

# **ICAP Securities USA LLC and Subsidiary**

(SEC I.D. No. 8-37947)

**Unaudited Consolidated Statement of Financial Condition**

**June 30, 2020**

**ICAP Securities USA LLC and Subsidiary**  
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**June 30, 2020**

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**ICAP Securities USA LLC and Subsidiary**  
**Unaudited Consolidated Statement of Financial Condition**  
**June 30, 2020**

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*(dollars in thousands)*

<b>Assets</b>	
Cash and cash equivalents	\$ 149,497
Cash segregated under federal regulations	6,600
Deposits with clearing organizations	25,644
Securities owned	31,077
Securities purchased under agreements to resell	27,960
Securities borrowed	851,212
Receivable from brokers dealers and clearing organizations	103,720
Receivable from customers	63,556
Commissions receivable, net of allowance for doubtful accounts of \$827	29,770
Receivable from affiliates	3,722
Sub debt loan receivable from affiliate	2,093
Exchange and trading memberships	1,197
Goodwill	2,312
Deferred tax asset	1,609
Prepaid expenses and other assets	6,538
<b>Total assets</b>	<u>1,306,507</u>
<b>Liabilities and Member's Equity</b>	
Liabilities	
Securities loaned	845,413
Securities sold not yet purchased	31,151
Payable to brokers, dealers and clearing organizations	122,852
Payable to customers	41,548
Payable to affiliates	18,678
Note payable to affiliate	1,000
Accrued personnel costs	24,418
Accrued expenses and accounts payable	5,662
Income taxes payable	8,412
<b>Total liabilities</b>	<u>1,099,134</u>
Member's equity	<u>207,373</u>
<b>Total liabilities and member's equity</b>	<u>\$ 1,306,507</u>

The accompanying notes are an integral part of this Consolidated Statement of Financial Condition.

# ICAP Securities USA LLC and Subsidiary

## Notes to Unaudited Consolidated statement of financial condition

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*(dollars in thousands)*

#### 1. Organization

ICAP Securities USA LLC (the “Company”) and its direct wholly owned subsidiary, ICAP Corporates LLC (“Corporates”), (referred to herein as the “Subsidiary”, and the Company and Subsidiary together are referred to herein as the “Group”) are Delaware limited liability companies.

The sole Member of the Group is ICAP Global Broking Inc. (“IGBI”). IGBI’s direct parent is TP ICAP Americas Holdings Inc. (“TPIAHI”) which is a wholly owned indirect subsidiary of TP ICAP plc, and therefore the Group is an indirect wholly owned subsidiary of TP ICAP plc.

TP ICAP plc is a public company registered in the United Kingdom that engages principally as an intermediary in global financial, energy and commodity markets. In its intermediary role, TP ICAP plc provides access to dynamic and efficient markets that enhance the flow of capital, energy and commodities around the world.

The Company is registered with the Securities and Exchange Commission (“SEC”) as a government securities broker-dealer under the provisions of the Government Securities Act of 1986, and is a member of the Financial Industry Regulatory Authority Inc. (“FINRA”). The Company, headquartered in New Jersey and with an office in London, is a broker of U.S. Treasury bills, notes and bonds, and obligations of U.S. Governmental agencies, and repurchase and reverse repurchase agreements covering U.S. Government and Federal agency securities.

Corporates is a broker-dealer registered with the SEC and is a member of FINRA. Corporates is also registered as a non-clearing Independent Introducing Broker (“IB”) with the Commodities Futures Trading Commission (“CFTC”), is a member of the National Futures Association (“NFA”), and is also a member of various exchanges (see Note 2(c)).

Corporates operates primarily in the interdealer market in bonds listed on the New York and American Stock Exchanges, over the counter corporate bonds, preferred stock, equity securities, credit and equity derivatives, certificates of deposits, collateralized mortgage obligations and other asset-backed corporate debt securities. Corporates self clears transactions in certain products, and has also entered into fully disclosed clearing agreements with third parties to clear certain products.

#### **Brokerage Capacities**

The Group may act in the capacity of “matched principal”, and Corporates may also act in the capacity of “exchange give-up” or “name passing”.

When acting in the capacity of “matched principal”, the Group acts as a “middleman” or intermediary by serving as the counterparty for identified buyers and sellers in the matching, in whole or in part, reciprocal back-to-back trades.

When acting in the “exchange give-up” capacity, Corporates facilitates the trading activity of its client on an exchange or trading facility. Once the execution has occurred, the executed position

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is then given-up to the client or the client's clearing member through the clearing services at the exchange clearing house.

When acting in the "name passing" capacity, Corporates connects buyers and sellers and may assist in the negotiation of the price and other material terms of the transaction. At the point at which the parties agree to terms, Corporates leaves the buyer and seller to clear and settle through the appropriate market mechanism.

Corporates routes for execution and/or acts as executing broker for orders in certain products, and introduces such transactions to a clearing firm for settlement and clearance on a deliver verse payment and receive verse payment ("DVP/RVP") basis.

The Group self-clears certain fixed income transactions on a DVP/RVP basis.

#### **Fees/Commissions**

The Group is generally compensated for its role in facilitating and consummating transactions by charging a brokerage fee. In "matched principal" market places, the fee typically takes the form of a markup or markdown which is added to or subtracted from, as the case may be, the agreed-to transaction price. In "exchange give-up" and "name passing" market places and for other transactions the fee will typically take the form of a commission. Commission income is recorded on a trade date basis.

In addition, in certain fixed income markets the Group may when acting in a "matched principal" capacity, earn a profit by buying a financial instrument at one price and simultaneously or shortly thereafter selling it at a higher price (or vice versa), such that the Group receives the benefit of the "spread" on the trade in addition to any markup or markdown it charges.

#### **Unmatched Principal Transactions**

The Group may and does from time to time acquire unmatched positions as principal, including, but not limited to, as a result of errors or out trades. The Group, while managing and liquidating such positions, may generate a profit or a loss.

#### **Securities Transactions:**

Securities transactions are recorded on a trade-date basis. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net in receivables from brokers or dealers and clearing organizations on the statement of financial condition as trades pending settlement, net.

#### **Pandemic:**

During the first quarter of 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the world. In late March, the Group activated its Business Continuity Planning strategies to safeguard the wellbeing of its employees, the continuation of its operations and the support of its clients. Currently the Group continues to operate with a majority of its employees teleworking from home and for those employees continuing to work in offices, the requirement to respect social distancing

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standards. This new way of working has resulted in the Group being able to operate as usual without disruption to business continuity.

The COVID-19 outbreak has resulted in governments around the world putting restrictions in place regarding the movement of people, leading to widespread disruption and significant market volatility. As of the date of this report, there are no indicators of significant impairment to the Group's financial and non-financial assets nor significant loss or credit risk exposures as a result of this event.

The full extent of how these conditions will continue to impact the Group are not yet known as there is uncertainty around the duration and severity. Therefore, while we expect this matter to impact our business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time. The Group has a positive net asset value and cash reserves available to help preserve its financial flexibility. Additionally, the Group is closely monitoring regional developments and remains attentive to signals that could impact its business.

## 2. Summary of Significant Accounting Policies

### Basis of presentation

The unaudited consolidated statement of financial condition has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Intercompany balances and transactions are eliminated upon consolidation. The U.S. Dollar is the functional currency of the Group and its subsidiary. In the opinion of management, the unaudited consolidated statement of financial condition include all adjustments necessary to present fairly the financial position at June 30, 2020.

### Use of Estimates

Preparation of the unaudited consolidated statement of financial condition 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. Significant estimates include goodwill, realizability of deferred tax assets and related allowance, and allowance for receivables. Actual results could differ from those estimates.

### Revenue Recognition

The Group acts as an intermediary in the wholesale financial markets and therefore acts in a matched principal, or agency role. The Group also earns revenue from data sales.

*Matched principal transactions* - The Group acts as a "middleman" by serving as the counterparty for identified buyers and sellers in matching reciprocal back to back trades. The buyers and sellers in these transactions have agreed to the performance obligation details of price and quantity for the securities being traded. Principal transactions revenue is derived from the spread of the buy and sell transactions. Principal transactions revenue is recognized on a trade date basis once the details of the performance obligation are met and transfer of control of the securities is established between the customers. Principal transaction revenues are generally

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paid on settlement date (typically one or two days after trade date), therefore the Group records a receivable between trade date and payment on settlement date.

*Agency commissions* – The Group acts in an agency capacity, by connecting buyers and sellers. When the buyers and sellers agree to price and other terms of the transaction, the Group's performance obligation is met and it leaves both parties, to clear and settle through the appropriate market mechanism. In agency transactions, the Group charges commission for executing transactions between buyers and sellers. Agency commissions revenue are recognized on trade date, as that is when performance obligations are satisfied. The Group accounts for agency commissions on an accrual basis and therefore records a receivable between trade date and payment date (the date customer invoice payments are received).

*Data sales*- The Group earns data sales revenues from providing trading information to financial institutions. Data sales revenue is recognized upon usage or availability of data. The Group's performance obligation related to these sales does not go beyond providing data to its customers. Data sales revenues are generally recognized over the period that the related service is provided. The timing of the Group's revenue recognition may differ from the timing of payment by customers. The Group records a receivable when revenue is recognized prior to payment, and conversely when the customer is billed in advance or payment precedes the Group's service obligation, deferred revenue is recorded until the Group's performance obligations are satisfied. The Group did not have any deferred revenue as of June 30, 2020.

#### Lease Accounting

The Group adopted ASC 842 Lease Accounting ("the new lease accounting standard") on January 1, 2019, and has determined that adoption of this new standard and the accounting for leases did not have a material impact on the Group's financial condition.

#### **(a) Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2020 includes \$149,497 of cash held in demand deposit accounts by two major financial institutions. The Group considers short-term interest bearing investments with initial maturities of three months or less to be cash equivalents. At June 30, 2020, the Group had a cash balance that exceeded the Federal Deposit Insurance Corporation ("FDIC") limit of \$250.

#### **(b) Cash Segregated Under Federal Regulations**

Cash in the amount of \$5,800 has been segregated in a special reserve bank account for the benefit of customers under SEC Rule 15c3-3 (see Note 8). The Company and Corporates compute a PAB Reserve, which requires that they both maintain minimum segregated cash in the amount of total credits per the Reserve Computation. As of June 30, 2020, cash in the amount of \$300 and \$500 has been segregated in proprietary accounts of broker-dealers ("PAB") reserve accounts by Corporates and the Company respectively. The segregated cash held in both the special reserve bank account for the exclusive benefit of customers and the PAB reserve account meet the requirement pursuant to SEC Rule 15c3-3.

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#### **(c) Exchange and Trading Memberships**

The Company and Corporates own membership shares in the Depository Trust Clearing Corporation ("DTCC"). The membership shares are subject to restriction. The Company and Corporates carry these restricted shares at cost of approximately \$928 and \$85 respectively. Additionally, Corporates owns two trading memberships with the Intercontinental Exchange Inc. ("ICE"). The membership shares are subject to restriction. The Group carries these restricted shares at cost of approximately \$2.

Corporates also owns a CBOT trading membership seat. Corporates carries this membership seat at cost of \$182.

The Company and Corporates are required to hold these shares and trading memberships in order to maintain their trading membership privileges. The Group and Corporates performed an annual impairment review and determined that there was no impairment of the shares or the trading membership seat.

#### **(d) Securities Transactions**

Security transactions are recorded in the consolidated statement of financial condition on a trade date basis. Customers' securities transactions are also recorded on a trade date basis.

Securities owned are recorded at fair value.

#### **(e) Collateralized Financing Agreements**

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require Corporates to deposit cash with the lender. With respect to securities loaned, Corporates receives collateral in the form of cash. The amount of collateral required to be deposited for securities borrowed or received for securities loaned is an amount generally in excess of the market value of the applicable securities. Corporates monitors the market value of securities borrowed and loaned daily, with additional collateral obtained or refunded as appropriate. The amount of collateral received and delivered under these agreements approximates the amounts on the consolidated statement of financial condition. Securities borrowed and securities loaned are presented on a gross basis in the consolidated statement of financial condition.

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements or reverse repos) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings except where the Group does not have an agreement to sell (or purchase) the same or substantially the same securities before maturity at a fixed or determinable price. It is the policy of the Group to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily and the Group may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

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The Group's repurchase agreements are carried at the amounts of cash advanced or received, plus accrued interest, which approximates fair value.

Interest income is accrued in accordance with contractual rates.

#### **(f) Goodwill**

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The Group tests goodwill for impairment on an annual basis and more frequently when certain events or circumstances exist. Impairment is the condition that exists when the carrying amount of goodwill exceeds its fair value. Impairment is tested at the reporting unit level. If the estimated fair value exceeds the carrying value of the reporting unit, goodwill at the reporting unit level is not impaired. If the estimated fair value is below the carrying value, further analysis is required to determine the amount of impairment. In performing its assessment for impairment of goodwill, the Group is required to make estimates and assumptions in order to determine the fair value of reporting units and projected future earnings using various valuation techniques. The Group uses its best judgement and information available to it at the time to perform this review. Upon completing its annual review, the Group concluded that there was no impairment to goodwill as of June 30, 2020.

#### **(g) Prepaid Expenses and Other Assets**

Prepaid expenses and other assets primarily represent unamortized compensation expense associated with sign-on bonuses and forgivable loans which are amortized over the life of the employment contracts.

#### **(h) Allowance for Doubtful Accounts**

An allowance for doubtful accounts on commissions receivable is maintained at a level that in management's judgment is adequate to absorb expected credit losses. The allowance is increased by provisions charged to income and is reduced by charge-offs. As of June 30, 2020, there was an allowance of \$827.

#### **(i) Income Taxes**

The Group is included in the consolidated U.S. federal and combined state and local income tax returns of TPIAHI and calculates the provision for income taxes by using a "separate return" method as modified to apply the "benefits-for-loss" approach. Under this approach, the provision for income taxes is computed as if the company filed on a separate tax return basis and is then adjusted to reflect the periodic reimbursement for any tax benefits received or generated by the Group.

The Group recognizes the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. In this regard, deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years and for tax loss carryforwards, if in the opinion of management, it is more likely than not that the deferred tax assets will be realized. A valuation allowance is required for any component of net deferred tax assets which does not meet the "more likely than not" criterion for realization and the need for a valuation allowance is assessed on the basis of the Group's projected separate return

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results modified to apply the benefits-for-loss approach. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years.

The Group accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the statement of financial condition. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income tax provision during the period that includes the enactment date.

The net deferred tax assets are recorded to the extent the Group believes these assets will more likely than not be realized. In making such a determination, the Group considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

Uncertain tax positions are recorded in accordance with ASC 740 on the basis of a two-step process whereby (1) the Group determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Group recognizes the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

It is the Group's policy to provide for uncertain tax provisions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by the authorities.

### **3. Income Taxes**

The Group had a U.S. federal and state net deferred tax asset of \$1,609 as of June 30, 2020. Deferred income taxes reflect the net tax effect of temporary differences between the financial reporting and tax basis of assets and liabilities.

Deferred tax assets and liabilities at June 30, 2020 are comprised of the following.

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(dollars in thousands)

<b>Deferred Tax Assets:</b>			
Bad Debt	236		
Bonus	3,542		
Redundancy provision	19		
Equity compensation	20		
<b>Total deferred tax assets</b>	<b>3,817</b>		
<b>Deferred Tax Liabilities:</b>			
Incentive contract payments	1,708		
Amortization	500		
<b>Total deferred tax liabilities</b>	<b>2,208</b>		
Net deferred tax asset	1,609		
Valuation Allowance	-		
<b>Total net deferred tax asset</b>	<b>1,609</b>		

The Group follows accounting guidance under ASC 740 which clarifies the accounting for uncertainty in income taxes recognized in the accompanying financial statements. As of June 30, 2020, the Group has not accrued any unrecognized tax benefits in the Group's consolidated statement of financial condition.

The Group 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 Group is required to establish a valuation allowance against the deferred tax assets. The Group believes it did meet the more-likely-than-not criteria and therefore did not record a valuation allowance at June 30, 2020.

Through its inclusion in the consolidated federal return filed by its ultimate U.S. parent, TPIAHI, the significant jurisdictions which remain open for audit are U.S. Federal and New Jersey for tax years 2014 and after and New York for tax years 2013 and after.

**4. Receivable from and Payable to Brokers, Dealers and Clearing Organizations**

Settlement date for brokered transactions in securities is generally same day or one to two business days after trade date, except for mortgage related securities issued by federal agencies, which is between five and twenty business days after trade date.

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(dollars in thousands)

	<u>Receivable</u>		<u>Payable</u>
Fail-to-deliver	\$ 88,413	Fail-to-receive	\$ 118,949
Receivable from clearing brokers and clearing organizations	10,946	Payable to clearing brokers and clearing organizations	721
Other	4,361 (a)	Other	3,182 (a)
	<u>\$ 103,720</u>		<u>\$ 122,852</u>

(a) The unrealized gains for delayed-delivery, to-be-announced securities (TBA) and when-issued securities are recorded in the consolidated statement of financial condition net of unrealized losses by counterparty.

**5. Receivable from and Payable to Customers**

Receivable from and payable to customers consists primarily of amounts due on cash transactions arising from customer fails-to-receive and fails-to-deliver.

**6. Commitments and Contingencies**

On February 1, 2020, the Company entered into a \$5,000 revolving subordinated loan agreement with its associate First Brokers Securities LLC (“FB”). Under the agreement the Company has agreed to loan funds to FB on a revolving basis during the term of the agreement. Interest charges associated with the loan is 5.5 percent. As of June 30, 2020, FB had drawn down \$2,000 on the loan. The loan agreement matures on January 31, 2022. Additionally, the Company has taken the appropriate capital charge for this loan in its computation of liquid capital (see supplemental schedule I “other deductions and/or charges”). The Company has reflected the \$2,000 receivable balance in sub debt loan receivable from affiliate in the consolidated statement of financial condition.

The Group has access to a 270,000 GBP revolving credit facility through its main United Kingdom parent. This revolving credit facility includes a \$100,000 USD committed daily Swing line facility which can be drawn directly by the Group and utilized to satisfy collateral and margin requirements with clearing organizations. The remaining GBP revolving credit facility balance can be drawn by the United Kingdom parent and sent to the Group to be used for general corporate purposes (including satisfying collateral or margin requirements). The revolving credit facility matures on December 22, 2020. Additionally, the Group has direct access to a \$75,000 overdraft facility with a major financial institution.

As of June 30, 2020, the Group had not drawn down on the revolving credit facility.

As a member of the Mortgage Backed Securities Division (“MBSD”) of the Fixed Income Clearing Corp (“FICC”), the Company participates in the Capped Contingency Liquidity Facility (“CCLF”). The CCLF creates overnight repos between the FICC and each of its solvent firms so that, if a firm fails, the funding to offset its portfolio would be sourced across FICC’s membership rather than dependent on an expensive, long-term line of credit. On January 6, 2020, the Company began submitting all MBS transactions to the FICC from its FICC broker account instead of its FICC dealer account in order to significantly reduce its CCLF requirements. As of June 30, 2020, the Company’s commitment to the CCLF was \$0. This amount is calculated by FICC based on membership size and volumes and may fluctuate significantly.

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**Litigation**

In the ordinary course of business, various legal actions are brought and are pending or threatened against the Group. In some of these actions, substantial amounts are claimed. The Group is also involved, from time to time, in other reviews, investigations and proceedings by governmental and self-regulatory agencies (both formal and informal) regarding the Group's business, judgments, settlements, fines, penalties, injunctions or other relief.

The Group contests the liability or the amount of damages in each pending matter. In view of the inherent difficulty of projecting the outcome of such matters, the Group cannot predict with certainty the loss or range of loss related to such matters, how such matters will be resolved, when they ultimately will be resolved, or what the eventual settlement, fine, penalty or other relief might be. Management believes, based on currently available information, that the results of such matters, in the aggregate, will not have a material adverse effect on its consolidated statement of financial condition.

**7. Offsetting Financial Assets and Financial Liabilities**

U.S. GAAP permits entities to present derivative receivables and payables with the same counterparty and the related cash collateral receivables and payables on a net basis in the

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Statement of Financial Condition when a legally enforceable master netting agreement exists. U.S. GAAP also permits securities sold and purchased under repurchase agreements and securities

borrowed or loaned under securities loan agreements to be presented net when certain conditions are met, including the existence of a legally enforceable master netting agreement.

The Group discloses both gross and net information about financial instruments and transactions eligible for offset in the consolidated statement of financial condition and financial instruments and transactions subject to an agreement similar to a master netting arrangement.

Financial instruments and transactions would include derivatives, sale and repurchase agreements reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements.

The Group presents securities borrowed and securities loaned on a gross basis in the consolidated statement of financial condition.

The following tables present the gross and net of securities borrowed and loaned as of June 30, 2020.

**Offsetting of Financial Assets:**

				<u>Gross Amounts Not Offset in the Statement of Financial Condition</u>		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Market Value	Cash Collateral Received	Net Amount
Securities borrowed	\$ 851,212	\$ -	\$ 851,212	\$ (825,419)	\$ -	\$ 25,793
Securities purchased under agreements to resell	27,960	-	27,960	(27,720)		240
Total	<u>\$ 879,172</u>	<u>\$ -</u>	<u>\$ 879,172</u>	<u>\$ (853,139)</u>	<u>\$ -</u>	<u>\$ 26,033</u>

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**Offsetting of Financial Liabilities:**

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
				Market Value	Cash Collateral Pledged	Net Amount
Securities loaned	\$ 845,413	\$ -	\$ 845,413	\$ (824,773)	\$ -	\$ 20,640
Total	\$ 845,413	\$ -	\$ 845,413	\$ (824,773)	\$ -	\$ 20,640

The table below presents the gross carrying value of Securities loaned by class as of June 30, 2020.

Securities Loaned	Gross carrying value
Equity securities	\$ 556,664
Corporate debt	288,749
	<u>\$ 845,413</u>

The securities loaned can involve contractual maturities ranging from overnight to over ninety days.

**8. Regulatory Capital Requirements**

The Company is subject to Regulation 402.2 of the Department of the Treasury, which requires the maintenance of minimum liquid capital, as defined.

The Company had liquid capital of \$145,308 at June 30, 2020, which was \$143,835 in excess of the minimum liquid capital requirement of \$1,472. The Group's ratio of liquid capital to total haircuts was approximately 118 to 1.

Corporates is subject to SEC Rule 15c3-3 and maintain "Special Accounts for Exclusive Benefit of Customers" (see Note 2b).

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Corporates is registered with the SEC and is subject to the Uniform Net Capital requirements under Rule 15c3-1, additionally Corporates is subject to the Minimum Financial Requirements Rule pursuant to Regulation 1.17 under the Commodity Exchange Act. Accordingly, Corporates must maintain minimum net capital (as defined). This rule allows for a flow-through benefit from subsidiaries equal to net capital and net liquid capital in excess of the capital requirements of the subsidiaries. The net capital and minimum net capital required of Corporates at June 30, 2020 are set forth below:

<b>Group members</b>	<u><b>Net Capital</b></u>	<u><b>Minimum Net Capital Requirement</b></u>	<u><b>Excess Net Capital</b></u>
ICAP Corporates LLC	\$ 84,807	\$ 1,200	\$ 83,607
Total	<u>\$ 84,807</u>	<u>\$ 1,200</u>	<u>\$ 83,607</u>

The following summarizes the assets and liabilities of the subsidiary consolidated in the accompanying Consolidated statement of financial condition, but not consolidated in the Group's corresponding unaudited Form G-405 part II filed as of June 30, 2020:

	<u><b>ICAP Corporates LLC</b></u>
Assets	\$ 1,150,197
Liabilities	<u>1,016,407</u>
Total	<u>\$ 133,790</u>

**9. Employee Benefits**

The Group participates in a 401(k) profit sharing plan (the "Plan") covering substantially all of its employees. All employees who participate are allowed to contribute a portion of their earnings into a deferred retirement account up to limits established by the Internal Revenue Code. On a discretionary basis, the Group matches a portion of all eligible employee contributions not to exceed a certain limit.

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#### 10. 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 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for similar assets in active markets or quoted prices for identical assets in markets that are not considered to be active, or financial instruments for which all significant valuation inputs are observable, either directly or indirectly; and

Level 3 – Prices or valuations that require inputs that are both significant to fair value measurement and unobservable.

The Group did not have any assets or liabilities classified as Level 3 at June 30, 2020.

#### Financial Instruments Measured at Fair Value

The Group'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 June 30, 2020, the Group's cash and cash equivalents are comprised of \$149,497 cash held in demand deposit accounts.

The Group's securities owned, typically shares of common stock and high grade bonds, which are measured based on quoted market prices and therefore are considered Level 1 assets.

The Group's securities sold, but not yet purchased, typically shares of common stock and high grade bonds which are measured based on quoted market prices and therefore considered Level 1 assets.

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 June 30, 2020 the Group did not have any transfers between levels.

#### Financial Instruments Not Measured at Fair Value

The Group estimates that the fair value of its remaining financial instruments recognized in the consolidated 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.

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(dollars in thousands)

The table below presents the carrying value and fair value of the Group's financial instruments which are not carried at fair value. In addition, the table excludes the values of non-financial assets and liabilities.

Assets:	Level 1	Level 2	Level 3	Total
Deposits with clearing organizations	\$ -	\$ 25,644	\$ -	\$ 25,644
Securities borrowed	-	851,212	-	851,212
Securities owned	31,077	-	-	31,077
Securities under agreement to resell	-	27,960	-	27,960
Receivable from broker dealers and clearing organizations	-	103,720	-	103,720
Commissions receivable	-	29,770	-	29,770
Receivable from customers	-	63,556	-	63,556
Exchange and trading memberships	-	1,197	-	1,197
Total	<u>\$ 31,077</u>	<u>\$ 1,103,059</u>	<u>\$ -</u>	<u>\$ 1,134,136</u>
Liabilities:				
Securities loaned	\$ -	\$ 845,413	\$ -	\$ 845,413
Securities sold not yet purchased	31,151	-	-	31,151
Payable to broker dealers and clearing organizations	-	122,852	-	122,852
Payable to customers	-	41,548	-	41,548
Total	<u>\$ 31,151</u>	<u>\$ 1,009,813</u>	<u>\$ -</u>	<u>\$ 1,040,964</u>

**11. Financial Instruments with Off-Balance-Sheet Risk and Concentration of Credit Risk**

If transactions do not settle because of failure by either counterparty to perform, the Group may, under certain circumstances, be required to discharge the obligation of the non-performing party.

As a result of acquiring a position as discussed under Note 1 herein, the Group may incur a gain or a loss if the market value of the security at the time of discharge is different from the value of the original transaction.

Corporates has loaned to brokers and dealers, securities owned by other brokers and dealers having a market value of \$824,773 and received cash or other collateral with a value of \$845,413 which is recorded in the Group's consolidated statement of financial condition at June 30, 2020. If

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a borrowing broker or dealer does not return a security, the subsidiary may be obligated to purchase the security in order to return it to the owner. In such circumstances, the subsidiary may incur a loss equal to the amount by which the market value of the security on the date of non-performance exceeds the value of the loan or the collateral from the broker or dealer. In addition, Corporates has borrowed from other brokers and dealers and financial institutions, securities having a market value of \$825,419 and has given cash or other collateral with a value of \$851,212, which is recorded in the Group's consolidated statement of financial condition at June 30, 2020. In the event a lender does not return the collateral, the subsidiary may be subject to a loss equal to the amount by which the collateral exceeded the market value of the security borrowed.

Securities purchased under agreements to resell and securities sold under agreements to repurchase are carried at their contract value. It is the policy of the Group to take possession of all underlying assets purchased under resale agreements. The market value of these underlying securities is reviewed to ensure that the amounts loaned are adequately collateralized.

The contractual amount of purchase and sale transactions for the Group at June 30, 2020, was \$11,141,611 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 subsequently after the Group's fiscal year end. The net amount of these purchase and sale transactions is included in payable to brokers, dealers and clearing organizations in the consolidated statement of financial condition.

Pursuant to the terms of the clearing agreements between the Group and its clearing brokers, the clearing brokers have the right to charge the Group for losses that result from a counterparty's failure to fulfill its contractual obligations. At June 30, 2020, the Group has recorded no liability. As the right to charge the Group has no maximum amount and applied to all trades executed through the clearing broker, the Group believes there is no maximum amount assignable to this right.

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

The Group's policy is to monitor its market exposure and counterparty risk through the use of a variety of financial position and credit exposure reporting and control procedures. In addition, the Group has a policy of reviewing, as considered necessary, the credit standing of each counterparty and customer with which it conducts business. The Group does not anticipate non-performance by the counterparties.

## **12. Transactions with Affiliates**

The Group entered into agreements with indirect wholly owned subsidiaries of TP ICAP plc, whereby the subsidiaries provide them with shared occupancy and administrative services (including finance, human resources, operations, legal and electronic data processing functions), and the Group provides similar services to other TP ICAP plc subsidiaries. The agreements also include the payment of certain expenses such as payroll, paid on behalf of the Group. At June 30,

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2020, the Group has a payable to affiliates of \$17,406 under these agreements therefore has reflected this amount in payable to affiliates in the consolidated statement of financial condition.

Additionally, the Group has a receivables of \$2,353 due from affiliates for shared administrative expenses incurred by the Group on behalf of the affiliate. The Group also has a payable of \$393 due to an affiliate for shared administration expenses incurred by Corporates on behalf of the Company.

The Group has receivables from affiliates of \$1,369 relating to commissions collected by affiliates on behalf of the Group, and the Group has payable to affiliates of \$879 relating to commission collected by the Groupon behalf of the affiliates

The Group has deferred tax assets of \$1,609 due from an affiliate. Additionally, the Group has income taxes payable to an affiliate of \$8,412.

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

In addition, Corporates provides clearing services for foreign affiliates, and the Company clears U.S. Government securities transactions for Corporates.

During June 2019, Corporates issued a promissory note payable to TPIAHI in exchange for a \$22,000 loan from TPIAHI to help satisfy funding requirements for the settlement of securities transactions. Interest on the outstanding principal balance of the note accrues at an annual rate of 5.612%. At June 30, 2020, the outstanding principal balance of \$1,000 is reflected in note payable to affiliate in the consolidated statement of financial condition, and accrued interest payable of \$16 is reflected in payable to affiliates in the consolidated statement of financial condition. The note is payable on demand.

The Company has guaranteed Corporates' payment and performance to certain stock loan counterparties.

During 2018, the Company assigned its lease obligation for its facilities to TPIAHI. Under the terms of the assignment the Company has guaranteed payment and any related performance required under the lease obligation in the event TPIAHI fails to perform its lease obligation duties. At June 30, 2020 the future minimum lease commitments under the lease is as follows:

**Year Ending December 31, 2019**

2020	\$ 324
2021	718
2022	718
2023	718
2024	718
Thereafter	598
	<u>\$ 3,794</u>

The Company obtained an uncollateralized letter of credit in the amount of \$1,160, in order to satisfy the requirements of the lease agreement for its disaster recovery facility which was assigned to TPIAHI.

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#### **13. Integration plan costs**

The Group incurred integration plan costs which generally consist of employee severance, and termination costs. These charges were incurred due to the of integration of the Tullett Prebon Group and the ICAP global broking businesses (“IGBB”).

Integration costs have been recorded in accordance with ASC 712-10, “Nonretirement Postemployment Benefits,” and/or ASC 420-10, “Exit or Disposal Cost Obligations” as appropriate.

The Group records severance and one- time termination costs provided under an ongoing benefit arrangement once they are both probable and estimable in accordance with the provisions of ASC 712-10. Pursuant to ASC 420-10, the Group establishes a liability for costs associated with severance and termination obligations, and other related costs, when the liability is incurred, rather than at the date of termination.

The determination of when the Group accrues for severance costs and which standard applies depends on whether the termination benefits are provided under an ongoing arrangement as described in ASC 712-10 or under a one-time benefit arrangement as defined by ASC 420-10. Inherent in the estimation of the costs related to the cost improvement and integration activities are assessments related to the most likely expected outcome of the significant actions. In determining the charges related to the cost improvement and integration plans, the Group makes estimates. These estimates may vary significantly from actual costs depending, in part, upon factors that may be beyond the control of the Group. The Group will continue to review the status of the cost improvement obligations and integration costs and, if appropriate, record changes to these obligations in current operations based on the Group’s most current estimates.

At June 30, 2020, the Group has recorded a liability of \$67, for its obligations related to the integration cost plan.

#### **14. Subsequent Events**

The Group has performed an evaluation of subsequent events through August 7, 2020. There have been no subsequent events that occurred during this period that would require recognition in the financial statements or disclosure as of June 30, 2020.