MOODYS CORP /DE/
Form 10-Q
July 27, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-14037

Moody s Corporation

(Exact name of registrant as specified in its charter)

Delaware	**13-3998945**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
7 World Trade Center at	
250 Greenwich Street, New York, N.Y.	**10007**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code:

(212) 553-0300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months, or for such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Title of Each Class	**Shares Outstanding at June 30, 2017**
Common Stock, par value $0.01 per share	191.0 million

Table of Contents

MOODY S CORPORATION

INDEX TO FORM 10-Q

		Page(s)
	Glossary of Terms and Abbreviations	3-8
	PART I. FINANCIAL INFORMATION	
Item 1.	**Financial Statements**	
	Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2017 and 2016	9
	Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2017 and 2016	10
	Consolidated Balance Sheets (Unaudited) at June 30, 2017 and December 31, 2016	11
	Consolidated Statements of Cash Flows (Unaudited) for the Six months ended June 30, 2017 and 2016	12
	Notes to Condensed Consolidated Financial Statements (Unaudited)	13-42
Item 2.	**Management s Discussion and Analysis of Financial Condition and Results of Operations**	
	The Company	43
	Critical Accounting Estimates	43
	Reportable Segments	45
	Results of Operations	46-59
	Liquidity and Capital Resources	59-65
	Recently Issued Accounting Standards	65
	Contingencies	65
	Regulation	65-66
	Forward-Looking Statements	66-67
Item 4.	**Controls and Procedures**	**67**
	PART II. OTHER INFORMATION	
Item 1.	**Legal Proceedings**	**68**
Item 1A.	**Risk Factors**	**68**
Item 2.	**Unregistered Sales of Equity Securities and Use of Proceeds**	**68**
Item 5.	**Other Information**	**68**
Item 6.	**Exhibits**	**69**

SIGNATURES

Exhibits Filed Herewith

12	Statement of Computation of Ratios of Earnings to Fixed Charges
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.DEF	XBRL Definitions Linkbase Document
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

GLOSSARY OF TERMS AND ABBREVIATIONS

The following terms, abbreviations and acronyms are used to identify frequently used terms in this report:

TERM	DEFINITION
Acquisition-Related Expenses	Consists of expenses incurred to complete and integrate the pending acquisition of Bureau van Dijk
Adjusted Diluted EPS	Diluted EPS excluding the impact of the CCXI Gain, Acquisition-Related Expenses and the Purchase Price Hedge Gain related to the acquisition of Bureau van Dijk
Adjusted Operating Income	Operating income excluding depreciation and amortization and non-recurring acquisition-related expenses relating to the acquisition of Bureau van Dijk
Adjusted Operating Margin	Adjusted Operating Income divided by revenue
Americas	Represents countries within North and South America, excluding the U.S.
AOCI	Accumulated other comprehensive income (loss); a separate component of shareholders (deficit) equity
ASC	The FASB Accounting Standards Codification; the sole source of authoritative GAAP as of July 1, 2009 except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants
Asia-Pacific	Represents countries in Asia including but not limited to: Australia, China, India, Indonesia, Japan, Korea, Malaysia, Singapore, Sri Lanka and Thailand
ASU	The FASB Accounting Standards Update to the ASC. It also provides background information for accounting guidance and the bases for conclusions on the changes in the ASC. ASUs are not considered authoritative until codified into the ASC
Board	The board of directors of the Company
BPS	Basis points
Bureau van Dijk	A global provider of business intelligence and company information; in May 2017, a subsidiary of the Company entered into a definitive agreement to acquire the parent company of Bureau van Dijk which is subject to regulatory approval in the EU
CCXI	China Cheng Xin International Credit Rating Co. Ltd.; China s first and largest domestic credit rating agency approved by the People s Bank of China; the Company acquired a 49% interest in 2006; currently Moody s owns 30% of CCXI.
CCXI Gain	In the first quarter of 2017 CCXI, as part of a strategic business realignment, issued additional capital to its majority shareholder in exchange for a ratings business wholly-owned by the majority shareholder and which has the right to rate a different class of debt instrument in the Chinese market. The capital issuance by CCXI in exchange for this ratings business diluted Moody s ownership interest in CCXI to 30% of a larger business and resulted in a $59.7 million non-cash, non-taxable gain.
CLO	Collateralized loan obligation
Commission	European Commission

Table of Contents

Common Stock	The Company s common stock
Company	Moody s Corporation and its subsidiaries; MCO; Moody s
Copal	Copal Partners; an acquisition completed in November 2011; part of the MA segment; leading provider of research and analytical services to institutional investors
Copal Amba	Operating segment (rebranded as MAKS in 2016) created in January 2014 that consists of all operations from Copal and Amba. Part of the PS LOB within the MA reportable segment. Also a reporting unit.
Council	Council of the European Union
CP	Commercial Paper
CP Notes	Unsecured commercial paper issued under the CP Program
CP Program	A program entered into on August 3, 2016 allowing the Company to privately place CP up to a maximum of $1 billion for which the maturity may not exceed 397 days from the date of issue
CRAs	Credit rating agencies
CRA3	Regulation (EU) No 462/2013 of the European Parliament and of the Council, which updated the regulatory regimes imposing additional procedural requirements on CRAs
D&A	Depreciation and amortization
DBPP	Defined benefit pension plans
Debt/EBITDA	Ratio of Total Debt to EBITDA
EBITDA	Earnings before interest, taxes, depreciation and amortization
EMEA	Represents countries within Europe, the Middle East and Africa
EPS	Earnings per share
ERS	The enterprise risk solutions LOB within MA, which offers risk management software products as well as software implementation services and related risk management advisory engagements
ESMA	European Securities and Markets Authority
ETR	Effective tax rate
EU	European Union
EUR	Euros
Excess Tax Benefits	The difference between the tax benefit realized at exercise of an option or delivery of a restricted share and the tax benefit recorded at the time the option or restricted share is expensed under GAAP
Exchange Act	The Securities Exchange Act of 1934, as amended

FASB	Financial Accounting Standards Board
FIG	Financial institutions group; an LOB of MIS
Financial Reform Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Free Cash Flow	Net cash provided by operating activities less cash paid for capital additions
FSTC	Financial Services Training and Certifications; part of the PS LOB and a reporting unit within the MA reportable segment; consists of online and classroom-based training services and CSI Global Education, Inc.
FX	Foreign exchange
GAAP	U.S. Generally Accepted Accounting Principles
GBP	British pounds
GGY	Gilliland Gold Young; a leading provider of advanced actuarial software for the global insurance industry. The Company acquired GGY on March 1, 2016; part of the ERS LOB and reporting unit within the MA reportable segment
ICRA	ICRA Limited; a leading provider of credit ratings and research in India. The Company previously held 28.5% equity ownership and in June 2014, increased that ownership stake to just over 50% through the acquisition of additional shares
ICTEAS	ICRA Techno Analytics; formerly a wholly-owned subsidiary of ICRA; divested by ICRA in the fourth quarter of 2016
IRS	Internal Revenue Service
IT	Information technology
KIS	Korea Investors Service, Inc; a leading Korean rating agency and consolidated subsidiary of the Company
KIS Pricing	Korea Investors Service Pricing, Inc; a leading Korean provider of fixed income securities pricing and consolidated subsidiary of the Company
LIBOR	London Interbank Offered Rate
LOB	Line of business
M&A	Mergers and acquisitions
MA	Moody s Analytics a reportable segment of MCO formed in January 2008 which provides a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets; consists of three LOBs RD&A, ERS and PS
Make Whole Amount	The prepayment penalty amount relating to the Series 2007-1 Notes, 2010 Senior Notes, 2012 Senior Notes, 2013 Senior Notes, 2014 Senior Notes (5-year), 2014 Senior Notes (30-year), 2015 Senior Notes, 2017 Senior Notes, 2017 Private Placement Notes Due 2023 and 2017 Private Placement Notes Due 2028 which is a premium based on the excess, if any, of the discounted value of the remaining scheduled payments over the prepaid principal

Table of Contents

MAKS	Moody s Analytics Knowledge Services; formerly known as Copal Amba; provides offshore research and analytic services to the global financial and corporate sectors; part of the PS LOB and a reporting unit within the MA reportable segment
MCO	Moody s Corporation and its subsidiaries; the Company; Moody s
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MIS	Moody s Investors Service a reportable segment of MCO; consists of five LOBs SFG, CFG, FIG, PPIF and MIS Other
MIS Other	Consists of non-ratings revenue from ICRA, KIS Pricing and KIS Research. These businesses are components of MIS; MIS Other is an LOB of MIS
Moody s	Moody s Corporation and its subsidiaries; MCO; the Company
Net Income	Net income attributable to Moody s Corporation, which excludes net income from consolidated noncontrolling interests belonging to the minority interest holder
NM	Percentage change is not meaningful
Non-GAAP	A financial measure not in accordance with GAAP; these measures, when read in conjunction with the Company s reported results, can provide useful supplemental information for investors analyzing period-to-period comparisons of the Company s performance, facilitate comparisons to competitors operating results and provide greater transparency to investors of supplemental information used by management in its financial and operational decision making
NRSRO	Nationally Recognized Statistical Rating Organization
OCI	Other comprehensive income (loss); includes gains and losses on cash flow and net investment hedges, unrealized gains and losses on available for sale securities, certain gains and losses relating to pension and other retirement benefit obligations and foreign currency translation adjustments
Other Retirement Plan	The U.S. retirement healthcare and U.S. retirement life insurance plans
PPIF	Public, project and infrastructure finance; an LOB of MIS
Profit Participation Plan	Defined contribution profit participation plan that covers substantially all U.S. employees of the Company
PS	Professional Services, an LOB within MA consisting of MAKS and FSTC that provides research and analytical services as well as financial training and certification programs
Purchase Price Hedge Gain	Unrealized gain on foreign currency collars to economically hedge the Bureau van Dijk euro denominated purchase price
RD&A	Research, Data and Analytics; an LOB within MA that produces, sells and distributes research, data and related content. Includes products generated by MIS, such as analyses on major debt issuers, industry studies, and commentary on topical credit events, as well as economic research, data, quantitative risk scores, and other analytical tools that are produced within MA
Reform Act	Credit Rating Agency Reform Act of 2006
REIT	Real Estate Investment Trust
Relationship Revenue	For MIS represents monitoring of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. For MIS Other represents subscription-based revenue. For MA, represents subscription-based license and maintenance revenue

Retirement Plans	Moody s funded and unfunded pension plans, the healthcare plans and life insurance plans
SCDM	SCDM Financial, a leading provider of analytical tools for participants in securitization markets. Moody s acquired SCDM s structured finance data and analytics business in February 2017
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Series 2007-1 Notes	Principal amount of $300 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement; prepaid in March 2017
Settlement Charge	Charge of $863.8 million recorded in the fourth quarter of 2016 related to an agreement entered into on January 13, 2017 with the U.S. Department of Justice and the attorneys general of 21 U.S states and the District of Columbia to resolve pending and potential civil claims related to the credit ratings that MIS assigned to certain structured finance instruments in the financial crisis era
SFG	Structured finance group; an LOB of MIS
SG&A	Selling, general and administrative expenses
Total Debt	All indebtedness of the Company as reflected on the consolidated balance sheets
Transaction Revenue	For MIS, represents the initial rating of a new debt issuance as well as other one-time fees. For MIS Other, represents revenue from professional services as well as data services, research and analytical engagements. For MA, represents software license fees and revenue from risk management advisory projects, training and certification services, and research and analytical engagements
U.K.	United Kingdom
U.S.	United States
USD	U.S. dollar
UTBs	Unrecognized tax benefits
UTPs	Uncertain tax positions
VSOE	Vendor specific objective evidence; as defined in the ASC, evidence of selling price limited to either of the following: the price charged for a deliverable when it is sold separately, or for a deliverable not yet being sold separately, the price established by management having the relevant authority
2000 Distribution	The distribution by Old D&B to its shareholders of all the outstanding shares of New D&B common stock on September 30, 2000
2007 Agreement	Note purchase agreement dated September 7, 2007, relating to the Series 2007-1 Notes
2010 Indenture	Supplemental indenture and related agreements dated August 19, 2010, relating to the 2010 Senior Notes
2010 Senior Notes	Principal amount of $500 million, 5.50% senior unsecured notes due in September 2020 pursuant to the 2010 Indenture
2012 Facility	Revolving credit facility of $1 billion entered into on April 18,2012; was replaced with the 2015 Facility

Table of Contents

2012 Indenture	Supplemental indenture and related agreements dated August 18, 2012, relating to the 2012 Senior Notes
2012 Senior Notes	Principal amount of $500 million, 4.50% senior unsecured notes due in September 2022 pursuant to the 2012 Indenture
2013 Indenture	Supplemental indenture and related agreements dated August 12, 2013, relating to the 2013 Senior Notes
2013 Senior Notes	Principal amount of the $500 million, 4.875% senior unsecured notes due in February 2024 pursuant to the 2013 Indenture
2014 Indenture	Supplemental indenture and related agreements dated July 16, 2014, relating to the 2014 Senior Notes
2017 Indenture	Collectively the Supplemental indenture and related agreements dated March 2, 2017, relating to the 2017 Floating Rate Senior Notes and 2017 Senior Notes and the Supplemental indenture and related agreements dated June 12, 2017, relating to the 2017 Private Placement Notes Due 2023 and 2017 Private Placement Notes Due 2028
2014 Senior Notes (5-Year)	Principal amount of $450 million, 2.75% senior unsecured notes due in July 2019
2014 Senior Notes (30-Year)	Principal amount of $600 million, 5.25% senior unsecured notes due in July 2044
2015 Facility	Five-year unsecured revolving credit facility, with capacity to borrow up to $1 billion; replaces the 2012 Facility
2015 Indenture	Supplemental indenture and related agreements dated March 9, 2015, relating to the 2015 Senior Notes
2015 Senior Notes	Principal amount 500 million, 1.75% senior unsecured notes issued March 9, 2015 and due in March 2027
2017 Bridge Credit Facility	Bridge Credit Agreement entered into in May 2017 pursuant to the definitive agreement to acquire Bureau van Dijk; this facility was terminated in June 2017 upon issuance of the 2017 Private Placement Notes Due 2023 and the 2017 Private Placement Notes Due 2028
2017 Floating Rate Senior Notes	Principal amount of $300 million, floating rate senior unsecured notes due in September 2018
2017 Private Placement Notes Due 2023	Principal amount $500 million, 2.625% senior unsecured notes due January 15, 2023
2017 Private Placement Notes Due 2028	Principal amount $500 million, 3.250% senior unsecured notes due January 15, 2028
2017 Senior Notes	Principal amount of $500 million, 2.75% senior unsecured notes due in December 2021
2017 Term Loan Facility	Three-year unsecured revolving credit facility, with capacity to borrow up to $500 million.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Revenue	**$ 1,000.5**	**$ 928.9**	**$ 1,975.7**	**$ 1,745.0**
Expenses				
Operating	285.8	258.9	563.2	508.1
Selling, general and administrative	217.7	228.6	439.6	461.5
Depreciation and amortization	32.9	31.2	65.4	61.1
Acquisition-Related Expenses	6.6		6.6	
Total expenses	**543.0**	**518.7**	**1,074.8**	**1,030.7**
Operating income	**457.5**	**410.2**	**900.9**	**714.3**
Non-operating (expense) income, net				
Interest expense, net	(45.0)	(34.3)	(87.4)	(68.4)
Other non-operating income (expense), net	8.3	3.0	(1.1)	8.6
Purchase Price Hedge Gain	41.2		41.2	
CCXI Gain			59.7	
Total non-operating income (expense), net	**4.5**	**(31.3)**	**12.4**	**(59.8)**
Income before provisions for income taxes	**462.0**	**378.9**	**913.3**	**654.5**
Provision for income taxes	148.4	120.8	253.8	209.8
Net income	313.6	258.1	659.5	444.7
Less: Net income attributable to noncontrolling interests	1.4	2.6	1.7	4.8
Net income attributable to Moody s	**$ 312.2**	**255.5**	**657.8**	**439.9**
Earnings per share attributable to Moody s common shareholders				
Basic	$ 1.63	1.32	3.44	2.27
Diluted	$ 1.61	1.30	3.39	2.24
Weighted average number of shares outstanding				

Basic		191.0		193.4		191.1		194.2
Diluted		193.8		195.8		194.1		196.8
Dividends declared per share attributable to Moody s common shareholders	$	0.38	$	0.37	$	0.38	$	0.37

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in millions)

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net Income			**$ 313.6**			$ 258.1
Other Comprehensive Income (Loss):						
Foreign Currency Adjustment:						
Foreign currency translation adjustments, net	**$ 35.1**	**$ 15.4**	**50.5**	$ (45.9)	$ 26.5	(19.4)
Cash Flow Hedges:						
Net realized and unrealized gain (loss) on cash flow hedges	**5.1**	**(1.9)**	**3.2**	(4.6)	1.7	(2.9)
Reclassification of (gains) losses included in net income	**(6.1)**	**2.8**	**(3.3)**	2.6	(0.9)	1.7
Available for Sale Securities:						
Net unrealized gains on available for sale securities	**0.6**		**0.6**	0.6		0.6
Pension and Other Retirement Benefits:						
Amortization of actuarial losses and prior service costs included in net income	**1.9**	**(0.8)**	**1.1**	2.3	(0.9)	1.4
Net actuarial gains and prior service costs	**7.9**	**(3.0)**	**4.9**	5.3	(2.0)	3.3
Total Other Comprehensive Income (Loss)	**$ 44.5**	**$ 12.5**	**$ 57.0**	$ (39.7)	$ 24.4	$ (15.3)
Comprehensive Income			**370.6**			242.8
Less: comprehensive income attributable to noncontrolling interests			**10.8**			2.6
Comprehensive Income Attributable to Moody s			**$ 359.8**			$ 240.2

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net Income			$ 659.5			$ 444.7
Other Comprehensive Income (Loss):						
Foreign Currency Adjustment:						
Foreign currency translation adjustments, net	**$ 49.5**	**$ 13.1**	**62.6**	$ 2.6	$ 14.0	16.6
Cash flow hedges:						
Net realized and unrealized gain (loss) on cash flow hedges	**4.8**	**(1.8)**	**3.0**	(2.6)	0.9	(1.7)
Reclassification of (gains) losses included in net income	**(7.5)**	**3.3**	**(4.2)**	0.4	(0.1)	0.3
Available for sale securities:						
Net unrealized gains on available for sale securities	**1.1**		**1.1**	1.2		1.2
Pension and Other Retirement Benefits:						
Amortization of actuarial losses and prior service costs included in net income	**4.3**	**(1.7)**	**2.6**	4.9	(1.9)	3.0
Net actuarial gains and prior service costs	**7.9**	**(3.0)**	**4.9**	5.3	(2.0)	3.3

Total Other Comprehensive Income	**$ 60.1**	**$ 9.9**	**$ 70.0**	$ 11.8	$ 10.9	$ 22.7
Comprehensive Income			**729.5**			467.4
Less: comprehensive income attributable to noncontrolling interests			**16.5**			4.8
Comprehensive Income Attributable to Moody s			**$ 713.0**			$ 462.6

The accompanying notes are an integral part of the condensed consolidated financial statements.

10

Table of Contents

MOODY S CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in millions, except share and per share data)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,280.9	$ 2,051.5
Short-term investments	86.3	173.4
Accounts receivable, net of allowances of $27.0 in 2017 and $25.7 in 2016	916.5	887.4
Other current assets	275.4	140.8
Total current assets	4,559.1	3,253.1
Property and equipment, net of accumulated depreciation of $645.7 in 2017 and $595.5 in 2016	329.7	325.9
Goodwill	1,054.5	1,023.6
Intangible assets, net	287.1	296.4
Deferred tax assets, net	135.3	316.1
Other assets	170.6	112.2
Total assets	**$ 6,536.3**	$ 5,327.3
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$ 490.4	$ 1,444.3
Current portion of long-term debt		300.0
Deferred revenue	746.8	683.9
Total current liabilities	1,237.2	2,428.2
Non-current portion of deferred revenue	132.2	134.1
Long-term debt	4,887.1	3,063.0
Deferred tax liabilities, net	107.6	104.3
Unrecognized tax benefits	213.6	199.8
Other liabilities	426.1	425.2
Total liabilities	7,003.8	6,354.6
Contingencies (Note 14)		
Shareholders deficit:		
Preferred stock, par value $.01 per share; 10,000,000 shares authorized; no shares issued and outstanding		
Series common stock, par value $.01 per share; 10,000,000 shares authorized; no shares issued and outstanding		
Common stock, par value $.01 per share; 1,000,000,000 shares authorized; 342,902,272 shares issued at June 30, 2017 and December 31, 2016, respectively.	3.4	3.4
Capital surplus	465.5	477.2
Retained earnings	7,269.6	6,688.9
Treasury stock, at cost; 151,865,749 and 152,208,231 shares of common stock at June 30, 2017 and December 31, 2016, respectively	(8,108.6)	(8,029.6)
Accumulated other comprehensive loss	(309.7)	(364.9)
Total Moody s shareholders deficit	(679.8)	(1,225.0)

Noncontrolling interests	212.3	197.7
Total shareholders deficit	(467.5)	(1,027.3)
Total liabilities and shareholders deficit	**$ 6,536.3**	$ 5,327.3

The accompanying notes are an integral part of the consolidated financial statements.

11

Table of Contents

MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in millions)

	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash flows from operating activities		
Net income	$ 659.5	$ 444.7
Reconciliation of net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	65.4	61.1
Stock-based compensation expense	57.1	48.9
CCXI Gain	(59.7)	
Purchase Price Hedge Gain	(41.2)	
Deferred income taxes	193.5	13.7
Changes in assets and liabilities:		
Accounts receivable	(16.5)	(45.2)
Other current assets	(91.0)	19.2
Other assets	8.9	13.7
Accounts payable and accrued liabilities	(884.5)	(69.8)
Deferred revenue	43.9	66.7
Unrecognized tax benefits and other non-current tax liabilities	8.4	(4.3)
Other liabilities	8.5	(2.3)
Net cash (used in) provided by operating activities	**(47.7)**	**546.4**
Cash flows from investing activities		
Capital additions	(42.8)	(54.3)
Purchases of investments	(75.3)	(174.5)
Sales and maturities of investments	161.6	294.9
Cash paid for acquisitions, net of cash acquired and equity investments	(5.0)	(75.9)
Receipts from settlement of net investment hedges	1.4	2.5
Net cash provided by (used in) investing activities	**39.9**	**(7.3)**
Cash flows from financing activities		
Issuance of notes	1,791.9	
Repayments of notes	(300.0)	
Issuance of commercial paper	703.7	
Repayment of commercial paper	(703.7)	
Proceeds from stock-based compensation plans	39.1	36.9
Repurchase of shares for payroll tax withholdings related to stock-based compensation	(47.9)	(43.2)
Cost of treasury shares repurchased	(134.5)	(485.9)
Payment of dividends	(145.2)	(143.6)
Payment of dividends to noncontrolling interests	(0.8)	(4.6)
Payment for noncontrolling interest	(6.2)	
Debt issuance costs and related fees	(18.8)	
Net cash provided by (used in) financing activities	**1,177.6**	**(640.4)**

Effect of exchange rate changes on cash and cash equivalents	**59.6**	**18.2**
Net increase (decrease) in cash and cash equivalents	**1,229.4**	**(83.1)**
Cash and cash equivalents, beginning of the period	2,051.5	1,757.4
Cash and cash equivalents, end of the period	**$ 3,280.9**	**$ 1,674.3**

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(tabular dollar and share amounts in millions, except per share data)

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Moody s is a provider of (i) credit ratings, (ii) credit, capital markets and economic research, data and analytical tools, (iii) software solutions and related risk management services, (iv) quantitative credit risk measures, financial services training and certification services and (v) analytical and research services. Moody s has two reportable segments: MIS and MA.

MIS, the credit rating agency, publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide. Revenue is primarily derived from the originators and issuers of such transactions who use MIS ratings in the distribution of their debt issues to investors. Additionally, MIS earns revenue from certain non-ratings-related operations which consist primarily of the distribution of research and financial instrument pricing services in the Asia-Pacific region as well as revenue from ICRA s non-ratings operations. The revenue from these operations is included in the MIS Other LOB and is not material to the results of the MIS segment.

The MA segment develops a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets. Within its RD&A business, MA distributes research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit-related events. The RD&A business also produces economic research as well as data and analytical tools such as quantitative credit risk scores. Within its ERS business, MA provides software solutions as well as related risk management services. The PS business provides analytical and research services along with financial training and certification programs.

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the Company s consolidated financial statements and related notes in the Company s 2016 annual report on Form 10-K filed with the SEC on February 25, 2017. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Certain reclassifications have been made to prior period amounts to conform to the current presentation.

Adoption of New Accounting Standard

In the first quarter of 2017, the Company adopted ASU No. 2016-09 Improvements to Employee Share-Based Payment Accounting . As required by ASU 2016-09, Excess Tax Benefits or shortfalls recognized on stock-based compensation expense are reflected in the consolidated statement of operations as a component of the provision for income taxes on a prospective basis. Prior to the adoption of this ASU, Excess Tax Benefits and shortfalls were recorded to capital surplus within shareholders deficit. The impact of this adoption was an $8.9 million and $27.9 million benefit to the provision for income taxes for the three and six months ended June 30, 2017, respectively.

Table of Contents

Additionally, in accordance with this ASU, Excess Tax Benefits or shortfalls recognized on stock-based compensation are classified as operating cash flows in the consolidated statement of cash flows, and the Company has applied this provision on a retrospective basis. Under previous accounting guidance, the Excess Tax Benefits or shortfalls were shown as a reduction to operating activity and an increase to financing activity. Furthermore, the Company has elected to continue to estimate the number of stock-based awards expected to vest, rather than accounting for award forfeitures as they occur, to determine the amount of stock-based compensation cost recognized in each period. The impact to the Company s statement of cash flows for the six months ended June 30, 2016 relating to the adoption of this provision of the ASU is set forth in the table below:

(amounts in millions)	**As reported Six Months Ended June 30, 2016**	**Adoption Adjustment**	**Six Months Ended June 30, 2016 As adjusted**
Net cash provided by operating activities	$ 528.8	$ 17.6	$ 546.4
Net cash used in financing activities	$ (622.8)	$ (17.6)	$ (640.4)

NOTE 2. STOCK-BASED COMPENSATION

Presented below is a summary of the stock-based compensation cost and associated tax benefit included in the accompanying consolidated statements of operations:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2017	**2016**	**2017**	**2016**
Stock-based compensation cost	**$ 28.7**	$ 23.5	**$ 57.1**	$ 48.9
Tax benefit	**$ 9.4**	$ 7.5	**$ 18.5**	$ 15.9

During the first six months of 2017, the Company granted 0.2 million employee stock options, which had a weighted average grant date fair value of $29.88 per share based on the Black-Scholes option-pricing model. The Company also granted 1.0 million shares of restricted stock in the first six months of 2017, which had a weighted average grant date fair value of $113.32 per share. Both the employee stock options and restricted stock generally vest ratably over a four-year period. Additionally, the Company granted approximately 0.2 million shares of performance-based awards whereby the number of shares that ultimately vest are based on the achievement of certain non-market based performance metrics of the Company over a three-year period. The weighted average grant date fair value of these awards was $108.88 per share.

The following weighted average assumptions were used in determining the fair value for options granted in 2017:

Expected dividend yield	**1.34%**
Expected stock volatility	**26.8%**
Risk-free interest rate	**2.19%**
Expected holding period	**6.5 yrs**
Grant date fair value	**$ 29.88**

Unrecognized compensation expense at June 30, 2017 was $10.1 million and $174.9 million for stock options and unvested restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.4 years and 1.7 years, respectively. Additionally, there was $25.6 million of unrecognized compensation expense relating to the aforementioned non-market based performance-based awards, which is expected to be recognized over a weighted average period of 1.1 years.

The following tables summarize information relating to stock option exercises and restricted stock vesting:

Exercise of stock options:	Six Months Ended June 30, 2017	2016
Proceeds from stock option exercises	**$ 35.3**	$ 33.4
Aggregate intrinsic value	**$ 52.2**	$ 21.0
Tax benefit realized upon exercise	**$ 18.3**	$ 7.4
Number of shares exercised	**0.8**	0.6

Vesting of restricted stock:	Six Months Ended June 30, 2017	2016
Fair value of shares vested	**$ 107.9**	$ 90.6
Tax benefit realized upon vesting	**$ 34.1**	$ 29.6
Number of shares vested	**1.0**	1.0

Vesting of performance-based restricted stock:	Six Months Ended June 30, 2017	2016
Fair value of shares vested	**$ 19.5**	$ 23.6
Tax benefit realized upon vesting	**$ 6.9**	$ 8.4
Number of shares vested	**0.2**	0.2

NOTE 3. INCOME TAXES

Moody s effective tax rate was 32.1% and 31.9% for the three months ended June 30, 2017 and 2016, respectively and 27.8% and 32.1% for the six month periods ended June 30, 2017 and 2016, respectively. The slight increase in the three months ended June 30, 2017 included the tax effects of the Purchase Price Hedge Gains which are incurred in a higher tax jurisdiction, partially offset by approximately $9 million in Excess Tax Benefits on stock-based compensation. The second quarter of 2016 included an approximate $4 million benefit from the favorable resolution of state and local tax matters. The decrease in the ETR in the six months ended June 30, 2017 was primarily due to approximately $28 million in Excess Tax Benefits, as further discussed in Note 1 above and the non-taxable CCXI Gain as discussed in Note 10 below.

The Company classifies interest related to UTBs in interest expense, net in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating (expense) income, net. The Company had an increase in its UTBs of $10.8 million ($10.6 million net of federal tax) during the second quarter of 2017 and an increase in its UTBs during the first six months of 2017 of $13.8 million ($14.3 million net of federal tax).

Moody s Corporation and subsidiaries are subject to U.S. federal income tax as well as income tax in various state, local and foreign jurisdictions. The Company s U.S. federal income tax returns for the years 2011 and 2012 are under examination and its returns for 2013, 2014 and 2015 remain open to examination. The Company s New York State tax returns for 2011 through 2014 are currently under examination and the Company s New York City tax return for 2014 is currently under examination. The Company s U.K. tax return for 2012 is currently under examination and its returns for 2013, 2014 and 2015 remain open to examination.

For ongoing audits, it is possible the balance of UTBs could decrease in the next twelve months as a result of the settlement of these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which could necessitate increases to the balance of UTBs. As the Company is unable to predict the timing or outcome of these audits, it is therefore unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure relating to all open tax years by tax jurisdiction in accordance with the applicable provisions of Topic 740 of the ASC regarding UTBs.

Table of Contents

On March 30, 2016, the FASB issued Accounting Standards Update (ASU) 2016-09, Improvements to Employee Share Based Payment Accounting as more fully discussed in Note 1 to the condensed consolidated financial statements. The new guidance requires all tax effects related to share based payments to be recorded through the provision for income taxes in the income statement. The Company has adopted the new guidance as of the first quarter of 2017 and expects the adoption to result in a benefit to the provision for income taxes of approximately $30 million for the full-year of 2017, or $0.16 per diluted share.

In the first quarter of 2017, the Company adopted Accounting Standards Update 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. Under previous guidance, the tax effects of intra-entity asset transfers (intercompany sales) were deferred until the transferred asset was sold to a third party or otherwise recovered through use. The new guidance eliminates the exception for all intra-entity sales of assets other than inventory. Upon adoption, a cumulative-effect adjustment is recorded in retained earnings as of the beginning of the period of adoption. The net impact upon adoption is a reduction to retained earnings of $4.6 million. The Company does not expect any material impact on its future operations as a result of the adoption of this guidance.

The following table shows the amount the Company paid for income taxes:

	Six Months Ended June 30,	
	2017	**2016**
Income taxes paid*	**$ 83.9**	$ 151.8

* The decrease in income taxes paid is primarily due to tax benefits relating to the Settlement Charge

NOTE 4. WEIGHTED AVERAGE SHARES OUTSTANDING

Below is a reconciliation of basic to diluted shares outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Basic	**191.0**	193.4	**191.1**	194.2
Dilutive effect of shares issuable under stock-based compensation plans	**2.8**	2.4	**3.0**	2.6
Diluted	**193.8**	195.8	**194.1**	196.8
Anti-dilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock which are excluded from the table above	**0.7**	1.2	**1.0**	1.5

The calculation of diluted EPS requires certain assumptions regarding the use of both cash proceeds and assumed proceeds that would be received upon the exercise of stock options and vesting of restricted stock outstanding as of June 30, 2017 and 2016. The assumed proceeds in 2017 do not include Excess Tax Benefits pursuant to the prospective adoption of ASU 2016-09 in the first quarter of 2017. The assumed proceeds in 2016 include Excess Tax Benefits.

The decrease in the diluted shares outstanding primarily reflects treasury share repurchases under the Company s Board authorized share repurchase program.

Table of Contents

NOTE 5. CASH EQUIVALENTS AND INVESTMENTS

The table below provides additional information on the Company s cash equivalents and investments:

	As of June 30, 2017					
				Balance sheet location		
	Cost	Gross Unrealized Gains	Fair Value	Cash and cash equivalents	Short-term investments	Other assets
Money market mutual funds	$ 247.0	$	$ 247.0	$ 247.0	$	$
Certificates of deposit and money market deposit accounts (1)	$ 2,150.2	$	$ 2,150.2	$ 2,060.9	$ 86.3	$ 3.0
Fixed maturity and open ended mutual funds (2)	$ 27.6	$ 6.8	$ 34.4	$	$	$ 34.4

	As of December 31, 2016					
				Balance sheet location		
	Cost	Gross Unrealized Gains	Fair Value	Cash and cash equivalents	Short-term investments	Other assets
Money market mutual funds	$ 189.0	$	$ 189.0	$ 189.0	$	$
Certificates of deposit and money market deposit accounts (1)	$ 1,190.5	$	$ 1,190.5	$ 1,017.0	$ 173.4	$ 0.1
Fixed maturity and open ended mutual funds (2)	$ 27.0	$ 5.6	$ 32.6	$	$	$ 32.6

(1) Consists of time deposits and money market deposit accounts. The remaining contractual maturities for the certificates of deposits classified as short-term investments were one to 12 months at both June 30, 2017 and December 31, 2016. The remaining contractual maturities for the certificates of deposits classified in other assets are 20 to 21 months at June 30, 2017 and 13 months to 15 months at December 31, 2016. Time deposits with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents.

(2) Consists of investments in fixed maturity mutual funds and open-ended mutual funds. The remaining contractual maturities for the fixed maturity instruments range from one month to 13 months and six months to 19 months at June 30, 2017 and December 31, 2016 respectively.

The money market mutual funds as well as the fixed maturity and open ended mutual funds in the table above are deemed to be available for sale under ASC Topic 320 and the fair value of these instruments is determined using Level 1 inputs as defined in the ASC.

Table of Contents

NOTE 6. ACQUISITIONS

The business combinations described below are accounted for using the acquisition method of accounting whereby assets acquired and liabilities assumed were recognized at fair value on the date of the transaction. Any excess of the purchase price over the fair value of the assets acquired and liabilities assumed was recorded to goodwill. The Company has not presented proforma combined results because the impact on previously reported statements of operations would not have been material. Additionally, the near term impact to the Company s operations and cash flows is not material.

Pending Acquisition

Bureau van Dijk

In May 2017, a subsidiary of the Company entered into a definitive agreement to acquire 100% of the shares of the parent company of Bureau van Dijk, a global provider of business intelligence and company information, for 3.0 billion in cash plus a daily working capital rate of approximately 259,000 from January 1, 2017 through the closing date. The acquisition is expected to extend Moody s position as a leader in risk data and analytical insight. The Company expects to finance the transaction through a combination of offshore cash and debt financing. The acquisition is subject to regulatory approval in the European Union and is expected to close in the third quarter of 2017. It is anticipated that a majority of Bureau van Dijk s revenue will be reported as part of MA s RD&A LOB.

Completed Acquisitions

SCDM Financial

On February 13, 2017, a subsidiary of the Company acquired the structured finance data and analytics business of SCDM Financial. The aggregate purchase price was not material and the near term impact to the Company s operations and cash flow is not expected to be material. This business unit operates in the MA reportable segment and goodwill related to this acquisition has been allocated to the RD&A reporting unit.

Korea Investor Service (KIS)

In July 2016, a subsidiary of the Company acquired the non-controlling interest of KIS and additional shares of KIS Pricing. The aggregate purchase price was not material and the near term impact to the Company s operations and cash flow is not expected to be material. KIS and KIS Pricing are a part of the MIS segment.

Gilliland Gold Young (GGY)

On March 1, 2016, subsidiaries of the Company acquired 100% of GGY, a leading provider of advanced actuarial software for the life insurance industry. The cash payments noted in the table below were funded with cash on hand. The acquisition of GGY will allow MA to provide an industry-leading enterprise risk offering for global life insurers and reinsurers.

The table below details the total consideration relating to the acquisition:

Cash paid at closing	$ 83.4
Additional consideration paid to sellers in the third quarter 2016[(1)]	3.1
Total consideration	$ 86.5

(1) Represents additional consideration paid to the sellers for amounts withheld at closing pending the completion of certain administrative matters

18

Table of Contents

Shown below is the purchase price allocation, which summarizes the fair value of the assets and liabilities assumed, at the date of acquisition:

Current assets		$ 11.7
Property and equipment, net		2.0
Indemnification assets		1.5
Intangible assets:		
Trade name (19 year weighted average life)	$ 3.7	
Client relationships (21 year weighted average life)	13.8	
Software (7 year weighted average life)	16.6	
Total intangible assets (14 year weighted average life)		34.1
Goodwill		59.4
Liabilities		(22.2)
Net assets acquired		$ 86.5

Current assets in the table above include acquired cash of $7.5 million. Additionally, current assets include accounts receivable of $2.9 million. Goodwill, which has been assigned to the MA segment, is not deductible for tax.

In connection with the acquisition, the Company assumed liabilities relating to UTPs and certain other tax exposures which are included in the liabilities assumed in the table above. The sellers have contractually indemnified the Company against any potential payments that may have to be made regarding these amounts. Accordingly, the Company carries an indemnification asset on its consolidated balance sheet at June 30, 2017 and December 31, 2016.

The Company incurred $0.9 million of costs directly related to the GGY acquisition of which $0.6 million was incurred in 2015 and $0.3 million was incurred in the first quarter of 2016. These costs are recorded within selling, general and administrative expenses in the Company s consolidated statements of operations.

GGY is part of the ERS reporting unit for purposes of the Company s annual goodwill impairment assessment.

Table of Contents

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to global market risks, including risks from changes in FX rates and changes in interest rates. Accordingly, the Company uses derivatives in certain instances to manage the aforementioned financial exposures that occur in the normal course of business. The Company does not hold or issue derivatives for speculative purposes.

Derivatives and non-derivative instruments designated as accounting hedges:

Interest Rate Swaps

The Company has entered into interest rate swaps to convert the fixed interest rate on certain of its long-term debt to a floating interest rate based on the 3-month LIBOR. The purpose of these hedges is to mitigate the risk associated with changes in the fair value of the long-term debt, thus the Company has designated these swaps as fair value hedges. The fair value of the swaps is adjusted quarterly with a corresponding adjustment to the carrying value of the debt. The changes in the fair value of the swaps and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest (expense) income, net in the Company s consolidated statement of operations.

The following table summarizes the Company s interest rate swaps designated as fair value hedges:

		Notional Amount		
Hedged Item	**Nature of Swap**	**As of June 30, 2017**	**As of December 31, 2016**	**Floating Interest Rate**
2010 Senior Notes due 2020	Pay Floating/Receive Fixed	**$ 500.0**	$ 500.0	3-month LIBOR
2014 Senior Notes due 2019	Pay Floating/Receive Fixed	**$ 450.0**	$ 450.0	3-month LIBOR
2012 Senior Notes due 2022	Pay Floating/Receive Fixed	**$ 80.0**	$ 80.0	3-month LIBOR

The following table summarizes the impact to the statement of operations of the Company s interest rate swaps designated as fair value hedges:

		Amount of income recognized in the consolidated statements of operations			
		Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives designated as fair value accounting hedges	**Location on Statement of Operations**	**2017**	**2016**	**2017**	**2016**
Interest rate swaps	Interest expense, net	**$ 1.8**	$ 3.1	**$ 4.2**	$ 6.1

20

Cross-currency swaps

In conjunction with the issuance of the 2015 Senior Notes, the Company entered into a cross-currency swap to exchange 100 million for U.S. dollars on the date of the settlement of the notes. The purpose of this cross-currency swap is to mitigate FX risk on the remaining principal balance on the 2015 Senior Notes that was not designated as a net investment hedge as more fully discussed below. Under the terms of the swap, the Company will pay the counterparty interest on the $110.5 million received at 3.945% per annum and the counterparty will pay the Company interest on the 100 million paid at 1.75% per annum. These interest payments will be settled in March of each year, beginning in 2016, until either the maturity of the cross-currency swap in 2027 or upon early termination at the discretion of the Company. The principal payments on this cross currency swap will be settled in 2027, concurrent with the repayment of the 2015 Senior Notes at maturity or upon early termination at the discretion of the Company. In March 2016, the Company designated these cross-currency swaps as cash flow hedges. Accordingly, changes in fair value subsequent to the date the swaps were designated as cash flow hedges will initially be recognized in OCI. Gains and losses on the swaps initially recognized in OCI will be reclassified to the statement of operations in the period in which changes in the underlying hedged item affects net income. Ineffectiveness, if any, will be recognized in other non-operating (expense) income, net in the Company s consolidated statement of operations.

Forward start interest rate swaps

In the second quarter of 2017, in conjunction with the then-forecasted issuance of the Company s 2017 Private Placement Notes Due 2023 and 2017 Private Placement Notes Due 2028, the Company entered into forward starting interest rate swaps to mitigate the risk of changes in the semi-annual interest payments attributable to changes in market interest rates during the period leading up to the forecasted debt issuance. The swaps were terminated on June 5, 2017 following the issuance of the aforementioned notes and the losses recorded to OCI upon settlement were not material.

Net investment hedges

The Company enters into foreign currency forward contracts that are designated as net investment hedges and additionally has designated 400 million of the 2015 Senior Notes as a net investment hedge. These hedges are intended to mitigate FX exposure related to non-U.S. dollar net investments in certain foreign subsidiaries against changes in foreign exchange rates. These net investment hedges are designated as accounting hedges under the applicable sections of Topic 815 of the ASC.

Hedge effectiveness is assessed based on the overall changes in the fair value of the hedge. For hedges that meet the effectiveness requirements, any change in the fair value is recorded in OCI in the foreign currency translation account. Any change in the fair value of these hedges that is the result of ineffectiveness is recognized immediately in other non-operating (expense) income, net in the Company s consolidated statement of operations.

The following table summarizes the notional amounts of the Company s outstanding forward contracts that are designated as net investment hedges:

	June 30, 2017		**December 31, 2016**	
	Sell	**Buy**	**Sell**	**Buy**
Notional amount of net investment hedges:				
Contracts to sell GBP for euros	**£ 22.8**	**25.8**	£ 22.1	26.4

Table of Contents

The outstanding contracts to sell GBP for euros mature in September 2017. The hedge relating to the portion of the 2015 Senior Notes that was designated as a net investment hedge will end upon the repayment of the notes in 2027 unless terminated earlier at the discretion of the Company.

The following table provides information on the gains/(losses) on the Company s net investment and cash flow hedges:

Derivatives and non-derivative instruments in Net Investment Hedging Relationships	Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion) Three Months Ended June 30,		Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) Three Months Ended June 30,		Amount of Gain/(Loss) Recognized Directly into Income (Ineffective Portion), net of Tax Three Months Ended June 30,	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
FX forwards	**$ 0.8**	$ (8.6)	**$**	$	**$**	$
Long-term debt	**(17.5)**	7.1				
Total net investment hedges	**$ (16.7)**	$ (1.5)	**$**	$	**$**	$
Derivatives in cash flow hedging relationships						
Cross currency swap	**$ 3.6**	$ (2.9)	**$ 4.3***	$ (1.7)*	**$ 0.4****	$
Interest rate contracts	**(0.4)**		**(1.0)**			
Total cash flow hedges	**$ 3.2**	$ (2.9)	**$ 3.3**	$ (1.7)	**$ 0.4**	$
Total	**$ (13.5)**	$ (4.4)	**$ 3.3**	$ (1.7)	**$ 0.4**	**$**

Derivatives and non-derivative instruments in Net Investment Hedging Relationships	Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion) Six Months Ended June 30,		Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) Six Months Ended June 30,		Amount of Gain/(Loss) Recognized Directly into Income (Ineffective Portion), net of Tax Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
FX forwards	**$ 0.8**	$ (13.2)	**$**	$	**$**	$
Long-term debt	**(21.1)**	(6.0)				
Total net investment hedges	**$ (20.3)**	$ (19.2)	**$**	$	**$**	$
Derivatives in cash flow hedging relationships						
Cross currency swap	**$ 3.4**	$ (1.7)	**$ 5.3***	$ (0.3)*	**$ 0.4****	$ *
Interest rate contracts	**(0.4)**		**(1.1)**			

Total cash flow hedges	**$ 3.0**	$ (1.7)	**$ 4.2**	$ (0.3)	**$ 0.4**	$
Total	**$ (17.3)**	$ (20.9)	**$ 4.2**	$ (0.3)	**$ 0.4**	**$**

* For the three and six months ended June 30, 2017, reflects $7.1 million and $8.6 million in gains, respectively, recorded in other non-operating income (expense), net and $2.8 million and $3.3 million relating to the tax effect of the aforementioned item. For the three and six months ended June 30, 2016, reflects $2.6 million and $0.4 million in losses, respectively, recorded in other non-operating income (expense), net and $0.9 million and $0.1 million relating to the tax effect of the aforementioned item.

** For the three and six months ended June 30, 2017, reflects $0.6 million in gains recorded in other non-operating income (expense), net and $0.2 million relating to the tax effect of the aforementioned item.

Table of Contents

The cumulative amount of realized and unrecognized net investment hedge and cash flow hedge gains (losses) recorded in AOCI is as follows:

	Cumulative Gains/(Losses), net of tax	
	June 30, 2017	**December 31, 2016**
Net investment hedges		
FX forwards	**$ 23.1**	$ 22.3
Long-term debt	**(8.6)**	12.5
Total net gains on net investment hedges	**$ 14.5**	$ 34.8
Cash flow hedges		
Interest rate contracts	**$ (0.4)**	$ (1.1)
Cross currency swap	**0.9**	2.8
Total net gains on cash flow hedges	**0.5**	1.7
Total net gains in AOCI	**$ 15.0**	$ 36.5

Derivatives not designated as accounting hedges:

Foreign exchange forwards

The Company also enters into foreign exchange forwards to mitigate the change in fair value on certain assets and liabilities denominated in currencies other than a subsidiary s functional currency. These forward contracts are not designated as accounting hedges under the applicable sections of Topic 815 of the ASC. Accordingly, changes in the fair value of these contracts are recognized immediately in other non-operating (expense), income net in the Company s consolidated statements of operations along with the FX gain or loss recognized on the assets and liabilities denominated in a currency other than the subsidiary s functional currency. These contracts have expiration dates at various times through October 2017.

The following table summarizes the notional amounts of the Company s outstanding foreign exchange forwards:

	June 30, 2017		December 31, 2016	
	Sell	**Buy**	**Sell**	**Buy**
Notional amount of currency pair:				
Contracts to sell USD for GBP	**$ 232.2**	**£ 184.1**	$	£
Contracts to sell USD for JPY	**$ 20.5**	**¥ 2,284.9**	$	$
Contracts to sell USD for CAD	**$ 38.6**	**C$ 51.1**	$	C$
Contracts to purchase euros with Singapore dollars	**S$**		S$ 55.5	36.0
Contracts to sell euros for GBP	**181.0**	**£ 157.9**	31.0	£ 25.9

Note: = Euro, £ = British pound, S$ = Singapore dollar, C$ = Canadian dollar, $ = U.S. dollar ¥ = Japanese Yen

Foreign Exchange Options

The Company entered into a foreign currency collar consisting of option contracts to economically hedge the Bureau van Dijk euro denominated purchase price (as discussed further in Note 6 of the financial statements). These option contracts are not designated as accounting hedges under the applicable sections of Topic 815 of the ASC. The foreign currency option contracts consist of separate put and call options each in the aggregate notional amount of 2.7 billion.

23

Table of Contents

The following table summarizes the impact to the consolidated statements of operations relating to the net gain (loss) on the Company s derivatives which are not designated as hedging instruments:

Derivatives not designated as accounting hedges	Location on Statement of Operations	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Foreign exchange forwards	Other non-operating income (expense), net	**$ 7.1**	$ (5.7)	**$ 4.8**	$ (5.2)
FX collar relating to Bureau van Dijk acquisition	Purchase Price Hedge Gain	**41.2**		**41.2**	
		$ 48.3	$ (5.7)	**$ 46.0**	$ (5.2)

The table below shows the classification between assets and liabilities on the Company s consolidated balance sheets for the fair value of the derivative instrument as well as the carrying value of its non-derivative debt instruments designated and qualifying as net investment hedges:

	Derivative and Non-derivative Instruments		
	Balance Sheet Location	June 30, 2017	December 31, 2016
Assets:			
Derivatives designated as accounting hedges:			
FX forwards on net investment in certain foreign subsidiaries	Other current assets	**$**	$ 0.6
Cross-currency swap	Other assets	**2.2**	
Interest rate swaps	Other assets	**7.1**	7.0
Total derivatives designated as accounting hedges		**$ 9.3**	$ 7.6
Derivatives not designated as accounting hedges:			
FX forwards on certain assets and liabilities	Other current assets	**8.8**	
FX options on Bureau van Dijk purchase price	Other current assets	**41.2**	
Total assets		**$ 59.3**	$ 7.6
Liabilities:			
Derivatives designated as accounting hedges:			
Cross-currency swap	Other liabilities	**$**	$ 3.8
FX forwards on net investment in certain foreign subsidiaries	Accounts payable and accrued liabilities	**0.1**	
Interest rate swaps	Other liabilities	**0.8**	0.8
Total derivatives designated as accounting hedges		**0.9**	4.6
Non-derivative instrument designated as accounting hedge:			
Long-term debt designated as net investment hedge	Long-term debt	**456.2**	421.9
Derivatives not designated as accounting hedges:			
FX forwards on certain assets and liabilities	Accounts payable and accrued liabilities	**1.9**	0.8
Total liabilities		**$ 459.0**	$ 427.3

Table of Contents

NOTE 8. GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS

The following table summarizes the activity in goodwill for the periods indicated:

	Six Months Ended June 30, 2017								
	MIS			MA			Consolidated		
	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill
Balance at beginning of year	$ 277.0	$	$ 277.0	$ 758.8	$ (12.2)	$ 746.6	$ 1,035.8	$ (12.2)	$ 1,023.6
Additions/adjustments				3.6		3.6	3.6		3.6
Foreign currency translation adjustments	9.0		9.0	18.3		18.3	27.3		27.3
Ending balance	$ 286.0	$	$ 286.0	$ 780.7	$ (12.2)	$ 768.5	$ 1,066.7	$ (12.2)	$ 1,054.5

	Year ended December 31, 2016								
	MIS			MA			Consolidated		
	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill
Balance at beginning of year	$ 284.4	$	$ 284.4	$ 704.1	$ (12.2)	$ 691.9	$ 988.5	$ (12.2)	$ 976.3
Additions/adjustments				61.0		61.0	61.0		61.0
Goodwill derecognized upon sale of subsidiary	(3.2)		(3.2)				(3.2)		(3.2)
Foreign currency translation adjustments	(4.2)		(4.2)	(6.3)		(6.3)	(10.5)		(10.5)
Ending balance	$ 277.0	$	$ 277.0	$ 758.8	$ (12.2)	$ 746.6	$ 1,035.8	$ (12.2)	$ 1,023.6

Table of Contents

The 2017 additions/adjustments for the MA segment in the table above relate to the acquisition of the structured finance data and analytics business of SCDM. The 2016 additions/adjustments for the MA segment in the table above relate to the acquisition of GGY. The 2016 goodwill derecognized for the MIS segment in the table above relates to the divestiture of ICTEAS in the fourth quarter of 2016.

Acquired intangible assets and related amortization consisted of:

	June 30, 2017	December 31, 2016
Customer relationships	**$ 317.2**	$ 310.1
Accumulated amortization	**(133.5)**	(124.4)
Net customer relationships	**183.7**	185.7
Trade secrets	**30.0**	29.9
Accumulated amortization	**(26.9)**	(25.6)
Net trade secrets	**3.1**	4.3
Software	**91.7**	87.7
Accumulated amortization	**(63.2)**	(54.9)
Net software	**28.5**	32.8
Trade names	**76.9**	75.3
Accumulated amortization	**(22.4)**	(19.9)
Net trade names	**54.5**	55.4
Other [1]	**44.2**	43.5
Accumulated amortization	**(26.9)**	(25.3)
Net other	**17.3**	18.2
Total acquired intangible assets, net	**$ 287.1**	$ 296.4

(1) Other intangible assets primarily consist of databases, covenants not to compete, and acquired ratings methodologies and models.
Amortization expense relating to acquired intangible assets is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Amortization expense	**$ 8.6**	$ 8.7	**$ 17.1**	$ 16.6

Table of Contents

Estimated future amortization expense for acquired intangible assets subject to amortization is as follows:

Year Ending December 31,	
2017 (after June 30)	$ 15.8
2018	27.2
2019	24.3
2020	21.2
2021	20.8
Thereafter	177.8
Total estimated future amortization	$ 287.1

Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated undiscounted future cash flows are lower than the carrying amount of the related asset, a loss is recognized for the difference between the carrying amount and the estimated fair value of the asset. There were no impairments to intangible assets during the six months ended June 30, 2017 and 2016.

NOTE 9. FAIR VALUE

The table below presents information about items that are carried at fair value at June 30, 2017 and December 31, 2016:

		Fair Value Measurement as of June 30, 2017		
	Description	Balance	Level 1	Level 2
Assets:				
	Derivatives [(a)]	$ 59.3	$	$ 59.3
	Money market mutual funds	247.0	247.0	
	Fixed maturity and open ended mutual funds [(b)]	34.4	34.4	
	Total	$ 340.7	$ 281.4	$ 59.3
Liabilities:				
	Derivatives [(a)]	$ 2.8	$	$ 2.8
	Total	$ 2.8	$	$ 2.8

		Fair Value Measurement as of December 31, 2016		
	Description	Balance	Level 1	Level 2
Assets:				
	Derivatives [(a)]	$ 7.6	$	$ 7.6
	Money market mutual funds	189.0	189.0	
	Fixed maturity and open ended mutual funds [(b)]	32.6	32.6	
	Total	$ 229.2	$ 221.6	$ 7.6
Liabilities:				
	Derivatives [(a)]	$ 5.4	$	$ 5.4

Total	**$ 5.4**	**$**	**$ 5.4**

(a) Represents FX forwards on certain assets and liabilities and on net investments in certain foreign subsidiaries as well as FX options, interest rate swaps and cross-currency swaps as more fully described in Note 7 to the condensed consolidated financial statements.

27

Table of Contents

The money market mutual funds as well as the fixed maturity and open ended mutual funds in the table above are deemed to be available for sale under ASC Topic 320 and the fair value of these instruments is determined using Level 1 inputs as defined in the ASC.

NOTE 10. OTHER BALANCE SHEET AND STATEMENT OF OPERATIONS INFORMATION

The following tables contain additional detail related to certain balance sheet captions:

	June 30, 2017	December 31, 2016
Other current assets:		
Prepaid taxes	**$ 121.9**	$ 47.0
Prepaid expenses	**61.1**	65.7
Fair value of Bureau van Dijk purchase price hedge	**41.2**	
Other	**51.2**	28.1
Total other current assets	**$ 275.4**	$ 140.8

	June 30, 2017	December 31, 2016
Other assets:		
Investments in joint ventures	**$ 80.7**	$ 26.3
Deposits for real-estate leases	**11.0**	10.8
Indemnification assets related to acquisitions	**16.9**	16.5
Mutual funds and fixed deposits	**34.4**	32.7
Other	**27.6**	25.9
Total other assets	**$ 170.6**	$ 112.2

	June 30, 2017	December 31, 2016
Accounts payable and accrued liabilities:		
Salaries and benefits	**$ 79.1**	$ 89.3
Incentive compensation	**97.2**	151.1
Accrued settlement charge		863.8
Customer credits, advanced payments and advanced billings	**25.1**	28.4
Self-insurance reserves	**10.2**	11.1
Dividends	**4.4**	78.5
Professional service fees	**53.9**	40.4
Interest accrued on debt	**51.7**	59.2
Accounts payable	**25.0**	28.4
Income taxes	**53.6**	16.8
Restructuring	**1.4**	6.3
Pension and other retirement employee benefits	**7.3**	6.1
Other	**81.5**	64.9
Total accounts payable and accrued liabilities	**$ 490.4**	$ 1,444.3

	June 30, 2017	December 31, 2016
Other liabilities:		

Pension and other retirement employee benefits	**$ 259.4**	$ 264.1
Deferred rent-non-current portion	**102.8**	98.3
Interest accrued on UTPs	**39.6**	34.1
Other tax matters	**1.2**	1.2
Other	**23.1**	27.5
Total other liabilities	**$ 426.1**	$ 425.2

28

Table of Contents

Changes in the Company s self-insurance reserves for claims insured by the Company s wholly-owned insurance subsidiary, which primarily relate to legal defense costs for claims from prior years, are as follows:

	Six Months Ended June 30, 2017	Year Ended December 31, 2016
Balance January 1,	**$ 11.1**	$ 19.7
Accruals (reversals), net	**3.0**	12.1
Payments	**(3.9)**	(20.7)
Balance	**$ 10.2**	$ 11.1

Other Non-Operating Income (Expense):

The following table summarizes the components of other non-operating (expense) income:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
FX gain/(loss)	**$ 3.8**	$ 0.8	**$ (5.8)**	$ 4.8
Joint venture income	**4.0**	3.0	**5.0**	4.9
Other	**0.5**	(0.8)	**(0.3)**	(1.1)
Total	**$ 8.3**	$ 3.0	**$ (1.1)**	$ 8.6

Purchase Price Hedge Gain:

The $41.2 million gain reflects unrealized gains on an FX collar hedging strategy to economically hedge the euro denominated purchase price for Bureau van Dijk as more fully discussed in Note 7 to the condensed consolidated financial statements.

CCXI Gain:

CCXI is a Chinese credit rating agency in which Moody s acquired a 49% stake in 2006. Moody s accounts for this investment under the equity method of accounting. On March 21, 2017, CCXI, as part of a strategic business realignment, issued additional capital to its majority shareholder in exchange for a ratings business wholly-owned by the majority shareholder and which has the right to rate a different class of debt instrument in the Chinese market. The capital issuance by CCXI in exchange for this ratings business diluted Moody s ownership interest in CCXI to 30% of a larger business and resulted in a $59.7 million non-cash, non-taxable gain. The issuance of additional capital by CCXI is treated as if Moody s sold a 19% interest in CCXI at fair value. The fair value of the 19% interest in CCXI that Moody s hypothetically sold was estimated using both a discounted cash flow methodology and comparable public company multiples. A DCF analysis requires significant estimates, including projections of future operating results and cash flows based on the budgets and forecasts of CCXI, expected long-term growth rates, terminal values, WACC and the effects of external factors and market conditions. Moody s will continue to account for its 30% interest in CCXI under the equity method of accounting.

Table of Contents

NOTE 11. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table provides details about the reclassifications out of AOCI:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	Affected line in the consolidated statement of operations
Gains (losses) on cash flow hedges			
Cross-currency swap	**7.1**	8.6	Other non-operating income (expense), net
Interest rate contract	**(1.0)**	(1.1)	Interest expense, net
Total before income taxes	**6.1**	7.5	
Income tax effect of items above	**(2.8)**	(3.3)	Provision for income taxes
Total net gains on cash flow hedges	**3.3**	4.2	
Pension and other retirement benefits			
Amortization of actuarial losses and prior service costs included in net income	**(1.2)**	(2.7)	Operating expense
Amortization of actuarial losses and prior service costs included in net income	**(0.7)**	(1.6)	SG&A expense
Total before income taxes	**(1.9)**	(4.3)	
Income tax effect of item above	**0.8**	1.7	Provision for income taxes
Total pension and other retirement benefits	**(1.1)**	(2.6)	
Total net gains included in Net Income attributable to reclassifications	**$ 2.2**	$ 1.6	

out of AOCI

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	Affected line in the consolidated statement of operations
(Losses) Gains on cash flow hedges			
Cross-currency swap	**(2.6)**	(0.4)	Other non-operating income (expense), net
Income tax effect of item above	**0.9**	0.1	Provision for income taxes
Total net losses on cash flow hedges	**(1.7)**	(0.3)	
Pension and other retirement benefits			
Amortization of actuarial losses and prior service costs included in net income	**(1.5)**	(3.1)	Operating expense
Amortization of actuarial losses and prior service costs included in net income	**(0.8)**	(1.8)	SG&A expense

&lume for our key equity products.

	Quarter Ended March 31,		
(amounts in thousands)	2014	2013	Change
E-mini S&P 500 futures and options	2,251	2,115	6 %
E-mini NASDAQ 100 futures and options	315	231	36

Overall equity contract volume increased in the first quarter of 2014 when compared with the same period in 2013 due to periods of higher volatility, as measured by the CBOE Volatility Index and CBOE Nasdaq-100 Volatility Index, in early 2014. We believe the higher volatility was caused by geopolitical events and changes in market expectations regarding macroeconomic data. We experienced higher E-mini S&P 500 contract volume in the first quarter of 2013 due to short periods of high volatility related to the Eurozone crisis in early 2013.

Foreign Exchange Products

The following table summarizes average daily contract volume for our key foreign exchange products.

	Quarter Ended March 31,		
(amounts in thousands)	2014	2013	Change
Euro	235	333	(29)%
Japanese yen	167	213	(22)
British pound	120	141	(15)
Australian dollar	98	105	(7)
Canadian dollar	74	83	(11)

The overall decrease in foreign exchange contract volume in the first quarter of 2014 when compared with the same period in 2013 was attributable to a decrease in exchange rate volatility within European countries as well as Japan. Subdued expectations regarding interest rate changes across European countries and Japan led to the decrease in exchange rate volatility throughout these regions. Additionally, allegations regarding possible collusion by certain foreign exchange market participants in other marketplaces had a negative impact on overall global foreign exchange product trading during the first quarter of 2014.

Agricultural Commodity Products

The following table summarizes average daily contract volume for our key agricultural commodity products.

	Quarter Ended March 31,			
(amounts in thousands)	2014	2013	Change	
Corn	389	358	9	%
Soybean	254	244	4	
Wheat	166	158	5	
Soybean oil	104	105	(1	)

The overall increase in agricultural commodity contract volume in the first quarter of 2014 when compared with the same period in 2013 was due to volatility caused by an increase in grain supplies from 2013 to 2014 as well as higher price volatility in corn and wheat products due to political instability in the Black Sea region in the first quarter of 2014.

Energy Products

The following table summarizes average daily contract volume for our key energy products.

	Quarter Ended March 31,			
(amounts in thousands)	2014	2013	Change	
Crude oil	725	748	(3	)%
Natural gas	606	597	1	
Refined products	294	330	(11	)

Table of Contents

Overall energy contract volume remained relatively flat in the first quarter of 2014 when compared with the same period of 2013. The decline in refined products contract volume in the first quarter of 2014 when compared with the same period of 2013 was due to a decrease in demand in the underlying physical market. Crude oil product volume also decreased due to low price volatility in the first quarter of 2014 compared with the same period in 2013. The decreases in refined product volume and crude oil product volume was partially offset by an increase in natural gas contract volume in the first quarter of 2014 when compared with the same period in 2013, which was attributable to volatility caused by weather-related events.

Metal Products

The following table summarizes average daily volume for our key metal products.

	Quarter Ended March 31,		
(amounts in thousands)	2014	2013	Change
Gold	209	247	(15)%
Silver	64	60	7
Copper	61	65	(7)

Overall metal product volume decreased in the first quarter of 2014 when compared with the same period of 2013 due to a decrease in gold contract volumes resulting from a decrease in price volatility. Volatility was higher in the first quarter of 2013 because of uncertainty surrounding the Federal Reserve's intention to withdraw from quantitative easing in early 2013.

Average Rate per Contract

The average rate per contract decreased in the first quarter of 2014 when compared with the same period in 2013 due to a shift in the relative mix of product volume. In the first quarter of 2014, interest rate product volume, when measured as a percentage of total volume, increased by 4%, while foreign exchange product volume decreased by 2% and energy product volume decreased by 1% when compared with the same period in 2013. Interest rate contracts have a lower average rate per contract compared with foreign exchange and energy products. In addition, the decrease in average rate per contract in the first quarter of 2014 when compared with 2013 resulted from an increase in incentives and discounts on our energy contracts as well as an an increase in tier discounts on Eurodollar products. The overall decrease in average rate per contract was partially offset by an increase due to transaction fee pricing changes that we implemented at the beginning of 2014.

Concentration of Revenue

We bill a substantial portion of our clearing and transaction fees directly to our clearing firms. The majority of clearing and transaction fees received from clearing firms represent charges for trades executed and cleared on behalf of their customers. One firm represented 11% of our clearing and transaction fees revenue in the first quarter of 2014. Should a clearing firm withdraw, we believe that the customer portion of the firm’s trading activity would likely transfer to another clearing firm of the exchange. Therefore, we do not believe we are exposed to significant risk from the ongoing loss of revenue received from or through a particular clearing firm.

Other Sources of Revenue

The increase in market data and information services revenue in the first quarter of 2014 when compared with the same period in 2013 was attributable to an increase in fees for basic real-time market data service to $85 per month in 2014 from $70 per month in 2013. The increase was partially offset by a decline in market data subscriber counts resulting from continued cost-cutting initiatives at customer firms as well as utilization of a legacy incentive program.

The two largest resellers of our market data represented approximately 44% of our market data and information services revenue in the first quarter of 2014. Despite this concentration, we consider exposure to significant risk of revenue loss to be minimal. In the event that one of these vendors no longer subscribes to our market data, we believe the majority of that vendor's customers would likely subscribe to our market data through another reseller. Additionally, several of our largest institutional customers that utilize services from our two largest resellers report usage and remit payment of their fees directly to us.

In the first quarter of 2014 when compared with the same period in 2013, the decrease in other revenue was attributable to $8.7 million in fees recognized upon delivery of services under our technology agreement with BM&FBOVESPA S.A. in the first quarter of 2013. Also, in the fourth quarter of 2013, we sold the NYMEX building, which resulted in a decrease in rental income in the first quarter of 2014 when compared with the same period in 2013. The decrease in other revenues was partially offset by an increase in revenue generated from GFX Corporation due to an increase in trading volume.

Table of Contents

Expenses

(dollars in millions)	Quarter Ended March 31, 2014	2013	Change
Compensation and benefits	$135.5	$129.4	5 %
Communications	8.2	8.9	(8)
Technology support services	13.9	12.4	13
Professional fees and outside services	29.6	21.9	35
Amortization of purchased intangibles	25.2	25.9	(3)
Depreciation and amortization	34.1	32.6	5
Occupancy and building operations	23.2	18.5	25
Licensing and other fee agreements	29.0	21.2	37
Other	24.2	42.3	(43)
Total Expenses	$322.9	$313.1	3

Operating expenses increased by $9.8 million in the first quarter of 2014 when compared with the same period in 2013. The following table shows the estimated impact of key factors resulting in the change in operating expenses:

(dollars in millions)	Quarter Ended, March 31, 2014 Amount of Change	Change as a Percentage of Total Expenses
Licensing and other fee agreements	$7.8	2 %
Business enhancements and platform development	6.7	2
Salaries, benefits and employer taxes	6.3	2
Contingent consideration obligation	3.1	1
Bonus expense	2.9	1
Litigation accruals	(8.0)	(2)
Net losses (gains) on foreign currency fluctuation	(15.1)	(5)
Other expenses, net	6.1	2
Total increase	$9.8	3 %

Operating expenses increased in the first quarter of 2014 when compared with the same period in 2013 due to an increase in licensing and other fee agreement expense resulting from higher volumes for interest rate swap products and certain equity contracts as well as higher fee rates on certain products.

Operating expense also increased due to higher professional fees and depreciation and amortization expense associated with the development and continued enhancement of our product offerings and our electronic platforms.

An increase in average headcount due to efforts to expand our product offerings and geographic reach as well as to meet additional regulatory requirements also contributed to an increase in compensation and benefits expense.

A fair value assessment of a contingent consideration obligation arising from an acquisition in 2010 resulted in an increase in expense in the first quarter of 2014 when compared with the same period in 2013.

Bonus expense increased due to an overall increase in average headcount and an increase in annual base salaries in the first quarter of 2014 when compared with the same period in 2013.

The increase in overall operating expenses in the first quarter of 2014 when compared with the same period in 2013 was partially offset by a reduction in a litigation accrual due to a favorable court ruling and a denial for a rehearing in the first quarter of 2014.

Additionally, the increase in overall operating expenses was partially offset by a change in net losses (gains) on foreign currency fluctuations. In the first quarter of 2014, we recognized a net gain on foreign currency fluctuations due to a favorable change in exchange rates on foreign cash balances. In the first quarter of 2013, we recognized a net loss on foreign currency fluctuations due to an unfavorable change in exchange rates on foreign cash balances. Gains and losses on foreign currency fluctuation result when subsidiaries with a U.S. dollar functional currency hold cash as well as certain other assets and

Table of Contents

liabilities denominated in foreign currencies. We expect the foreign currency gain/loss to continue to fluctuate as long as this is the case.

Non-Operating Income (Expense)

	Quarter Ended March 31,		
(dollars in millions)	2014	2013	Change
Investment income	$3.2	$3.6	(11)%
Interest and other borrowing costs	(33.7)	(39.0)	(14)
Equity in net gains (losses) of unconsolidated subsidiaries	22.4	17.5	28
Total Non-Operating	$(8.1)	$(17.9)	(55)

The following table shows the key impacts in the overall decrease in interest expense and other borrowing costs in the first quarter of 2014 when compared with the same period in 2013:

	Quarter Ended March 31,		
	2014	2013	Change
Weighted average borrowings outstanding (in millions)	$2,487.5	$2,862.5	$(375.0)
Weighted average effective yield	4.38 %	4.80 %	(0.42)%
Average cost of borrowings (1)	4.54	4.98	(0.44)

(1) Average cost of borrowings includes interest, the effective portion of interest rate hedges, discount accretion and debt issuance costs. Commitment fees on line of credit agreements are not included in the average cost of borrowing.

In the first quarter of 2014, we repaid the 5.75% fixed rate notes due February 2014. In the third quarter of 2013, we repaid $750.0 million of 5.4% fixed rate notes due August 2013 and issued $750.0 million of 5.3% fixed rate notes due September 2043. We entered into an interest rate swap agreement that resulted in an effective interest rate of 4.73% on the 5.3% fixed rate notes due September 2043. These factors contributed to a decrease in weighted average borrowings outstanding, weighted average effective yield and average cost of borrowings in the first quarter of 2014 when compared with the same period in 2013.

Interest and other borrowing costs also include commitment fees on our line of credit agreements. Commitment fees increased in the first quarter of 2014 when compared with the same period in 2013 due to higher fees associated with a $2.0 billion increase in our line of credit upon renewal in the fourth quarter of 2013.

An increase in income generated from our S&P/DJI business venture contributed to an increase in equity in net gains (losses) of unconsolidated subsidiaries in first quarter of 2014 when compared with the same period in 2013.

Income Tax Provision

The following table summarizes the effective tax rate for the periods presented:

	2014	2013	Change
Quarter Ended March 31	40.3 %	38.8 %	1.5 %

The increase in the effective tax rate in the first quarter of 2014 when compared with the same period in 2013 was attributable to changes in future state apportionment factors resulting from state law changes, partially offset by a decrease resulting from state audit activity in the first quarter of 2014.

Liquidity and Capital Resources

Sources and Uses of Cash. Net cash provided by operating activities in the first quarter of 2014 was relatively consistent with net cash provided by operating activities in the first quarter of 2013. Net cash used in investing activities increased in the first quarter of 2014 when compared with the same period of 2013 due to an increase in purchases of property and equipment due to ongoing efforts to consolidate some of our data centers. This increase in cash used was partially offset by proceeds from the sale of building property in the first quarter of 2014. Cash used in financing activities was higher in the first quarter of 2014 when compared with the same period in 2013. The increase in cash used was attributable to higher cash dividends in the first quarter of 2014 when compared with the same period in 2013. The annual variable dividend from 2013 operations was paid in the first quarter of 2014. The annual variable dividend from 2012 operations was paid in the fourth quarter of 2012 due to

Table of Contents

uncertainty surrounding dividend income tax treatment beginning in 2013. The increase in cash used was also due to the repayment of the fixed rate notes due February 2014.

Debt Instruments. The following table summarizes our debt outstanding as of March 31, 2014:

(in millions)	Par Value
Fixed rate notes due March 2018, stated rate of 4.40% (1)	612.5
Fixed rate notes due September 2022, stated rate of 3.00% (2)	750.0
Fixed rate notes due September 2043, stated rate of 5.30% (3)	750.0

(1) In February 2010, we entered into a forward-starting interest rate swap agreement that modified the interest obligation associated with these notes so that the interest payable on the notes effectively became fixed at a rate of 4.46%.

(2) In August 2012, we entered into a forward-starting interest rate swap agreement that modified the interest obligation associated with these notes so that the interest payable effectively became fixed at a rate of 3.32%.

(3) In August 2012, we entered into a forward-starting interest rate swap agreement that modified the interest obligation associated with these notes so that the interest payable effectively became fixed at a rate of 4.73%.

We maintain a $1.8 billion multi-currency revolving senior credit facility with various financial institutions. The proceeds from the revolving senior credit facility can be used for general corporate purposes, which includes providing liquidity for our CME clearing house in certain circumstances at CME Group's discretion and, if necessary, for maturities of commercial paper. As long as we are not in default under the senior credit facility, we have the option to increase the facility up to $2.5 billion with the consent of the agent and lenders providing the additional funds. This senior credit facility matures in January 2016. The senior credit facility is voluntarily prepayable from time to time without premium or penalty. Under the credit facility, we are required to remain in compliance with a consolidated net worth test, which is defined as our consolidated shareholders' equity as of September 30, 2012, giving effect to share repurchases made and special dividends paid during the term of the agreements (and in no event greater than $2.0 billion in aggregate), multiplied by 0.65. We currently do not have any borrowings outstanding under the credit facility.

We maintain a 364-day multi-currency line of credit with a consortium of domestic and international banks to be used in certain situations by our CME clearing house. The line of credit provides for borrowings of up to $7.0 billion. We may use the proceeds to provide temporary liquidity in the unlikely event of a clearing firm default, in the event of a liquidity constraint or default by a depositary (custodian for our collateral), or in the event of a temporary disruption with the domestic payments system that would delay payment of settlement variation between us and our clearing firms. CME clearing firm guaranty fund contributions received in the form of cash, U.S. Treasury securities or money market mutual funds as well as the performance bond assets of a defaulting firm can be used to collateralize the facility. At March 31, 2014, guaranty funds available to collateralize the facility totaled $5.6 billion. We have the option to request an increase in the line from $7.0 billion to $10.0 billion. In addition to the 364-day multi-currency line of credit, we also have the option to use the $1.8 billion multi-currency revolving senior credit facility to provide liquidity for our clearing houses in the unlikely event of default in certain circumstances.

In addition, our 364-day multi-currency line of credit contains a requirement that CME remain in compliance with a consolidated tangible net worth test, defined as CME consolidated shareholder's equity less intangible assets (as defined in the agreement) of not less than $800.0 million.

The indentures governing our fixed rate notes, our $1.8 billion multi-currency revolving senior credit facility and our 364-day multi-currency line of credit for $7.0 billion do not contain specific covenants that restrict the ability to pay dividends. These documents, however, do contain other customary financial and operating covenants that place restrictions on the operations of the company that could indirectly affect the ability to pay dividends.

At March 31, 2014, we have excess borrowing capacity for general corporate purposes of approximately $1.8 billion under our multi-currency revolving senior credit facility.

As of March 31, 2014, we were in compliance with the various covenant requirements of all our debt facilities.

To satisfy our performance bond obligation with Singapore Exchange Limited, we may pledge CME-owned U.S. Treasury securities in lieu of, or in combination with, irrevocable letters of credit. At March 31, 2014, the letters of credit totaled $460.0 million.

Table of Contents

The following table summarizes our credit ratings as of March 31, 2014:

Rating Agency	Short-Term Debt Rating	Long-Term Debt Rating	Outlook
Standard & Poor's	A1+	AA-	Stable
Moody's Investors Service	P1	Aa3	Stable

Given our cash flow generation, our ability to pay down debt levels and our ability to refinance existing debt facilities if necessary, we expect to maintain an investment grade rating. If our ratings are downgraded below investment grade due to a change of control, we are required to make an offer to repurchase our fixed rate notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

Liquidity and Cash Management. Cash and cash equivalents totaled $1.1 billion at March 31, 2014 and $2.5 billion at December 31, 2013. The balance retained in cash and cash equivalents is a function of anticipated or possible short-term cash needs, prevailing interest rates, our investment policy and alternative investment choices. A majority of our cash and cash equivalents balance is invested in money market mutual funds that invest only in U.S. Treasury securities or U.S. government agency securities. Our exposure to credit and liquidity risk is minimal given the nature of the investments. Cash that is not available for general corporate purposes because of regulatory requirements or other restrictions is classified as restricted cash and is included in other current assets or other assets in the consolidated balance sheets.

Net current deferred tax assets of $52.5 million and $52.3 million were included in other current assets at March 31, 2014 and December 31, 2013, respectively. Total net current deferred tax assets are attributable to unrealized losses, stock-based compensation and accrued expenses.

Net long-term deferred tax liabilities were $7.3 billion and $7.2 billion at March 31, 2014 and December 31, 2013, respectively. Net deferred tax liabilities are principally the result of purchase accounting for intangible assets in our various mergers, including CBOT Holdings and NYMEX Holdings.

Valuation allowances of $37.5 million and $47.5 million have been provided at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014 and December 31, 2013, valuation allowances were related to domestic net operating losses, foreign net operating losses as well as built in capital losses for which we do not believe that we currently meet the more-likely-than-not-threshold for recognition.

Regulatory Requirements. CME is regulated by the Commodity Futures Trading Commission (CFTC) as a U.S. Derivatives Clearing Organization (DCO). DCOs are required to maintain capital as defined by the CFTC in an amount at least equal to one year of projected operating expenses as well as cash, liquid securities, or a line of credit at least equal to six months of projected operating expenses. CME is in compliance with the DCO financial requirements.

CME, CBOT, NYMEX, and COMEX are regulated by the CFTC as Designated Contract Markets (DCM). DCMs are also required to maintain capital as defined by the CFTC in an amount at least equal to one year of projected operating expenses as well as cash, liquid securities, or a line of credit at least equal to six months of projected operating expenses. Our DCMs are in compliance with the DCM financial requirements.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to various market risks, including those caused by changes in interest rates, credit, foreign currency exchange rates and equity prices. There have not been material changes in our exposure to market risk since December 31, 2013. Refer to Item 7A. of CME Group's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting. As required by Rule 13a-15(d) under the Exchange Act, the company's management, including the company's Chief Executive Officer and Chief Financial Officer, have evaluated the company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting. There were no changes in the company's internal control over financial reporting during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See "Legal and Regulatory Matters" in Note 5. Contingencies to the Consolidated Financial Statements for updates to CME Group's existing legal proceedings disclosure which is incorporated herein by reference. Note 5. Contingencies includes updates to the legal proceedings disclosed in the company's Annual Report on Form 10-K, filed with the SEC on February 28, 2014.

ITEM 1A. RISK FACTORS

There have been no material updates to the Risk Factors disclosure included in the company's Annual Report on Form 10-K, filed with the SEC on February 28, 2014. In addition to the other information contained in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in our Annual Report on Form 10-K, which are the risks that we believe are material at this time. These risks could materially and adversely affect our business, financial condition and results of operations. These risks and uncertainties are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business in the future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Class A Shares Purchased (1)	(b) Average Price Paid Per Share	(c) Total Number of Class A Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Value) that May Yet Be Purchased Under the Plans or Programs (in millions)
January 1 to January 31	—	$ —	—	$—
February 1 to February 28	—	—	—	—
March 1 to March 31	27,403	75.36	—	—
Total	27,403	$ 75.36	—	

(1) Shares purchased consist of an aggregate of 27,403 shares of Class A common stock surrendered in the first quarter of 2014 to satisfy employees' tax obligations upon the vesting of restricted stock.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

ITEM 6. EXHIBITS

10.1	Amended Agreement, effective as of February 5, 2014, between CME Group Inc. and Terrence A. Duffy (incorporated by reference to Exhibit 10.1 to CME Group Inc.'s Form 8-K, filed with the SEC on February 11, 2014, File No. 001-31553).
10.2	Amended Agreement, effective as of February 5, 2014, between CME Group Inc. and Phupinder S. Gill (incorporated by reference to Exhibit 10.2 to CME Group Inc.'s Form 8-K, filed with the SEC on February 11, 2014, File No. 001-31553).
31.1	Section 302 Certification—Phupinder S. Gill
31.2	Section 302 Certification—James E. Parisi
32.1	Section 906 Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

28

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CME Group Inc. (Registrant)	
Dated: May 7, 2014	By:	/s/ James E. Parisi Chief Financial Officer & Senior Managing Director Finance and Corporate Development

29