

**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

JUNE 30, 2021

Industrial and Commercial Bank of China Financial Services LLC
(A Wholly Owned Subsidiary of Industrial and Commercial Bank of China Limited)
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June 30th 2021

Assets

Cash and cash equivalents	\$51,394,587
Securities purchased under agreements to resell, net	17,915,631,704
Securities borrowed	3,840,675,542
Deposits with clearing organizations	205,974,612
Receivables:	
Customers	107,355,563
Broker-dealers and clearing organizations	254,847,106
Secured demand note receivable	500,000,000
Interest and dividends receivable	593,419
Right of use asset	21,570,613
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$25,162,790	1,942,233
Securities received as collateral	97,456,672
Other assets	36,849,776
Total assets	<u>\$23,034,291,827</u>

Liabilities and Member's Capital

Liabilities:

Short term borrowings	\$325,000,000
Securities sold under agreements to repurchase, net	20,045,593,888
Securities loaned	1,507,445,944
Payables:	
Customers	99,183,678
Broker-dealers and clearing organizations	332,165,812
Lease liability	21,570,613
Deferred tax liability	2,338,537
Interest and dividends payable	1,289,280
Obligation to return securities	97,456,672
Other liabilities	11,573,187
	<u>22,443,617,611</u>
Borrowings subordinated to claims of general creditors	500,000,000
Member's capital	90,674,216
Total liabilities and member's capital	<u>\$23,034,291,827</u>

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

Industrial and Commercial Bank of China Financial Services LLC
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Notes to the Statement of Financial Condition
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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 financial statements are 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 financial statements. 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. The Company maintains amounts due from banks which, at times, exceed federally insured limits.

(c) Receivable from and Payables to Customers and Broker-dealers 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 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

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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 June 30, 2021, cash and securities of \$205,974,612 and \$97,456,672, respectively, were deposited with clearing organizations. Additionally, securities of \$158,747,067 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 and Securities borrowed 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 tax expenses. 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 (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. 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

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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.

The Company uses data from its primary pricing vendor in establishing the daily fair value of securities collateral; while data from a 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 to collateralize securities borrowed transactions, and will receive cash or securities 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" included within securities received as collateral and obligation of return securities on the Statement of Financial Condition.

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.

(f) Fair Value of Financial Instruments

Substantially all of the Company's assets and liabilities are carried at fair value or contracted amounts which approximate fair value. 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.

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(g) *Derivative Instruments*

The Company facilitates and enters into contingent and forward starting repurchase agreements with the clients and third parties that settle at a future date, generally within three business days. The Company accounts for these transactions as forward contracts.

In addition, the Company facilitates forward mortgage-backed securities transactions for its clients. For the contracts where the Company acts as a principal prior to settlement date the Company accounts for these transactions as forward contracts.

(h) *Foreign Currencies*

The Company has cash on deposit with banks, as well as receivables and payables to customers and counterparties, denominated in foreign currencies. These assets and liabilities are translated at closing exchange rates at June 30, 2021.

(i) *Leases (ASC 842)*

The Company recognizes leases with terms exceeding one year in the Statement of Financial Condition as Right of use (ROU) asset, representing the right to use the underlying asset for the lease term, and a Lease liability, representing the liability to make lease payments. See Note 13 for lease disclosures.

(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.

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	<u>As of June 30, 2021</u>	
	Assets	Liabilities
	Securities purchased under agreements to resell	Securities sold under agreements to repurchase
(in millions)		
Amounts included in the Statement of Financial Condition		
Gross carrying value	\$38,957	\$41,087
Counterparty netting	(21,041)	(21,041)
	<u>\$17,916</u>	<u>\$20,046</u>
(in millions)		
Amounts included in the Statement of Financial Condition		
Gross carrying value	\$3,841	\$1,507
Counterparty netting	-	-
Net	<u>\$3,841</u>	<u>\$1,507</u>

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

June 30, 2021	Net amount included on the Statement of Financial Condition	Financial Instruments Collateral (1)	Net Exposure
(in millions)			
Financial assets subject to enforceable MNA (1)			
Securities borrowed	\$3,841	\$3,841	-
Securities purchased under agreements to resell, net	17,916	17,916	-
Total	<u>\$21,757</u>	<u>\$21,757</u>	<u>-</u>
Financial liabilities subject to enforceable MNA			
Securities loaned	\$1,507	\$1,477	\$30
Securities sold under agreements to repurchase	20,046	19,957	89
Total	<u>\$21,553</u>	<u>\$21,434</u>	<u>\$119</u>

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- (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 30, 2021				
	Remaining Contractual Maturity (In Millions)				
	Overnight or Continuous	Less than 30 days	30-90 days	Over 90 days	Total
Repurchase Agreements (2)	\$39,772	\$1,268	\$48	-	\$41,088
Securities Loaned	1,507	-	-	-	1,507
Gross amount of secured financing included in the above offsetting disclosure	<u>\$41,279</u>	<u>\$1,268</u>	<u>\$48</u>	<u>-</u>	<u>\$42,595</u>

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

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<u>Secured Financing by the Class of Collateral Pledged (in millions)</u>	<u>At June 30, 2021</u>
Securities sold under agreement to repurchase (3)	
U.S. government and agency securities	\$40,932
State and municipal securities	-
Asset - backed securities	21
Corporate and other debt	134
Corporate equities	-
Other	-
Total Securities sold under agreement to repurchase	<u>\$41,088</u>
Securities loaned	
U.S. government and agency securities	-
State and municipal securities	-
Asset - backed securities	-
Corporate and other debt	-
Corporate equities	1,507
Other	-
Total Securities loaned	<u>\$1,507</u>

(3) 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 June 30, 2021, the Company obtained via either secured borrowings or reverse repurchase agreements securities with a fair value of \$21,725,492,035, of which approximately \$21,433,983,660 have been either sold under agreements to repurchase or lent to others in connection with the Company's activities.

At June 30, 2021, the Company had non-cash securities lending agreements where the Company was legally the Lender. The Company has transferred assets 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 \$97,456,672.

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(4) Derivative Instruments

The Company enters into contingent and forward starting reverse repurchase and repurchase agreements (agreements that have an extended settlement term) that are primarily secured by collateral from U.S. government securities. At June 30, 2021, the Company had reverse repurchase and repurchase agreements of \$7,055,919,000 and \$11,251,065, 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 June 30, 2021, the Company had buy and sell transactions of \$4,301,750,000 and \$4,301,750,000, 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. If the carrying amount of such assets exceeds the fair value on the undiscounted cash flows expected to be generated, an impairment loss is recognized in an amount equal to that excess. 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 June 30, 2021, 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 June 30, 2021 consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Securities failed-to-deliver/receive	\$204,422,589	\$255,567,420
Receivable from and payable to clearing organizations	34,772,002	6,163,056
Receivable from and payable to broker-dealers	15,652,515	70,435,336
	<u>\$254,847,106</u>	<u>\$332,165,812</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.

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.

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.

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Furniture, equipment and leaseholds consisted of the following at June 30, 2021:

Furniture, equipment, and software	\$ 17,655,651
Leasehold improvement	9,449,372
	<u>27,105,023</u>
Less: Accumulated depreciation and amortization	(25,162,790)
	<u>\$ 1,942,233</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.

At June 30, 2021, included in Other liabilities in the Statement of Financial Condition, the Company had payables to the Parent and affiliates of \$1,355,580 related to subordinated borrowings and line of credit.

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 tax expenses. At June 30, 2021, this payable amounted to \$220,805 and was included in Other liabilities in the Statement of of Financial Condition.

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 September 18, 2021. In addition, the Company has entered into an additional committed line of credit arrangement with the Parent in the amount of \$200,000,000 and the agreement expires on November 15, 2023. During the year and as of June 30, 2021, there were no borrowings outstanding under those agreements.

The Company also has an uncommitted short term money market lending facility available with the Parent, providing overnight funds at market rates. As of June 30, 2021, there was \$300,000,000 and \$25,000,000 or \$325,000,000 outstanding. The interest rates on those borrowings were 0.19% and 0.30% respectively at June 30, 2021. Amounts borrowed under the facility are unsecured.

The Company also has an uncommitted intra-day money market loan facility with the Parent, providing for intra-day loans. The interest rate on this borrowing was 0.10% at June 30, 2021. The average balance drawn was \$300,000,000 at a weighted average rate of 0.10%. As of June 30, 2021, there were no borrowings outstanding under the above agreement.

Through the year, the Company transacts reverse repurchase and repurchase agreements with the Parent and affiliates. As of June 30, 2021, there was \$7,089,035 repurchase agreements outstanding with the Parent as of June 30, 2021. As of June 30, 2021, there was \$473,000,000 reverse repurchase agreements outstanding with the Parent and affiliates. Through the year, the average balance of reverse repurchase agreements was \$23,992,951 with a weighted average interest rate of 0.02%. Through the year, the average balance of repurchase agreements was \$248,170,550 with a weighted average interest rate of 0.09%.

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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 three subordinated borrowing agreements and associated secured demand notes receivable with the Parent as follows:

<u>Nominal</u>	<u>Market Value (1)</u>	<u>Maturity</u>	<u>Interest Rate</u>
\$100,000,000	\$113,227,152	10/15/2022	0.20%
300,000,000	332,421,394	9/30/2023	0.20%
<u>100,000,000</u>	<u>110,229,532</u>	8/30/2022	0.20%
<u>\$500,000,000</u>	<u>\$555,878,078</u>		

(1) Market Value represents Fair Market Value of securities securing the demand notes.

The borrowings have 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, they may not be repaid.

(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 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.

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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. Deferred tax assets of \$2,529,464 were reported in other assets, and deferred tax liabilities of \$2,338,537 were in deferred tax liabilities on the Statement of Financial Condition. Deferred tax liabilities relate principally to the excess of book over tax basis of the intangible assets. Deferred tax assets relate principally to Deferred compensations. Federal taxes receivable of \$22,815,989 and intercompany state taxes payable of \$220,805 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 in which the deferred tax assets become deductible.

As of June 30, 2021, the Company had no unrecognized tax benefits or related accrued interest and penalties. The Company's policy is to account for interest and penalties as a component of Income tax expense.

The Company is not currently under audit for any federal or state income tax returns. The ICBC combined tax group in which the Company is a member, is currently under NYS and NYC audit for tax years 2015 and 2016.

The earliest taxable year that the Company is subject to Federal tax examination is 2017.

(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 June 30, 2021, the Company had net capital of \$517,589,572 which was \$515,438,418 in excess of required net capital of \$2,151,154.

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 June 30, 2021, the Company's Customer reserve computation indicated \$20,392,775 reserve requirement. At June 30, 2021, the Company had qualified securities in the amount of \$85,617,461 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 June 30, 2021, the Company's PAB reserve computation indicated \$34,370,876 reserve requirement. At June 30, 2021, the Company had qualified securities in the amount of \$73,129,606 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.

Leases

In accordance with ASC 842, *Leases* the Company has recorded on its Statement of Financial Condition a lease liability and a right of use asset.

Under ASC 842-10-65-1 the Company elected a package of transition expedients that allows the Company to forgo reassessing certain conclusions reached under legacy GAAP. All expedients in this package were applied together for all leases that commence before the effective date of ASC 842. In transitioning to ASC 842, the Company did not assess:

1. Whether any expired or existing contracts are leases or contain leases under ASC 842
2. Classification of any expired or existing leases under ASC 842
3. Whether unamortized initial direct costs for existing leases meet the definition of initial direct costs under ASC 842

The Company leases office space and a disaster recovery site which are both accounted for as operating leases. As of June 30, 2021, the Company recorded an aggregate lease liability in the amount of \$21,570,613, including its primary office lease of \$20,721,710 and its disaster recovery site lease of \$848,903.

The Company's primary workspace lease commenced in April 2020 and expires in April 2026. At June 30, 2021, the Company recorded a lease liability of \$20,721,710 associated with its office space using a discount rate of 2.27%. Also, in accordance with the lease agreement, the Company deposited a letter of credit with the landlord in the amount of \$1,300,000 as security.

The Company's disaster recovery site lease commenced in October 2020 and expires in January 2023. At June 30, 2021, the Company recorded a lease liability of \$848,903 associated with its disaster recovery site using a discount rate of 1.36%.

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Future minimum lease payments during the next six years at June 30, 2021 are as follows:

<u>Year</u>	<u>Gross Amount</u>
2021	\$1,891,490
2022	4,927,904
2023	4,455,432
2024	4,412,480
2025	4,412,480
2026	1,470,827
	<u>\$21,570,613</u>

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.

(14) Legal Proceedings

The Company may be involved in judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of the Company's businesses and, as a result, may incur fines, penalties or damages awarded against the Company, as well as settlements the Company may make to resolve a matter, and legal costs incurred to defend the Company.

The Company regularly consults external legal counsel to evaluate each legal proceeding and claim on a case-by-case basis to assess whether an estimate of possible loss or range of loss can be made, if recognition of a liability is not appropriate. 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. At June 30, 2021, the Company is not aware of any outstanding contingencies that requires accrual or disclosure.

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(15) 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 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 June 30, 2021.

(16) Subsequent Events

In accordance with U.S. GAAP disclosure requirements on subsequent events, management has evaluated events for possible recognition or disclosure in the financial statements through August 31, 2021, the date the financial statements were available to be issued. No matters were identified which would require recognition or disclosure in the consolidated financial statements.