financial Condition at September 30, 2016 and December 31, 2015 (in thousands):

	2016				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 3,954,838	\$ 3,954,838	\$ 3,954,838	\$ —	\$ —
Reverse repurchase agreements ⁽¹⁾	100,000	100,000	—	100,000	—
Participants and Clearing Fund:					
Cash deposits	16,171,836	16,171,836	14,986,836	1,185,000	—
Investments in marketable securities	25,000	24,829	24,829	—	—
Total	\$ 20,251,674	\$ 20,251,503	\$ 18,966,503	\$ 1,285,000	\$ —
Liabilities:					
Participants and Clearing Fund					
Cash deposits	\$ 16,196,836	\$ 16,196,836	\$ 16,196,836	\$ —	\$ —
Commercial paper	2,525,097	2,525,097	—	2,525,097	—
Long-term debt and other borrowings	65,438	61,840	—	61,840	—
Total	\$ 18,787,371	\$ 18,783,773	\$ 16,196,836	\$ 2,586,937	\$ —

(1) *Reverse repurchase agreements.* The Company receives collateral in connection with reverse repurchase agreement transactions. The securities received under reverse repurchase agreements are typically U.S. Treasury and agency securities with a market values of 102% or greater of the cash invested. The fair value of securities received as collateral under reverse repurchase agreements was \$102 million and \$0, as of September 30, 2016 and December 31, 2015 respectively.

	2015				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 2,521,558	\$ 2,521,558	\$ 2,521,558	\$ —	\$ —
Investments in marketable securities	7,400	7,400	7,400	—	—
Participants and Clearing Fund:					
Cash deposits	13,464,610	13,464,610	11,384,610	2,080,000	—
Investments in marketable securities	100,000	99,757	99,757	—	—
Total	\$ 16,093,568	\$ 16,093,325	\$ 14,013,325	\$ 2,080,000	\$ —
Liabilities:					
Participants and Clearing Fund					
Cash deposits	\$ 13,564,610	\$ 13,564,610	\$ 13,564,610	\$ —	\$ —
Commercial paper	1,007,124	1,007,124	—	1,007,124	—
Long-term debt and other borrowings	158,835	156,431	—	156,431	—
Total	\$ 14,730,569	\$ 14,728,165	\$ 13,564,610	\$ 1,163,555	\$ —

10. OTHER ASSETS

Details for other assets as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Prepaid expenses	\$ 65,723	\$ 60,452
Prepaid taxes	—	27,744
Royalty receivable	—	3,663
Other current assets	899	471
Total current assets	<u>\$ 66,622</u>	<u>\$ 92,330</u>
Long-term incentive plan assets	\$ 180,013	\$ 185,631
Cash surrender value on insurance policies	57,711	55,965
Prepaid expenses	17,864	22,453
Deferred tax asset, net	102,365	87,452
Other non-current assets	12,000	10,902
Total non-current assets	<u>\$ 369,953</u>	<u>\$ 362,403</u>
Total	<u>\$ 436,575</u>	<u>\$ 454,733</u>

For additional information, refer to Note 11 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

11. OTHER LIABILITIES

Details for other liabilities as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Compensation payable	\$ 107,227	\$ 140,397
Miscellaneous payables	92,033	82,261
Taxes payable	10,358	—
Deferred rent	2,164	3,208
Total current liabilities	<u>\$ 211,782</u>	<u>\$ 225,866</u>
Long-term incentive plans	\$ 266,211	\$ 278,210
Unrecognized tax benefits ⁽¹⁾	61,362	57,992
Deferred rent	40,107	19,873
Other payables	3,077	5,062
Total non-current liabilities	<u>\$ 370,757</u>	<u>\$ 361,137</u>
Total	<u>\$ 582,539</u>	<u>\$ 587,003</u>

(1) *UTB's*. DTCC applies the provisions of FASB ASC 740-10, *Income taxes*, with respect to UTBs. For additional information, refer to Note 16 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

12. COMMERCIAL PAPER

Details for commercial paper as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Commercial paper	\$2,525,097	\$ 1,007,124
Average interest rates	0.58%	0.40%

Total Interest expense included in the accompanying Unaudited Condensed Consolidated Statements of Operations was \$7,356,000 and \$0 for the nine months ended September 30, 2016 and 2015 and \$3,434,000 and \$0 for the three months ended September 30, 2016 and 2015, respectively.

Details for cash flows associated with the issuance and maturities of commercial paper for the nine months ended September 30, 2016 and 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Maturities less than 90 days:		
Proceeds from commercial paper, net	\$ 916,073	\$ 551,300
Maturities greater than 90 days:		
Proceeds from commercial paper	1,217,559	—
Repayments of commercial paper	(615,659)	—
Proceeds from commercial paper, net	<u>601,900</u>	<u>—</u>
Total	<u><u>\$ 1,517,973</u></u>	<u><u>\$ 551,300</u></u>

13. LONG-TERM DEBT AND OTHER BORROWINGS

Details for Long-term debt and other borrowings as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Notes payable	\$ 53,400	\$ 106,451
Capital lease obligations	12,038	52,384
Total long-term debt	<u>\$ 65,438</u>	<u>\$ 158,835</u>
<i>Less Current portion of long-term debt</i>	<u>(19,466)</u>	<u>(66,395)</u>
Non-current portion of long-term debt	<u><u>\$ 45,972</u></u>	<u><u>\$ 92,440</u></u>

At September 30, 2016, principal payments due on Long-term debt and other borrowings from 2016 to 2020 and thereafter were as follows (in thousands):

	<u>Notes Payable</u>	<u>Capital Lease Obligations</u>
2016	\$ 725	\$ 1,447
2017	13,650	5,835
2018	2,650	4,756
2019	2,650	—
2020	2,650	—
Thereafter	31,075	—
Total	<u>\$ 53,400</u>	<u>\$ 12,038</u>

Notes payable. The following table summarizes notes payable at September 30, 2016 and December 31, 2015 (in thousands) :

	<u>Rate</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>Outstanding Balance</u>	
				<u>2016</u>	<u>2015</u>
DTC	5.59%	4/6/2009	4/15/2016	\$ —	\$ 51,126
DTCC	2.64%	4/26/2012	4/26/2017	11,000	11,000
DTCC	3.83%	4/26/2012	4/26/2032	23,200	23,925
DTCC	3.93%	9/28/2012	9/28/2032	19,200	20,400
Total				<u>\$ 53,400</u>	<u>\$ 106,451</u>

Outstanding notes payable for the Company at September 30, 2016 and December 31, 2015 totaled \$53,400,000 and \$106,451,000, respectively, at a weighted average interest rate of 3.35% and 4.57%, respectively. Total Interest expense included in the accompanying Unaudited Condensed Consolidated Statements of Operations was \$2,313,000 and \$5,346,000, for the nine months ended September 30, 2016 and 2015 and \$483,000 and \$715,000 for the three months ended September 30, 2016 and 2015, respectively.

Capital lease obligations. Interest expense included in the accompanying Unaudited Condensed Consolidated Statements of Operations was \$207,000 and \$744,000 for the nine months ended September 30, 2016 and 2015 and \$45,000 and \$236,000 for the three months ended September 30, 2016 and 2015, respectively.

On January 29, 2016, the Company repaid \$40,346,000 of its capital lease obligation, which includes a one-time prepayment fee of \$765,000.

Lines of Credit. DTCC maintains lines of credit for general funding purposes while certain of its subsidiaries, DTC and NSCC, also maintain lines of credit to support settlement. On January 27, 2016, DTCC entered into a \$500 million three-year unsecured credit agreement maturing January 25, 2019 with a syndicate of banks.

Terms of the outstanding lines of credit as of September 30, 2016 and December 31, 2015 were as follows:

	2016	2015
<i>DTCC</i>		
Committed Amount	\$500 million	\$150 million
Denomination	USD	USD
No. of Participants/Lenders	10	3
Borrowing rate	The highest of Prime rate, federal funds rate, or adjusted LIBOR, on the day of borrowing, plus 1.375%	The greater of the federal funds rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.25%
<i>DTC</i>		
Committed Amount	\$1.9 billion	\$1.9 billion
Denomination	USD	USD
No. of Participants/Lenders	31/37	31/38
Borrowing rate	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%	
Uncommitted Amount	\$150 million ⁽¹⁾	\$150 million ⁽¹⁾
Denomination	CAD	CAD
No. of Participants/Lenders	1/1	1/1
<i>NSCC</i>		
Committed Amount	\$10.9 billion	\$12.1 billion
Denomination	USD	USD
No. of Participants/Lenders	31/37	31/38
Borrowing rate	The greater of the federal funds offered rate, adjusted LIBOR, or lender's cost of funds, on the day of borrowing, plus 1.40%.	

(1) Used to support Canadian settlement.

Debt Covenants. As of September 30, 2016 and December 31, 2015, the Company and its subsidiaries were in compliance with the following debt covenants.

	2016	2015
Committed Line of Credit		
<i>DTCC</i>		
Minimum Net Worth	\$1.1 billion	\$1.1 billion
Priority Debt	Less than \$200 million	Less than \$200 million
<i>DTC</i>		
Minimum Net Worth	\$150 million	\$125 million
Minimum Participants Fund deposits	750 million	750 million
<i>NSCC</i>		
Minimum Net Worth	\$125 million	\$100 million
Minimum Clearing Fund deposits	1 billion	1 billion
Private Placement		
<i>DTCC</i>		
Minimum Net Worth	\$400 million	\$400 million
Maximum Priority Debt	Less than 20% of Net Worth	Less than 20% of Net Worth

Credit ratings. On May 17, 2016, Standard & Poor's Financial Services LLC (S&P) placed the AA long-term issuer credit rating of DTCC, along with related issue ratings, and the AA+ long-term issuer credit ratings of FICC, NSCC and DTC on CreditWatch with negative implications. The short-term issuer credit ratings on all four entities, as well as the short-term issue rating on commercial paper issued by NSCC, remain unchanged at A-1+ and are not on CreditWatch. On September 20, 2016, S&P announced the conclusion of its credit assessment of the DTCC group. S&P affirmed DTC's and NSCC's long-term issuer credit rating at AA+, but downgraded FICC from AA+ to AA and DTCC from AA to AA-. Additionally, the ratings outlook for all four rated entities was changed from negative to stable.

For additional information, refer to Note 21 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

14. PENSION AND POSTRETIREMENT BENEFITS

The following table provides components of net periodic cost (benefit) associated with the pension benefits and other benefits for the nine months ended September 30, 2016 in the accompanying Unaudited Condensed Consolidated Statements of Operations (in thousands):

	Retirement Plan	Restoration Plan	SERP	Other
Components of net periodic cost (benefit):				
Service cost	\$ 2,187	\$ —	\$ 3,201	\$ 1,428
Interest cost	26,838	1,503	981	2,694
Expected return on assets	(27,741)	—	—	(93)
Amortization:				
Prior service credit (cost)	84	—	636	(4,710)
Net loss	3,423	24	258	654
Settlement loss	—	54	—	—
Net periodic cost (benefit)	<u>\$ 4,791</u>	<u>\$ 1,581</u>	<u>\$ 5,076</u>	<u>\$ (27)</u>

The following table provides components of net periodic cost (benefit) associated with the pension benefits and other benefits for the three months ended September 30, 2016 in the accompanying Unaudited Condensed Consolidated Statements of Operations (in thousands):

	Retirement Plan	Restoration Plan	SERP	Other
Components of net periodic cost (benefit):				
Service cost	\$ 728	\$ —	\$ 1,066	\$ 475
Interest cost	8,947	502	327	898
Expected return on assets	(9,247)	—	—	(32)
Amortization:				
Prior service credit (cost)	27	—	212	(1,570)
Net loss	1,141	7	85	217
Settlement loss	—	18	—	—
Net periodic cost (benefit)	<u>\$ 1,596</u>	<u>\$ 527</u>	<u>\$ 1,690</u>	<u>\$ (12)</u>

On September 13, 2016, the Company contributed \$10 million to the Retirement Plan.

For additional information, refer to Note 15 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

15. INCOME TAXES

The Company's effective tax rate was 36.5% and 80.3% for the nine months ended September 30, 2016 and 2015, respectively. The decrease in the effective tax rate was primarily due to a higher proportion of taxable income generated in lower tax jurisdictions, and legal entity restructuring.

The Company is under examination by the IRS and other tax authorities in various states, local jurisdictions and non-U.S. jurisdictions. The tax years currently under examination vary by jurisdiction and include years ranging from 2007 through 2014. The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it files income tax returns. The Company has established UTBs that it believes are adequate in relation to the potential for additional assessments. Once established, the Company adjusts UTBs only when more information is available or when an event occurs that necessitates a change. At this time, it is not possible to reasonably estimate the expected change to the total amount of UTBs and impact on the Company's effective tax rate over the next 12 months.

For additional information, refer to Note 16 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

16. SHAREHOLDERS' EQUITY

DTCC Series A Preferred Stock. All 10,000 shares of DTCC Series A Preferred Stock are issued and outstanding and held of record by Stock Clearing Corporation, a wholly owned subsidiary of the New York Stock Exchange LLC, the successor-in-interest to the New York Stock Exchange Inc. In the event of DTCC's voluntary or involuntary liquidation, dissolution or winding-up, the holders of Series A Non-Cumulative Perpetual Preferred Stock are entitled to a liquidation preference of \$30.00 per share.

DTCC Series B Preferred Stock. All 10,000 shares of DTCC Series B Preferred Stock are issued and outstanding and held of record by National Clearing Corporation, a wholly owned subsidiary of the Financial Industry Regulatory Authority Inc. ("FINRA"), the successor-in-interest to the National Association of Securities Dealers, Inc. In the event of DTCC's voluntary or involuntary liquidation, dissolution or winding-up, the holders of Series B Preferred Stock are entitled to a liquidation preference of \$30.00 per share.

DTCC Series C Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock. On May 27, 2015, DTCC issued 1,600 shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, \$0.50 par value per share, with a liquidation preference of \$250,000 per share. When declared by DTCC's Board of Directors, dividends on the Series C Preferred Stock are payable in arrears on June 15 and December 15 of each year, beginning December 15, 2015 through June 15, 2020, at a fixed rate of 4.875% per annum. From June 15, 2020 onward, dividends will accrue at a floating rate equal to three-month LIBOR plus 3.167% per annum.

On April 15, 2016, in accordance with the Amended Certificate of Incorporation of DTCC, the Board of Directors approved and declared a dividend in the amount of \$6,093.75 per share on the 1,600 shares outstanding of its Series C Preferred Stock. The \$9,750,000 dividend was paid to holders of Series C Preferred Stock on June 15, 2016, as of record date May 31, 2016.

Common Stock. At a special meeting held on January 27, 2015, DTCC's shareholders approved the amendment and restatement of the DTCC Shareholders Agreement to include, among other changes, a mechanism for DTCC to sell, and require those common shareholders who are already required to own DTCC common shares to purchase, additional newly-issued common shares. At this special meeting, DTCC shareholders approved a \$400 million common equity capital raise using this new mechanism. The settlement date for the \$400 million common equity capital raise occurred on April 30, 2015.

DTCC has 80,000 authorized shares of common stock with a par value of \$100 per share. At September 30, 2016 and December 31, 2015, there were 50,908 shares of common stock outstanding.

DTC Series A Non-Cumulative Perpetual Preferred Stock - Non-controlling interest. Under a plan adopted by the Board of Directors, each Participant of DTC is required to own shares of its Series A preferred stock. The ownership of DTC preferred stock is reported as Non-controlling interests on the accompanying Unaudited Condensed Consolidated Statements of Financial Condition. There was \$150,000,000 of DTC Series A preferred stock outstanding as of September 30, 2016 and December 31, 2015 (1,500,000 shares at a par value of \$100 per share). In December 2010, DTC's authorized Series A preferred stock was increased by 1,750,000 shares, bringing the total to 3,250,000 authorized shares, or \$325,000,000. None of the additional authorized shares have been issued.

Regulatory Capital. DTCC's regulated subsidiaries maintain and report regulatory capital in accordance with all relevant laws, rules and guidelines. As a multinational enterprise, various DTCC subsidiaries are subject to regulatory capital regimes, as applicable. DTCC subsidiaries file regulatory capital reports with the Federal Reserve Bank of New York (FED), the New York State Department of Financial Services, and the U.S. Commodity Futures Trading Commission (CFTC) in the United States; the Bank of England in the United Kingdom; the Japan Financial Services Agency (JFSA) in Japan; Australian Securities and Investments Commission (ASIC) in Australia; Ontario Securities Commission (OSC) in Canada; and the Monetary Authority of Singapore (MAS) in Singapore.

Various DTCC subsidiaries are subject to capital guidelines issued by federal and state banking regulators. At September 30, 2016, DTCC engaged in banking activities under two subsidiaries: DTC and WTC. Capital ratios for these subsidiaries as of September 30, 2016 were as follows:

	DTC	WTC	Minimum Capital Ratio ⁽¹⁾	Well Capitalized Ratio ⁽¹⁾
Tier 1 capital ratio	52.99%	194.49%	6.00%	8.00%
Total capital ratio	52.99%	194.49%	8.00%	8.00%

(1) As defined by the regulations issued by the Federal Reserve, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

17. COMMITMENTS AND CONTINGENCIES

Lease commitments. The Company leases office space, data processing and other equipment. The leases for office space provide for rent escalations subsequent to 2016. Rent expense under these leases for office space was \$22,363,000 and \$21,622,000 for the nine months ended September 30, 2016 and 2015 and \$7,643,000 and \$6,971,000 for the three months ended September 30, 2016 and 2015, respectively, and was included within Occupancy in the accompanying Unaudited Condensed Consolidated Statements of Operations.

On May 19, 2016, the Company signed an agreement to sublease 97,417 square feet of commercial space that it currently occupies to a third party. On September 30, 2016, the agreement was amended to include an additional 20,096 square feet. The sublease will result in a reduction of future minimum rental payments totaling approximately \$50,208,000 through December 31, 2027. Further, the sublease resulted in the recognition of a loss of approximately \$20,000,000 in the second quarter of 2016 and an additional loss of approximately \$5,000,000 in the third quarter of 2016 related to the impact of the Company's forward rental payments exceeding the rental income pursuant to the sublease, coupled with the recognition of approximately \$10,000,000 of accelerated depreciation.

At September 30, 2016, future minimum rental payments under all noncancelable leases were as follows (in thousands):

2016	\$ 7,520
2017	31,541
2018	33,091
2019	28,161
2020	28,140
Thereafter	319,070
Total minimum rental payments ⁽¹⁾	<u>\$ 447,523</u>

(1) Future minimum rental payments were not reduced by minimum sublease rentals of \$50,208,000 due in the future under noncancelable subleases.

Litigation. 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 Company's Unaudited Condensed Consolidated Statements of Financial Condition, operations or cash flows.

18. GUARANTEES

Certain DTCC subsidiaries (NSCC and FICC) provide CCP services, including clearing, settlement and risk management. Acting as a CCP, NSCC and FICC (through GSD and MBSD) guarantee the settlement of trades in the event one party to a trade defaults. A Participant default is defined in the NSCC, GSD and MBSD rules, respectively. In its guarantor role, each clearing subsidiary has equal claims to and from Participants, as applicable, on opposite sides of netted transactions. To cover its guarantee risk, NSCC and FICC (through GSD and MBSD) use risk-based margining to collect cash and securities collateral (represented by their respective clearing funds).

The following table summarizes open CCP positions for which a trade guarantee applies at September 30, 2016 and December 31, 2015 (in billions):

	<u>2016</u>	<u>2015</u>
NSCC	\$ 231	\$ 157
FICC		
GSD	871	829
MBSD	389	245

There were no defaults by Participants to these obligations.

For additional information, refer to Note 20 in DTCC's Audited Consolidated Financial Statements for the years ended December 31, 2015 and 2014.

19. OTHER MATTERS

Lehman Brothers Inc. On September 19, 2008, a Trustee was appointed, under the Securities Investor Protection Act (SIPA), to administer and liquidate the business of Lehman Brothers Inc. (LBI). As part of the liquidation of LBI, certain of its assets were sold to Barclays Capital Inc. (Barclays). These assets did not include the accounts that LBI maintained at NSCC, FICC and DTC (collectively, the "Clearing Agency Subsidiaries").

As a result, the Trustee, Barclays and DTCC, on behalf and for the benefit of NSCC, FICC and DTC entered into an agreement that provided for the Clearing Agency Subsidiaries to wind down their respective LBI accounts, including the close out of pending transactions and the use of the proceeds in accordance with their respective rules and procedures, in the same manner in which they close out positions of Participants for whom they cease to act. On September 24, 2008, the Clearing Agency Subsidiaries formally ceased to act for LBI.

In addition, Barclays agreed to guaranty, indemnify and hold harmless DTCC, each of NSCC, FICC and DTC, and their officers, directors, employees, owners, agents and representatives against any and all losses, claims, damages, expenses (including legal fees) or liabilities that any of them may incur as a result of winding down and closing out the respective accounts. The guaranty is limited to a \$250,000,000 cash deposit (the “Cash Deposit”) provided for that purpose.

Any losses will first be satisfied from the Cash Deposit. If there are losses in excess of the Cash Deposit, they will be satisfied in accordance with the rules and procedures of NSCC, FICC and DTC, respectively, (including through application of LBI’s Clearing or Participants Fund deposits and any Clearing Agency cross guaranty agreements). If any portion of such funds remains after the close out of the LBI Accounts and satisfaction of all obligations of NSCC, FICC and DTC, they will be remitted to the Trustee. The Cash Deposit is held at DTCC to facilitate its investment pending application against losses or its turnover to the Trustee.

With respect to LBI, DTCC and its subsidiaries held the following deposits/balances at September 30, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
Segregated cash	\$ 3,301,827	\$ 3,301,827
Participants and Clearing Funds	1,160,135	1,160,135
Matured money market investment accounts	196,798	31,133,201
Total	<u>\$ 4,658,760</u>	<u>\$ 35,595,163</u>

As of September 30, 2016, DTCC had delivered to the Trustee of the LBI estate \$5,184,880,000 in cash as well as Clearing Fund securities valued at \$159,479,000.

Management does not expect there will be any losses attributable to the liquidation of the LBI accounts to be assessed against retained earnings or Participants.

20. SUBSEQUENT EVENTS

On October 19, 2016, in accordance with the Amended Certificate of Incorporation of DTCC, the Board of Directors approved and declared a dividend in the amount of \$6,093.75 per share on the 1,600 shares outstanding of its Series C Preferred Stock. The aggregate \$9,750,000 dividend will be payable on December 15, 2016, to the holders of Series C Preferred Stock as of record date November 30, 2016.

The Company evaluated events and transactions occurring after September 30, 2016 through October 28, 2016, for potential recognition or disclosure in these Unaudited Condensed Consolidated Financial Statements. Other than disclosed above, no other events or transactions occurred during such period that would require recognition or disclosure in these Unaudited Condensed Consolidated Financial Statements.