

# **Apex Clearing Corporation**

## **Statement of Financial Condition**

June 30, 2021

(Unaudited)

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<b>Assets</b>	
Cash	\$ 213,487,002
Cash segregated under federal and other regulations	6,944,304,333
Restricted collateral held in trust	1,993,435,541
Securites segregated for federal and other regulations, at fair value (cost \$ 1,589,805,783)	1,389,904,240
Securities borrowed	427,916,025
Securities purchased under agreement to resell - segregated for federal and other regulations	150,250,000
Financial instruments owned and pledged, at fair value (cost \$49,768,875)	49,330,872
Receivables from customers	1,525,542,299
Receivables from affiliates	2,147,808
Receivables from brokers, dealers, correspondents, and clearing organizations	52,155,972
Deposits with clearing organizations	812,744,842
Other assets	29,378,099
Property, plant and equipment, less accumulated depreciation \$7,157,000	4,601,340
Operating lease right-of-use assets	3,973,371
<b>Total Assets</b>	<b>\$ <u>13,599,171,744</u></b>

**Liabilities and Stockholder's Equity**

<b>Liabilities</b>	
Payables to customers	\$ 10,484,645,997
Securities loaned	2,441,804,084
Payables to brokers, dealers, and clearing organizations	139,989,791
Accounts payable and accrued liabilities	58,238,411
Payables to affiliates	3,438,926
Operating lease right-of-use liabilities	3,973,371
<b>Total Liabilities</b>	<b><u>13,132,090,580</u></b>

Commitments and contingencies (Note 13)

<b>Stockholder's Equity</b>	
Common stock, \$0.10 par value; 200,000 shares authorized; 100,000 shares issued and outstanding	10,000
Preferred stock, \$1.00 par value; 1,000 shares authorized; 1 share issued and outstanding	1
Additional paid-in-capital	248,609,821
Retained earnings	218,461,342
<b>Total Stockholder's Equity</b>	<b><u>467,081,164</u></b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ <u>13,599,171,744</u></b>

*See accompanying notes.*

**Apex Clearing Corporation**  
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**1. ORGANIZATION AND NATURE OF BUSINESS**

Apex Clearing Corporation (the “Company”) was incorporated on December 12, 1978, in the state of New York. The Company is a wholly owned subsidiary of Apex Fintech Solutions, LLC (“AFS”). AFS is majority owned by PEAK6 Investments LLC, (“PEAK6”). The Company is a clearing broker-dealer registered with the U.S. Securities and Exchange Commission (“SEC”) and with the Commodity Futures Trading Commission (“CFTC”). The Company is also a member of the Financial Industry Regulatory Authority (“FINRA”), is a non-clearing Futures Commission Merchant (“FCM”) registered with the National Futures Association (“NFA”) and is a member of the Securities Investor Protection Corporation (“SIPC”). The Company is a member of various exchanges, as well as the National Securities Clearing Corporation (“NSCC”), is a participant in the Depository Trust Company (“DTC”) and is a member of the Options Clearing Corporation (“OCC”). The Company provides clearing, custody, execution, prime brokerage, margin lending, securities lending, and other back-office services to customers of introducing brokers, as well as direct customers and joint back-office counterparts. The Company primarily operates in the securities brokerage industry and has no other reportable segments.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation and Use of Estimates***

The preparation of a Statement of Financial Condition in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as established by the Financial Accounting Standards Board (“FASB”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the accompanying notes to the Statement of Financial Condition as of June 30, 2021. On an ongoing basis, management evaluates its significant estimates, including, but not limited to the useful lives of property, plant and equipment, the estimate of credit losses, and the provision for income taxes. Actual results could differ materially from such estimates. Management believes that the estimates utilized in preparing this Statement of Financial Condition are reasonable.

***Cash***

The Company has cash on deposit with major money center banks. The Company maintains its cash in bank deposit accounts which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Company has significant balances and/or activity with several banks that are deemed systemically important financial institutions under the Dodd Frank Act. None of these banks have a history of defaults, nor have they had a previous issue with customer deposits and all balances are held in banks that are FDIC insured. In addition, on a regular basis, the Company reviews their banks’ public regulatory submissions to review credit worthiness and liquidity stress test results. Based on the above factors, the Company has determined an allowance for credit loss (“ACL”) under Accounting Standards Update, (“ASU”), No. 2016-13, Measurement of Credit Losses on Financial Instruments – Credit Losses (“Topic 326”) for Cash, and Cash segregated under federal and other regulations is not needed as of June 30, 2021.

***Cash Segregated Under Federal and Other Regulations***

The Company, as a regulated broker-dealer and FCM is subject to the customer protection rule, and is required by its primary regulators, the SEC, FINRA, CFTC and the NFA to segregate cash to satisfy rules regarding the protection of client assets under SEC Act of 1934 rule 15c3-3 (“Rule 15c3-3”) and CFTC Title 17, which are subject to withdrawal restrictions.

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***Restricted Collateral Held in Trust***

The Company provides a fully paid securities lending program to its customers. Customers that enroll in the fully paid securities lending program loan their fully paid and excess margin securities to the Company who in turn lends those securities to various market participants. In connection with a customer's loan of securities and in compliance with the requirements of Rule 15c3-3, the Company fully collateralizes the loans made to the Company by participating customers with cash and/or U.S. government securities. In April 2021, a large financial institution was appointed as collateral trustee for the benefit of the participating customers and another large financial institution was engaged to act as the securities intermediary and depository bank to hold the collateral. As of June 30, 2021, the Company had pledged \$1.993 billion of cash to collateralize loans of securities made to the Company by customers participating in the program. Due to the lending program being fully collateralized, the high credit quality of the trustee, and liquidity within the program, the Company has determined an ACL under Topic 326 for Restricted collateral held in trust is not needed as of June 30, 2021.

***Receivable from and Payable to Customers***

Receivables from and Payables to customers represent amounts due from and to customers, primarily related to margin transactions and cash deposits, which are reported net by customer as Receivables from and Payables to customers in the accompanying Statement of Financial Condition, respectively. The Company relies on individual customer agreements to net receivables and payables. It is the Company's policy to settle transactions on a net basis with its customers.

The Company's receivables from customers consist primarily of fully collateralized margin loans. If the value or liquidity of that collateral declines, or if margin calls are not met, the Company may consider a variety of credit enhancements, including, but not limited to, seeking additional collateral. In valuing receivables that become less than fully collateralized, the Company compares the estimated fair value of the collateral, deposits, and any additional credit enhancements to the balance of the loan outstanding and evaluates the collectability from the customer or the correspondent based on various qualitative factors, including, but not limited to, the creditworthiness of the counterparty and the nature of the collateral and available realization methods. The Company records a loss, to the extent that the collateral, and any other rights the Company has against the customer or the related introducing broker are not sufficient to cover the deficit in the account.

Securities owned by customers are held as collateral for receivables. Receivables and payables are reflected in the accompanying Statement of Financial Condition on a settlement-date basis.

Generally, receivables from customers are created through secured margin lending by the Company and through market activity that can create a cash shortage. This shortage is secured by positions that, when liquidated, reduce and or eliminate the Company's Customer receivable from their customer. This category also includes interest and all other fees that are directly charged to the customer's account that become a component of the Company's customer receivable. The risk of loss is the failure of the customer to repay its debt, in which case, the Company has the right to pursue the customer's correspondent broker by either reducing commissions paid to the correspondent broker or by charging the correspondent broker's deposit. The correspondent's security deposit would be required to be replenished in accordance with terms of their agreement.

Customers and correspondents each enter into margin agreements setting rules of conduct between the customer, correspondent, and the Company. The Company monitors customer receivables and implements loss mitigation policies that include securing customer receivables with marketable positions, reviewing daily reports indicating customer unsecured receivables, and securing customer debits by charging correspondents monthly for any customer's unsecured receivable. Additionally, to ensure all costs associated with the departure of a customer are received by the Company, customers are required to leave a portion of their accounts with the Company to absorb any final costs that had not yet been charged to the customer. Any residual account value is returned to customer after all costs are charged to their account.

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There have been no significant losses on customer receivables in recent years. The primary loss associated with a customer receivable will be incurred by the correspondent broker. The correspondent's security deposits serve to secure any customer receivable losses. Based on the above factors, the Company has determined that an ACL under Topic 326 for Receivables from customers is not needed as of June 30, 2021.

***Securities Received from Customers***

Customer securities are not reflected in the accompanying Statement of Financial Condition as the Company does not own such securities and they may only be sold or rehypothecated to the extent the Company requires the equivalent funds to meet regulatory or counterparty requirements.

***Investments in Securities***

The Company's investments in securities are recorded on a trade date basis and are reflected at fair value, included in Financial instruments owned and pledged, at fair value in the accompanying Statement of Financial Condition.

***Deposits with Clearing Organizations***

Deposits with clearing organizations represent cash deposited with central clearing agencies for the purposes of supporting clearing and settlement activities. NSCC and OCC provide a daily update of margin and clearing fund requirements while DTC's clearing fund requirement is updated monthly. There is no prior loss history with these clearing organizations. Risk of loss from Deposits with clearing organizations is expected to be immaterial over the life of these deposits. Based on the above factors, the Company has determined an ACL under Topic 326 for Deposits with clearing organizations is not needed as of June 30, 2021.

***Receivables from and Payable to Clearing Organizations***

Receivables from clearing organizations include amounts due relating to open transactions and unsettled securities activities. Each clearing organization has specific industry standard daily reconciliations of their securities activity and net settlements. There is no prior loss history with these clearing organizations. Risk of loss from clearing organizations is expected to be immaterial over the life of these receivables. Based on the above factors, the Company has determined an ACL under Topic 326 for Receivables from clearing organizations is not needed as of June 30, 2021.

***Receivables from and Payables to Brokers and Dealers***

Receivables from brokers and dealers include amounts receivable relating to open transactions, non-customer receivables, and amounts related to unsettled securities activities and receivables from interest earned on stock borrow transactions. Payables include amounts payable relating to open transactions, non-customer payables, and amounts related to unsettled securities activities. These balances are reported net by counterparty when the right of offset exists. Receivable from and Payable to brokers, dealers, are included in Receivables from and Payables to brokers, dealers, correspondents, and clearing organizations in the accompanying Statement of Financial Condition.

The Company conducts business with other brokers and Receivables from brokers refers to brokers' proprietary activity and correspondent brokers' clients' activity. Risks and the assessment of Topic 326 for correspondent brokers are addressed in Customer receivables.

All other broker receivables risk and Topic 326 assessments are addressed in separate sections as they relate to specific transactions elsewhere.

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***Securities Failed to Deliver and Securities Failed to Receive***

Securities failed to deliver and securities failed to receive represent sales and purchases of securities by the Company, respectively, either for its account or for the accounts of its customers or other brokers and dealers, which were not delivered or received on settlement date. Such transactions are initially measured at their contracted value. These amounts are included in the accompanying Statement of Financial Condition as Receivable from and Payable to broker, dealers, correspondents and clearing organizations.

The Company is a participant in Continuous Net Settlement (“CNS”), the process used by NSCC that guarantees and nets street-wide activity, confirms all activity and ending positions, and marks them to market daily. The Company also participates in Obligation Warehouse, a settlement process between DTC and CNS that accepts and clears broker fails, with the intent of reducing overall non-CNS fails

Securities failed to deliver fall under the scope of Topic 326 and are subject to losses due to counterparty risk as well as market risk through buy-ins.

Risk of loss of CNS fails is very low as they are marked to market daily and guaranteed by NSCC. Non-CNS fails receivable are collateralized by securities. The Company’s use of Obligation Warehouse reduces overall non-CNS fails coupled with continuous monitoring has resulted in minimal losses over the past three years. Based on the above factors, the Company has determined an ACL under Topic 326 for CNS securities failed to deliver is not needed as of June 30, 2021.

Broker fails outside of CNS and Obligation Warehouse occur infrequently and are immaterial. Based on the above factors, the Company has determined an ACL under Topic 326 for broker fails is not needed as of June 30, 2021.

***Short-Term Borrowings***

The Company obtains short-term financing by borrowing from major money center banks on an overnight basis. These borrowings can be attained on an unsecured and secured basis. The principal associated with these borrowings would be recorded as Short-term borrowings in the accompanying Statement of Financial Condition. The Company can also borrow under loan agreements with AFS on an overnight unsecured basis, which would be included in Payables to affiliates in the accompanying Statement of Financial Condition.

***Securities Borrowed and Securities Loaned and Securities Purchased Under Agreements to Resell***

Securities borrowed and Securities loaned transactions are recorded at the amount of cash collateral advanced or received, respectively, with all related securities, collateral, and cash both held at and moving through DTC as appropriate for each counterparty. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned transactions require the receipt of collateral by the Company in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned daily, with additional collateral obtained or returned as necessary. Transactions involving securities purchased under agreements to resell (“reverse repurchase agreements” or “reverse repos”) are accounted for as collateralized agreements, which are classified as Securities purchased under agreements to resell – segregated for federal and other regulations in the accompanying Statement of Financial Condition. The Company enters into reverse repurchase agreements as part of its cash management strategy. It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Securities borrow and loan fees represent interest receivable or rebate payable on the cash received or paid as collateral on the securities borrowed or loaned. Interest receivable and interest payable are included in the accompanying Statement of Financial Condition in Receivable from brokers, dealers, correspondents, and clearing organizations and Accounts payable and accrued liabilities, respectively.

The Company applies a practical expedient to Topic 326 regarding its securities borrowed and loaned balances and

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their underlying collateral. Inherent in this activity, the Company and its counterparties to securities borrowed and loaned transactions, marks collateral to market, securing these transactions on a daily basis through DTC. The counterparty continually replenishes the collateral securing the asset in accordance with standard industry practice. Based on the above factors, the Company has determined an ACL under Topic 326 for Securities borrowed and loaned balances is not needed as of June 30, 2021.

***Other Assets***

Other assets are comprised of interest and other receivables, prepaid expenses, investments, loan receivable, and DTC stock.

***Lease Accounting***

Leases arise from contracts that convey the right to control the use of identified property or equipment for a period of time in exchange for consideration. The Company determines if an arrangement is or contains a lease at inception and whether it is an operating or financing lease. All of the Company's lease arrangements are operating leases and are comprised of real estate facilities and equipment leases.

At lease commencement, the Company records a lease liability at the present value of future lease payments, net of any future lease incentives to be received. The Company estimates its incremental borrowing rate, ("IBR") based on the information available at the lease commencement date in determining the present value of lease payments. In determining the appropriate IBR, the Company considers information including, but not limited to, the lease term. The present value of the lease payments was determined using a weighted average 5.25% IBR.

At lease commencement, ASU No. 2016-02, Leases ("Topic 842"), requires the Company to record a corresponding right-of-use asset, which is calculated based on the amount of the lease liability, adjusted for any advance lease payments made and initial direct costs incurred. Right-of-use assets are subject to evaluation for impairment or disposal on a basis consistent with other long-lived assets.

During the period ended June 30, 2021, no additional leases were entered into, resulting in no additional right of use assets and lease liabilities being recorded during the interim period.

As of June 30, 2021, the operating lease right-of-use asset and associated liability is \$3,973,371. Expense from operating leases is calculated and recognized on a straight-line basis over the applicable lease periods, taking into account rent holidays, lease incentives and escalating rent terms.

The Company has non-cancelable operating leases for its offices and rental equipment and has elected not to separate lease and non-lease components. Future minimum lease payments (with initial or remaining lease terms in excess of one year) total \$3,580,980 as follows: 2022 \$1,323,976, 2023 \$ 505,703, 2024 \$520,886, 2025 and thereafter \$1,230,414. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful lives or expected lease terms.

***Property, Plant and Equipment***

Property, plant and equipment are recorded at cost, net of accumulated depreciation and amortization, and consist primarily of computer hardware and furniture, fixtures, and equipment. Depreciation is recorded using the straight-line basis and estimated useful service lives of the assets, which range from three to seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Property, plant and equipment, net, are included in the accompanying Statement of Financial Condition. Property, plant and equipment are reviewed annually for impairment, with no such impairment loss recorded in the current year.

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***Payable to Correspondents***

The Company collects commissions and other fees from correspondent introducing brokers' customers each month. As stipulated by individual agreements with correspondent introducing brokers ("correspondents"), the Company remits net amounts due to correspondents after deducting charges for clearing, execution, and others as applicable.

***Translation of Foreign Currencies***

The Company's functional base currency is the U.S. Dollar, and its clients have a minimal amount of assets and liabilities denominated in foreign currencies. The assets and liabilities denominated in foreign currencies are translated at year-end rates of exchange and result in no risk to the Company, as these are client assets and liabilities, not the Company's. The Company has limited foreign currency exchange exposure and does not hedge its foreign currency risk.

***Income Tax***

The Company files a consolidated U.S. income tax return with AFS on a calendar year basis and combined or separate returns for state tax purposes where required. Deferred tax assets and liabilities are determined based on the temporary differences between carrying amounts and tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be settled or realized. Uncertain tax positions are recognized if they are more likely than not to be sustained upon examination, based on the technical merits of the position. Changes in the unrecognized tax benefits occur on a regular basis due to tax return examinations and settlements that are concluded, statutes of limitations that expire, and court decisions that are issued that interpret tax law. There are positions involving taxability in certain tax jurisdictions and timing of certain tax deductions for which it is reasonably possible that the total amounts of unrecognized tax benefits for uncertain tax positions will significantly decrease within twelve months because the tax positions may be settled in cash or otherwise resolved with taxing authorities. When applicable, a valuation allowance is established to reduce any deferred tax asset when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized. Current and deferred tax expense is allocated to the Company based on a "separate return" method. Under this method we are assumed to file a separate return with the tax authority, thereby reporting our taxable income or loss and paying the applicable tax to or receiving the appropriate refund from AFS. Our current provision is the amount of tax payable or refundable on the basis of a hypothetical, current-year separate return. Any difference between the tax provision, or benefit allocated to the Company under the separate return method and payments to be made to or received from AFS for taxes are ultimately settled through cash transfers.

***Collateral***

The Company receives collateral in connection with margin lending, securities borrowed, and reverse repurchase agreements. Under various agreements, the Company is permitted to pledge the securities held as collateral, use the securities to enter into securities-lending arrangements, or deliver the securities to counterparties to cover short positions. As of June 30, 2021, the Company had access to \$2,408,101,039 of collateral from the margin lending book, and an additional \$302,150,426 from securities borrowed and securities purchased under agreements to resell. The collateral available primarily consisted of US equity and ETF securities. As of June 30, 2021, the Company had utilized \$292,142,917 of such collateral to support securities lending contracts.

***Recently Adopted Accounting Pronouncements***

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)-Simplifying the Accounting for Income Taxes* ("ASU 740"), as part of its initiative to reduce complexity in the accounting standards. The amendments in ASU 740 eliminate certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for

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outside basis differences. ASU 740 also clarifies and simplifies other aspects of the accounting for income taxes. ASU 740 is effective for the Company on January 1, 2022, with early adoption permitted. The Company is currently evaluating the potential impact that this standard may have on its financial position and results of operations, as well as the timing of its adoption of this standard.

**3. CASH AND SECURITIES SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS**

As of June 30, 2021, cash and securities segregated in special reserve accounts under Rule 15c3-3 totaled \$8,459,972,242. Of this amount, \$8,378,076,038 was for the exclusive benefit of customers, made up of \$6,838,082,518 in cash, \$1,389,993,520 in U.S. Treasuries, and \$150,000,000 in U.S. Treasuries from reverse repurchase agreements. Furthermore, \$81,896,204 was for the exclusive benefit of proprietary accounts of brokers ("PAB"). Additionally, cash segregated under CFTC Regulation 1.32 was \$94,740,347, of which \$24,325,611 was held in a segregated bank account and \$70,414,736 was held at a clearing FCM.

As of June 30, 2021, the Company pledged \$1.993 billion of cash to collateralize loans of securities made to the Company by customers participating in the fully paid stock loan program in compliance with rule 15c3-3.

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

FASB ASU No. 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, ("Topic 820"), Fair Value Measurement, establishes a framework for measuring fair value and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach, as specified by Topic 820 are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Valuation of these instruments does not require a high degree of judgment, as the valuations are based on quoted prices in active markets that are readily and regularly available.

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable as of the measurement date, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities. These financial instruments are valued by quoted prices that are less frequently refreshed than those in active markets or by models that use various assumptions derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than those determined by quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and applicable underlying assumptions. Examples of observable inputs other than quoted prices for the asset or liability are interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates.

Level 3 – Valuations based on inputs that are unobservable and not corroborated by market data. These financial instruments have significant inputs that cannot be validated by readily determinable data and generally involve considerable judgment by management.

The level of input used for valuing securities is not necessarily an indication of the risk associated with investing in those securities.

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The following is a description of the valuation methodologies applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis:

- Level 1 – Investment and trading securities – Quoted market prices are used where available
- Level 2 – Investment and trading securities – Relevant quotes from the appropriate clearing organization

The following table presents certain assets that are recorded in the accompanying Statement of Financial Condition at fair value, on a recurring basis, measured as follows as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
U.S. government securities	\$ 1,439,235,112	\$ -	\$ -	\$ 1,439,235,112

The Company had no transfers between levels during the year.

**5. RECEIVABLE FROM AND PAYABLE TO BROKER DEALERS**

Amounts Receivable from and Payable to broker dealers as of June 30, 2021, consist of the following:

	Receivable	Payable
Securities failed to deliver/receive	\$ 25,888,299	\$ 39,868,354
Correspondents	5,016,063	35,312,860
Other fees and commissions	19,884,075	-
Deposits with clearing organizations	812,744,842	-
Proprietary securities account of broker dealers	1,361,818	64,805,790
<b>Totals</b>	<b>\$ 864,895,097</b>	<b>\$ 139,987,004</b>

**6. STOCKHOLDER'S EQUITY**

Share capital includes two classes of stock consisting of common and preferred. Common stock has a \$0.10 par value, 200,000 shares authorized, and 100,000 shares outstanding. Preferred stock has a \$1.00 par value, 1,000 shares authorized, and 1 share outstanding.

**7. OFFSETTING ASSETS AND LIABILITIES**

Substantially all of the Company's securities borrowing and securities lending activity is transacted under master agreements that may allow for net settlement in the ordinary course of business, as well as offsetting of all contracts with a given counterparty in the event of default by one of the parties. However, for statement of financial condition purposes, the Company does not net balances related to these financial instruments.

The following table presents information about the potential effect of rights of setoff associated with the Company's recognized assets and liabilities as of June 30, 2021:

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	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Statement of Financial Condition (1)	Net Amounts Presented in the Statement of Financial Condition	Financial Instruments	Collateral Received or Pledged (2)	Net Amount (3)
<b>Assets</b>						
Securities borrowed:						
Deposits paid for securities borrowed	\$ 427,916,025	\$ -	\$ 427,916,025	\$ -	\$ (414,374,722)	\$ 13,541,303
Securities purchased under agreements to resell	150,250,000	-	150,250,000	-	(151,954,044)	(1,704,044)
<b>Liabilities</b>						
Securities loaned:						
Deposits received for securities loaned	\$ 2,441,804,084	\$ -	\$ 2,441,804,084	\$ -	\$ (2,271,089,694)	\$ 170,714,390

- (1) Amounts represent recognized assets and liabilities that are subject to enforceable master agreements with rights of setoff.
- (2) Represents the fair value of collateral the Company had received or pledged under enforceable master agreements.
- (3) Represents the amount for which, in the case of net recognized assets, the Company had not received collateral, and in the case of net recognized liabilities, the Company had not pledged collateral.

## 8. SHORT-TERM BORROWINGS

As of June 30, 2021, the Company had short-term bank credit facilities with five financial institutions with available borrowing capacity as follows:

	Committed		Uncommitted		Total Facility Size	Expire Date
	Unsecured	Unsecured	Unsecured	Secured		
Facility 1	\$ -	\$ 10,000,000	\$ 125,000,000	\$ -	\$ 125,000,000	None
Facility 2	-	10,000,000	-	-	10,000,000	None
Guidance Line	-	-	-	-	-	None
Facility 4	-	-	100,000,000	-	100,000,000	None
Facility 5	25,000,000	-	-	-	25,000,000	Oct 2021
Facility 6	-	15,000,000	100,000,000	-	100,000,000	None
Syndicate line	225,000,000	-	-	-	225,000,000	Apr 2022
<b>Totals</b>	<b>\$ 250,000,000</b>	<b>\$ 35,000,000</b>	<b>\$ 325,000,000</b>	<b>\$ -</b>	<b>\$ 585,000,000</b>	

On April 30, 2021, the firm entered into the third amendment to a credit agreement (“Syndicate Line Agreement”) with certain financial institutions that increased the committed, unsecured revolving lending facility to \$225 million. The Syndicate Line Agreement is scheduled to expire on April 29, 2022 and bears interest on the unpaid principal at an annual rate based on the greater of the 1-month LIBOR rate (or the annual overnight SOFR rate), the upper limit of the federal funds target range or 0.25% plus an applicable margin of 2.50%.

No amounts are outstanding as of June 30, 2021 under the above facilities. The uncommitted, secured lines of credit mentioned above bear interest at a rate that varies with the federal funds rate, have no stated expiration dates, and are repayable on demand. In general, the advance requires between 80% and 95% of the collateral value posted, where the lenders have the authority to not accept certain collateral or to set concentration limits. The uncommitted, unsecured lines of credit mentioned above bear interest at a rate that varies with the Prime rate, federal funds rate or 30-day LIBOR rate, have no stated expiration date, and are repayable on demand. As of June 30, 2021, the Company had no outstanding short-term bank loans on these facilities.

The Company also has the ability to create short-term liquidity under stock loan arrangements, as of June 30, 2021, the Company had not utilized the securities lending facility to borrow cash. These arrangements bear interest at

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variable rates based on various factors, including market conditions and the types of securities loaned, are secured primarily by our customers' margin account securities, and are repayable on demand.

**9. INCOME TAXES**

As of June 30, 2021, the Company has no U.S. federal net operating loss carryforwards and no U.S. state and local net operating loss carryforwards. No valuation allowance was recorded as of June 30, 2021, as the temporary differences disclosed below relate to deferred income tax assets that are more likely than not to be realized in future years. The net deferred tax asset of \$6,922 is included in Other assets in the accompanying Statement of Financial Condition.

The components of the net deferred tax assets and liabilities as of June 30, 2021 are as follows:

Allowance for bad debts	\$ 8,616
Accrued expenses	1,039,792
Unrealized loss	90,389
<b>Total deferred tax assets</b>	<u>1,138,797</u>
Prepaid expenses	\$ (47,594)
Property and equipment	(772,334)
Software development costs	(311,947)
<b>Total deferred tax liabilities</b>	<u>(1,131,875)</u>
<b>Net deferred tax assets</b>	<u>\$ 6,922</u>

The Company recognizes and measures its unrecognized tax benefits and assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances, and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available or when an event occurs that requires a change.

The Company does not have any material uncertain tax positions. As of June 30, 2021, generally, the past three years remain subject to examination by various tax jurisdictions under the statute of limitations. In addition, management does not expect a significant change in uncertain tax positions during the twelve months subsequent to June 30, 2021.

**10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

In the normal course of business, the Company purchases and sells securities and pledges or receives collateral as both principal and agent. If a party to a transaction fails to fulfill its contractual obligation, the Company may incur a loss if the market value of the security is different from the contract amount of the transaction. When the Company acts as principal, it trades various financial instruments and enters into various investment activities, including U.S. Treasury securities. Each of these financial instruments contains varying degrees of off-balance sheet risk whereby changes in the market values of the securities or other underlying financial instruments may be in excess of the amounts recognized in the accompanying Statement of Financial Condition.

***Collateral Finance***

The Company may be required to pledge eligible collateral with its banking or securities lending counterparties or clearing organizations. In the event a counterparty is unable to meet its contractual obligation to return pledged collateral, the Company may be exposed to the risk of acquiring the underlying securities at prevailing market values. All securities lending counterparty agreements are secured by securities or cash at or in excess of amounts loaned. The Company and its counterparties control this risk by monitoring the market value of securities pledged on a daily

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basis and by requiring adjustments of collateral levels in the event of excess market exposure. It is the Company's policy to periodically review the credit standing of counterparties with which it conducts business.

***Customer Margin***

In the event a customer or broker fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's or broker's obligations. The Company seeks to control the risks associated with its customer and broker activities by requiring the maintenance of margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels and has established guidelines to require customers and brokers to deposit additional collateral or to reduce positions when necessary. Management believes that the margin deposits and collateral held as of June 30, 2021 were adequate to mitigate the risk of material loss that could be created by positions held at that time.

The Company's policy is to continually monitor its market exposure and counterparty risk and to periodically review the credit standing of all parties with which it conducts business, including correspondents, direct customers, and customers of correspondents. For customers introduced on a fully disclosed basis by introducing broker-dealers, the Company typically has a contractual right of recovery from such introducing broker-dealers in the event of nonperformance by the customer. The Company can offset associated client balances with their applicable correspondent balances if required or applicable. In general, the Company requires a risk deposit from introducing broker-dealers. In the event the customer or introducing broker-dealer does not perform, and the associated risk deposit is insufficient to cover the exposure, the Company is at risk of loss. Additionally, if the Company, on behalf of its correspondents and customers, has sold securities that it does not currently own, it will be obligated to purchase such securities at a future date. The Company may incur a loss if its customers do not perform and the fair value of the sold securities increases subsequent to June 30, 2021.

The Company's customer clearance and settlement activities include the acceptance and clearance of equities, fixed income, futures, and option contracts for its customers, which are primarily institutional, commercial, exchange members and retail customers introduced by registered introducing broker-dealers, and direct customers. The Company guarantees to the respective clearing houses or other broker-dealers its customers' performance under these contracts. In accordance with regulatory requirements and market practice, the Company requires its customers to meet, at a minimum, the margin requirements established by regulatory bodies. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contractual obligation.

As of June 30, 2021, the Company did not have significant concentrations of credit risk with any one customer or counterparty or with any group of customers or counterparties.

**11. TRANSACTIONS WITH RELATED PARTIES**

***PEAK6 Group LLC***

PEAK6 Group LLC ("PEAK6 Group") is providing various support and other services to the Company and is entitled to fees and other payouts pursuant to the terms of a Support Services Agreement between AFS and PEAK6 Group as amended "Support Services Agreement" (SSA) and the purchase agreement between Penson Technologies LLC, PEAK6 Group, the Company and PEAK6's Limited Liability Company Agreement. As of June 30, 2021, the Company had a payable to PEAK6 Group of \$1,645,695 recorded as Payables to affiliates in the accompanying Statement of Financial Condition.

***PEAK6 Capital Management LLC***

The Company and PEAK6 Capital Management LLC ("CapMan") maintain a clearing agreement for clearing and execution services provided by the Company. On January 27, 2015, the Company entered into a joint back office ("JBO") arrangement with CapMan. Under terms of the JBO, CapMan purchased preferred stock from the Company

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for \$25,000. As of June 30, 2021, the Company had a receivable of \$1,117 from CapMan that is recorded in Receivable from brokers, dealers, correspondents, and clearing organizations in the accompanying Statement of Financial Condition. As of June 30, 2021, CapMan had credit balances in their PAB accounts at the Company totaling \$1,358,389 that are recorded in Payables to brokers, dealers, correspondents, and clearing organizations in the accompanying Statement of Financial Condition.

***Electronic Transaction Clearing, Inc.***

Electronic Transaction Clearing, Inc. (“ETC”) is wholly owned by AFS. The Company is providing various support and other services to ETC, and is entitled to fees and other payouts pursuant to the terms of an SSA, effective September 17, 2019 between the Company and ETC. As of June 30, 2021, the Company had a receivable from ETC of \$1,075,081, securities loaned to ETC of \$62,854,960, and securities borrowed from ETC of \$8,538,900, included in Receivables from affiliates, Securities loaned, and Securities borrowed, respectively in the accompanying Statement of Financial Condition.

***Kairos Solutions LLC***

Kairos Solutions (“Kairos”) is wholly owned by AFS. The Company is providing various support and other services to Kairos and is entitled to fees and other payouts pursuant to the terms of the SSA between the Company and Kairos. As of June 30, 2021, the Company had a receivable from Kairos of \$727,901, included in Receivables from affiliates in the accompanying Statement of Financial Condition.

***Apex Crypto***

Apex Crypto (“Crypto”) is wholly owned by AFS. The Company is providing various support and other services to Apex Crypto and is entitled to fees and other payouts pursuant to the terms of the Services Agreement between the Company and Crypto. As of June 30, 2021, the Company had a receivable from Crypto of \$344,826 included in Receivables from affiliates in the accompanying Statement of Financial Condition.

***PEAK6 NI Limited***

PEAK6 NI Limited (“PEAK6 NI”) is a subsidiary of PEAK6 and is providing various support and other services to the Company and is entitled to fees and other payouts pursuant to the terms of a Services and Expense Sharing Agreement between PEAK6 NI and the Company. As of June 30, 2021, the Company had a payable to Peak6 NI Limited of \$201,916 and is included in Payables to affiliates in the accompanying Statement of Financial Condition.

***Apex Fintech Solutions, LLC***

As of June 30, 2021, the Company had a payable to AFS of \$1,591,315 related primarily to taxes and is included in Receivables from affiliates in the accompanying Statement of Financial Condition.

**12. EMPLOYEE BENEFIT PLAN**

The Company provides a defined contribution 401(k) employee benefit plan (the “Plan”) that covers substantially all employees. Under the Plan, the Company may make a discretionary match contribution. All employees are eligible to participate in the Plan, based on meeting certain age and term of employment requirements.

**13. COMMITMENTS AND CONTINGENCIES**

The Company is required to disclose information about its obligations under certain guarantee arrangements. Guarantees are defined as contracts and indemnification agreements that contingently require a guarantor to make payments for the guaranteed party based on changes in an underlying security (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non-occurrence of a specified event)

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related to an asset, liability or equity security of a guaranteed party. They are further defined as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of indebtedness of others. Guarantees made by a clearing broker-dealer can be a reduction to regulatory Net Capital.

***OCC Membership Guarantee***

The OCC is a mutual company, where members agree to fund another member's deficit if that member's clearing fund has been extinguished. The OCC has not had a significant issue with a member's deficit. The Company, therefore, cannot estimate any guarantee obligation associated with its OCC membership. Further, management believes the exposure to be remote and therefore, the Company does not take a reduction to regulatory Net Capital for this guarantee, nor has a reserve been established in the accompanying Statement of Financial Condition.

***Other Membership Guarantees***

The Company is a member of numerous exchanges and clearing organizations. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearing organization, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearing organizations often require members to post collateral as well as meet certain minimum financial standards. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the accompanying Statement of Financial Condition for these arrangements.

***Other Inquiries***

From time to time, the Company may become involved in various legal matters and regulatory inquiries or examinations in the ordinary course of conducting business. The Company is not aware of any material contingencies relating to such matters that would require accrual or disclosure in the accompanying Statement of Financial Condition as of June 30, 2021.

**14. NET CAPITAL REQUIREMENTS**

The Company is a broker-dealer, subject to the SEC Uniform Net Capital Rule ("Rule 15c3-1") under the Securities Exchange Act of 1934 and is a futures commission merchant subject to the CFTC Minimum Capital Requirement (Regulation 1.17). The Company is required to maintain "net capital" equivalent to the greater of \$1,500,000, 2% of "aggregate debit items" or the greater of the sum of 8% of the futures customer risk maintenance margin requirement plus 8% of the futures noncustomer risk maintenance margin requirement or \$1,000,000, as these terms are defined.

Adjusted Net Capital, aggregate debit items, and risk maintenance margin requirements change from day to day. As of June 30, 2021, under the more restrictive of these rules, the Company had net capital of \$407,242,025, of which \$359,371,347 was in excess of its required minimum net capital of \$47,870,678. As an FCM, the Company must maintain a risk based net capital requirement of not less than 110% of CFTC minimum net capital requirement. As of June 30, 2021, minimum net capital requirement was \$6,354,021, calculated per CFTC Rule 1.17.

**15. SIGNIFICANT SERVICE PROVIDERS**

On January 1, 2019 the Company entered into a Master Services Agreement with Broadridge Financial Solutions, Inc. ("Broadridge") that expires and terminates on December 31, 2023. This agreement replaced a previous MSA with Broadridge which called for the Company to pay a fixed percentage of net revenue earned in any given month. If the

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Company terminates the agreement for convenience, the Company may be obligated to pay Broadridge a termination fee, with maximum exposure of \$13,737,636 as of June 30, 2021.

**16. NOVEL CORONAVIRUS (“COVID-19”)**

The effects of the outbreak of COVID-19 have impacted and continue to impact the global economy and global financial markets. This impact could affect the Company’s business and results of operations. The Company has taken precautions to protect the safety and well-being of its employees and customers. The Company is continuously monitoring circumstances surrounding COVID-19, as well as economic and market conditions, to determine potential effects on our clients, employees, and operations. The Company sees no impending changes in the near future that would affect its ability to continue to maintain its operations.

**17. SUBSEQUENT EVENTS**

The Company evaluates subsequent events through the date on which the Statement of Financial Condition was issued. There have been no material subsequent events that occurred during this period that could require an adjustment to this Statement of Financial Condition.