STONEX FINANCIAL INC.
(A Wholly Owned Subsidiary of
StoneX Group Inc.)

Statement of Financial Condition and Supplemental Information

March 31, 2022

(Unaudited)

StoneX Financial Inc.
Statement of Financial Condition
March 31, 2022
(Unaudited; amounts in thousands, except par value and share amounts)

Assets	
Cash and cash equivalents	$ 25,885
Cash, securities, and other assets segregated under federal regulations (including $25,546 at fair value)	1,492,794
Collateralized transactions:	
Securities purchased under agreements to resell	2,519,633
Securities borrowed	2,084,751
Deposits with and receivables from broker-dealers, clearing organizations and counterparties net (including $710,150 at fair value)	5,459,463
Receivables from clients, net	378,685
Securities owned, at fair value (including $1,448,732 of securities pledged as collateral that the counterparty has the right to sell or repledge)	3,913,980
Exchange and clearing organization memberships and stock, at cost	7,050
Deferred income taxes, net	9,389
Property and equipment, net	5,905
Operating lease right of use assets	4,230
Goodwill and intangible assets, net	16,135
Due from affiliates	2,322
Other assets	18,478
Total assets	$ 15,938,700

Liabilities and Stockholder’s Equity	
Liabilities:	
Payables to:	
Clients	$ 6,536,642
Broker-dealers, clearing organizations and counterparties (including $62,270 at fair value)	318,013
Lenders under loans	68,000
Affiliates	65,989
Accounts payable and accrued expenses	97,855
Operating lease liabilities	4,264
Collateralized transactions:	
Securities sold under agreements to repurchase	3,807,939
Securities loaned	2,103,724
Securities sold, not yet purchased, at fair value	2,298,169
Income taxes payable to StoneX Group Inc.	47,656
Total liabilities	15,348,251
Commitments and contingencies (note 11)	
Stockholder’s equity:	
Common stock, $0.01 par value. Authorized 10,000 shares; issued and outstanding 1,000 shares	—
Additional paid-in capital	462,684
Retained earnings	127,765
Total stockholder’s equity	590,449
Total liabilities and stockholder’s equity	$ 15,938,700

See accompanying notes to the statement of financial condition.

Note 1 - Summary of Significant Accounting Policies and Related Matters

a. ***Description of Business***

StoneX Financial Inc. ("the Company") is a corporation organized under the laws of the State of Florida on May 29, 1998 and a wholly owned subsidiary of StoneX Group Inc. ("the Parent" or "StoneX Group").

The Company is a diversified financial services organization providing clearing, execution, custodial, risk management, advisory, brokerage, and market intelligence services across asset classes. The Company's services include comprehensive risk management advisory for commercial clients; clearing and execution of debt and equity securities, listed futures, and options on futures contracts on all major securities and commodity exchanges; principal trading of fixed income and equity securities; and market-making in international equities.

The Company is a broker-dealer registered with the United States ("U.S.") Securities and Exchange Commission ("SEC") and is a member of both the Financial Industry Regulatory Authority, Inc. ("FINRA") and the Municipal Securities Rulemaking Board ("MSRB"). In addition, the Company is a registered futures commission merchant ("FCM") and a member of various clearing organizations in the U.S. and abroad and, accordingly, is subject to the clearing organizations' various requirements as well as regulatory requirements of the U.S. Commodity Futures Trading Commission ("CFTC") and the National Futures Association ("NFA").

The Company clears its securities transactions internally, or externally, primarily through Pershing LLC ("Pershing") and Broadcort, a division of Merrill Lynch, Pierce, Fenner & Smith, Incorporated ("Broadcort") on a fully disclosed basis.

The Company conducts business activities throughout the U.S. and abroad, with offices or a presence in more than 15 states, Canada, and Colombia. The Company also has various affiliates in other foreign jurisdictions that introduce business to the Company, including in China, Brazil, the United Kingdom ("U.K."), Canada, Singapore, Argentina, Paraguay, and Mexico. Transactions in international markets are primarily settled in U.S. dollars.

b. ***Use of Estimates***

Preparing the statement of financial condition in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statement. The most significant of these estimates and assumptions relate to fair value measurements for financial instruments, income taxes, allowances for expected credit losses, and contingencies. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. The Company reviews all significant estimates on a recurring basis and records any necessary adjustments in the appropriate reporting period. Although these, and other estimates and assumptions, are based on the best available information, actual results could be materially different from these estimates.

c. ***Foreign Currency Remeasurement***

Assets and liabilities denominated in foreign currencies are converted into U.S. dollar equivalents at exchange rates in effect at the close of business on March 31, 2022.

d. ***Cash and Cash Equivalents***

Cash and cash equivalents includes unrestricted cash held at banks and not deposited with or pledged to broker-dealers, clearing organizations, and counterparties, or segregated under federal regulations.

e. ***Cash, Securities and Other Assets Segregated Under Federal Regulations***

Pursuant to requirements of the Commodity Exchange Act and Commission Regulation 30.7 ("Section 30.7"), funds deposited by clients relating to futures, options on futures, and cleared swaps contracts in regulated commodities must be carried in separate accounts, which are designated as segregated client accounts. The deposits in segregated client accounts are maintained for the exclusive benefit of clients and are not commingled with the funds of the Company.

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934 ("Rule 15c3-3"), the Company maintains separate accounts for the benefit of securities clients and proprietary accounts of broker dealers ("PABs"). Rule 15c3-3 requires the Company to maintain special reserve bank accounts ("SRBAs") for the exclusive benefit of securities clients and PABs.

At March 31, 2022, cash, securities and other assets segregated under federal regulations consisted of the following (see additional fair value disclosures in Note 5) (in thousands):

Cash held in SRBAs for the benefit of securities clients and PABs under Rule 15c3-3	$ 6,390
Assets segregated and secured under Section 4d(2) and 4d(f) of the Commodity Exchange Act and Commission Regulation 30.7:	
Cash	1,295,865
Commodities warehouse receipts	25,546
U.S. Treasury obligations	164,993
Cash, securities, and other assets segregated under federal regulations	$ 1,492,794

f. ***Collateralized Transactions***

The Company enters into securities purchased under agreements to resell "reverse repurchase agreements", securities sold under agreements to repurchase "repurchase agreements", securities borrowed transactions, and securities loaned transactions primarily to fund principal debt trading, acquire securities to cover short positions, acquire securities for settlement, or meet counterparty needs under matched-booked trading strategies.

These transactions are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. In connection with these agreements and transactions, the Company receives, or pledges, cash or securities to collateralize such agreements and transactions in accordance with contractual arrangements. The Company monitors the fair value of the collateral on a daily basis and the Company may require counterparties, or may be required by counterparties, to deposit additional collateral or return collateral pledged. The carrying amounts of these transactions approximate fair value due to their short-term nature and the level of collateralization. These transactions are reported gross, except when a right of offset exists.

g. ***Deposits with and Receivables from and Payables to Broker-Dealers, Clearing Organizations and Counterparties, Net***

Deposits with clearing organizations pertain primarily to deposits made to satisfy clearing organization margin requirements on client and proprietary open futures and options on futures positions, as well as to satisfy the requirements set by clearing exchanges for clearing membership.

In addition to margin, deposits with clearing organizations include guaranty deposits, which are held by clearing organizations for use in potential default situations by one or more members of the clearing organizations. The guaranty deposits may be applied to the Company's obligations to the clearing organization or to the clearing organization's obligations to unrelated parties.

Deposits with clearing organizations also include securities deposited with, or pledged to, clearing organizations. These securities are primarily U.S. Treasury obligations that were either pledged to the Company by its clients or represent investments of client funds. These securities are carried at fair value with any change in fair value reflected in payables to clients for those pledged by clients.

Receivables from clearing organizations include amounts due from or due to clearing organizations for daily variation settlements on open futures, options on futures, and cleared swaps positions. The variation settlements due from or due to clearing organizations are settled in cash on the following business day. Variation settlements equal the daily settlement of futures and cleared swaps contracts and premiums on options on futures contracts.

Receivables from clearing organizations also include the unrealized gains and losses associated with clients' options on futures contracts. For client owned derivative contracts, the fair value is offset against the payable to or receivable from clients.

The Company maintains client omnibus and proprietary accounts with other clearing organizations, and the equity balances in those accounts along with any margin cash or securities deposited with the clearing organizations are included in deposits with and receivables from broker-dealers, clearing organizations and counterparties.

Deposits with clearing organizations also include cash on deposit with the Depository Trust and Clearing Corporation and its subsidiaries, the Options Clearing Corporation, Pershing, and Broadcort, as an ongoing condition of the respective securities clearing relationships.

Receivables from broker-dealers and counterparties also include amounts receivable for securities sold but not yet delivered by the Company on settlement date ("fails-to-deliver") and net receivables arising from unsettled proprietary trades.

Payables to broker-dealers and counterparties primarily include amounts payable for securities purchased but not yet received by the Company on settlement date ("fails-to-receive") and net payables arising from unsettled proprietary trades.

Management has considered accounting guidance for assets pledged by clients to satisfy margin requirements. Based upon the terms and conditions of client agreements, management believes that a legal basis exists to support that the client surrenders control over those assets given that the following three conditions are met: (a) the transferred assets have been isolated from the transferor - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (b) each transferee has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor and (c) the transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets. Under this guidance, the Company reflects client collateral assets and corresponding liabilities in the statement of financial condition, as the rights to those securities have been transferred to the Company under the terms of the agreements with the client.

Deposits with and receivables from and payables to broker-dealers, clearing organizations and counterparties are reported gross, except where a right of setoff exists.

The Company has an allowance for doubtful accounts of $2,971,266 as of March 31, 2022 included in deposits with and receivables from broker-dealers, clearing organizations and counterparties, net.

At March 31, 2022, deposits with and receivables from and payables to broker-dealers, clearing organizations and counterparties consisted of the following (see additional fair value disclosures in Note 5) (in thousands):

Deposits and receivables:	
Cash margin, including accrued interest, on deposit with clearing organizations	$ 3,877,261
Securities pledged to clearing organizations	814,388
Exchange settlements due from clearing organizations	360,991
Clearing organization guaranty deposits	104,066
Net option values due to clearing organizations and other counterparties	(197,626)
Cash margin on deposit with registered FCMs and amounts held by members of foreign boards of trade	89,995
Cash margin on deposit with securities clearing firms and organizations	141,447
Receivables from securities introducing broker-dealers, net	124,015
Securities failed-to-deliver	142,343
Securities clearing firm deposits	1,512
Other	1,071
	$ 5,459,463
Payables:	
Broker-dealers, and clearing organizations and counterparties on unsettled trades	$ 174,653
Securities failed-to-receive	142,125
Other	1,235
	$ 318,013

h. ***Receivables from and Payables to clients***

Receivables from clients, net includes the total of net deficits in individual exchange-traded futures and option on futures, as well as exchange-cleared swaps trading accounts carried by the Company and amounts due from other services provided to the Company's clients. Client deficits arise from realized and unrealized trading losses on futures, options on futures, cleared swaps, and amounts due on cash and margin transactions. Client deficit accounts are reported gross of client accounts that contain net credit or positive balances, except where a right of setoff exists. Net deficits in individual trading accounts include both secured and unsecured deficit balances due from clients as of the statement of financial condition date. There are no exchange-traded futures and options on futures secured deficits secured by U.S. Treasury securities as of March 31, 2022. Exchange-traded futures and options on futures secured deficit amounts of $617,987 are secured by commodity warehouse receipts as of March 31, 2022. These commodity warehouse receipts are not netted against the secured deficit amounts, as the conditions for right of setoff have not been met. See note 11 for additional discussion of client deficit accounts originating in November 2018.

Receivables from clients, net include amounts receivable from non-broker-dealer clients for fails-to-deliver. They also include the net amounts receivable from securities clients in connection with the settlement of securities transactions and margin loans to clients. It is the Company's policy to report margin loans and payables that arise due to positive cash flows in the same client's accounts on a net basis when the conditions for netting as specified in U.S. GAAP are met. Clients' securities transactions cleared by the Company are recorded on a settlement date.

When the Company provides clearing and execution services to clients, the securities owned by clients, including those that collateralize margin loans or other similar transactions, are not reflected on the statement of financial condition, as the Company does not have title to those assets. In the event of uncompleted transactions on settlement date, the Company records corresponding receivables and payables, respectively. The carrying values of the receivables and payables approximates fair value due to their short-term nature. These client receivables are generally secured by the securities that have been cleared on the clients' behalf and pledged to the Company as collateral.

The future collectability of receivables from clients can be impacted by the Company's collection efforts, the financial stability of its clients, and the general economic climate in which it operates. The Company evaluates accounts that it believes may become uncollectible in accordance with requirements under Accounting Standards Update ("ASU") No. 2016-13, "Measurement of Credit Losses on Financial Instruments", by reviewing daily margin deficit reports, the historical daily aging of the receivables, monitoring the amount and nature of pledged collateral, and by monitoring the financial strength of its clients. The Company may unilaterally close client trading positions in certain circumstances. In addition, to evaluate client margining and collateral requirements, client positions are stress tested regularly and monitored for concentration levels, both in the size of the counterparty and type of transactions executed, relative to the overall market size and Company-defined risk limits. Furthermore, in certain instances, the Company has the ability to charge introducing broker-dealers for the clients' uncollectible trading accounts. The Company has an allowance for doubtful accounts of $14,424,348 as of March 31, 2022 included in receivables from clients, net.

The Company generally charges off an outstanding receivable balance when all economically sensible means of recovery have been exhausted. That determination considers information such as significant changes in the client's financial position and trading positions such that the client can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay the receivable balance.

Payables to clients represent the total of client accounts with credit or positive balances. Client accounts are primarily used in connection with securities and commodity derivative transactions. They include gains and losses on open commodity trades, as well as securities and other deposits made as required by the Company. Client accounts with credit or positive balances are reported gross of client deficit accounts, except where a right of setoff exists.

For regulatory purposes, certain clients, which would include persons who are affiliated with the Company or are principals, such as an officer or director, and any person who is materially involved in the management of the Company, are identified as nonclients. In a liquidation event, amounts owed to nonclients are paid in the same priority as amounts owed to general creditors of the Company. These accounts are also referred to as proprietary accounts. As of March 31, 2022, receivables from clients, net and payables to clients included amounts from nonclients, as defined above, of $1,579,425 and $355,666,974, respectively.

i. ***Securities Owned and Sold, Not Yet Purchased, at fair value***

Securities owned and sold, not yet purchased, at fair value consists of proprietary financial instruments recorded on a trade date basis that are carried at fair value. For further information regarding the types of securities owned and sold, not yet purchased, as well as the related determination of fair value refer to Note 5.

j. ***Derivative Financial Instruments***

The Company acts as a clearing and execution provider of derivative instruments, primarily futures and options on futures contracts. The Company accounts for derivative instruments as either assets or liabilities at fair value in the statement of financial condition. Net option values arising from the unrealized trading gains and losses of clients' options on futures trading accounts are recorded at fair value within deposits with and receivables from broker-dealers, clearing organizations, and counterparties, net with a corresponding entry to receivables from or payables to clients. The Company also executes TBA securities, on a principal basis, primarily to manage risk exposures in its fixed income trading inventory. A TBA security is a forward derivative contract for the purchase or sale of mortgage-backed securities at a predetermined price, face amount, issuer, and coupon and stated maturity on an agreed-upon future date, but the particular securities to be delivered are not yet identified until shortly before the settlement. These derivative instruments are measured at fair value on a recurring basis. The Company does not elect hedge accounting for any derivative instruments.

Under the Company's accounting policy, open contracts with the same client or counterparty are netted at the account level, in accordance with netting arrangements in place with each party, as applicable, and similarly rights to reclaim cash collateral or obligations to return cash collateral are netted against fair value amounts recognized for derivative instruments with the same client in accordance with the master netting arrangements in place with each client.

k. ***Exchange and Clearing Organization Memberships, at Cost***

The Company holds certain exchange and clearing organization memberships that provide the Company the right to process trades directly with various exchanges and clearing organization.

Exchange and clearing organization memberships that represent (a) both an ownership interest and the right to conduct business in the respective venues and are held for operating purposes, or (b) an ownership interest, which must be held by the Company to conduct business in the respective venues are accounted for as an ownership interest at cost with appropriate consideration for other-than-temporary impairment. The cost and fair value for exchange and clearing organization memberships that represent an ownership interest and are required in order to conduct business in the respective venues were $2,060,285 and $5,414,515, respectively, at March 31, 2022. Fair value was determined using quoted market prices and recent transactions.

Alternatively, exchange memberships, or seats, that only represent the right to conduct business on an exchange, but not an ownership interest in the exchange, are accounted for as intangible assets at cost with potential impairment determined under Accounting Standards Codification ("ASC") 350, Intangibles - Goodwill and Other. The cost of exchange memberships required in order to conduct business on the exchange, but that do not represent an ownership interest in the respective exchanges, was $4,963,500 as of March 31, 2022.

As of March 31, 2022, there were no indicators that exchange and clearing organization memberships were impaired.

l. ***Property and Equipment, net***

Property and equipment, net is stated at cost, less accumulated depreciation and amortization. Expenditures for maintenance, repairs, and minor replacements are not capitalized. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment is retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation and amortization are removed from the accounts.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment is depreciated over three to ten years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the improvement.

The Company accounts for costs incurred to develop its trading platforms and related software in accordance with ASC 350-40, Internal-Use Software, which requires that such technology be capitalized in the application development stages.

m. ***Goodwill and Intangible Assets, net***

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. Goodwill is tested for impairment at least on an annual basis, at fiscal year-end, or whenever impairment indicators are present. The Company's impairment evaluation for the year ended September 30, 2021 indicated that none of the Company's goodwill was at risk of impairment. Since that time, no impairment indicators have arisen.

Identifiable intangible assets subject to amortization are amortized using the straight-line method over their estimated period of benefit, ranging from two to twenty years. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest the carrying value of an asset or asset group may not be fully recoverable. Residual value is presumed to be zero for all identifiable intangible assets.

n. ***Other Assets***

Other assets primarily include prepaid assets, dividend and accrued interest receivable, and notes receivable from introducing broker dealers. Prepaid assets primarily consist of advance payments made for services.

o. ***Income Taxes***

The Company is included in the consolidated federal and state income tax returns of its Parent. Income taxes are allocated to the Company using the pro-rata method. Tax accounts are settled periodically with the Parent.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is more likely than not to be realized.

The Company did not have any uncertain tax positions as of March 31, 2022. No amounts have been accrued for the payment of interest and penalties as of and during the year ended March 31, 2022.

p. ***Accounting Standards Adopted***

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU removed certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The Company adopted this standard as of October 1, 2021 on either a prospective basis or through a modified retrospective approach, as required by the standard. There was no cumulative effect adjustment recorded to retained earnings. The effects of this standard on the Company's statement of financial condition are not material.

Note 2 - Net Capital Requirements

The Company is a broker-dealer subject to the SEC Uniform Net Capital Rule 15c3-1, which requires maintaining minimum net capital. The Company is a registered FCM and also subject to the net capital requirements of the CFTC Regulation 1.17. Under the more restrictive of these rules, the Company is required to maintain “adjusted net capital”, equivalent to the greater of $1,500,000 or 8 percent of customer and noncustomer maintenance margin requirements on all positions, as these terms are defined.

The Company, as a securities clearing broker, may only include assets in proprietary accounts as allowable assets in its net capital computation when the introducing broker and the Company have executed proprietary accounts of brokers (“PAB”) agreements.

Adjusted net capital and the related net capital requirement may fluctuate on a daily basis. Net capital requirements prohibit paying dividends to the Parent, when such payment would reduce the Company’s net capital below required levels. In certain circumstances, dividend payments to the Parent may require regulatory notification or authorization prior to payment.

The Company’s adjusted net capital and minimum net capital requirement as of March 31, 2022 were as follows (in thousands):

Net capital	$	357,605
Minimum net capital requirement		256,851
Excess net capital	$	100,754

Note 3 - Segregated and Secured Requirements

Pursuant to requirements of the Commodity Exchange Act and Commission Regulation 30.7, funds deposited by clients of the Company relating to futures, options on futures, and cleared swaps in regulated commodities must be carried in separate accounts maintained for the exclusive benefit of clients. Certain amounts in the accompanying table reflect reclassifications and eliminations required for regulatory filing and, as a result, may differ from those presented in the statement of financial condition.

Funds deposited by clients and other assets, which have been segregated, pursuant to Commodity Exchange Act 4d(2), as belonging to the exchanged traded futures and options on futures commodity clients as of March 31, 2022 are as follows (in thousands):

Cash, at banks - segregated	$	1,171,936
Securities representing investments of clients' funds, at banks		164,993
Deposits with and receivables from:		
Exchange-clearing organizations, including derivatives and securities		4,493,253
Commodities warehouse receipts		25,546
Total amount in segregation		5,855,728
Amount required to be segregated		5,786,651
Excess funds in segregation	$	69,077
Management target amount for excess funds in segregation	$	50,000
Excess funds in segregation over management target	$	19,077

Funds deposited by clients and other assets, which are held in separate accounts, pursuant to Commission Regulation 30.7, for clients trading foreign futures and foreign options on futures on foreign commodity exchanges or boards of trade, as of March 31, 2022 are as follows (in thousands):

Cash, at banks - secured	$	123,497
Cash deposited with registered futures commission merchants		15,832
Amounts held by clearing organizations of foreign boards of trade, including derivatives		2,402
Amounts held by members of foreign boards of trade, including derivatives		52,799
Total amount in secured funds		194,530
Amount required to be set aside in separate Section 30.7 accounts		181,831
Excess set aside for secured amount	$	12,699
Management target amount for excess funds in separate Section 30.7 accounts	$	6,000
Excess funds in separate Section 30.7 accounts over management target	$	6,699

Funds deposited by clients and other assets, which have been segregated, pursuant to Commodity Exchange Act 4d(f), as belonging to the cleared swap commodity clients as of March 31, 2022 are as follows (in thousands):

Cash, at banks - sequestered	$	432
Deposits with and receivables from:		
Exchange-clearing organizations		190
Total amount in cleared swaps segregation		622
Amount required to be segregated		—
Excess funds in segregation	$	622
Management target amount for excess funds in segregation	$	250
Excess funds in segregation over management target	$	372

Note 4 - Customer and Proprietary Accounts of Broker Dealers Reserve Requirements

The Company, in its capacity as a securities clearing broker-dealer, clears transactions for clients and certain PABs. The Company prepared reserve computations for the client accounts and PAB accounts, in accordance with the customer reserve computation guidelines set forth in Rule 15c3-3.

Based upon these computations, excess of total debits over total credits was $4,127,000 as of March 31, 2022. The Company held less than $1,000 in customer SRBAs as of March 31, 2022 and made additional deposits of $873,000 on April 4, 2022 to meet the customer segregation and segregated deposit timing requirements of Rule 15c3-3.

The excess of total PAB credits over total PAB debits was $6,137,000 as of March 31, 2022. In the computation, the Company was able to consider the excess debits in the customer reserve formula computation discussed above, resulting in a PAB reserve requirement of $2,010,000 as of March 31, 2022. The Company held $6,389,000 in PAB SRBAs as of March 31, 2022, and made additional deposits of $749,000 on April 4, 2022 to meet the PAB segregation and segregated deposit timing requirements of Rule 15c3-3.

Note 5 - Fair Value of Financial and Nonfinancial Assets and Liabilities

Fair value is defined by U.S. GAAP as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company is required to develop a set of assumptions that reflect those that market participants would use in pricing an asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

The Company has designed independent price verification controls and periodically performs such controls, including at the report date, to ensure the reasonableness of such values.

In accordance with FASB ASC 820, Fair Value Measurement, the Company groups its assets and liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Level 1 measurements include assets and liabilities whose fair values are estimated using quoted market prices.

Level 2 - Valuation is based upon quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term. Level 2 measurements include assets and liabilities for which fair values are estimated using models or other valuation methodologies. These models are primarily industry-standard models that consider various observable inputs, including time value, yield curve, volatility factors, observable current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures.

Level 3 - Valuation is based on prices or valuation techniques that require an input that is both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity). Level 3 measurements include assets and liabilities whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are not readily observable from objective sources.

As of March 31, 2022, the Company did not have any Level 3 assets or liabilities.

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A market is active if there are sufficient transactions on an ongoing basis to provide current pricing information for the asset or liability, pricing information is released publicly, and price quotations do not vary substantially either over time or among market participants. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

The Company considers counterparty credit risk of all parties to outstanding derivative instruments that would be considered by a market participant in the transfer or settlement of such contracts (exit price). The Company has limited exposure to credit risk on derivative financial instruments as all exchange-traded or cleared contracts held can be settled on an active market with the credit guarantee from the respective clearing organization.

The following section describes the valuation methodologies used by the Company to measure classes of financial instruments at fair value and specifies the level within the fair value hierarchy where various financial instruments are generally classified.

The Company uses quoted prices in active markets, where available, and classifies such instruments within Level 1 of the fair value hierarchy. Examples include options on futures contracts traded on exchanges using quoted prices from exchanges in which the Company executes transactions for client and proprietary accounts, exchange-cleared swaps and options which are valued using exchange closing prices, U.S. Treasury obligations, and certain equity securities traded in active markets, which includes common, preferred, and foreign ordinary shares, American Depositary Receipts (“ADRs”), Global Depositary Receipts (“GDRs”), and exchange-traded funds (“ETFs”). The majority of common and preferred shares and ADRs represent equity securities of foreign entities denominated in U.S. dollars. Foreign ordinary shares and GDRs represent foreign equity securities denominated in foreign currency and translated into U.S. dollars.

The fair value of exchange common stock not required in order to conduct business on the exchange and commodities warehouse receipts are determined by quoted market prices, and the fair value of exchange memberships is determined by recent sale transactions. Exchange common stock, exchange memberships, and commodities warehouse receipts are classified as Level 1.

When instruments are traded in secondary markets and observable prices are not available for substantially the full term, the Company generally relies on internal valuation techniques or prices obtained from third-party pricing services, brokers, or a combination thereof, and accordingly, classified these instruments as Level 2. Examples include corporate and municipal bonds, U.S. government agency obligations, agency-mortgage backed obligations, asset-backed obligations, and certain equity securities traded in less active markets, including certain common, preferred, and foreign ordinary shares, ADRs and GDRs.

Securities owned and sold are primarily valued using third-party pricing vendors. Third-party pricing vendors compile prices from various sources and often apply matrix pricing for similar securities when market-observable transactions for the instruments are not observable for substantially the full term. The Company reviews the pricing methodologies used by the third-party pricing vendors in order to evaluate the fair value hierarchy classification of vendor-priced financial instruments and the accuracy of vendor pricing, which typically involves the comparison of primary vendor prices to internal trader prices and secondary vendor prices. When evaluating the propriety of vendor-priced financial instruments using secondary prices, considerations include the range and quality of vendor prices, level of observable transactions for identical and similar instruments, and judgments based upon knowledge of a particular market and asset class. If the primary vendor price does not represent fair value, justification for using a secondary price, including source data used to make the determination, is subject to review and approval by authorized personnel prior to using a secondary price. Securities owned and sold that are valued using third-party pricing sources are included within either Level 1 or Level 2 of the fair value hierarchy based upon the observability of the inputs used and the level of activity in the market.

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2022. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of this financial statement since that date. Current estimates of fair value may differ significantly from the amounts presented herein.

The following table summarizes the Company's assets and liabilities recorded at fair value on a recurring basis as of March 31, 2022, by level within the fair value hierarchy (in thousands):

	March 31, 2022				
	Level 1	**Level 2**	**Level 3**	**Netting**	**Total**
Assets:					
Commodities warehouse receipts	$ 25,546	$ —	$ —	$ —	$ 25,546
Securities and other assets segregated under federal regulations	25,546	—	—	—	25,546
ETFs	164	—	—	—	164
U.S. Treasury obligations	814,224	—	—	—	814,224
Derivatives	9,653,540	152,198	—	(9,909,976)	(104,238)
Deposits with and receivables from broker-dealers, clearing organizations and counterparties, net	10,467,928	152,198	—	(9,909,976)	710,150
Equity securities	1,016,564	219,407	—	—	1,235,971
Corporate and municipal bonds	—	120,305	—	—	120,305
Agency mortgage-backed obligations	—	1,989,278	—	—	1,989,278
Asset-backed obligations	—	41,350	—	—	41,350
U.S. Treasury obligations	143,842	—	—	—	143,842
U.S. government agency obligations	—	342,104	—	—	342,104
Commodities warehouse receipts	26,850	—	—	—	26,850
Exchange firm common stock	14,280	—	—	—	14,280
Securities owned, at fair value	1,201,536	2,712,444	—	—	3,913,980
Total assets at fair value	$11,695,010	$ 2,864,642	$ —	$ (9,909,976)	$ 4,649,676
Liabilities:					
Payables to clients - derivatives	$ 9,653,540	$ —	$ —	$ (9,851,166)	$ (197,626)
Derivatives	—	120,255	—	(57,985)	62,270
Payables to broker-dealers, clearing organizations and counterparties	—	120,255	—	(57,985)	62,270
Equity securities	963,659	191,491	—	—	1,155,150
Corporate and municipal bonds	—	78,171	—	—	78,171
Agency mortgage-backed obligations	—	38,858	—	—	38,858
U.S. Treasury obligations	1,018,161	—	—	—	1,018,161
U.S. government agency obligations	—	3,558	—	—	3,558
Derivatives	4,271	—	—	—	4,271
Securities sold, not yet purchased, at fair value	1,986,091	312,078	—	—	2,298,169
Total liabilities at fair value	$11,639,631	$ 432,333	$ —	$ (9,909,151)	$ 2,162,813

Note 6 - Financial Instruments with Off Statement of Financial Condition Risk

The Company is a party to financial instruments in the normal course of its business of execution, settlement, and financing of client trading accounts in various securities and exchange-traded derivative instruments. These instruments are primarily the execution of orders for securities and commodity futures and options on futures contracts on behalf of its clients, which are transacted on a cash or margin basis. These activities may expose the Company to off-statement of financial condition risk in the event the client or other broker is unable to fulfill its contractual obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. Margin transactions may expose the Company to significant credit risk in the event margin requirements are not sufficient to offset losses which clients may incur. The Company controls the risks associated with these transactions by requiring clients to maintain margin deposits in compliance with various regulatory requirements, individual exchange regulations, and internal guidelines. The Company monitors required margin levels daily and, therefore, may require clients to deposit additional collateral or reduce positions when necessary. The Company also establishes contract limits for clients, which are monitored daily. The Company evaluates each client's creditworthiness on a case-by-case basis. Clearing, financing, and settlement activities may require the Company to maintain funds with or pledge securities as collateral with other financial institutions. Generally, these exposures to both clients and exchanges are subject to netting, or client agreements, which reduce the exposure to the Company by permitting receivables and payables with such clients to be offset in the event of a client default. Management believes that the margin deposits held are adequate to minimize the risk of material loss that could be created by positions held as of March 31, 2022. Additionally, the Company monitors collateral fair value on a daily basis and adjusts collateral levels in the event of excess market exposure. Generally, these exposures to both clients and counterparties are subject to master netting, or client agreements which reduce the exposure to the Company. Furthermore, in certain instances, the Company is indemnified by introducing-broker dealers for losses incurred on behalf of their clients.

Derivative financial instruments involve varying degrees of off-statement of financial condition market risk whereby changes in the fair values of underlying financial instruments may result in changes in the fair value of the financial instruments in excess of the amounts reflected in the statement of financial condition. Exposure to market risk is influenced by a number of factors, including the relationships between the financial instruments and the Company's positions, as well as the volatility and liquidity in the markets in which the financial instruments are traded. The principal risk components of financial instruments include, among other things, interest rate volatility, the duration of the underlying instruments and changes in commodity pricing and foreign exchange rates. The Company attempts to manage its exposure to market risk through various techniques including the regular monitoring and enforcement of client and aggregate market limits, as well as margin requirements. Aggregate market limits have been established and market risk measures are routinely monitored against these limits.

As a broker-dealer in equity and fixed income securities, the Company is engaged in various securities trading, borrowing and lending activities with institutional counterparties. The Company's exposure to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations pursuant to these securities transactions and market risk associated with the sale of securities not yet purchased can be directly impacted by volatile trading markets which may impair their ability to satisfy outstanding obligations to the Company. In the event of non-performance and unfavorable market price movements, the Company may be required to purchase or sell financial instruments, which may result in a loss to the Company.

The Company does not anticipate non-performance by counterparties in the above situations. The Company has a policy of reviewing the credit standing of each counterparty with which it conducts business. The Company has credit guidelines that limit the Company's current and potential credit exposure to any one counterparty. The Company administers limits, monitors credit exposure, and periodically reviews the financial soundness of counterparties. The Company manages the credit exposure relating to its trading activities in various ways, including entering into collateral arrangements and limiting the duration of exposure. Risk is mitigated in certain cases by closing out transactions and entering into risk reducing transactions.

Derivatives

The Company provides clearing and execution of exchange-traded futures and options on futures, as well as exchange-cleared swaps for middle-market intermediaries, end-users, producers of commodities and the institutional and professional trader market segments. For these derivative instruments, unrealized gains and losses on options on futures with exchange-clearing organizations are reflected in deposits with and receivables from broker-dealers, clearing organizations, and counterparties with a corresponding entry to payables to clients on the statement of financial condition.

The Company also has derivative instruments that are executed on a principal basis, which consist of agency mortgage-backed TBA securities and forward settling transactions that are used to manage risk exposures in the fixed income trading inventory. The fair value of these transactions is recorded in deposits with and receivables from and payables to broker-dealers, clearing organizations and counterparties, net. TBA and forward settling securities represent non-regular way securities and are accounted for as derivatives.

See Note 5 for additional information about the fair value of financial instruments held.

The following table presents the fair value of the Company's derivative instruments and their respective location on the statement of financial condition (in thousands).

	March 31, 2021	
	Assets [(1)]	**Liabilities** [(1)]
Derivative contracts not accounted for as hedges:		
Exchange-traded and cleared commodity derivatives	$ 5,822,154	$ 5,822,154
Exchange-traded foreign exchange derivatives	109,537	109,537
Exchange-traded interest rate derivatives	3,430,848	3,435,119
Exchange-traded equity index derivatives	291,001	291,001
TBA and forward settling securities	152,198	120,255
Gross fair value of derivative contracts	9,805,738	9,778,066
Impact of netting and collateral	(9,909,976)	(9,909,151)
Total fair value included in *Deposits with and receivables from broker-dealers, clearing organizations, and counterparties, net*	$ (104,238)	
Total fair value included in *Payables to clients*		$ (197,626)
Total fair value included in *Payables to broker-dealers, clearing organizations and counterparties*		$ 62,270
Total fair value included in *Securities sold, not yet purchased, at fair value*		$ 4,271

(1) As of March 31, 2022, the Company's derivative contract volume for open positions for exchange-traded derivatives was approximately 11.8 million contracts.

Note 7 – Securities Financing Transactions

The Company enters into securities purchased under agreements to resell, securities sold under agreements to repurchase, securities borrowed and securities loaned transactions to, among other things, fund principal debt trading, acquire securities to cover short positions, acquire securities for settlement, and to accommodate counterparties' needs under matched-booked trading strategies. These agreements are recorded as collateralized financings at their contractual amounts plus accrued interest. In connection with these agreements and transactions, it is the policy of the Company to receive or pledge cash or securities to adequately collateralize such agreements and transactions in accordance with contractual arrangements. The collateral is valued daily and the Company may require counterparties to pledge additional collateral or return collateral pledged.

The Company pledges financial instruments owned to collateralize repurchase agreements. At March 31, 2022, financial instruments owned, at fair value of $1,448,731,657 were pledged as collateral under repurchase agreements. The counterparty has the right to sell or repledge the collateral in connection with these transactions. These financial instruments owned have been pledged as collateral and have been parenthetically disclosed on the statement of financial condition.

In addition, as of March 31, 2022, the Company pledged financial instruments owned, at fair value of $1,077,657,152 to cover collateral requirements for tri-party repurchase agreements. These securities have not been parenthetically disclosed on the statement of financial condition since the counterparties do not have the right to sell or repledge the collateral. The Company also repledged securities received under reverse repurchase agreements of $1,319,546,848 to cover collateral requirements for tri-party repurchase agreements.

The Company also has repledged securities borrowed and client securities held under custodial clearing arrangements to collateralize securities loaned agreements with a fair value of $2,028,134,819 as of March 31, 2022.

At March 31, 2022, the Company has accepted collateral that it is permitted by contract to sell or repledge. This collateral consists primarily of securities received in reverse repurchase agreements, securities borrowed agreements, and margin securities held on behalf of correspondent brokers. The fair value of such collateral at March 31, 2022, was $4,606,637,024 of which $1,079,096,962 was used to cover securities sold short which are recorded in financial instruments sold, not yet purchased on the statement of financial condition. In the normal course of business, this collateral is used by the Company to cover financial instruments sold, not yet purchased, to obtain financing in the form of repurchase agreements, and to meet counterparties' needs under lending arrangements.

The following table provides the contractual maturities of gross obligations under repurchase and securities lending agreements as of March 31, 2022 (in thousands):

	Overnight and Open	Less than 30 Days	30-90 Days	Over 90 Days	Total
Securities sold under agreements to repurchase	$ 2,563,485	$ 725,578	$ 512,272	6,604	$ 3,807,939
Securities loaned	2,103,724	—	—	—	2,103,724
Gross amount of secured financing	$ 4,667,209	$ 725,578	$ 512,272	6,604	$ 5,911,663

The following table provides the underlying collateral types of the gross obligations under repurchase and securities lending agreements as of March 31, 2022 (in thousands):

Securities sold under agreements to repurchase:		
U.S. Treasury obligations	$	19,689
U.S. government agency obligations		432,099
Asset-backed obligations		198,485
Agency mortgage-backed obligations		3,039,884
Corporate bonds		97,558
Total securities sold under agreements to repurchase		3,807,939
Securities loaned:		
Equity securities		2,103,724
Total securities loaned		2,103,724
Gross amount of secured financing	$	5,911,663

Note 8 - Property and equipment, net

The following is a summary of property and equipment, net as of March 31, 2022 (in thousands):

Furniture and equipment	$	2,855
Computer software and hardware		755
Leasehold improvements		8,154
Capitalized software development		5,903
Property and equipment, gross		17,667
Less accumulated depreciation and amortization		(11,762)
Property and equipment, net	$	5,905

The Company capitalized $1,701,230 of software development costs during the six months ended March 31, 2022.

Note 9 - Goodwill and Intangible Assets, net

The Company has total goodwill of $12,565,740 as of March 31, 2022.

The gross and net carrying values of intangible assets as of March 31, 2022 by major intangible asset class are as follows (in thousands):

	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization:			
Client base	$ 12,778	$ (9,209)	$ 3,569
	$ 12,778	$ (9,209)	$ 3,569

Note 10 - Credit Facilities

The Company has a committed, unsecured line of credit agreement with Bank of Montreal, under which the Company may borrow up to $75,000,000. This credit facility provides short-term funding of margin to commodity exchanges as necessary. The credit facility expires on March 31, 2023, and is subject to annual review. These borrowings are payable on demand.

The continued availability of this credit facility is subject to the Company's financial condition and operating results continuing to be satisfactory as set forth in the agreement. Borrowings under the credit facility bear interest at the Base Rate, as defined, plus 2.00%, which was 5.50% as of March 31, 2022. The agreement contains financial covenants related to the Company's tangible net worth, excess net capital, and maximum allowable net loss over a trailing twelve month period, as defined. The Company was in compliance with these covenants throughout the fiscal year, including as of March 31, 2022. Unused portions of the margin line require a commitment fee of 0.50% on the unused commitment. There were no borrowings outstanding under this credit facility at March 31, 2022.

During the next twelve months, the Company's committed credit facility is scheduled to expire. The Company intends to renew this facility. While there is no guarantee that the Company will be successful in renewing this agreement as it expires, the Company believes it will be able to do so.

The Company has a secured, uncommitted loan facility, under which the Company may borrow up to $75,000,000, collateralized by commodity warehouse receipts, to facilitate U.S. commodity exchange deliveries to its clients, subject to certain terms and conditions of the credit agreement. Borrowings under the credit facility bear interest at the Fed Funds Rate, as defined, plus 2.5%. There are no commitment fees related to this credit arrangement. There were no borrowings outstanding under this credit facility at March 31, 2022.

The Company has a secured, uncommitted loan facility under which it may borrow for short-term funding of proprietary and client securities margin requirements, subject to certain terms and conditions of the agreement. The uncommitted amount available to be borrowed is not specified, and all requests for borrowing are subject to the sole discretion of the lender. The borrowings are secured by first liens on Parent owned marketable securities or client owned securities which have been pledged to the Parent. The amounts borrowed under the facility are payable on demand. There were $68,000,000 of borrowings outstanding under this credit facility at March 31, 2022.

The Company has a secured, uncommitted loan facility under which it may borrow up to $100,000,000 for short-term funding of proprietary and client securities margin requirements, subject to certain terms and conditions of the agreement. The borrowings are secured by first liens on Company-owned marketable securities or client owned securities which have been pledged to the Company. Amounts borrowed under the facilities are payable on demand. There were no borrowings outstanding under this credit facility at March 31, 2022.

Note 11 - Commitments and Contingencies

Purchase and Other Commitments

Purchase and other commitments primarily include certain service agreements related to the use of front-office and back-office trading software systems and clearing agreements. Purchase and other commitments as of March 31, 2022 for less than one year, one to three years, and greater than three years were $6,522,978, $14,338,190, and $0 respectively.

Securities sold, not yet purchased represent obligations of the Company to purchase specified financial instruments in the market at prevailing prices. Consequently, the Company's ultimate obligation to purchase securities sold, not yet purchased may exceed the amounts recognized on the accompanying statement of financial condition.

Securities Clearing Arrangement Indemnifications and Termination Fees

The Company clears its securities transactions either internally, or externally primarily through Broadcort or Pershing, under clearing agreements with both parties. The agreements call for termination fees if the Company terminates either agreement without cause, or if one of the parties terminates either agreement for cause, as specified within the agreements.

In the normal course of its business, the Company indemnifies and holds Broadcort and Pershing harmless against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the statement of financial condition for these indemnifications.

Exchange and Clearing Organization Member Guarantees

The Company is both a member of various exchanges that trade and clear futures and options on futures contracts as well as a clearing organization that clears and settles securities transactions. The Company may be required to pay a proportionate share of financial obligations resulting from another member's default on obligations to the respective exchanges or clearing organizations. While 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 nondefaulting members of the respective exchanges or clearing organization. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the financial statement for these agreements and believes that any potential requirement to make payments under these agreements is remote.

Legal and Regulatory Proceedings

Certain conditions may exist as of the date the financial statement is issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal and regulatory proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal or regulatory proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss was incurred at the date of the financial statement and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's financial statement. If the assessment indicates that a loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Neither accrual nor disclosure is required for loss contingencies that are deemed remote. The Company accrues legal fees related to contingent liabilities as they are incurred.

From time to time in the ordinary course of business, the Company is involved in various legal actions and proceedings, including tort claims, contractual disputes, employment matters, workers' compensation claims, and collections. The Company carries insurance that provides protection against certain types of claims, up to the limits of the respective policy. Additionally, the Company is subject to regulation and supervision by U.S. federal agencies and various self-regulatory organizations. The Company and its advisors periodically engage with such regulatory agencies and organizations, in the context of examinations or otherwise, to respond to inquiries, information requests, and investigations. From time to time, such engagements result in regulatory complaints or other matters, the resolution of which can include fines or other penalties.

OptionSellers

In November, 2018, balances in approximately 300 client accounts of the FCM division declined below required maintenance margin levels, primarily as a result of significant and unexpected price fluctuations in the natural gas markets. All positions in these accounts, which were managed by OptionSellers.com Inc. (“OptionSellers”), an independent Commodity Trading Advisor (“CTA”), were liquidated in accordance with the Company’s client agreements and obligations under market regulation standards.

A CTA is registered with the CFTC and is a member of, and subject to audit by, the NFA. OptionSellers is registered under a CFTC Rule 4.7 exemption for “qualified eligible persons”, which requires the account holders authorizing OptionSellers to act as their CTA to meet or exceed certain minimum financial requirements. OptionSellers, in its role as a CTA, had been granted by each of its clients full discretionary authority to manage the trading in the client accounts, while the Company acted solely as the clearing firm in its role as the FCM.

The Company’s client agreements hold account holders liable for all losses in their accounts and obligate the account holders to reimburse the Company for any account deficits in their accounts. As of March 31, 2022, the receivable from these client accounts, net of collections and other allowable deductions (the “Net Client Accounts Receivable”), was $28,075,229, with no individual account receivable exceeding $1,400,000. he Company recognized a cumulative-effect adjustment to record an allowance against these uncollected balances of $8,234,559, as part of its CECL implementation effective October 1, 2020, and as of March 31, 2022, the allowance against these uncollected balances was $7,980,023. The Company believes it has a valid claim against these clients, based on the express language of the client contracts and legal precedent, and intends to pursue collection of these claims vigorously. The Company will continue considering information in determining any changes in the allowance against the carrying value of these uncollected balances.

Additionally, the Company has been named in arbitrations brought by clients seeking damages relating to the trading losses in these accounts. The Company believes that such cases are without merit and intends to defend them vigorously. The ultimate outcome of these arbitrations cannot presently be determined; however, the Company believes the likelihood of a material adverse outcome is remote.

In January 2022, the Company prevailed in the first arbitration involving accountholders that were clients of OptionSellers. The arbitration panel denied the claims against the Company for trading losses incurred by those accountholders and also ordered those accountholders to pay their outstanding deficit balances to the Company. During the three months ended March 31, 2022, the Company also entered into settlements with certain other accountholders whereby certain of these accountholders agreed to pay their outstanding deficit balances (none of which settlements involved the Company making any payments in respect of trading losses). There can be no assurance as to the outcome of future arbitrations or the Company’s ability to collect on successful court-awarded client receivables.

Depending on future collections and arbitration proceedings, any provisions for bad debts and actual losses ultimately may or may not be material to the Company’s financial results. The Company does not currently believe that any potential losses related to this matter would materially and adversely impact its ability to comply with its ongoing liquidity, capital, and regulatory requirements.

Note 12 - Income Taxes

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. Significant components of the Company's deferred tax assets and liabilities as of March 31, 2022 are as follows (in thousands):

Deferred tax assets:		
Federal net operating losses	$	2,358
State and local net operating losses		3,260
Amortization of intangibles		2,688
Accrued compensation		4,348
Share-based compensation		373
Bad debt		4,691
Other		659
Total gross deferred tax assets		18,377
Less valuation allowance		(5,533)
Total deferred tax assets		12,844
Deferred tax liabilities:		
Prepaid expenses		(547)
Unrealized gains on marketable securities and exchange memberships		(2,789)
Total deferred tax liabilities		(3,455)
Deferred income taxes, net	$	9,389

As of March 31, 2022, the Company has net operating loss carryforwards for state and local income tax purposes of $946,209, net of valuation allowances, which are available to offset future state and local taxable income. The state and local net operating loss carryforwards expire in tax years ending in 2022 through 2039. The Company also has approximately $561,000, net of valuation allowances, of federal net operating losses. These federal net operating loss carryforwards consist of a portion that will expire in tax years ending in 2032 through 2037. The remaining portion of the federal net operating loss carryforwards do not expire, but cannot be utilized until 2038 and are limited by Internal Revenue Code ("IRC") Section 382.

The valuation allowance for deferred tax assets as of March 31, 2022 is $5,533,225. Of this amount, $2,313,715 is related to state and local net operating loss carryforwards that, in the judgment of management, are not more likely than not to be realized. The remaining valuation allowance of $3,219,510 is related to federal net operating losses and net unrealized built-in losses, which are limited by the provisions of IRC Section 382. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. When evaluating the need for a valuation allowance, the Company considers the operating and tax results of StoneX Group, as income taxes are allocated to the Company on a pro-rata basis.

StoneX Group has open tax years that include the activities of the Company, ranging from the year ended September 30, 2012 through the year ended September 30, 2020 with various taxing authorities.

Note 13 - Transactions with Affiliated Companies

From time to time and in the normal course of business, the Company may provide or receive certain risk management, clearing and transaction services, administrative services, technology, and other service arrangements between the Company and affiliated entities. These services may be billed to or from the Company directly for identified revenues or costs or may be allocated under relevant methods. The Company reimburses its affiliates and is reimbursed by them at regular intervals, under prevailing agreements.

In the ordinary course of business, the Company enters into several primary types of transactions with its affiliates. The Company may pay or have paid on its behalf vendor costs, payroll related costs, overhead allocations, or other costs. The Company establishes receivables or payables from or to its affiliates for such activities.

In addition to the activities described above, the Company participates in StoneX Group's centralized corporate treasury function. StoneX Group may sweep excess cash from its subsidiaries, where permitted, in exchange for a short-term interest-bearing intercompany payable, or provide excess cash to subsidiaries in exchange for a short-term interest bearing intercompany receivable in lieu of the subsidiary borrowing on external credit facilities.

The Company engages in trading and clearing relationships with several of its affiliates. In return for its services provided, the Company establishes trading accounts for its affiliates, which are recorded within payables to clients. These services may result in commissions or fees passing through intercompany. At times, the Company's affiliates facilitate trading on its behalf, at which time the Company may establish a clearing or brokerage relationship with an affiliate and be charged by its affiliates.

The following is a summary of the Company's balances with affiliated companies as of March 31, 2022 (shown in thousands):

Reimbursements, allocations, and other intercompany charges:		
Due from affiliates	$	2,322
Payables to affiliates	$	65,898
Trading:		
Deposits with and receivables from broker-dealers, clearing organizations and counterparties, net - affiliates	$	59,959
Payables to clients - affiliates	$	547,334

Note 14 - Business and Credit Concentrations

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

Note 15 - Subsequent Events

Management evaluated events and transactions through June 9, 2022, which is the date the financial statement was issued, for potential recognition or disclosure herein and has determined that no additional disclosures or adjustments are required.