# Fixed Income Clearing Corporation

Financial Statements as of and for the Years Ended December 31, 2023 and 2022, and Report of Independent Registered Public Accounting Firm

# FIXED INCOME CLEARING CORPORATION

**TABLE OF CONTENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**Opinion on the Financial Statements**

We have audited the accompanying statements of financial condition of the Fixed Income Clearing Corporation (the "Company") as of December 31, 2023 and 2022, the related statements of income, changes in shareholder's equity, and cash flows, and the related footnotes for each of the two years in the period ended December 31, 2023 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2023, in conformity with the accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

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

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

**Critical Audit Matters**

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

Deloitte & Touche LLP

New York City, New York
February 28, 2024

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

# FIXED INCOME CLEARING CORPORATION

**STATEMENTS OF FINANCIAL CONDITION**

| (In thousands, except share data) | As of December 31, 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 440,196 | $ 358,450 |
| Accounts receivable - net of allowance for credit losses | 20,821 | 14,462 |
| Clearing Fund | 68,845,589 | 47,730,885 |
| Other Participants' assets | 25,136 | 76,569 |
| Other current assets | 14,862 | 7,856 |
| Total current assets | 69,346,604 | 48,188,222 |
| NON-CURRENT ASSETS: | | |
| Premises and equipment - net of accumulated depreciation | 578 | 598 |
| Intangible assets - net of accumulated amortization | 40,571 | 44,006 |
| Total non-current assets | 41,149 | 44,604 |
| TOTAL ASSETS | $ 69,387,753 | $ 48,232,826 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 111,452 | $ 77,343 |
| Clearing Fund | 68,845,589 | 47,730,885 |
| Payable to Participants | 25,136 | 76,569 |
| Other current liabilities | 11,338 | 2,192 |
| Total current liabilities | 68,993,515 | 47,886,989 |
| OTHER NON-CURRENT LIABILITIES: | | |
| Other non-current liabilities | 1,153 | 9,690 |
| Total liabilities | 68,994,668 | 47,896,679 |
| COMMITMENTS AND CONTINGENCIES (Note 2) | | |
| **SHAREHOLDER'S EQUITY** | | |
| Common stock, $0.50 par value - 105,000 shares authorized; 20,400 shares issued and outstanding | 10 | 10 |
| Additional paid-in capital | 86,617 | 86,617 |
| Retained earnings | 306,458 | 249,520 |
| Total shareholder's equity | 393,085 | 336,147 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | $ 69,387,753 | $ 48,232,826 |

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

## FIXED INCOME CLEARING CORPORATION
### STATEMENTS OF INCOME

| (In thousands) | For the years ended December 31, 2023 | 2022 |
|---|---|---|
| **REVENUES** | | |
| Clearing services | $ 402,519 | $ 312,812 |
| Other services | 1,469 | 1,044 |
| Total revenues | 403,988 | 313,856 |
| **EXPENSES** | | |
| Employee compensation and related benefits | 136,139 | 129,297 |
| Information technology | 29,289 | 27,407 |
| Professional and other services | 138,572 | 110,374 |
| Occupancy | 8,792 | 9,248 |
| Depreciation and amortization | 18,072 | 19,155 |
| General and administrative | 13,945 | 15,121 |
| Impairment of intangible assets | 172 | 858 |
| Total expenses | 344,981 | 311,460 |
| Total operating income | 59,007 | 2,396 |
| **NON-OPERATING INCOME (EXPENSE)** | | |
| Interest income | 1,020,675 | 271,940 |
| Refunds to Participants | (1,002,201) | (266,742) |
| Interest expense | (5,130) | (3,224) |
| Other non-operating income, net | 5,411 | 3,230 |
| Total non-operating income | 18,755 | 5,204 |
| Income before taxes | 77,762 | 7,600 |
| Provision for income taxes | 20,824 | 2,974 |
| Net income | $ 56,938 | $ 4,626 |

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

# FIXED INCOME CLEARING CORPORATION

## STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

| (In thousands) | Common Stock | Additional Paid-In Capital | Retained Earnings | Total Shareholder's Equity |
|---|---|---|---|---|
| BALANCE - January 1, 2022 | $ 10 | $ 86,617 | $ 244,894 | $ 331,521 |
| Net income | — | — | 4,626 | 4,626 |
| BALANCE - December 31, 2022 | 10 | 86,617 | 249,520 | 336,147 |
| Net income | — | — | 56,938 | 56,938 |
| BALANCE - December 31, 2023 | $ 10 | $ 86,617 | $ 306,458 | $ 393,085 |

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

# FIXED INCOME CLEARING CORPORATION

**STATEMENTS OF CASH FLOWS**

| (In thousands) | For the years ended December 31, 2023 | 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 56,938 | $ 4,626 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | | |
| Depreciation and amortization | 18,072 | 19,155 |
| Impairment of intangible assets | 172 | 858 |
| Deferred income taxes | (9,241) | (3,668) |
| Other | 13 | 4 |
| Net change in: | | |
| Accounts receivable | (6,372) | 10,215 |
| Other assets | (7,006) | (7,330) |
| Accounts payable and accrued expenses | 34,109 | 49,523 |
| Other liabilities | 9,850 | (1,853) |
| Clearing Fund liabilities | 3,246,815 | 6,191,261 |
| Payable to Participants | (51,433) | 61,724 |
| Net cash provided by operating activities | 3,291,917 | 6,324,515 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capitalized software development costs | (14,789) | (21,872) |
| Cash used in investing activities | (14,789) | (21,872) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividend on common stock | — | (20,000) |
| Cash used in financing activities | — | (20,000) |
| Net increase in Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets | 3,277,128 | 6,282,643 |
| Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - Beginning of year | 19,202,097 | 12,919,454 |
| Cash and cash equivalents, Clearing Fund cash deposits, Cash in Other Participants' assets - End of year | $ 22,479,225 | $ 19,202,097 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Interest paid | $ 4,979 | $ 3,099 |
| Income taxes paid - net of refunds | $ 19,770 | $ 8,208 |

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

## 1. BUSINESS AND OWNERSHIP

Fixed Income Clearing Corporation (FICC or the Company), a clearing agency registered with the U.S. Securities and Exchange Commission (SEC), provides central counterparty (CCP) services for the U.S. government and mortgage-backed securities markets (referred to herein as Participants). Services provided by FICC consist principally of automated real-time trade comparison, netting, settlement, trade confirmation, clearing, risk management and electronic pool notification. FICC has two divisions, the Government Securities Division (GSD) and the Mortgage-Backed Securities Division (MBSD).

FICC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). Other subsidiaries of DTCC include The Depository Trust Company (DTC), National Securities Clearing Corporation (NSCC), DTCC ITP LLC, DTCC Deriv/SERV LLC and DTCC Solutions LLC.

FICC is designated as a Systemically Important Financial Market Utility (SIFMU) by the U.S. Financial Stability Oversight Council pursuant to Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which subjects the Company to enhanced standards for risk management, operation and governance, as established by the SEC's Standards for Covered Clearing Agencies (CCAS).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Use of estimates.** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Management makes estimates regarding, among other things, the collectability of receivables, the outcome of litigation, the realization of deferred taxes, unrecognized tax benefits, impairment of intangible assets, fair value measurements, expense allocations and other matters that affect the reported amounts. Estimates are based on judgment and available information; therefore, actual results could differ materially from those estimates.

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

*Cash deposits.* Deposits and contributions received in the form of cash may only be invested in bank deposit accounts, including Federal Reserve Bank of New York (FRBNY), that provide same day access to funds. All interest earned on investments is accrued and included within Interest income in the accompanying Statements of Income. This interest earned on Clearing Fund is refunded to Participants and is included in Refunds to Participants in the accompanying Statements of Income.

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

**Other Participants' assets and Payable to Participants.** Includes residual cash for end-of-day settlement, unsettled activity and cash to satisfy potential mark-to-market deficit on forward settling transactions. Such cash is included in Other Participants' assets, with a corresponding liability recorded in Payable to Participants, on the accompanying Statements of Financial Condition.

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

| Premises and equipment | Depreciation Period | Depreciation Method |
|---|---|---|
| Building and improvements | 7 - 39 years | Straight-line |

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

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

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

**Commitments and contingencies.** The Company is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation is not expected to have a material effect on the accompanying Statements of Financial Condition, Income or Cash Flows.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

The Company derives its revenue from transaction fees, subscription revenue, and usage fees. Revenue from transaction fees is billed monthly and calculated based on the value and volume of executed transactions and the established fee schedules, less any applicable volume discounts. The volume targets or thresholds for the discounts primarily reset monthly. Subscription revenues are recognized ratably over the performance period of the relevant contract using a time elapsed measure of progress as the customer receives the benefits of the services throughout the term of the contract. Usage fees are recognized when services are provided based on contractual terms.

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 mortgage-backed securities clearing, and government securities clearing.

*Other services.* Revenue derived from this revenue stream may be in the form of subscription revenue and usage fees, which include referential and activity-based announcement, security reference, and liquidity data through the DTCC Data Services product. These offerings are delivered in fixed or configurable formats, sourced from the Company's transaction, reference, position and asset servicing data.

*Accounts receivable and deferred revenue.* The period in which the Company recognizes revenue may differ from the timing of payments received from customers. The Company typically bills its customers up to 30 days in arrears. The Company records a receivable when revenue is recognized prior to payment and there is an unconditional right to payment. Deferred revenue represents the Company's liability to perform services in the future related to payments received in advance of those services. Deferred revenue as of December 31, 2023 and 2022 was $1,458,000 and $1,903,000, respectively, and is included in Other current liabilities on the accompanying Statements of Financial Condition. Of the $1,903,000 as of December 31, 2022, $1,050,000 was recognized as revenue during the year ended December 31, 2023.

**Expense allocations.** Substantially all expenses are recorded at DTCC and are allocated to its subsidiaries, including FICC, based upon their estimated use of such goods or services as determined by various allocation factors including level of support provided and utilization of technology resources. Accordingly, the expenses in the accompanying Statements of Income represent allocated costs including Employee compensation and related benefits, Information technology, Professional and other services, Occupancy and General and administrative.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Reconciliation of Cash and cash equivalents and other limited use cash.** When reconciling the beginning and ending total amounts shown in the Statements of Cash Flows, the Company includes all cash on the Statements of Financial Condition, regardless of which line it is included. The Statement of Cash Flows includes Cash and cash equivalents and cash balances that are not available for general corporate purposes due to certain limitations, including - Clearing Fund cash deposits and Cash in Other Participants' assets.

A reconciliation of Cash and cash equivalents, Clearing Fund cash deposits, and Cash in Other Participants' assets, reported within the Statements of Financial Condition that sum to the total of the same such amounts shown on the accompanying Statements of Cash Flows as of December 31, 2023 and 2022 follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 440,196 | $ 358,450 |
| Clearing Fund cash deposits (see Note 4) | 22,013,893 | 18,767,078 |
| Cash in Other Participants' assets | 25,136 | 76,569 |
| Total Cash and cash equivalents, Clearing Fund cash deposits and Cash in Other Participants' assets shown on the Statements of Cash Flows | $ 22,479,225 | $ 19,202,097 |

**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.

## 3. ACCOUNTING AND REPORTING DEVELOPMENTS

| Standard | Description | Impact on the financial statements or other significant matters |
|---|---|---|
| *Financial Accounting Standards Board Standard Issued, but not yet Adopted* | | |
| ASU 2023-09 - Income Taxes (Topic 740): Improvements to Income Tax Disclosures<br><br>*Issued December 2023* | • Enhances disclosures related to the rate reconciliation and income taxes paid. The amendment requires consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disaggregated by jurisdiction.<br><br>• The amendment requires disclosures of pretax income (or loss) and income tax expense (or benefit) to be consistent with the SEC Regulation S-X 210.4-08(h), Rules of General Application—General Notes to Financial Statements: Income Tax Expense, and eliminates disclosures that no longer are considered cost beneficial or relevant. | • Effective January 1, 2025.<br><br>• The adoption of the standard will not have a material impact on the Company's financial statements and related disclosures. |

## 4. CLEARING FUND

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | GS Division | MBS Division | Total | GS Division | MBS Division | Total |
| Total deposits | $57,999,997 | $10,845,592 | $68,845,589 | $36,730,794 | $11,000,091 | $47,730,885 |
| Less: Required deposits | 48,118,973 | 8,481,038 | 56,600,011 | 29,422,757 | 8,189,256 | 37,612,013 |
| Excess deposits | $ 9,881,024 | $ 2,364,554 | $12,245,578 | $ 7,308,037 | $ 2,810,835 | $10,118,872 |

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | GS Division | MBS Division | Total | GS Division | MBS Division | Total |
| Cash and cash equivalents(1) | $18,029,680 | $ 3,984,213 | $22,013,893 | $14,202,795 | $ 4,564,283 | $18,767,078 |
| U.S. Treasury Securities | 32,561,960 | 5,915,790 | 38,477,750 | 19,965,470 | 5,974,034 | 25,939,504 |
| U.S. Agency Residential Mortgage-Backed Securities | 6,766,776 | 734,857 | 7,501,633 | 2,305,701 | 387,359 | 2,693,060 |
| U.S. Agency Issued Debt Securities | 641,581 | 210,732 | 852,313 | 256,828 | 74,415 | 331,243 |
| Total | $57,999,997 | $10,845,592 | $68,845,589 | $36,730,794 | $11,000,091 | $47,730,885 |

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

## 5. PREMISES AND EQUIPMENT

The cost, accumulated depreciation and net book value of Premises and equipment as of December 31, 2023 and 2022 follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Buildings and improvements | $ 789 | $ 789 |
| Land | 175 | 175 |
| Total Premises and equipment | 964 | 964 |
| Less: Accumulated depreciation | (386) | (366) |
| Net book value | $ 578 | $ 598 |

Depreciation expense for premises and equipment for the years ended December 31, 2023 and 2022 was $20,000 and $20,000, respectively, and is included in Depreciation and amortization in the accompanying Statements of Income.

## 6. INTANGIBLE ASSETS

The gross carrying value, accumulated amortization and net book value of capitalized software as of December 31, 2023 and 2022 follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Gross carrying value capitalized software | $ 106,261 | $ 107,001 |
| Less: Accumulated amortization | (65,690) | (62,995) |
| Capitalized software, net | $ 40,571 | $ 44,006 |

Amortization expense for capitalized software for the years ended December 31, 2023 and 2022 was $18,052,000 and $19,135,000, respectively, and is included in Depreciation and amortization in the accompanying Statements of Income.

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

| | |
|---|---|
| 2024 | $ 16,210 |
| 2025 | 13,419 |
| 2026 | 8,846 |
| 2027 | 2,096 |
| 2028 | — |
| Thereafter | — |
| Total future estimated amortization | $ 40,571 |

During the years ended December 31, 2023 and 2022, disposals of fully amortized capitalized software resulted in the removal of cost and accumulated amortization of $15,271,000 and $2,230,000, respectively.

The Company recognized impairment charges of $172,000 and $858,000 related to capitalized software for the years ended December 31, 2023 and 2022, respectively. The impairment charges are included in Impairment of intangible assets in the accompanying Statements of Income.

During the year ended December 31, 2023, the Company recognized impairments of internally developed software related to the Analytics and Reporting Management - Data Lineage project which experienced a change in strategy due to gaps in technology and increased costs triggering an evaluation for impairment. The evaluation concluded that the $172,000 carrying value of its internally developed software was not recoverable and exceeded its fair value.

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

## 7. CREDIT RATINGS

The Company is rated by Moody's Investors Service, Inc. (Moody's) and S&P Global Inc. (S&P). Details for issuer credit ratings and ratings outlooks for the Company as of December 31, 2023 follow:

| Moody's (1) | | | S&P | | |
|---|---|---|---|---|---|
| Long-term | Short-term | Outlook | Long-term | Short-term | Outlook |
| Aaa | P-1 | Negative | AA | A-1+ | Stable |

(1) Moody's categorizes the long-term issuer ratings of the Company as a clearing counterparty rating (CCR) under the agency's Clearing Houses Rating Methodology.

## 8. FAIR VALUE MEASUREMENTS

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

- Level 1 — Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets as of the valuation date.
- Level 2 — Inputs to the valuation methodology are quoted market prices for similar assets and liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 — Inputs to the valuation methodology are unobservable and reflect the Company's own assumptions about the estimates market participants would use pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding timing and amount of expected cash flows).

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

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

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

## 8. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements for those items measured on a recurring basis as of December 31, 2023 and 2022 are summarized below (in thousands):

| | 2023 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets - Clearing Fund | | | | |
| U.S. Treasury Securities | $ 38,477,750 | $ — | $ — | $ 38,477,750 |
| U.S. Agency Issued Debt Securities | 615,495 | 236,818 | — | 852,313 |
| U.S. Agency Residential Mortgage-Backed Securities | — | 7,501,633 | — | 7,501,633 |
| Total | $ 39,093,245 | $ 7,738,451 | $ — | $ 46,831,696 |
| Liabilities - Clearing Fund | | | | |
| Securities liabilities | $ 39,093,245 | $ 7,738,451 | $ — | $ 46,831,696 |
| Total | $ 39,093,245 | $ 7,738,451 | $ — | $ 46,831,696 |

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

There were no transfers between levels within the fair value hierarchy, nor were any amounts classified as Level 3 during the years ended December 31, 2023 and 2022.

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

## 8. FAIR VALUE MEASUREMENTS (CONTINUED)

The carrying values, fair values and fair value hierarchy levels of all financial instruments measured at other than fair value on the accompanying Statements of Financial Condition as of December 31, 2023 and 2022 follow (in thousands):

| | 2023 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | $ 440,196 | $ 440,196 | $ 440,196 | $ — | $ — |
| Clearing Fund: | | | | | |
| Cash deposits - Bank deposits | 22,013,893 | 22,013,893 | 22,013,893 | — | — |
| Other Participants' assets | 25,136 | 25,136 | 25,136 | — | — |
| Total | $ 22,479,225 | $ 22,479,225 | $ 22,479,225 | $ — | $ — |
| Liabilities: | | | | | |
| Clearing Fund: | | | | | |
| Cash deposits - Bank deposits | $ 22,013,893 | $ 22,013,893 | $ 22,013,893 | $ — | $ — |
| Payable to Participants | 25,136 | 25,136 | 25,136 | — | — |
| Total | $ 22,039,029 | $ 22,039,029 | $ 22,039,029 | $ — | $ — |

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

**Assets and liabilities measured at fair value on a non-recurring basis.** There were no financial assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2023 and 2022.

## 9. RETIREMENT PLANS

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

## 9. RETIREMENT PLANS (CONTINUED)

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

**Cost allocation.** DTCC allocates the cost of these plans to its subsidiaries based primarily upon the estimated proportion of each subsidiary's salary cost relative to DTCC's total salary cost. The defined contribution retirement plans costs allocated to FICC were expense of $7,352,000 and $7,846,000 for the years ended December 31, 2023 and 2022, respectively, and are included in Employee compensation and related benefits in the accompanying Statements of Income. The defined benefit pension and other postretirement benefit plans costs allocated to FICC were income of $545,000 and expense of $348,000 for the years ended December 31, 2023 and 2022, respectively, and are included in Employee compensation and related benefits, Interest expense, and Other non-operating income, net, in the accompanying Statements of Income.

Details for defined benefit pension and other postretirement benefit plans (income)/costs for the years ended December 31, 2023 and 2022 follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Employee compensation and related benefits | $ (262) | $ 355 |
| Interest expense | 5,128 | 3,223 |
| Other non-operating income | (5,411) | (3,230) |
| Defined benefit pension and other postretirement benefit plans (income)/cost, net | $ (545) | $ 348 |

## 10. INCOME TAXES

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

Details for the components of the Company's Provision (Benefit) for income taxes calculated on a separate company basis for the years ended December 31, 2023 and 2022 follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Current income tax/(benefit): | | |
| Federal | $ 20,997 | $ 3,856 |
| State and local | 9,068 | 2,786 |
| Total current income tax/(benefit) | 30,065 | 6,642 |
| Deferred income tax/(benefit): | | |
| Federal | (5,903) | (2,645) |
| State and local | (3,338) | (1,023) |
| Total deferred income tax/(benefit) | (9,241) | (3,668) |
| Provision for income taxes | $ 20,824 | $ 2,974 |

Pursuant to a tax sharing agreement between DTCC and FICC, the Company is liable for its allocable share of Federal, state and local tax liabilities that are paid by DTCC. The Company paid income taxes to DTCC, net of refunds, amounting to $19,770,000 and $8,208,000 for 2023 and 2022, respectively.

## 10. INCOME TAXES (CONTINUED)

The 2023 and 2022 effective tax rates differ from the 21% Federal statutory rate, primarily due to state and local taxes, and changes in unrecognized tax benefits. Details for the reconciliation of the U.S. Federal statutory tax rate to the Company's effective tax rate on Income before taxes for the years ended December 31, 2023 and 2022 follow:

| | 2023 | 2022 |
|---|---|---|
| U.S. statutory tax rate | 21.0 % | 21.0 % |
| State and local income taxes, net of Federal tax benefit | 6.6 | 12.2 |
| Change in unrecognized tax benefits | — | 3.9 |
| Other | (0.8) | 2.0 |
| Effective tax rate | 26.8 % | 39.1 % |

Details for the components of deferred tax assets and liabilities as of December 31, 2023 and 2022 follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Deferred tax assets: | | |
| Depreciation and amortization | $ 4,068 | $ 3,261 |
| Deferred rent | 686 | 1,880 |
| Capitalized Software | 215 | — |
| Other | 208 | — |
| Total deferred tax assets | 5,177 | 5,141 |
| Deferred tax liabilities: | | |
| Capitalized software | — | (8,491) |
| Accrued compensation and benefits | (5,246) | (5,950) |
| Other | — | (10) |
| Total deferred tax liabilities | (5,246) | (14,451) |
| Net deferred tax liabilities | $ (69) | $ (9,310) |

The deferred tax assets are expected to be fully realized and, accordingly, no valuation allowance was established as of December 31, 2023 and 2022.

Details for unrecognized tax benefits as of December 31, 2023 and 2022 follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Beginning balance | $ 316 | $ — |
| Increases: | | |
| Prior period tax positions | 423 | 316 |
| Current period tax positions | 247 | — |
| Ending balance | $ 986 | $ 316 |

In addition, the Company classifies interest and penalties related to unrecognized tax benefits, if incurred, in Provision for income taxes in its accompanying Statements of Income. As of December 31, 2023 and 2022, accrued interest related to unrecognized tax benefits recorded on the accompanying Statements of Financial Condition totaled $96,000 and $64,000, respectively.

## 10. INCOME TAXES (CONTINUED)

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

Details for the periods currently under examination and remaining subject to examination by jurisdiction as of December 31, 2023 follow:

| | Tax Years | |
|---|---|---|
| **Jurisdiction** | **Under Examination** | **Subject to Examination** |
| U.S. Federal - Internal Revenue Service | - | 2020 - 2022 |
| New York State | - | 2020 - 2022 |
| New York City | 2015 - 2017 | 2020 - 2022 |
| State of Florida | 2018 - 2019 | 2020 - 2022 |
| State of California | 2017 - 2018 | 2020 - 2022 |
| State of New Jersey | 2019 - 2021 | 2022 |

## 11. CAPITAL REQUIREMENTS

As required by Rule 17Ad-22(e)(15) of the CCAS and pursuant to the Clearing Agency Policy on Capital Requirements, the Company must meet its total capital requirement by holding liquid net assets funded by equity. The total capital requirement for FICC is equal to the sum of the general business risk capital requirement and corporate contribution, as described below.

**General Business Risk Capital Requirement.** This capital requirement is held to cover potential general business losses so that the Company can continue operations and provide services as a going concern if those losses materialize. It is determined based on the Company's general business risk profile and estimated time to execute a recovery or orderly wind-down of critical operations and, at a minimum, is equal to six months of operating expenses.

**Corporate Contribution.** The corporate contribution is applied to losses of the Company as provided in FICC's rules. The amount of the corporate contribution is generally equal to 50% of the Company's general business risk capital requirement.

Details for the general business risk capital requirement, corporate contribution and liquid net assets funded by equity for the Company as of December 31, 2023 and 2022 follow (in thousands):

| | 2023 | 2022 |
|---|---|---|
| General business risk capital requirement | $ 163,369 | $ 150,500 |
| Corporate contribution | 81,684 | 75,250 |
| Total requirement | 245,053 | 225,750 |
| Liquid net assets funded by equity | 393,085 | 336,147 |
| Excess | $ 148,032 | $ 110,397 |

## 12. TRANSACTIONS WITH RELATED PARTIES

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

**Transactions with DTCC.** FICC has an agreement with DTCC whereby DTCC pays for substantially all of the operational expenses of FICC, and, from time-to-time, purchases of long-term assets acquired by DTCC on behalf of FICC. The related expenses are allocated to FICC based upon its estimated use of such goods or services. Further, the agreement provides that DTCC performs credit and quantitative risk services, and certain other services for FICC including administrative, internal audit, finance and legal services. For the years ended December 31, 2023 and 2022, the billing for these services amounted to the allocated expenses plus an 8% and 4% mark-up fee, respectively, excluding charges passed through to Participants and capitalized software costs. The mark-up fee, representing the amount in excess of the actual cost, is included in Professional and other services in the accompanying Statements of Income.

**Transactions with DTCC Solutions LLC.** DTCC Solutions LLC sells data products including referential and activity-based data, security reference, benchmark analytics, and repo activities, on behalf of FICC. All of the revenue from the sales is billed back to FICC and is included in Other services in the accompanying Statements of Income. The associated expenses incurred, plus a 5% mark-up fee, are also billed back to FICC, and these related expenses are included in substantially all of the operational expenses of FICC, in the accompanying Statements of Income.

Details for related party transactions for 2023 and 2022 follow (in thousands):

| | Revenues (2) For the years ended December 31, | | Expenses For the years ended December 31, | | Payables/(Receivables) (3) As of December 31, | |
|---|---|---|---|---|---|---|
| **Related parties** | **2023** | **2022** | **2023** | **2022** | **2023** | **2022** |
| DTCC (1) | $ — | $ — | $ 19,209 | $ 9,933 | $ 24,381 | $ 23,436 |
| DTCC Solutions LLC | 1,469 | 1,022 | 4,124 | 2,150 | 455 | 219 |
| Total | $ 1,469 | $ 1,022 | $ 23,333 | $ 12,083 | $ 24,836 | $ 23,655 |

(1) DTCC expenses represent the 8% and 4% mark-up fee for services described above.
(2) Included in Other services in the accompanying Statements of Income.
(3) Included in Accounts payable and accrued expenses on the accompanying Statements of Financial Condition.

## 13. GUARANTEES

FICC, through GSD and MBSD, provides CCP services, including clearing, settlement and risk management services. Acting as a CCP, FICC guarantees the settlement of trades, with respect to each division, in the event one or more of its Participants defaults. A Participant default is defined in each division's rules. In its guarantor role, FICC has equal claims to and from Participants on opposite sides of netted transactions. To cover its default risk, FICC uses risk-based margining to determine Participants' required cash and eligible securities deposits to its Clearing Fund. FICC maintains separate Clearing Funds for each of GSD and MBSD.

GSD provides real-time trade matching, clearing, netting, risk management and settlement for trades in U.S. government securities, including buy-sell transactions and repurchase agreement ("Repo") transactions. Securities cleared by GSD include U.S Treasury bills, bonds, notes, STRIPS (zero-coupon securities), floating-rate notes, inflation-indexed securities, and fixed and zero-coupon government agency securities as well as certain eligible agency mortgage-backed securities in its GCF Repo service and Sponsored GC service. The U.S. government securities market is predominantly an over-the-counter market and most buy-sell transactions are settled on trade date plus one day (T+1). Most DVP Repo transactions settle same day, or T+0, via FICC's Same Day Settling service. With the exception of Sponsored GC Trades, eligible trades are guaranteed and novated upon comparison. Regarding Sponsored GC Trades, only the End Leg of such transactions can be novated, and the End Leg of such transactions are novated once all requirements set forth in the GSD Rules have been met.

## 13. GUARANTEES (CONTINUED)

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

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

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

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

| Division | 2023 | 2022 |
|---|---|---|
| GSD | $ 2,231 | $ 1,418 |
| MBSD | 360 | 282 |

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

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

In addition, with respect to GSD, FICC has entered into a cross-margining agreement with the Chicago Mercantile Exchange Inc. (CME), which may also provide for additional funds if the defaulting Participant was a cross-margining participant.

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

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

## 13. GUARANTEES (CONTINUED)

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

## 14. OFF BALANCE SHEET AND CONCENTRATION OF CREDIT RISKS

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

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

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

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

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

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

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

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

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

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

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

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

The Company also limits its exposure to potential losses from a Participant default through a multilateral netting contract and limited cross-guaranty agreement with DTC, NSCC and OCC, under which these clearing agencies have agreed to make payments to each other for unsatisfied obligations of a common defaulting Participant. This arrangement is designed to provide a mechanism for the sharing of excess net resources of a common defaulting Participant held at one clearing agency to cover losses incurred at another clearing agency.

## 15. SUBSEQUENT EVENTS

The Company evaluated events and transactions occurring after December 31, 2023 through February 28, 2024, 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.