

# Commodity Futures Trading Commission Regulation 1.55 Disclosures

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9/18/2018

APEX | Clearing™

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## Introduction

Commodity Futures Trading Commission (“CFTC”) Regulation 1.55(k) requires each futures commission merchant (“FCM”), including Apex Clearing Corporation (“Apex”), to provide the following information to a futures client prior to that client entering into a futures account agreement, depositing money or securities with the FCM, or placing a futures trade. The information contained herein is current as of September 18, 2018.

Apex will update this information annually or as may be needed to take into account any material change to Apex’s business operations, financial condition, or other factors that Apex believes would be material to a futures client in determining whether to do business with Apex. Please note that Apex’s business and financial data are not static and may change in non-material ways throughout the year.

## Apex and Its Principals

Apex Clearing Corporation  
350 N. St. Paul Street  
Suite 1300  
Dallas, Texas 75201  
(214) 765-1100  
Fax (214) 865-7401  
Email: [ComplianceUS@apexclearing.com](mailto:ComplianceUS@apexclearing.com)

### William Capuzzi

**Business Address:** 350 N. St. Paul St., Suite 1300, Dallas, Texas 75201

**Area of Responsibility:** Mr. Capuzzi is Chief Executive Officer (“CEO”) of Apex and is responsible for all operating aspects of Apex. Prior to his role as CEO of Apex, William previously worked at Convergenx Group where he was Chief of Staff and a member of the firm’s Executive Committee. As Chief of Staff, he managed critical internal and external initiatives for the company and was responsible for the firm’s options, prime services, global clearing and commission sharing arrangement (CSA) businesses. William also served as Director at Pershing LLC, responsible for their institutional product suite and directed their global re-engineering efforts firm wide. William started his career on Wall Street at Donaldson, Lufkin & Jenrette (DLJ) as part of their MBA program in 1999 and just prior to that was a principal for a large consulting firm. William earned a Bachelor of Arts degree from Wesleyan University in Connecticut and a Master of Business Administration in Strategic Management from Rutgers University.

### Robert Doebler

**Business Address:** 350 N. St. Paul St., Suite 1300, Dallas, Texas 75201

**Area of Responsibility:** Mr. Doebler is Chief Operations Officer of Apex and oversees all futures operations. Robert joined Apex in October of 2017 and has worked in the financial services industry for over 35 years. Prior to joining Apex, Robert was in charge of building out the futures clearing system for GETCO, LLC. Previously he was COO of the retail broker/dealer of Allstate Insurance Company, Senior Vice President of the securities division at E D & F Man International and Senior Vice President of Operations at O’Connor & Associates/Swiss Bank Corp. Robert graduated from the University of Illinois – Chicago with a BS in Finance.

**William Brennan**

**Business Address:** 350 N. St. Paul St., Suite 1300, Dallas, Texas 75201

**Area of Responsibility:** Mr. Brennan is Chief Financial Officer and Chief Operating Officer of Apex and is also responsible for futures compliance. William joined Apex in 2016 as Chief Financial Officer. He has worked in the financial services industry for over 25 years, most recently as Chief Operating Officer at Prophecy Asset Management, LLC. He was previously Managing Director and Global Co-Head of Clearing for Goldman Sachs. In that role, William was primarily responsible for infrastructure and financial management as well as building out an international clearing platform. Prior to joining Goldman Sachs, William served as Chief Financial Officer at First Options of Chicago, Inc. William graduated from the University of Illinois with a B.S. in Accounting. He became a C.P.A. in 1989 and received his J.D. from IIT-Chicago Kent College of Law in 1995.

**Chris Fesler**

**Business Address:** 350 N. St. Paul St., Suite 1300, Dallas, Texas 75201

**Area of Responsibility:** Mr. Fesler is Chief Technology Officer of Apex Clearing Corporation and oversees all technology aspects of Apex's businesses. As Chief Technology Officer, Chris is in charge of all technology strategy and architecture across Apex. Chris joined Apex in 2012 as an engineer, playing a principle role on the design, development, and implementation of the API technology. Prior to Apex, Chris worked at PEAK6 Capital Management as a senior developer. Before jumping in the world of financial services technology, Chris helped develop technology platforms for a number of startups. Chris earned his Bachelor's degree in Mathematics from Reed College.

**Michael Terrance**

**Business Address:** 141 W. Jackson, Suite 800, Chicago, IL 75201

**Area of Responsibility:** Mr. Terrance is Futures Manager of Apex and is responsible for all futures operations. Michael joined Apex in November of 2017 as its Futures Manager. He has worked in the financial services industry for over 10 years. Prior to joining Apex, Michael he was in charge of middle office clearing for GETCO, LLC. Previously he was Director of Finance for RR Donnelley, Finance Manager for Nextel Communications and Sr. Finance Analyst for Ameritech. Michael graduated from the St. Cloud State University with a BS in Accounting and Keller Graduate School of Management with a MBA with a concentration in Finance.

**Justin Morgan, CAMS®**

**Business Address:** 350 N. St. Paul St., Suite 1300, Dallas, Texas 75201

**Area of Responsibility:** Justin Morgan is responsible for Apex Clearing Corporation's anti-money laundering efforts. As the firm's designated Anti-Money Laundering Compliance Officer (AMLCO), Justin Morgan is responsible for the oversight and maintenance of Apex's Anti-Money Laundering program. He is a keen financial professional with over 12 years of experience in the financial services industry. Prior to his appointment to the role of AMLCO, he functioned as the Manager of AML Compliance for Apex. Justin graduated with a Bachelor's of Science from Georgia Southern University, holds multiple securities licenses and has earned the designation of Certified Anti-Money Laundering Specialist, CAMS®.

**Ralph D'Auge**

**Business Address:** 350 N. St. Paul St., Suite 1300, Dallas, Texas 75201

**Area of Responsibility:** Mr. D'Auge is the Controller of Apex Clearing Corporation. He is responsible for regulatory reporting. Ralph has been the Corporate Controller for Apex since 2012 and has 25 years' experience in the financial services industry at various broker dealer firms managing the firms accounting and regulatory reporting functions, most recently, Controller of Penson Financial Services Inc. in 2011 and

Sr. Director of Finance at Ridge Clearing and outsourcing and ADP Clearing from 2004 to 2010. Prior to that he held Corporate Controller roles at Fleet Securities Inc. and Quick and Reilly Inc. Ralph is a Series 27 licensed professional and holds a BS in Accounting from The College of Staten Island, passing the CPA exam in 1995, and earned an MBA in Finance from St. Johns University in 2005.

### **Jeff Logan**

**Business Address:** 350 N. St. Paul St., Suite 1300, Dallas, Texas 75201

**Area of Responsibility:** Mr. Logan serves as General Counsel of Apex Clearing Corporation. He is responsible for all legal affairs of the firm. Prior to going in-house, Jeff was a partner at Locke Lord LLP, where for over nine years he provided legal representation to financial services clients in commercial and regulatory matters, specializing in securities-related litigation and arbitration. In his role as General Counsel at Apex and prior in-house positions, Jeff has gained extensive experience in the legal aspects of back office operations of broker-dealers and has deep functional expertise regarding the law and regulation affecting clearing firms. Jeff earned his law degree from SMU School of Law and received a degree in public relations from The University of Texas at Austin.

### **Board of Directors**

#### **Jay Coppoletta**

**Business Address:** 141 W. Jackson Blvd., Suite 500, Chicago, IL 60604

**Area of Responsibility:** Mr. Coppoletta is the Chief Corporate Development & Legal Officer at PEAK6 Investments, L.P. ("PEAK6") and is also a member of Apex's Board of Directors. In this role at PEAK6, Jay manages PEAK6's legal department and oversees the day-to-day activities of PEAK6 Strategic Capital, PEAK6's external investment arm. Jay has been at PEAK6 since February 2010. Prior to joining PEAK6, Jay was an Associate in the Chicago office of Sidley Austin LLP. Jay's practice while at Sidley Austin LLP focused on mergers and acquisitions and counseling boards of directors of public companies. He is also a director at English Premier League club AFC Bournemouth. Jay is a member of the state bar of Illinois and graduated magna cum laude from the University of Michigan Law School, where he was a member of the Law Review, in 2003. Jay received a Bachelor of Arts summa cum laude from Loyola University Chicago in 2000.

#### **Brad Goldberg**

**Business Address:** 141 W. Jackson Blvd., Suite 500, Chicago, IL 60604

**Area of Responsibility:** Mr. Goldberg is the President of PEAK6 and also serves as a member of Apex's Board of Directors. Brad partners with leaders who oversee trading, technology, retail brokerage, finance and human resources to strategically manage PEAK6's growth. Brad joined PEAK6 in December 2008 after spending 11 years at Microsoft, where he served as the General Manager for the Bing search product, where he was responsible for product management, consumer marketing, distribution, and revenue management. Brad graduated with a Bachelor's degree in Economics from Amherst College and completed post graduate work in Japan, at the Inter-University Center for Japanese language studies. Brad then went on to earn an MBA from Harvard Business School, where he was awarded second year honors.

### **Direct Ownership**

#### **Apex Clearing Holdings, LLC**

**Business Address:** 141 W. Jackson Blvd., Suite 500, Chicago, IL 60604

**Area of Responsibility:** Apex is wholly owned by Apex Clearing Holdings, LLC.

**PEAK6 Investments, L.P.**

**Business Address:** 141 W. Jackson Blvd., Suite 500, Chicago, IL 60604

**Area of Responsibility:** Managing member of Apex Clearing Holdings, LLC

**Indirect Ownership**

**Matthew Hulsizer**

**Business Address:** 141 W. Jackson Blvd., Suite 500, Chicago, IL 60604

**Area of Responsibility:** As Co-Founder of PEAK6 Investments, L.P., Matt serves as one of two managing members of PEAK6 LLC. From 1994 until he co-founded PEAK6 in 1997, Matt was a director and risk manager for Swiss Bank, a global financial-services corporation that merged with Union Bank of Switzerland to become UBS AG. From 1991-1993, he worked as a senior trader with O'Connor & Associates, a proprietary derivatives trading firm that was acquired by Swiss Bank and subsequently integrated into Swiss Bank Capital Markets. Matt graduated from Amherst College and has served as a board member of New Jersey's Peddie School and Chicago's Steppenwolf Theatre Company.

**Jennifer Just**

**Business Address:** 141 W. Jackson Blvd., Suite 500, Chicago, IL 60604

**Area of Responsibility:** As Co-Founder of PEAK6 Investments, L.P., Jenny serves as one of two managing members of PEAK6 LLC. From 1990-1992, Jenny worked in the trading department of O'Connor & Associates, and on the floor of the CBOE. From 1992-1997, Jenny worked for Swiss Bank Corporation, the successor to O'Connor & Associates, as a market risk analyst in global risk control and as a senior equity derivatives marketer. Jenny received a Bachelor of Business Administration from the University of Michigan and holds the Chartered Financial Analyst designation.

**General Discussion of Apex's Business and Operations**

Apex provides clearing, execution, margin lending, securities lending, and other back office services to customers of introducing brokers and registered investment advisors as well as the following market segments.

- Institutional clients
- Proprietary traders
- Futures traders

97% of Apex's capital and assets are deployed to its securities and clearing business and 3% to the futures business.

Apex's most recent audited financial statements can be found at this location:

<https://www.apexclearing.com/wp-content/uploads/2018/03/Apex-Statement-of-Financial-Condition-Audited-December-2017-exported.pdf>

Apex is a member of the following securities exchanges and securities clearing companies:

- Box Options Exchange LLC
- Cboe BYX Exchange, Inc.
- Cboe BZX Exchange, Inc.
- Cboe C2 Exchange, Inc.

- Cboe EDGA Exchange, Inc.
- Cboe EDGX Exchange, Inc.
- Cboe Exchange, Inc.
- Chicago Stock Exchange
- Investors' Exchange LLC
- MIAX PEARL, LLC
- Miami International Securities Exchange, LLC
- NYSE American LLC
- NYSE Arca, Inc.
- Nasdaq BX, Inc.
- Nasdaq ISE, LLC
- Nasdaq PHLX LLC
- Nasdaq Stock Market
- New York Stock Exchange
- Options Clearing Corporation
- The Depository Trust & Clearing Corporation
- Euroclear

### **Apex FCM Business**

Apex is a non-clearing FCM and is not a member of any futures exchanges or futures clearing houses. Apex clears its futures business on an omnibus basis through INTL FCStone Financial Inc. Currently, at least 90% of Apex's futures clients are retail-based and are introduced to Apex by an independent futures introducing broker that is also a securities correspondent client. Apex offers non-FCM clearing services to futures markets in the U.S., primarily CME Group exchanges, including Chicago Mercantile Exchange, Chicago Board of Trade, New York Mercantile Exchange, and Commodity Exchange, along with ICE US and Chicago Futures Exchange. Current product groups include: interest rates; metals; currency; grains; stock index; energy, softs; forest; and livestock futures contracts. Apex do not engage in swaps trading or retail foreign exchange for clients. Further, Apex does not engage in non-hedged principal over the counter transactions or swaps nor does Apex provide financing for illiquid products for which it is difficult to obtain timely and accurate prices.

## Apex Financial Condition

### RELEVANT FINANCIAL DATA

#### Financial Data as of month end July 31, 2018

Total Equity	\$142,745,744
Regulatory Capital	\$185,344,332
Net Worth	\$142,748,744
Proprietary margin requirements as a percentage of the aggregate margin requirement for:	
futures customers	0%
cleared swaps customers	N/A
30.7 customers	N/A
Number of futures customers, cleared swaps customers, and 30.7 customers that comprise 50% of the FCM's total funds held for.	
Futures customers	49
Cleared swaps customers	N/A
30.7 customers	N/A
Aggregate notional value of all non-hedged, principal over-the-counter transactions	N/A
Unsecured lines of credit the FCM has obtained but not yet drawn upon	\$10,000,000
Aggregated amount of financing the FCM provides for customer transactions involving illiquid financial products	N/A
Percentage of futures customer, cleared swap customer and 30.7 customer receivable balances that the FCM had to write off as uncollectable during the past 12-month period	0

At this time, Apex clients and their customers do not engage in activity that requires a 30.7 account or in cleared swap activity. As such, Apex does not have any data to report 30.7 activity or cleared swap activity.

Apex maintains sources of contingent funding as specified below:

#### Secured Funding

Stock Loan  
BMO Harris Bank  
Texas Capital Bank  
BNY Mellon Bank  
US Bank

#### Unsecured Funding

BMO Harris Bank  
Tristate Capital Bank

Information about the financial condition of Apex is available at the Commodity Futures Trading Commission on the Commission's website at <http://www.cftc.gov/marketreports/financialdataforfcms/index.htm>  
Information about how Apex invests and holds client futures funds can be obtained from National Futures Association Background Affiliation Status Information Center ("BASIC") at the following link:  
<http://www.nfa.futures.org/basicnet/>

Information about the financial condition of Apex is available at the Commodity Futures Trading Commission ("CFTC") website at the following link:

<http://www.cftc.gov/MarketReports/financialfcmdata/index.htm>

Apex's most recent audited financial statements can be found at this location:  
<https://www.apexclearing.com/disclosures/>

## **Apex Designated Self-Regulatory Organizations**

Apex's securities designated self-regulatory organization ("DSRO") is Financial Industry Regulatory Authority ("FINRA"). Information about FINRA can be found at [www.finra.org](http://www.finra.org).

Apex's futures DSRO is National Futures Association ("NFA"). Information about NFA can be found at [www.nfa.futures.org](http://www.nfa.futures.org).

## **Material Complaints and Disclosures**

There are no material administrative, civil, enforcement, or criminal complaints or actions filed against the FCM where such complaints or actions have not concluded, nor any enforcement complaints or actions filed against the FCM during the last three years.

## **Filing a Complaint**

If you wish to file a complaint, we encourage you to contact Apex Compliance Department at 214-765-1055) or via email at [complianceus@apexclearing.com](mailto:complianceus@apexclearing.com).

If you wish to file a complaint about Apex with the CFTC you may contact the CFTC via the internet at <http://www.cftc.gov/Forms/tipsandcomplaints>, or via telephone at 866-FON-CFTC (866-366-2382).

If you wish to file a complaint about Apex with NFA you may contact NFA via the internet at <http://www.nfa.futures.org/basicnet/Complaint.aspx>, or via telephone at 800-621-3570.

## **Apex Client Segregation of Funds Practices**

FCMs can maintain up to three different types of futures-related accounts for clients. The type of account a client of the FCM maintains depends on the product that the client trades:

- Client segregated account – for clients trading futures and options on futures that are listed on U.S. futures exchanges.

- 30.7 secured account – for clients that trade futures or options on futures that are listed on foreign futures exchanges. (Apex does not currently allow clients to trade futures listed on foreign futures exchanges)
- Cleared swaps client account – for clients trading swaps cleared on a derivative clearing organization (“DCO”) that is registered with the CFTC. (Apex is not currently authorized to facilitate trading swaps for clients)

Apex shall prepare daily segregation, secured amount and cleared swaps customer collateral computations as of the close of business by noon of the following day as required by CFTC Regulations 1.32, 30.7(l) and 22.2(g); NFA Compliance Rule 2-10. Funds that customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on futures exchanges located in the U.S. are held in a Customer Segregated Account in accordance CFTC Rule 1.20. Customer Segregated Funds held in the Customer Segregated Account may not be used to meet the obligations of the FCM or any other person, including another customer.

All Customer Segregated Funds may be commingled and held in either (i) a bank or trust company; or (ii) an FCM. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM’s customers. Unless a customer provides instructions to the contrary, an FCM may hold Customer Segregated Funds only: (i) in the U.S.; (ii) in a money center country; or (iii) in the country of origin of the currency

CFTC Rule 1.25 authorizes FCMs to invest Customer Segregated Funds, Cleared Swaps Customer Collateral, and 30.7 Customer Funds in the following types of instruments. (i) obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (U.S. government securities), (ii) general obligations of any State or of any political subdivision thereof (municipal securities), (iii) obligations of any United States government corporation or enterprise sponsored by the United States government (U.S. agency obligations), (iv) Certificates of deposit issued by a bank (certificates of deposit) as defined in section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Deposit Insurance Corporation, (v) Commercial paper fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (commercial paper), (vi) Corporate notes or bonds fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds), and (vii) Interests in money market mutual funds.

Apex shall maintain sufficient funds in United States Dollar ("USD") held in segregated and cleared swaps customer collateral accounts within the United States to cover its USD customer segregated, and cleared swaps customer collateral liabilities (as applicable), respectively as required by CFTC Regulations 1.49(e) and 22.9.

Apex shall clearly designate all futures customer securities and property as customer segregated as required by CFTC Regulation 1.20 and NFA Financial Requirements Section 4.

Apex shall perform due diligence as required by CFTC Regulation 1.11 on the location of customer funds as required by CFTC Regulations 1.11 and 1.20. Such due diligence shall be conducted pursuant to Apex's overall credit and counter-party policies.

Apex shall obtain acknowledgement letters from depositories, including derivatives clearing organizations and other FCMs, where applicable, holding customer funds in the form prescribed under CFTC Regulations 1.20, 1.26, 22.5, and 30.7 within three business days of opening any new accounts. Apex shall ensure that Apex and its depositories file copies of the acknowledgment letters with both the CFTC and its DSRO through WinJammer.

Apex shall instruct each depository holding customer segregated, customer secured and cleared swaps customer collateral accounts to report the balances in these accounts on a daily basis to NFA or a third party designated by NFA, in the form and manner prescribed by NFA, to be considered as an acceptable depository to hold customer segregated funds, customer secured funds and cleared swaps customer collateral as required by NFA Financial Requirements Section 4.

Apex shall maintain written policies and procedures that establish a target amount (either by percentage or dollars) that Apex seeks to maintain as its residual interest in its customer segregated, customer secured, and cleared swaps customer collateral accounts, which are designed to reasonably ensure the FCM maintains these amounts and remains in compliance with the segregation, secured amount and cleared swaps customer collateral amounts at all times as required by CFTC Regulations 1.11 and 1.20 and NFA Financial Requirements Section 16(a).

All procedures relating to protection of client segregated funds shall be approved in writing by the Apex Board of Directors as required by NFA Financial Requirements Section 16(a).

Material changes to the firm's procedures regarding residual interest in customer segregated, customer secured or cleared swaps customer collateral accounts shall be approved in writing by Apex's Board of Directors as required by NFA Financial Requirements Section 16(a) and Interpretive Notice ¶9066.

If Apex does not hold sufficient funds to meet its target residual amount in customer segregated, customer secured or cleared swaps customer collateral accounts Apex shall file immediate notice of this occurrence with the CFTC and the firm's DSRO as required by NFA Interpretive Notice ¶9066 and CFTC Regulation 1.12(j).

Apex shall not make any withdrawal, transfer or disbursement, not made for the benefit of customers from any customer segregated funds account; customer secured, or cleared swaps customer collateral account that exceeds 25% of Apex's residual interest unless such withdrawal meets the requirements of NFA Financial Requirements Section 16(b), (c) and (d).

If Apex withdraws a portion of its residual interest not for the benefit of customers, and the withdrawal causes Apex to fall below its target residual amount, then by the close of business the next day Apex shall either deposit funds in the segregated, secured funds or cleared swaps customer collateral account(s), as applicable, to restore the respective account balance to the

target residual amount or if appropriate revise the target residual amount in accordance with its policies and procedures on doing so as required by NFA Interpretive Notice ¶9066 and CFTC Regulation 1.23(e).

In addition to the requirements above, prior to withdrawing more than 25% of Apex's residual interest, the Treasury Manager, CFO, or CEO will authorize such withdrawal in writing and only after reviewing Apex's segregated funds condition and performing such due diligence as may be necessary to ensure that such withdrawal would not cause Apex to become under segregated.

Apex shall prepare Segregated Investment Detail Reports (SIDRs) and file with its DSRO as required by NFA Financial Requirements Section 16(e). Apex shall file SIDR Reports at the times below and shall include the information below:

By 11:59 P.M. Eastern time on the business day following the 15th and the last business day of each month, the following information as of the close of business on the 15th (or the following business day if the 15th falls on a weekend) and the last business day of each month:

- (1) The identity and location of each depository holding customer segregated funds and the dollar amount held at each depository;
- (2) The dollar amount of customer segregated funds held in cash, each type of permitted investments identified in CFTC Regulation 1.25(a), customer owned securities held as margin, and as securities under agreements to resell the securities (reverse repurchase transactions) held at each depository identified in subsection (1) above;
- (3) The identity and location of each depository holding foreign futures and foreign options customer secured amount funds and the dollar amount held at each depository;
- (4) The dollar amount of foreign futures and foreign options customer funds held in cash, each type of permitted investments identified in CFTC Regulation 1.25(a), customer owned securities held as margin, and as securities under agreements to resell the securities (reverse repurchase transactions) held at each depository identified in subsection (3) above;
- (5) The identity and location of each depository holding cleared swaps customer collateral and the dollar amount held at each depository;
- (6) The dollar amount of cleared swaps customer collateral held in cash, each type of permitted identified in CFTC Regulation 1.25(a), customer owned securities held as margin, and as securities under agreements to resell the securities (reverse repurchase transactions) held at each depository identified in subsection (5) above; and
- (7) The identity of each depository that held customer segregated funds, foreign futures and foreign options customer secured amount funds or cleared swaps customer collateral during the reporting of the period that is an affiliate of the FCM.

Apex shall not commingle the accounts of officers, directors, partners and employees with the funds of customers. Apex shall review an equity run or equivalent report, to ensure accounts of officers, directors, partners and employees are reflected separately from customers as required by CFTC Regulation 1.20(e).

Apex shall maintain complete and detailed records of all securities held or owned by the firm which represents an investment of customer funds as required by CFTC Regulation 1.27.

As set forth in CFTC Regulation 1.24, Apex shall exclude from segregation all money invested in obligations or stocks of any derivatives clearing organization or in memberships in, or obligations of, any contract market, money held by any derivatives clearing organization that is used for any purpose other than to purchase, margin, guarantee, secure, transfer, adjust, or settle the contracts, trades, or commodity options of the futures customers of Apex.

Apex shall limit and restrict the use of segregated customer funds as set forth in CFTC Regulations 1.20 and 1.22.

All investments of segregated customer funds shall be in accordance CFTC Regulation 1.25 and such investments shall be limited to instruments permitted by such regulation.

In the event that Apex invests customer segregated funds in instruments permitted by CFTC Regulation 1.25, Apex shall include such instruments in segregated account records and reports at values which at no time exceed current market value, determined as of the close of the market on the date for which such computation is made.

As set forth in CFTC Regulation 1.29, Apex may receive and retain incremental income or interest income from investment of customer segregated funds pursuant to CFTC Regulation 1.25. Apex shall bear sole responsibility for any losses resulting from such investments and no customer shall bear responsibility for such losses.

Nothing in the regulations in this chapter shall prevent Apex from lending its own funds to customers on securities and property pledged by such customers, or from re-pledging or selling such securities and property pursuant to specific written agreement with such customers. The proceeds of such loans used to purchase, margin, guarantee, or secure the trades, contracts, or commodity options of customers shall be treated and dealt with by a futures commission merchant as belonging to such customers, in accordance with CFTC Regulation 1.30.

Apex shall not loan funds on an unsecured basis to futures customers to finance customers' futures trading, nor may Apex loan funds to futures customers secured by the futures accounts of such customers.

Although Apex is a registered broker-dealer, the funds that Apex's clients and/or their customers deposit with Apex for trading futures and options are not protected by the Securities Investor Protection Corporation ("SIPC").

## **Apex Risk Profile**

Apex is exposed to the risks set forth below in its securities and futures businesses. Apex seeks to mitigate risks arising from its activities by employing robust risk management practices in all areas of its businesses.

Apex has risk arising from:

- The inability of its clients and/or counterparties to meet their financial commitments
- Write downs of Apex assets
- Inability to meet cash or collateral requirements as they arise
- Non-compliance laws and regulations
- Negative perceptions of Apex's reputation
- Uncertainty in the global economy and financial markets
- Actions taken by governments or regulators
- Market exposures
- Adverse effects of competition
- Inability to obtain financing if needed
- A protracted decline or reduced liquidity in financial markets

## **Summary of Risk Management Practices**

### **General Overview**

Apex has established, maintains, and enforces a system of risk management policies and procedures designed to monitor and manage the risks associated with the activities of futures trading. Apex maintains written policies and procedures that describe the Risk Management Program, which has been submitted to the CFTC per § 1.11. As part of the Risk Management Program, Apex has established and maintains a Risk Management Unit with sufficient authority, qualified personnel, and financial, operational, and other resources to carry out the Risk Management Program. The Risk Management Unit reports directly to Senior Management.

### **Risk Management Program**

Apex currently has multiple, robust risk management processes in place. The Apex Futures Risk Management Program includes, but is not limited to, identifying risks and risk tolerance limits, periodic risk exposure reports, and policies and procedures to monitor segregation, capital, and operational risks.

### **Identifying Risks and Risk Tolerance Limits**

Apex's Risk Management Program takes into account market, credit, liquidity, foreign currency, legal, operational, settlement, segregation, technological, capital, and other applicable risks with a description of the risk tolerance limits and methodology for these limits. The Risk Management Unit employs a system which allows for the evaluation of risk on a real-time basis. The system stresses each commodity futures product by +/- 3 standard deviations based on at-the-money options volatility and then imposes a floor based on 10 years of historical data at a 99% confidence interval. Each product class is stressed separately, with no offsets between product classes allowable. Within product classes there are sub-classes, and offsets are allowed within sub-classes with a dispersion of +/- 1 standard deviation. In each case, the largest loss will be combined with the smallest gain within the stress window.

## **Periodic Risk Exposure Reports**

The Risk Management Unit provides senior management and the CFTC quarterly written reports setting forth all applicable risk exposures of Apex, any recommended or completed changes to the Risk Management Program and time frame for implementing recommended changes, and the status of any incomplete implementation of previously recommended changes to the Risk Management Program.

## **Segregation Risk**

As part of Apex's Risk Management Program in regards to segregation risk, the following processes and procedures have been established:

- Policies designed to manage segregation risk, including a process for the evaluation of depositories for segregated funds;
- A process designed to monitor the residual interest Apex seeks to maintain in the segregated funds accounts;
- A process designed for the withdrawal of cash or property from accounts holding segregated funds, where withdrawal is not for payment or on behalf of Apex's customers;
- A process for assessing the appropriateness of specific investments of segregated funds;
- Procedures requiring the appropriate separation of duties among individuals responsible for compliance with regulations relating to the protection and financial reporting of segregated funds;
- A process and procedures for timely recording of transactions;
- Policies for assessing the liquidity and mark-to-market valuation of all noncash assets held as segregated funds.

## **Operational Risk**

Apex's Risk Management Program includes automated controls designed to prevent the placing of erroneous trade orders. The Risk Management Program also ensures the supervision, maintenance, testing, and inspection of automated trading programs.

## **Capital Risk**

Apex's Risk Management Program ensures that Apex has sufficient capital to be in compliance with the Act and the regulations, and sufficient capital and liquidity to meet the reasonably foreseeable needs of Apex.

## **Liquidity Risk**

Apex may experience adverse circumstances that increase its demand for liquidity. These conditions may exist as a result of market stress, firm-specific events (idiosyncratic risk), and/or extraordinary customer activity. Apex has identified the primary areas of liquidity exposure under each stress event and mitigating actions to take, which include:

## **Market Stress**

Liquidity risk under market stress events include:

- Spike in Apex's margin requirements
- Spike in capital deposits
- Margin/funding mismatches
- Reduction of contingent funding lines (extreme scenario)

Mitigating actions against market stress events include:

- Increase customer margin requirements
- Apex's automated margin requirement methodology (AMR) would naturally increase customer margin requirements in adverse market conditions. However, if necessary, Apex may exercise same-day or next-day margin calls.
- Utilization of unsecured lending facilities to meet temporary spikes in capital requirements
- Force liquidation of risky or mismatched positions
- Prioritization of cash flow and collateral use to maximize value and liquidity gain
- Diversification of funding through bank loan/stock loan facilities
- Ongoing monitoring of cash and collateral utilization levels and excess liquidity cushion
- Daily reserve computations as necessary to support adverse activity

### **Idiosyncratic Stress**

Liquidity risk under idiosyncratic events include:

- Extreme withdrawal of customer cash
- Additional margin or capital deposit specific to Apex
- Reduction of contingent funding lines
- Increase in mark parameters on collateral value versus cash borrowing
- Reputational risk

Mitigating actions against idiosyncratic risk include:

- Utilization of committed and uncommitted unsecured funding facilities
- Margin debit reduction
- Liquidation of option contracts
- Increase in utilization of securities lending through OCC hedge

### **Supervision and Testing of the Risk Management Program**

Apex's Risk Management Program includes a supervisory system that is reasonably designed to ensure that the policies and procedures are diligently followed. The Risk Management Program is reviewed and tested at least annually by internal audit staff or a third party audit service that is independent of the business unit. Apex documents all internal and external reviews of the Risk Management Program.

### **Distribution of the Risk Management Policies and Procedures**

Apex's written risk management procedures are distributed to supervisory personnel and a record of such distribution is maintained. Written approvals and all records or reports are maintained in accordance with § 1.31. Despite Apex's efforts to manage risk through policies, procedures, and governance structures, there can be no assurance that Apex will not sustain material losses as part of its operation.