

**INDUSTRIAL AND COMMERCIAL BANK OF CHINA  
FINANCIAL SERVICES LLC  
(A WHOLLY OWNED SUBSIDIARY OF INDUSTRIAL AND  
COMMERCIAL BANK OF CHINA LIMITED)**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2018**

**(WITH REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM)**

**Filed as PUBLIC information pursuant to  
subparagraph (e)(3) of Rule 17a-5.**

**Industrial and Commercial Bank of China Financial Services LLC**  
**(A Wholly Owned Subsidiary of Industrial and Commercial Bank of China Limited)**  
**Index to Statement of Financial Condition**  
**December 31, 2018**

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KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## Report of Independent Registered Public Accounting Firm

To the Board of Directors  
Industrial and Commercial Bank of China Financial Services LLC:

### ***Opinion on the Financial Statement***

We have audited the accompanying statement of financial condition of Industrial and Commercial Bank of China Financial Services LLC (the Company) as of December 31, 2018, and the related notes (collectively, the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018, in conformity with U.S. generally accepted accounting principles.

### ***Basis for Opinion***

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

**KPMG LLP**

We have served as the Company's auditor since 2013.

March 22, 2019

**Industrial and Commercial Bank of China Financial Services LLC**  
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**Statement of Financial Condition**  
**December 31, 2018**

<b>Assets</b>	
Cash and cash equivalents	\$ 39,822,317
Securities purchased under agreements to resell, net	21,193,108,802
Securities borrowed	4,240,129,794
Deposits with clearing organizations	175,338,524
Receivables:	
Customers	221,157,539
Broker-dealers and clearing organizations	717,503,254
Secured demand note receivable	400,000,000
Interest and dividends receivable	6,415,245
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$16,549,219	8,269,213
Securities received as collateral	100,522,300
Other assets	29,696,184
Total assets	<u>\$ 27,131,963,172</u>
<b>Liabilities and Member's Capital</b>	
Liabilities:	
Short term borrowings	\$ 950,000,000
Securities sold under agreements to repurchase, net	22,493,392,010
Securities loaned	2,137,313,673
Payables:	
Customers	118,731,030
Broker-dealers and clearing organizations	769,298,410
Deferred tax liability	3,077,136
Interest and dividends payable	6,498,012
Obligation to return securities	100,522,300
Other liabilities	45,644,681
	<u>26,624,477,252</u>
Borrowings subordinated to claims of general creditors	400,000,000
Member's capital	107,485,920
Total liabilities and member's capital	<u>\$ 27,131,963,172</u>

The accompanying notes are an integral part of the Statement of Financial Condition

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**Year Ended December 31, 2018**

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**(1) Organization and Nature of Business**

Industrial and Commercial Bank of China Financial Services LLC (the “Company”) is a wholly owned subsidiary of Industrial and Commercial Bank of China Limited (the “Parent”). The Company is a registered broker-dealer with the U.S. Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority (“FINRA”). The Company’s business is to offer securities clearing, processing and financing services to clients.

**(2) Significant Accounting Policies**

**(a) Basis of Presentation**

The Company’s Statement of Financial Condition is prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which 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 Statement of Financial Condition. Actual results could differ from those estimates.

**(b) Cash and Cash Equivalents**

The Company defines cash equivalents to be highly liquid investments with original maturities of ninety days or less, which may include federal funds sold on an overnight basis. The Company maintains amounts due from banks which, at times, exceed federally insured limits.

**(c) Receivable from and Payables to Customers and Broker-dealer and Clearing Organizations**

Receivables from customers and broker-dealers and clearing organizations and Payables to customers and broker-dealers and clearing organizations include amounts due on regular way securities transactions and margin transactions. Securities owned by customers, including those that collateralize margin or similar transactions are not reflected in the Statement of Financial Condition. Customer transactions that are failed to be received or delivered are recorded in Receivables from and Payables to broker-dealers and clearing organizations on the Statement of Financial Condition.

The Company engages in margin lending to clients that allows the client to borrow against the value of qualifying securities and is included within Receivables from customer and broker-dealer in the Company’s Statement of Financial Condition. Client receivables generated from margin lending activities are collateralized by client-owned securities held by the Company.

The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires clients to deposit additional collateral, or reduce positions, when necessary. Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the review of margin loans are the amount of the loan, the intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated

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positions, appropriate liquidity of the underlying collateral or potential hedging strategies to reduce risk. Additionally, positions related to concentrated or restricted positions require a review of any legal impediments to liquidation of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity of the proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluation of industry concentrations. For these transactions, adherence to the Company's collateral policies significantly limits the Company's credit exposure in the event of a client default. The Company may request additional margin collateral from clients, if appropriate, and, if necessary, may sell securities that have not been paid for or purchase securities sold but not delivered from customers.

At December 31, 2018, cash and securities of \$175,338,524 and \$179,251,847, respectively, were deposited with clearing organizations. Additionally, securities of \$164,060,371 were segregated under federal and other regulations. Securities deposited with clearing organizations or segregated under federal and other regulations or requirements are primarily sourced from Reverse repurchase agreements in the Company's Statement of Financial Condition.

**(d) *Income Taxes***

The Company accounts for income taxes in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Accounting for Income Taxes*. FASB ASC 740 requires that deferred taxes be established based upon the temporary differences between financial statement and income tax bases of assets and liabilities using the enacted statutory rates.

The Company files federal tax returns on a stand-alone basis and is included in the combined New York State and City Article 9A return with the Parent and its affiliates. Pursuant to a tax sharing arrangement with the Parent and certain affiliates, the Company establishes an intercompany payable/receivable for any current state and local taxes. Deferred tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The Company recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740. Under that guidance the Company 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.

**(e) *Collateralized Transactions***

**(i) *Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase***

Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements") are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts. Due to the highly liquid nature of the underlying collateral

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(primarily U.S. government and agency securities) and the short-term maturity of these agreements, the majority of reverse repurchase agreements are recorded at contractual amounts which approximate fair value. Certain reverse repurchase agreements where the value of the collateral is less than contract value, are recorded at contract value less a credit loss reserve, which also approximates fair value. See Note 14 for further details. It is the policy of the Company to take possession of securities in order to collateralize reverse repurchase agreements. The collateral value, including accrued interest, is monitored daily and additional collateral is obtained when appropriate to protect the Company in the event of default by the counterparty. All repurchase and reverse repurchase activities are transacted under master netting agreements that give the Company the right, in the event of default, to liquidate collateral held and offset receivables and payables with the same counterparty. Accrued interest income and interest expense are reported as part of Securities purchased under agreements to resell and Securities sold under agreements to repurchase, respectively, on the Statement of Financial Condition.

In December 2018, the Company enhanced its procedures, whereby, it engaged an additional securities pricing vendor. The Company uses data from its primary pricing vendor in establishing the daily fair value of securities collateral; while the secondary pricing vendor serves as a verification control.

**(ii) Securities Borrowed and Loaned Transactions**

Securities borrowed and loaned transactions are accounted for as collateralized financing transactions. The Company pledges cash or securities (typically U.S. Treasuries) to collateralize securities borrowed transactions, and will receive cash or securities (typically U.S. Treasuries) to collateralize securities loaned transactions. Cash collateral transactions are recorded at their contracted amount (the amount of cash collateral advanced or received). The Company also enters into securities borrow transactions where the collateral delivered or received is other securities (security-for-security transactions). The Company's Accounting Policy is to record a balance sheet gross-up entry for security-for-security finance transactions, when the Company is legally the "lender".

Securities borrowed transactions require the Company to deposit collateral with the lender in excess of the market value of the securities borrowed. The fair value of securities borrowed and loaned is monitored daily and additional collateral is obtained or refunded when appropriate to protect the Company in the event of default by the counterparty.

Rebates earned or paid on securities borrowing or lending transactions are shown in the caption Interest and dividends receivable or Interest and dividends payable, respectively, on the Statement of Financial Condition.

All securities borrowed and loaned transactions are subject to an enforceable master netting agreement that give the Company the right, in the event of default, to liquidate collateral held and offset receivables and payables with the same counterparty.

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*(f) Fair Value of Financial Instruments*

Most of the Company's assets and liabilities are carried at fair value. Some are carried at contract value, net of credit loss reserves, as applicable, which approximate fair value. See Note 14 for further details. Assets, which are recorded at contracted amounts approximating fair value, consist largely of short-term secured receivables, including securities borrowed and securities purchased under agreements to resell. Similarly, the Company's short-term liabilities, such as securities loaned and securities sold under agreements to repurchase, are recorded at contracted amounts approximating fair value. These instruments generally have variable interest rates and/or short-term maturities, in many cases overnight and, accordingly, their fair values are not materially affected by changes in interest rates or market movements. Subordinated borrowings are recorded at contracted amounts, approximating fair value.

*(g) Derivative Instruments*

As part of its clearing activities for its clients, the Company will facilitate forward repurchase agreements between the client and third parties. In accordance with the requirements of the clearing exchange, the Company is required to act as a principal in these transactions prior to settlement date. The Company accounts for these transactions as forward contracts and monitors the change in the fair value of the contracts for recognition in the Statement of Financial Condition.

In addition, the Company will facilitate forward mortgage-backed securities transactions for its clients. The Company acts as a principal prior to settlement date. The Company accounts for these transactions as forward contracts and monitors the change in the fair value of the contracts for recognition in the Statement of Financial Condition.

*(h) Foreign Currencies*

The Company has cash on deposit with banks, as well as payables to customers and counterparties, denominated in foreign currencies. These assets and liabilities are translated at closing exchange rates at December 31, 2018.

*(i) Accounting Developments*

**Leases (ASC 842)**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires that, at lease inception, a lessee recognize in the statement of financial condition a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments. In addition, this ASU requires expanded disclosures about the nature and terms of lease agreements and is effective for annual reporting periods beginning after December 15, 2018. The Company expects a gross up of approximately \$8 million on its Statement of Financial Condition upon recognition of the right-of-use assets and lease liabilities and does not expect the amount of the gross up to have a material impact on its financial condition.



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**(3) Securities Financing**

The table below presents the gross and net resale and repurchase agreements and stock borrow and stock loan transactions, and the related amount of netting with the same counterparty under enforceable netting agreements (“counterparty netting”) included in the Statement of Financial Condition. All of the gross carrying values of these arrangements are subject to enforceable netting agreements. The table below also presents the amounts not offset in the Statement of Financial Condition.

	<b>As of December 31, 2018</b>	
	<b>Assets</b>	<b>Liabilities</b>
	<b>Securities purchased under agreements to resell</b>	<b>Securities sold under agreements to repurchase</b>
(in millions)		
<b>Amounts included in the Statement of Financial Condition</b>		
Gross carrying value	\$ 68,104	\$ 69,362
Counterparty netting	(46,868)	(46,868)
Reserve for Credit loss, net (see Note 14)	(43)	-
	<u>\$ 21,193</u>	<u>\$ 22,494</u>
(in millions)		
<b>Amounts included in the Statement of Financial Condition</b>		
Gross carrying value	\$ 4,240	\$ 2,137
Counterparty netting	-	-
Net	<u>\$ 4,240</u>	<u>\$ 2,137</u>

The following table presents the net amount of financial assets and liabilities subject to enforceable master netting agreements, “MNA”.

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December 31, 2018	Net amount included on		
(in millions)	the Statement of Financial Condition	Financial Instruments Collateral (1)	Net Exposure
<b>Financial assets subject to enforceable MNA</b>			
Securities borrowed	\$ 4,240	\$ 4,240	\$ -
Securities purchased under agreements to resell, net (See Note 14)	21,193	21,193	-
<b>Total</b>	<b>\$ 25,433</b>	<b>\$ 25,433</b>	<b>\$ -</b>
<b>Financial liabilities subject to enforceable MNA</b>			
Securities loaned	\$ 2,137	\$ 1,945	\$ 192
Securities sold under agreements to repurchase	22,494	22,496	-
<b>Total</b>	<b>\$ 24,631</b>	<b>\$ 24,441</b>	<b>\$ 192</b>

(1) The total amount reported in financial instruments collateral is limited to the amount of the related instruments presented in the Statement of Financial Condition and therefore any over-collateralization of these positions is not included.

The following tables present gross obligations for repurchase agreements and securities loaned transactions received as collateral by remaining contractual maturity and class of collateral pledged.

	At June 29, 2018				
	Remaining Contractual Maturity (In Millions)				
	Overnight or Continuous	Less than 30 days	30-90 days	Over 90 days	Total
Repurchase Agreements	(2) \$ 1,048	\$ 64,389	\$ 3,677	\$ 248	\$ 69,362
Securities Loaned	2,017	120	-	-	2,137
Gross amount of secured financing included in the above offsetting disclosure	<b>\$ 3,065</b>	<b>\$ 64,509</b>	<b>\$ 3,677</b>	<b>\$ 248</b>	<b>\$ 71,499</b>

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<b>Secured Financing by the Class of Collateral Pledged (in millions)</b>	<b>At December 31, 2018</b>
Securities sold under agreement to repurchase (2)	
U.S. government and agency securities	\$ 60,639
State and municipal securities	-
Asset - backed securities	8,716
Corporate and other debt	7
Corporate equities	-
Other	-
<b>Total Securities sold under agreement to repurchase</b>	<b>\$ 69,362</b>
Securities loaned	
U.S. government and agency securities	\$ -
State and municipal securities	-
Asset - backed securities	-
Corporate and other debt	120
Corporate equities	2,017
Other	-
<b>Total Securities loaned</b>	<b>\$ 2,137</b>

(2) Amounts presented on a gross basis, prior to netting as shown on the Company's Statement of Financial Condition.

In the normal course of business, the Company obtains securities under agreements to resell and securities borrowed on terms which permit it to resell or lend the securities to others. At December 31, 2018, the Company obtained via either secured borrowings or reverse repurchase agreements securities with a fair value of \$72,502,056,797, of which approximately \$71,522,915,912 have been either sold under agreements to repurchase or lent to others in connection with the Company's activities.

At December 31, 2018, the Company had non-cash securities lending agreements. The Company has transferred assets (U.S. treasuries), accounted for as financing, and received (U.S. equities) as collateral. The fair value of the collateral received is recorded in the Statement of Financial Condition as "Securities received as collateral" and "Obligation to return collateral" in the amount of \$100,522,300.

In addition, at December 31, 2018, the Company has off-balance sheet securities borrowed of \$116,568,187.

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**(4) Derivative Instruments**

The Company enters into forward starting reverse repurchase agreements (agreements that have an extended settlement term) that are primarily secured by collateral from U.S. government securities. At December 31, 2018, the Company had reverse repurchase and repurchase agreements of \$2,404,330,993 and \$2,059,014,250, respectively, that had an immaterial fair value.

The Company enters into forward settlement US agency mortgage-backed securities (transactions with an extended settlement term). At December 31, 2018, the Company had buy and sell transactions of \$3,672,521,775 and \$3,686,346,775, respectively, that had an immaterial fair value.

**(5) Intangible Assets**

Under the provisions of ASC 350, *Intangibles – Goodwill and Other*, for intangible assets not subject to amortization, the Company evaluates on an annual basis whether the fair value is greater than the carrying value of such assets. The Company has concluded that the fair value is greater than the carrying amounts of such assets. Intangible assets *not subject to amortization* consisting of customer relationships amounted to \$8,480,450 at December 31, 2018, and are included in Other assets in the Statement of Financial Condition.

**(6) Receivable From and Payable to Broker-Dealers and Clearing Organizations**

Amounts receivable from and payable to broker-dealers and clearing organizations at December 31, 2018 consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Securities failed-to-deliver/receive	\$ 640,551,548	\$ 669,285,303
Receivable from and payable to clearing organizations	50,859,282	31,611,282
Receivable from and payable to broker-dealers	<u>26,092,424</u>	<u>68,401,825</u>
	<u>\$ 717,503,254</u>	<u>\$ 769,298,410</u>

**(7) Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consist of leasehold improvements, furniture, fixtures, computer and communication equipment, and software. Furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of premises and equipment are provided by the straight-line method over the estimated useful life of the asset.

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or, where applicable, the remaining term of the lease, but generally not exceeding five years.

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Furniture, equipment and leasehold improvement costs are tested for impairment whenever events or changes in circumstances suggest that an asset's carrying value may not be fully recoverable in accordance with current accounting guidance.

Furniture, equipment and leaseholds consisted of the following at December 31, 2018:

Furniture, equipment, and software	\$ 15,369,060
Leasehold improvement	9,449,372
	<u>24,818,432</u>
Less: Accumulated depreciation and amortization	<u>(16,549,219)</u>
	<u>\$ 8,269,213</u>

**(8) Related Party Transactions**

In order to benefit from infrastructural cost savings, the Company shares some of the same resources with the Parent and certain affiliates as defined by service agreements.

The Parent and certain affiliates provide various clearing and administrative services to the Company, for which the Company is charged in accordance with the service level agreements. At December 31, 2018, included in Other liabilities in the Statement of Financial Condition, the Company had payables to the Parent and affiliates of \$2,659,254 related to these services.

Pursuant to a tax sharing arrangement with the Parent and certain affiliates, the Company establishes a payable or receivable with the Parent for any current state and local taxes. At December 31, 2018, this receivable amounted to \$441,700 and was included in Other assets in the Statement of Financial Condition.

An affiliate subleases space from the Company and paid the Company rent during 2018.

The Company has a committed line of credit arrangement with the Parent in the amount of \$250,000,000. Draw-downs pursuant to the credit line are unsecured, and the agreement expires on February 28, 2021. In addition, on November 9, 2018 the Company has entered into an additional committed line of credit arrangement with the Parent in the amount of \$200,000,000. During the year and as of December 31, 2018, there were no borrowings outstanding under those agreements.

The Company also has an uncommitted short term money market lending facility with the Parent, providing overnight funds at market rates. As of December 31, 2018, there was \$750,000,000 and \$200,000,000 or a total \$950,000,000 outstanding. The interest rates on those borrowings were 2.70% and 2.08% respectively at December 31, 2018. Amounts borrowed under the facility are unsecured. The average balance outstanding was \$171,402,778 at a weighted average rate of 2.16%.

The Company also has an uncommitted intra-day money market loan facility with the Parent, providing for intraday loans up to \$300,000,000. The interest rate on this borrowing was 0.10% at December 31, 2018. The average balance drawn was \$300,000,000 at a weighted average rate of 0.10%.

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During the year, the Company transacted reverse repurchase and repurchase agreements with the Parent and affiliates. As of December 31, 2018, there was no repurchase agreements outstanding with the Parent and affiliates. As of December 31, 2018, there was \$98,250,000 of reverse repurchase agreements outstanding with the Parent and affiliates with a weighted average interest rate of 2.61% as of December 31, 2018. During the year, the average balance of reverse repurchase agreements was \$132,770,404 with a weighted average interest rate of 2.83%. During the year, the average balance of repurchase agreements was \$28,352,764 with a weighted average interest rate of 2.75%.

In addition, the Company has subordinated borrowing agreements with the Parent. Please refer to Note 10 for details.

**(9) Employee Benefit Plans**

The Company maintains a Traditional and Roth 401(k) Plan (the "Plan"). Each year, participants may contribute up to 20% of pretax annual compensation, as defined in the Plan, subject to certain Internal Revenue Code limitations. Participants may also contribute amounts representing rollover distributions from other qualified plans. The Company will make a matching contribution up to 100% of the first 4% of base compensation that a participant contributes as pre-tax and after-tax contributions to the Plan. In addition, the Company will make a non-elective contribution of the lesser of 100% of the participant's contribution or 5% of a participant's base compensation.

**(10) Borrowings Subordinated to Claims of General Creditors**

The Company has two subordinated borrowing agreements with the Parent in the amounts of \$100,000,000 and \$300,000,000. The \$100,000,000 subordinated borrowing has an interest rate of .20% and matures on October 15, 2022 and the \$300,000,000 subordinated borrowing has an interest rate of .20% and matures on September 30, 2020.

The borrowings has been approved by FINRA and are available in computing net capital under SEC Rule 15c3-1. These borrowings are subordinated to the claims of general creditors and, to the extent they are required for the Company's continued compliance with minimum net capital requirements, may not be repaid.

Associated with the borrowings are two secured demand note receivables of \$400,000,000 from the Parent, which are noninterest-bearing and are collateralized by U.S. Treasury securities with an estimated fair value of \$108,932,976 and Supranational debt with an estimated fair value of \$328,402,676 as of December 31, 2018.

**(11) Income Taxes**

The Tax Cuts and Jobs Act (TCJA), enacted on December 22, 2017, significantly revised U.S. corporate income tax law by, among other things, reducing the corporate income tax rate to 21%, and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries; imposes a minimum tax on GILTI and an alternative base erosion and anti-abuse tax ("BEAT") on U.S. corporations that make deductible payments to non-U.S. related persons in excess of specified amounts; and broadens the tax base by partially or wholly eliminating tax deductions for certain historically deductible expenses. The

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Company has reflected the impact of the 2017 TCJA in the financial statements. The Company continues to monitor the impact of the TCJA as additional regulations and formal guidance are provided.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Net deferred tax assets at December 31, 2018, were \$11,444,793, comprised of \$3,077,136 of gross deferred tax liabilities and \$14,521,929 of gross deferred tax assets, included in Deferred tax liability and Other assets on the Statement of Financial Condition, respectively. Deferred tax liabilities relate principally to the excess of book over tax basis of the intangible assets and fixed assets. Deferred tax assets relate principally to compensation and reserve for credit losses. Federal taxes receivable of \$2,691,408 and intercompany state taxes payable of \$1,439,828 are included in Other assets and Other liabilities, in the Statement of Financial Condition.

The Company believes it is more-likely-than-not that the Company will realize the benefits of the gross deferred tax assets taken into account the scheduled reversal of deferred tax liabilities and projected future taxable income over the period on which the deferred tax assets become deductible.

As of December 31, 2018, the Company had no unrecognized tax benefits or related accrued interest and penalties.

The earliest taxable year that the Company is subject to Federal and New York State tax examination is 2015. In the first quarter 2018, the Company settled the New York City audit related to the years 2012 through 2014.

**(12) Regulatory Requirements**

The Company is subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, as permitted by the Rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$1,500,000 or 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2018, the Company had net capital of \$434,151,374 which was \$429,064,603 in excess of required net capital of \$5,086,771.

The Company is also subject to the SEC's Customer Protection Rule ("SEC Rule 15c3-3"), which requires, under certain circumstances, that cash or securities be deposited into a special reserve bank account for the exclusive benefit of customers and for the proprietary accounts of introducing brokers. At December 31, 2018, the Company's Customer reserve computation indicated no reserve requirement. At December 31, 2018, the Company had qualified securities in the amount of \$55,866,238 segregated in its account reserved for the exclusive benefit of customers.

The Company is also required to perform a computation of reserve requirements for Proprietary Accounts of Brokers ("PAB"). At December 31, 2018, the Company's PAB reserve computation indicated no reserve requirement. At December 31, 2018, the Company had qualified securities in the amount of \$108,194,133 segregated in its PAB reserve account.

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**(13) Commitments, Contingencies and Guarantees**

The Company is a member of various exchanges that trade and clear securities or futures contracts or both. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. Although the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources.

In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the Statement of Financial Condition for these agreements and believes that any potential requirement to make payments under these agreements is remote.

The Company leases office space under an operating lease which expires in January 2021. The Company has sub-leases related to the foregoing operating lease. Future minimum lease payments during the next five years at December 31, 2018 are as follows:

<b>Year</b>	<b>Gross Amount</b>	<b>Sublease Income</b>	<b>Net Amount</b>
2019	\$ 3,891,750	\$ 1,531,224	\$ 2,360,526
2020	3,891,750	1,080,172	2,811,578
2021	324,313	-	324,313
	<b>\$ 8,107,813</b>	<b>\$ 2,611,396</b>	<b>\$ 5,496,417</b>

There are no minimum lease obligation after 2021. Occupancy lease agreements, in addition to base rentals, generally provide for operating expense escalations resulting from increased assessments for real estate taxes and other charges. Also, in accordance with the lease agreement, the Company has deposited a letter of credit with the landlord in the amount of \$1,945,875 as security.

In accordance with FASB ASC 450, *Contingencies*, the Company's policy regarding legal and other contingencies is to accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated (see Notes 14 and 15).

**(14) Credit Risk**

The Company enters into short-term collateralized financing transactions and, consequently, has credit risk for the timely repayment of principal and interest. Credit risk is measured by the loss the Company would record if its counterparties failed to perform pursuant to the terms of their contractual obligations and the value of collateral held, if any, was not adequate to cover such losses. Specifically, the Company's potential credit loss exposure for contractual commitments is equal to the market or fair value of contractual commitments that are in a net asset position less the effect of master netting agreements. The Company has established controls to monitor the



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**(A Wholly Owned Subsidiary of Industrial and Commercial Bank of China Limited)**  
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creditworthiness of counterparties, as well as the quality of pledged collateral, and uses master netting agreements whenever possible to mitigate the Company's exposure to counterparty credit risk. The Company may require counterparties to submit additional collateral when deemed necessary. The Company controls the collateral pledged by the counterparties, which consists largely of securities issued by the U.S. government or its agencies and the fair value of which approximates the carrying amount of the financing transactions. See below for additional details. The Company monitors exposure to individual counterparties and securities for concentrations above approved limits. There were no concentrations as of December 31, 2018.

The Company has determined that pricing for certain collateral received from a counterparty as part of a reverse repurchase transaction was incorrect. Upon attempting to deliver the collateral to the counterparty, the Company was advised by the counterparty that it was unable to return the cash. Based on a valuation of the collateral, the Company has established \$43,191,324 as a valuation allowance of Securities purchased under agreements to resell, net in the Statement of Financial Condition. Additionally, the Company placed the related contract on non-accrual status. The gross contract value of the non-accrual contract was \$138,299,412 as of December 31, 2018.

**(15) Legal Proceedings**

The Company is involved in several judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of the Company's businesses. A few of these proceedings are in early stages and seek an indeterminate amount of damages.

As of the date hereof, the Company has estimated a probable loss of approximately \$30,000,000 related to such matters and has reserved for and included such amount in Other liabilities in the Statement of Financial Condition. With respect to legal and regulatory matters for which management has been able to estimate a range of reasonable possible loss as of December 31, 2018, we estimate the upper end of the range of reasonably possible aggregate loss to be approximately \$15 million in excess of the aggregate reserves for such matters.

In addition to the above, the Company is subject to, or involved in, investigations and other proceedings by government agencies and self-regulatory organizations, with respect to which the Company is cooperating. Such investigations and other proceedings may result in judgments, settlements, fines, disgorgements, penalties, injunctions or other relief.

Given the inherent uncertainties and the current stage of these inquiries, and the Company's ongoing reviews, the Company is unable to predict the outcome of these matters at this time.