# BrokerTec Americas LLC
## Unaudited Statement of Financial Condition
## September 30, 2017

**Page(s)**

# BrokerTec Americas LLC
## Unaudited Statement of Financial Condition
## September 30, 2017

*(dollars in thousands)*

| | | |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | | $ 93,196 |
| Cash segregated and securities under federal regulations | | 21,300 |
| Deposits with clearing organizations | | 65,010 |
| Receivable from brokers, dealers and clearing organizations | | 4,424 |
| Receivable from customers | | 3,979 |
| Commissions receivable, net of allowance for doubtful accounts of $0 | | 11,238 |
| Receivable from affiliates | | 984 |
| Prepaid expenses and other assets | | 2,142 |
| **Total Assets** | | **$ 202,273** |
| | | |
| | | |
| **Liabilities and Members Equity** | | |
| Liabilities | | |
| Payable to brokers and dealers | | $ 3,674 |
| Payable to customers | | 21,948 |
| Accrued expenses and other liabilities | | 5,962 |
| Payable to affiliates | | 20,324 |
| **Total liabilities** | | **$ 51,908** |
| | | |
| Member's equity | | 150,365 |
| **Total liabilities and member's equity** | | **$ 202,273** |
| | | |

## 1. Organization

BrokerTec Americas LLC (the "Company") is a Delaware limited liability company. The Company has two Members BrokerTec Investments ("BTI") and BrokerTec Holdings Inc. ("BTHI").

The Company is an indirect wholly owned subsidiary of NEX plc, a public company registered in the United Kingdom that engages principally in providing electronic trade execution platforms for the OTC markets and delivering transaction lifecycle management and information services to optimize portfolios and control risk.

The Company, headquartered in New York, is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority Inc. ("FINRA"). The Company operates an electronic inter-dealer trading system primarily for U.S.Treasury and Agency securities, repurchase agreements and mortgage-backed securities. The Company also generates revenue by providing market data to market data distributors.

The Company holds a membership in the Fixed Income Clearing Corporation ("FICC") and self-clears its customer's U.S. Treasury securities transactions.

## 2. Summary of Significant Accounting Policies

<u>Basis of presentation</u>

The Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The U.S. Dollar is the functional currency of the Company. In the opinion of management, the Financial Statements include all adjustments necessary to present fairly the financial position at September 30, 2017 and the results of operations for the year then ended.

<u>Use of Estimates</u>

Preparation of the Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (a) Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2017 include approximately $93,196 of cash held in demand deposit accounts by two major financial institutions. The Company considers short-term interest bearing investments with initial maturities of three months or less to be cash equivalents. The Company does not hold any cash equivalents as of the reporting date. Additionally, at September 30, 2017, the Company had a cash balance that exceeded the Federal Deposit Insurance Corporation ("FDIC") limit of $250, held at one major financial institution.

*(dollars in thousands)*

**(b) Receivables and Payables – Brokers, Dealers and Clearing Organizations**

Receivable from and payable to brokers, dealers and clearing organizations consists primarily of clearing fees, commissions and market data fees.

**(c) Doubtful Accounts Allowance**

An allowance for doubtful accounts on commissions receivable is maintained at a level that in management's judgement is adequate to absorb potential credit losses. The allowance is increased for provisions charged to income and is reduced by charge-offs. As of September 30, 2017, there was no allowance recorded on the Company's books and records.

**(d) Income Taxes**

The Company flows up into a corporation (BTHI), and therefore records its share of the income tax provision on its separate company financial statements.

The Company is party to a Tax Sharing Agreement ("the Agreement") with BTHI. As a single member limited liability company, the Company is treated as a branch of a US corporation. BTHI allocates to the Company its share of the consolidated federal and state income tax expense or benefit based upon the principles of a modified separate company basis. State and local income taxes (and any associated tax reserves) are provided on the Company's taxable income at the blended tax rate applicable to the combined tax return. As part of the tax sharing agreement, the Company settles both current and deferred taxes on a periodic basis with the parent. For the year ended September 30, 2017, the Company files as part of the consolidated federal income tax return and certain state and local tax returns of BTHI.

In accordance with ASC 740, Income Taxes, ("ASC 740"), deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the Company's assets and liabilities. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized.

In addition, ASC 740 sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. Under ASC 740, the Company determines whether it is more likely than not that an income tax position will be sustained upon examination by tax authorities. Sustainable income tax positions are then measured to determine the amount of benefit to be reflected in the financial statements. Each sustainable position is measured at the largest amount of benefit that is more likely than not to be realized upon ultimate settlement.

## 3. Accrued Expenses and Accounts Payable

Accrued expenses and accounts payable at September 30, 2017 include approximately $4,841 of accrued compensation and related expenses, and $1,120 of other accrued expenses.

(dollars in thousands)

## 4. Income Taxes

The Company believes there are no unrecognized tax benefits, including interest and penalties and therefore did not record a liability for these items.

At September 30, 2017, the Company had $4,076 of net deferred tax assets. This balance is comprised of deferred tax assets of $4,076 resulting from temporary differences primarily related to deferred compensation of 3,296, stock-based compensation of $159, and prepaid expenses of $621. There were no deferred tax liabilities resulting from temporary differences to offset against the deferred tax assets. As part of the tax sharing agreement, until settlement, the net balance is recorded as an income tax receivable or income tax payable in the Statement of Financial Condition. The Company has not settled any of the deferred tax asset with the parent and the deferred tax asset of $4,076 is a component of the income tax payable to affiliate in the Statement of Financial Condition.

The Company is required to assess the likelihood that deferred tax assets will be realized using a more-likely-than-not criteria. To the extent this criteria is not met, the Company is required to establish a valuation allowance against the deferred tax assets. The Company believes it did meet the more-likely-than-not criteria and therefore did not record a valuation allowance at September 30, 2017.

The Company is included in the federal consolidated income tax return of BTHI and Subsidiaries. BTHI's federal corporate income tax returns for the year ended September 30, 2010 and after remaining subject to examination. The Company files as part of combined unitary state and local returns with affiliates, as well as certain separate state and local filings. The most significant state and local filings are subject to examination for years 2010 and after.

## 5. Cash Segregated Under Federal Regulations

Cash in the amount of $21,300 has been segregated in a special reserve bank account for the exclusive benefit of customers under SEC Rule 15c3-3. The segregated cash held in the special reserve bank account for the exclusive benefit of customers exceeded the requirements pursuant to SEC Rule 15c3-3.

## 6. Deposits with Clearing Organizations

Cash in the amount of $65,000 was on deposit with FICC. FICC requires the Company to maintain a margin requirement on their open positions.

*(dollars in thousands)*

## 7. Receivables from and Payable to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations at September 30, 2017 consist of the following:

| | Receivable | | Payable |
|---|---|---|---|
| Receivable from clearing brokers, dealers and clearing organizations. | $ 4,424 | Payable to clearing brokers, dealers and clearing organizations | $ 3,674 |
| | $ 4,424 | | $ 3,674 |

## 8. Commitments and Contingencies

### Legal proceedings

The highly regulated nature of the Company's business means that from time to time it is subject to regulatory enquiries, investigations and other litigations arising from the ordinary course of business.

Such matters are inherently subject to many uncertainties and the Company cannot predict their outcomes. Management believes that there are no issues which are currently expected to have a material adverse impact on the Company's financial condition. However, the Company can provide no assurance that such actions will not be material to its operating results and cash flows, depending in part upon operating results and cash flows for a particular period.

## 9. Transactions with Affiliates

The Company entered into an agreement with NEX Services North America LLC, an indirect wholly owned subsidiary of NEX plc, whereby the subsidiary provides them with shared occupancy, fixed assets and administrative services (including finance, human resources, operations, legal and electronic data processing functions).

The Company has payables to affiliates of $20,324 relating to shared occupancy, fixed assets, and administrative services as well as for tax payments previously made by BTHI on behalf of its affiliates.

Amounts receivable from and payable to affiliates are non-interest bearing and due on demand.

## 10. Employee Benefits

The Company participates in a trustee profit sharing plan (the "Plan") covering substantially all of its employees, under which contributions are made at the discretion of management. The Plan includes a 401(k) provision whereby all employees are allowed to contribute a portion of their earnings. On a discretionary basis, the Company matches a portion of employee contributions.

(dollars in thousands)

## 11. Stock Based Compensation

The Company accounts for stock options under Financial Accounting Standards Board ASC 718, *Compensation - Stock Compensation,* ("ASC 718").

**ICAP plc Long Term Incentive Plan**
ICAP plc has established the ICAP plc Long Term Incentive Plan ("LTIP") which requires certain executives to defer 25% of their annual cash bonus in the form of ICAP plc stock grants. The grants vest in equal installments over a three year period. Fully vested stock grants are eligible for a matching grant to receive an additional 20% grant of the deferred bonus amount. The match grant is contingent upon the continued employment of the executive. As of September 30, 2017, the total amount of stock grants outstanding was 91,622

## 12. Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure date. Various valuation inputs are used to determine the fair value of assets or liabilities. Such inputs are defined broadly as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Other significant observable inputs (including quoted prices for similar securities, interest rates, etc.) for the asset or liability.

Level 3 – Significant unobservable inputs (including management's own assumptions in determining fair value) for the asset or liability.

The Company did not have any assets or liabilities classified as Level 3 at September 30, 2017.

**Estimated Fair Value of Financial Instruments Measured at Fair Value**

The Company's cash and cash equivalents typically include short-term highly liquid money market mutual funds which are quoted through over the counter markets and therefore considered Level 1 assets. At September 30, 2017, the Company's cash and cash equivalents are comprised of $93,196 cash held in demand deposit accounts.

ASU 2010-6 "Improving Disclosures about Fair Value Measurements" ("ASU") requires the following disclosures: (1) significant transfers in and out of Levels 1 and 2 and the reasons that such transfers were made; and (2) additional disclosures in the reconciliation of Level 3 activity, including information on a gross basis for purchases, sales issuances and settlements. For the year ended September 30, 2017 the Company did not have any transfers between Levels.

(dollars in thousands)

**Estimated Fair Value of Financial Instruments Not Measured at Fair Value**

The Company estimates that the fair value of its remaining financial instruments recognized on the Statement of Financial Condition approximate their carrying value, because they have limited counterparty credit risk and are short-term, replaceable on demand, or bear interest at market rates.

The table below presents the carrying value of the Company's financial instruments which approximate fair value. In addition, the table excludes the values of non-financial assets and liabilities.

| | September 30, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Deposits withs clearing oranizations | $ - | $ 65,010 | $ - | $ 65,010 |
| Commissions receivable | - | 11,238 | - | 11,238 |
| Receivable from customers | - | 3,979 | - | 3,979 |
| Receivable from broker dealers and clearing organizations | - | 4,424 | - | 4,424 |
| Total | $ - | $ 84,651 | $ - | $ 84,651 |
| | | | | |
| Liabilities: | | | | |
| Payables to broker dealers and clearing organizations | $ - | $ 3,674 | $ - | $ 3,674 |
| Payables to customers | - | 21,948 | - | 21,948 |
| Total | $ - | $ 25,622 | $ - | $ 25,622 |

### 13. Net Capital Requirements

The Company is subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule"), which requires the maintenance of minimum net capital. The Company computes its net capital under the alternative method, permitted by the Rule, which requires that the Company maintain minimum net capital equal to the greater of $250 or 2% of aggregate debit balance arising from customer transactions, as defined. At September 30, 2017, the Company had net capital of $140,282 which was $140,032 in excess of its required net capital of $250.

*(dollars in thousands)*

### 14. Financial Instruments with Off-Balance-Sheet Risk

The Company acts as an intermediary to execution of transactions between undisclosed principals. A majority of the Company's customers are netting members of the Government Securities Division of the FICC. The Company does not anticipate non-performance by counterparties in the above situation and seeks to control such credit risk by allowing system access to counterparties that meet minimum credit requirements and monitoring the credit standing of all counterparties with which it conducts business.

The net contractual amount of purchase and sale transactions with counterparties other than FICC for the Company at September 30, 2017 was approximately $183,351,640 for both purchases and sales which have not yet reached settlement date. Substantially all of these transactions have settled within a short period of time subsequent to the Company's fiscal year end.

In the normal course of its operations, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company believes the risk of loss is remote.

### 15. Subsequent Events

The Company has performed an evaluation of subsequent events through November 29, 2017. There have been no subsequent events that occurred during this period that would require recognition in the financial statements or disclosure as of September 30, 2017 or for the year then ended.